Introduction

In directing the construction and defense of the Soviet Union at its inception, Lenin argued not for nationalization of the entire economy but for nationalization of only the most important sectors of the economy, what he described as the "commanding heights." This suggestive phrase and the maxim behind it are one of Lenin's enduring legacies. Leaders of contemporary revolutions have followed the practice of nationalization and state management of the commanding heights. Most revolutionary elites have been at least loosely inspired by Lenin and the program he articulated to transform Russia. But even when revolutionary elites have not been so inspired—as in Iran—they too have sought to nationalize key sectors of the economy, whether they be diamond mines or sugar estates. Nationalization is invariably the most consequential economic change in the initial postrevolutionary epoch and is held to be instrumental in the transition to some self-defined improved form of government.

This book explores the management of Nicaragua's commanding heights by the Sandinista National Liberation Front (FSLN), with an emphasis on the critical agrarian sector. On ending over forty years of rule by the Somozas in July 1979, the Sandinistas expropriated the extensive holdings of the Somoza family and of those intimately linked to the dictatorship. They confiscated over two thousand agricultural estates and enterprises, ranging from small farms to huge cattle ranches to sugar refineries and representing 25 percent of Nicaragua's land under cultivation and an even higher percentage of the processing of agricultural products. The Somozas' enormous investments—and the Sandinistas' endowment—in agriculture reflect the largely agrarian Nicaraguan economy. Eighty percent of exports, so necessary to a small state, are agricultural products. Despite continual migration to urban areas, the majority of Nicaraguans still earn their living from the land.

Also seized from the Somozas and their associates were one hundred thirty industrial or commercial enterprises, ranging from a cement factory to a Mercedes-Benz dealership. Foreign investments were not nationalized except for a handful of small gold mines owned by two companies, one American, the other Canadian. The Sandinistas further enhanced their influence over the Nicaraguan economy by nationalizing the country's banking and insurance systems and by placing all foreign trade under the control of state monopsonies. Finally, they conferred on themselves broad powers to regulate the private sector.

Private sector control over an estimated 65 percent of the Nicaraguan economy meant that from the beginning of Sandinista rule the outcome of many state initiatives depended on the dialectical performance of the state and countless economic actors. The regime was also constrained by the activities of the defeated "enemies of the revolution," by the vagaries of the international economy, and by international politics—in particular, relations with the "colossus to the north." Still, the consolidation of political power and the nationalization of property enabled the Sandinistas to implement, in diverse settings and locales, their vision of how civil society should be organized. The intentions of such efforts are significant. More important, though, is the state's demonstrated capacity to mobilize and deploy resources with the resolve and skill necessary to achieve outcomes it desires.

The argument advanced is dyadic: that the Sandinistas' bid to manage enterprises has been economically unsuccessful but politically successful. There are wrinkles though. First, while state enterprises are grossly inefficient, they produce. To use Schumpeter's analogy, economic performance resembles James Watt's first steam engine: it produced power, yet the piston wobbled loosely in the cylinder and hammered and pounded and hissed large quantities of wasted steam into the air. The inefficient management of Nicaragua's state enterprises is troublesome not only because it dissipates scarce resources, but also because its marked inefficiency generates distortions throughout the economy, principally by contributing to the debasement of currency. The inescapable conclusion of the analysis is that the state sector has been anything but the economic "vanguard." Instead, it weakens the economy, exacerbating the exogenous constraints on the possibilities of radical change. Similarly, the poor economic performance of state enterprises exacerbates, rather than alleviates, the structural obstacles to improving popular welfare.

Although state enterprises in Nicaragua are problematic economically, they are useful politically. They serve as a model, if only a preliminary one, of how work should be organized, showing especially how social relations within a firm should be distinct from those of the old order. They serve as a counterpoint to the private sector, suggesting there is an alternative to private management; by embodying the threat of nationalization, they pressure private entrepreneurs and managers into at least superficially meeting state demands. Also, the state's willingness to intercede economically deters intended or unintended sabotage by members of the private sector who drag their feet or abandon their enterprises. More immediately, the enterprises serve as outposts of the state, especially useful in isolated areas. As branches of the government they can facilitate the provision of services, from medical care, to transportation for visiting officials, to food for soldiers. Finally, state enterprises give the local population patronage-like benefits, principally employment. Recipients are a captive audience for governmental propaganda and directives. Thus, state enterprises provide a host of political advantages or, in other words, political strength to a new regime—a regime that is ambitious, but inexperienced and confronted with enemies.

The wrinkle in the political contribution of state enterprises is that their invariable inefficiency, usually manifested through financial losses, can be an embarrassment. General economic woes and specific instances of incompetence can erode the legitimacy of a postrevolutionary regime. In Nicaragua this phenomenon is most visibly illustrated by the well-known joke that the designated acronym of the state sector, APP, stands not for *área de propiedad del pueblo* but *autorizado para perder* (not "property of the people" but "authorized to be unprofitable"). Still, although the loss of legitimacy stemming from economic inefficiency may be significant, economic performance is only one of the many factors that influence a regime's legitimacy. The perceived alternative—the private sector—may for different reasons enjoy even less legitimacy. Equally important, political problems engendered by economic inefficiency are general and dispersed, whereas the political benefits of state enterprises are more immediate and locale-bound.

Documenting the role of state enterprises in postrevolutionary Nicaragua is not especially difficult. Explaining outcomes, however, is more elusive, especially if functional explanations are eschewed. Nonetheless, this study attempts to be both theoretical and empirical, with the conviction that the relevance of theory is best demonstrated in the specificity of analysis. An awareness of theoretical considerations informs empirical work; good theoretical work takes place in conjunction with empirical study. Both are essential.

Mode of Inquiry

How the state manages the commanding heights has implications for popular welfare, state making, and the power of the revolutionary elite. Students of contemporary revolutions have, however, slighted this issue of state capacity to emphasize instead state autonomy and the constraints, especially the international constraints, on revolutionary change. Their emphasis reflects academic fashion as well as the importance of state autonomy and its relative methodological tidiness compared to the study of state capacity.

Studying state autonomy is the easier approach because it concentrates on structural variables, in particular economic indices of strength and advantage. At the extreme, it holds that structural constraints determine political outcomes. Such an approach is wrong. Even in small, poor countries, politics is the outcome of choices within constraints. Choices embody an element of freedom, constraints one of necessity. Correspondingly, while postrevolutionary regimes do have limited autonomy, they can marshal and employ available resources as they see fit, to restructure society within the imposed parameters. This effort may involve an attack on the parameters, or at least a bid to alter them.

The three basic premises of this work are that structural constraints do not completely determine the actions taken by the leaders of revolutionary regimes; that within the set of feasible actions compatible with all the constraints, leaders choose those they believe will bring the best results; and that decisions are made without knowledge of their consequences. The broad implication of these premises suggests that to understand the patterns of change in poor countries, more attention should be paid to the capacity for autonomous choice on the part of local actors.

Explaining choices calls for a familiarity with the context and, above all, careful selection of the unit of analysis. The focus here is on individual motivations and actors. This emphasis affords a number of advantages. First, and most important, it encourages the search for intentional instead of simply functional explanations.[1] Second, it encourages the linkage of microlevel behavior to macrolevel behavior and vice versa. Third, it demands specific delineation of the interplay between the context of decisions and the decisions themselves. Fourth, it guards against the common fallacy of reification in the study of politics.

In keeping with the aspirations of the book and the mode of inquiry adopted, the study is divided into three parts. The first part draws on the experience of similarly situated postrevolutionary regimes to describe typical outcomes of nationalization and state management of the commanding heights. It attempts to delineate trends and tensions and, to the extent possible, to offer an explanation for patterns of behavior that recur across cases.

Part Two opens with an overview of the Sandinistas' nationalization of important segments of Nicaragua's economy and of the choices made by the revolutionary elite. The body of Part Two gives a detailed description of three state enterprises that represent the range of experiences encountered in the vital agrarian sector. A chapter is devoted to each firm. The Enterprise Oscar Turcios is typical in that it is poorly managed and loses a great deal of money; located in northern Nicaragua, it produces

1. Jon Elster, *Explaining Technical Change* (Cambridge: Cambridge University Press, 1983), p. 23.

tobacco. The Enterprise Camilo Ortega, named after the martyred brother of comandantes Daniel and Humberto Ortega, is the most successful state enterprise in Nicaragua; it is located in the center of Nicaragua's populous Pacific region and cultivates cotton. In a war zone (on the Costa Rican border), the Enterprise Commander Marcos Somarriba raises cattle along the banks of the San Juan River. Together these three case studies offer a rich interpretative setting for adumbrating the multitude of factors shaping the capacity of a postrevolutionary state.

The third part of the book uses the microlevel data presented in Part Two, coupled with similar data from other Nicaraguan state enterprises, to explain consequential macrolevel issues. It pays particular attention to the relation of state enterprises to other economic and political actors, including the state itself. The analysis concludes with a critique of the role of state enterprises in revolutionary change in poor countries.

Sources of Data

The data for this study on Nicaragua come from an eight-month consulting assignment with the Office of Enterprise Management in the Nicaraguan Ministry of Agricultural Development and Agrarian Reform (MIDINRA). The consultation was conducted under the auspices of the Central American Institute of Business Administration (INCAE) from January to August 1985. The ministry requested assistance in promoting efficiency within the productive entities under its responsibility, organized into 102 enterprises, most of which are conglomerates of farms, agro-industrial complexes, and service and commercial establishments.

The focus of the effort with the enterprises was on cost control and evaluation, but those questions could not be isolated from broader concerns, including overt political issues. Problems ultimately addressed ranged from the calculation of depreciation for cannibalized tractors, to incentives, to relations with other governmental bureaucracies. Collaborating with the ministry's Office of Enterprise Management entailed regular visits to individual enterprises and work on a national level at the ministry's central office in Managua.

Most of the data come from MIDINRA in the form of published and unpublished documents and interviews with its many and diverse employees. Augmenting these data are published and unpublished documents from other branches of the Nicaraguan government and, to a much lesser extent, from nongovernmental organizations.

In general, the data pose few problems of reliability or validity. Thus, they are used with confidence and without recourse to multiple sources. MIDINRA's statistics on agricultural production present numerous difficulties, in part because they attempt to measure the performance of the private sector, including peasants. However, MIDINRA's quantitative data (especially financial) on the ministry's activities cause few problems because the data have a more limited scope and in most cases the banking system corroborates them. Narrative discussions in MIDINRA's internal reports are often not thorough, but they are candid.

Interviews with employees of individual state enterprises are also largely free of problems. Except at the Enterprise Commander Marcos Somarriba (chapter 5), interviews were usually conducted in the presence of, or with, an official of MIDINRA's central office in Managua. Respondents appeared to speak openly, even willing, for example, to criticize MIDINRA's central office or the leadership of their particular enterprise. Interviews were loosely structured around a continuously evolving written set of questions. The kind of answers solicited, however, were not amenable to generating interval data. Instead, interviews were used to build an interpretative foundation to worry through the state sector's configuration of problems and successes.

Limits of the Study

The principal limitation of the book, aside from the deliberate narrowness of its subject, is temporal. Nicaragua's state enterprises are analyzed at one moment in the metamorphosis of the country's revolution. While much attention is paid to detail, it is done to elucidate enduring issues and not to give definitive form to a static phenomenon. Politics has to be understood as a temporal sequence of events, not as a moment in time.

There are two other major limitations of the study. First, the attempt in chapter 1 to illuminate Nicaragua's experience through a comparative review of similarly situated regimes is only suggestive, given the considerable methodological difficulties of cross-national comparison. Such an exercise is nonetheless fruitful because it suggests that Nicaragua's dilemmas are not atypical. Second, the economic data employed in the study are more persuasive than the data about politics. That imbalance seems to bedevil studies exploring the interplay of economics and politics, but every effort has been made to compensate for it.