Neoliberalism and the Vacuum: The Nicaraguan Case Study

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Nicaragua is the second poorest nation in the western hemisphere, preceded only by Haiti. However, Nicaragua holds the most favorable land to population ratio in Central America, meaning that, not only is Nicaragua the largest of Central American countries, but it is also the most sparsely populated. The land holds rich soil and varied climatologically and altitudinal conditions, providing perfect conditions for the production of crops, produce, and livestock. The country has significant timber resources that have stood the test of exploitation over time. Nicaragua is rich in natural minerals, including silver and gold. The countries varied rivers and volcanoes hold potential sources of natural power and allow for cheap domestic inter-transportation of goods and services. Nicaragua has Pacific and Caribbean coastlines, opening Nicaragua to worldwide trade as well as providing a fundamental source of food and mineral resources (Walker, 2003).

Yet, 48 percent of Nicaraguans live in poverty, with 17 percent living in extreme poverty (World Food Programme, 2010). The situation worsens as one widens the lens form the 57 percent of those living in urban communities to those living in the rural sections of Nicaragua, where 65 percent of people live in poverty and 25 percent of people live in extreme poverty (Walker, 2003). Those who live in poverty, according to leading global institutions, as a global standard, live on less than $2USD per day, while those in extreme poverty live on less than $1USD per day (Wiggins, 2006).

Nicaragua also suffers lack of basic access to food and drinking water. Chronic malnutrition affects 20 percent of children under the age of five, while as an entire population, 50 percent of people face a food deficit—the highest deficit per capita in both the North Atlantic Autonomous Region and the South Atlantic Autonomous Region (World Food Programme, 2008). According to UNICEF (2006), only 79 percent of the population (63 percent rural) have
access to “improved drinking-water resources,” while just 48 percent of the population (34 percent rural) have access to “improved sanitation facilities.” What UNICEF (2006) declares improved facilities, however, is unclear. What is grossly apparent is that a plurality of Nicaraguans lack basic clean drinking water and sanitation facilities.

The current educational facilities are also failing many Nicaraguans. Only 67.5 percent of people over the age of 15 in Nicaragua have the ability to read and write, while Nicaragua spends just 3.1 percent of its annual GDP on education (147 in the world) (CIA World Factbook, 2011).

The statistics are staggering. History and geographical location have provided Nicaragua with vast natural resources, fertile land, and a small population relative to the countries size. Nicaragua has opened her markets to the world, privatized businesses, and deregulated the economy in the wake of the 1990 elections of the National Opposition Union (UNO), as mandated by the International Monetary Fund (IMF) and seen through by the United States Agency for International Development (USAID) (Babb, 1998).

Yet, Nicaragua continues in a state of poverty, under-educated, un-healthy, and in poverty. More than that, society has become ever more stratified as time has passed, where, today, the wealthiest 20 percent of Nicaraguans hold 60 percent of the national wealth, while the poorest 20 percent control just three percent (World Food Programme, 2008).

This thesis is an attempt to explain why Nicaragua has experienced such devastating poverty. Given its resources and geographical advantages, how is it that Nicaragua has arrived at this point, poor, under-educated, and un-healthy? Most importantly, what factors have contributed to the decline of Nicaraguan society and economics? These questions are not arbitrary. Nicaragua is a state which has had every natural advantage to development, yet has not
been able to develop. In fact, perhaps more disturbing, Nicaragua has not only failed to develop, but remains the second poorest country in the entire western hemisphere.

In this thesis I will demonstrate that there is a commonly accepted mode of development, commonly known as neoliberalism. This system provides an outline, or structure, if which states adhere to, they will develop. However, I will also demonstrate that there exists an intervening variable, foreign intervention, which invariably interferes with, or halts, the succession of this neoliberal structure. The result, as one can observe in the case of Nicaragua, is widespread poverty and illiteracy, poor national health and education, and, ultimately, a system of social stratification that ensures the rich remain rich at the expense of the poor remaining poor.

First, I will discuss the global development model, a brief history of neoliberalism, and the issues that have traditionally been associated with neoliberal reform. Subsequently, I will review my theory and hypothesis. I will then examine the history of United States intervention in Nicaragua over the last 100 years at key intersections in history in order to demonstrate that Nicaraguan development has been impeded by these actions.

The Global Economic System and Development

The Development Model

Rostow (1971) wrote that the development of a nation can be categorized into five stages of economic growth—traditional society, pre-conditions for take-off, take-off, drive to maturity, and the age of mass consumption. For the purposes of this paper, the classifications are useful because they most closely align with the neoliberal mentality that the world currently possesses.
Traditional society is classified by a “pre-Newtonian” ideal, meaning that society is largely explained theologically, as opposed to scientifically. The traditional society only begins to precondition itself for take-off when society begins to secularize, mainly in schooling and business, establish banks and a common currency, and the formation of an entrepreneurial class. In ten to fifty years from the start of preconditions for take-off, take-off occurs. In take-off society will be driven by economics and economic processes as opposed to tradition. In take-off, nations will often specialize in one product or service, while searching for their identity among the competitors of the world (Rostow, 1971). Unfortunately, class distinctions become apparent in take-off. There is the development of those who own the means of production and those who work under them. One observes the massive expansion of poverty.

In the drive to maturity, states begin to diversify the means of production. There an immersion of new production, while other means of production fade into antiquity. The state will find its place among global competitors, discovering the means in which they can achieve their ends most efficiently. This diversity of production and discovery of identity, generally, lead to the rise of the general standard of living and the reduction of poverty (Ibid.).

In the age of mass consumption, people concern themselves less with subsistence than they do with excess. Society has the ability to focus largely in art and culture. It is in this age that society can preoccupy itself with the issues of security or military, equality or welfare, or the development of luxuries for the upper class. Often, during times of economic realignment, a society will fluctuate between the final two stages of development (Ibid.).

It is essential to recount the Rostovian Take-off Model because the model clearly shows an “if-then” format. If states commit to variables \( x \) and \( y \), then they will observe desirable
outcome z. To put in the terms of Rostow, if a society commits to a secular government and economic system then they also possess the preconditions to excel from a traditional society to the take-off of said society. Neoliberalism maintains the similar mindset.

Nicaragua has typically been at this third stage of economic development, take-off, futilely attempting to advance to the next phase of development. As I examine the history of United States intervention in Nicaragua I will demonstrate that this is the case—Nicaragua has been refined to the third stage of development because every advancement of Nicaragua society has been met with resistance and intervention by the United States. The United States, through covert and overt intervention, has halted progress in Nicaraguan society.

A History of Neoliberalism

Prior to the 1980’s the global economy functioned on the system credited to John Maynard Keynes, Keynesian economics, first outlined in the 1936 work, The General Theories of Employment, Interest, and Money. Keynesian economics is often referred to as the Keynesian-compromise, due to the mixed nature of the economic policies.

Keynesian economics took hold in the 1930’s, when the world was recovering from the global economic crisis. The global community had seen what pure capitalism could do to society and they strove to change it (Campbell, 2005). This is not to say that the Keynesian thinkers did not embrace capitalism, because they did. Keynesian economics states that the private sector plays the dominant role. However, the public sector can, and should, intervene in cases of high unemployment, economic stagnation, or other situations where the market cannot be corrected by free market economics.
Neoliberalism, in theory, is the absence of these regulations. However, it is worth noting that no system can function completely free of regulation, and regulation does exist today. Campbell (2005) asserts that essential to neoliberalism is the belief that one operates with in a completely free market.

The shift from Keynesian economics to neoliberalism occurred in the 1970’s when capitalism, and the world, experienced a structural crisis. The institutions that had been established to accrue capital for the capitalists had ceased to do so (Campbell, 2005). The world experienced a period of diminished growth rates, an increase of unemployment, and a cumulative inflation (Duménil & Lévy, 2005). These factors propelled Margaret Thatcher to office in the United Kingdom and Ronald Reagan in the United States in 1979. The election of these two leaders would represent not only an economic paradigm shift within their own nations, but around the world.

John Williamson defined what he would come to call the “Washington consensus” in the late 1980’s in response to the neoliberal revolution of Reagan and Thatcher in regard to the debt crisis in Latin America (Sakakibara, 1997) and attempt to “codify” the liberalization policies of international financial institutions (IFIs). It is true, that Williamson did not originally intend for his term to become synonymous with neoliberalism. However, both concepts refer to the bundle of reforms championed by IFIs upon developing and transitional economies, specifically aimed at increasing the international market forces within the individual economy (Ocampo, 2004-5).

Williamson (2004-5; Aretis 2004-5) observed, and defined, ten distinct reforms: (1) fiscal discipline, (2) reordering public expenditures, (3) tax reform, (4) liberalizing interest rate, (5) liberalization of inward foreign direct investment, (6) trade liberalization, (7) a competitive
exchange rate, (8) privatization, (9) deregulation, and (10) property rights. These reforms were the engine that drove the structural adjustment programs (SAPs) of the IFIs, most specifically that World Bank and the International Monetary Fund (IMF).

Perhaps the two most significant reforms Williamson (2005) codifies are privatization and deregulation, for these two variables encompass the intent behind the Washington consensus, to ensure that developing nations adhere to capitalistic principles. By privatization, Williamson (2005) means to say that the government should limit its ownership of corporations and instead permit private citizen to purchase these corporations and drive the economy, which transfers nicely into the other half of the equation, deregulation.

Deregulation is classified in many different ways. The simplest explanation that can be offered is that the government should not interfere with the workings of the economy, whether by law or practice. The more complex explanation would be to say that a nation opens itself to foreign direct investment, reduces or eliminates tariffs on foreign goods, and allows for private ownership of corporations.

*The Problem of Neoliberalism*

The world, unfortunately, has not observed the growth that was anticipated at the outset of the neoliberal reforms. In Latin America GDP has decreased from 3.32 between 1971 and 1980 to 0.93 between 1991 and 2002. Unemployment has risen across Latin America. Foreign debt as percentage of GDP has also increased as opposed to decrease. The economies of Latin America, if they have not worsened, have stagnated (Brsser-Pereira & Varela, 2004-5). There is little debate that poverty, illiteracy, disease, and underdevelopment are widespread throughout Latin America (Chomsky, 1999). I would not, however, ascribe these problems as a direct result
of the neoliberal model. Instead, these issues of Latin American poverty and underdevelopment can be explained through the intervening variable which I suggest, foreign intervention.

The world, even after 30 years of neoliberal reform, still observes massive poverty and underdevelopment. Statistical analysis has shown as much. Some attribute this underdevelopment to the neoliberal system, or the refraining of implementation of the neoliberal system. Scholars have generally identified two distinct causal factors to explain the persistence of underdevelopment in the current neoliberal world, the structural argument and the agent argument. The structural camp defines the neoliberal system as critical variable that explains the underdevelopment. By contrast, agent focused arguments emphasize the role that the state itself plays in perpetuating its economic underdevelopment.

The agent argument suggests that states have failed to fully implement reforms, or that states suffer from governmental corruption and incapacity (Edwards, 2010). However, scholars who subscribe to the agent camp of thought often do not explain how governments have become corrupt or inept or why nations have not completely adhered to the neoliberal system.

In the structural argument, there are two distinct camps, those who believe that the system is fundamentally broken, and those who believe that the system can work, but requires change to the fundamental economic principles of neoliberalism.

There are those, such as Chomsky (1999) who contend that neoliberalism, in its fundamental way of economic thought, is not only unjust, but does not function in society. That neoliberalism is nothing but a system put in place by the rich to benefit the rich (Duménil & Lévy, 2005; Chomsky, 1999). Chomsky (1999) states that neoliberalism places profit over people.
Stiglitz (2003) criticizes neoliberalism in a milder manner. He argues that it is not necessarily the neoliberal system which is flawed, but the institutions which govern economic policy such as the IMF, World Bank and World Trade Organization (WTO). These organizations lack both transparency and accountability to any government and, as such, are free to implement policy counter to the good of the world population (Stiglitz, 2003).

Stiglitz (2003) states, that government action is sometimes essential in the market, to regulate banks, use tax policy to steer foreign investment, to battle unemployment and regulate the welfare state. Government, according to Stiglitz (2003), can improve the quality of life for their population with specific instances of intervention. Stiglitz (2003) would move for an economic system more closely aligned with that of pre-1970, the Keynesian economic system.

I do not dismiss the concerns or argument of the structural and agent scholars. That research is valuable, and undoubtedly can explain certain aspects of underdevelopment. I, however, contend that the neoliberal system has not reached a point where criticism can be offered. The system simply has not been allowed an opportunity to excel or fail. I argue that the fabrication of the neoliberal system occurred in a vacuum, meaning the creators of such a system did not regard the variables which could prevent such a system from working. In my argument, I say the neoliberalism does not occur in a vacuum, there is an intervening variable which halts development and progress of a nation. This variable is foreign intervention.

**Theory and Hypothesis**

Currently, the global model of economic development is categorized by neoliberal reform. The common hypothesis argues that neoliberal reform leads to development.

![Neoliberal reform ➔ Development](image_url)
In relation, the two camps above, with minor discrepancies argue the same hypothesis. With minor changes, as stated in the structural theory by Stiglitz (2003), or with the complete implementation of neoliberal reform, as stated in the agent or state model by Edwards (2010), states should and do develop along with the implementation of neoliberal reform. However, I contend that this is not the case. The current literature leaves out an essential component in explaining underdevelopment. Underdevelopment cannot be explained as a result of neoliberalism. Instead, future authors must take into account the variables that impede development, which exist outside of neoliberal reform.

I theorize that that there are variable which intervene at key levels of development, impeding or even halting the process. This variable—foreign intervention—prevents development as a result of neoliberal reform, casting the system more correctly as,

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\text{Neoliberal reform} \rightarrow \text{Foreign Intervention} \rightarrow \text{Underdevelopment}
\]

where the spectrum of development is hijacked by the interceding variable of foreign intervention.

On this theory or spectrum of development the cause for Nicaraguan underdevelopment becomes apparent. If neoliberal reform leads to development, but is hindered by this variable, then foreign intervention is the cause of Nicaraguan underdevelopment and poverty.

*Foreign Intervention*

The past of all developing nations is laden with the intervention of foreign actors—militarily, economical, and political. However, there is perhaps no country in which there has
been more outside interference than Nicaragua. I will examine in what capacity the United States has intervened in Nicaragua over the last hundred years and also what affects this intervention has had on Nicaraguan society, politics, and economics through both covert and overt actions.

More importantly, however, I will examine this intervention in relation to the Rostovian Take-off Model of development. Nicaragua, since the middle of the 19th century, has been caught in a perpetual “take-off,” as Rostow would define it. In the take-off stage of development, states specialize in one type of good or service, while they search for their place in global economics. During this time period, one begins to observe a sharp distinction of those who have and those who have not, usually classified by those who own the means of production, an those who work under them. This leads to widespread poverty throughout the state.

In the drive to maturity, the fourth stage of Rostovian Development, a state diversifies the means of production, and, essentially, develops. This period will be classified by the blurring of class lines and reduction of poverty as the state continues to develop.

There have been several critical instances in Nicaraguan history where Nicaraguans have pushed to move past the take-off stage and into the drive for maturity. However, in each of these instances the United States has intervened and prevented the ascension to the next stage of development. These periods are then typically followed by periods which push the maintenance of the status quo, where corrupt governments ensure that the state does not develop and ensures preferable trading and interaction with the state which supports the government.

In the subsequent sections I will demonstrate that these periods do exist, and, together, have prevented Nicaragua from ascending to the next level of development.

Zelaya (1893-1909)
The first notable instance of United States intervention occurred in 1893, when liberals and disillusioned conservatives joined forces to oust the conservative government of Roberto Sacasa. Sacasa was a brutal and ruthless dictator who was more interested in expanding his own wealth than the welfare of his people. The rebel group would succeed and appoint a Conservative as their leader. However, after six months of conservative leadership, the then standing president was overthrown and replaced with José Santos Zelaya, the leader of the 1893 rebellion.

American and Central American texts alike often cast Zelaya as “corrupt, brutal, cruel, greedy, egocentric, warmongering, [and a] tyrant” (Walker, 2003). President William Howard Taft called him “a blot on the history of Nicaragua.” There is, in fact, little doubt that, as a standing dictator of 16 years, Zelaya did use whatever mean necessary to remain in power. Democracy was suspended and freedom of the press often hindered.

However, Zelaya would support a time period in Nicaragua where an ascension to the next level of development would be possible. His constitution of 1893 abolished the death penalty, separated church and state, and guaranteed freedom of religion and free secular education—all qualifications of societal advancement, according to Rostow. Zelaya also made a practice of granting amnesty to captured insurgents, financed the building of schools in Nicaragua, financially supported the training of Nicaraguan abroad, and, by the end of his rule, devoting approximately 10 percent of the budget solely to education (Walker, 2003), while, in 2003 (under a United States supported government), Nicaragua spent just 3.1 percent of its GDP on education (CIA World Factbook, 2011).

Like many progressive leaders of the time, Zelaya also made significant efforts to modernize the economy. His government surveyed and opened new lands for the production of
coffee (the main Nicaraguan export of the time). The government also set up the National Archives and Museum, reorganized the General Statistics Office, and performed a new census, fostering a greater sharing and cataloging of information (Walker, 2003). The Zelaya government also invested in physical infrastructure by purchasing steamships and building roads and telegraph lines. The Zelaya government saw significant rise in the production of timber, gold, coffee, and bananas (Walker, 2003).

Zelaya’s massive campaigns to secularize society, modernize the economy, and encourage the spread education throughout Nicaragua prove to fit various criteria of the Rostovian Development Model. If could be argued vehemently that, at this point in time, Nicaragua was on the brink of advancement.

However, Zelaya’s foreign policy would eventually lead to his demise as Nicaragua’s leader, as well as Nicaraguan hopes for maturity. Zelaya held two foreign policy initiatives—to defend Nicaraguan interests and to push for Central American reunification. Zelaya was far more successful in defending Nicaraguan interests. His largest foreign policy victory would be the expulsion of the British from the Miskito Coast.

At the same time the United States had established a colonial empire subsequent to the conclusion of the Spanish-American War. The United States had also begun aiding in Panamanian independence, in the hopes of securing canal rights and a portion of Panamanian territory. In 1903, the United States signed a treaty with Panama guaranteeing United States canal rights through Panama.

It comes as no surprise that the United States did not act favorably when it heard rumors of Nicaragua selling canal right to Germany or Japan. A Japanese or German influence in the
region would undermine the United States control of the region. The United States immediately purposed a contract of its own, offering minimal compensation for canal rights and a portion of Nicaraguan territory. Zelaya promptly refused.

The United States, in response, began to fund conservative rebels in Nicaragua and, following the execution of two admitted United States mercenaries in 1909, sent troops into Nicaragua. Rebel forces, supported by the United States, had little trouble overthrowing the Zelaya government and instilling a US puppet government in 1910.

It is true that Zelaya had his faults, but did these faults merit his expulsion from Nicaraguan government? Further, what would Nicaragua look like today if it had sold canal rights to a nation with actual intention on building a canal? A canal would undoubtedly increase international commerce, tourism, and provide employment to Nicaraguans. Instead, the Nicaraguan economy experienced a massive decline economically.

The Zelaya era was a unique era in the history of Nicaraguan. It was an era in which Nicaragua had the opportunity to ascend to the next level of development. It was in this time, with moves towards greater education, greater exportation of goods, building of infrastructure, and the development of an international identity that Nicaragua could have left the take-off stage and advanced to the drive for maturity. However, through United States intervention the ascension was effectively blocked.

**Post Zelaya Puppets (1910-1936)**

The leaders that followed Zelaya were not revolutionary. This was an era of puppet government begat by puppet governments, with the US presence ever strong and influential. This is important to note because this time period is not dedicated to revolution. However, this time is
classified by the United States maintaining the status quo, while furthering its interest at the expense of Nicaraguan development. This era is also markedly divided into two sections, the first US occupation and the second.

From 1912 to 1925, we observe little. The United States governed Nicaraguan affairs through a series of Conservative presidents—Adolfo Diaz, Emiliano Chamorro, and Diego Manuel Chamorro. The relationship is clearly symbiotic, as Walker (2003) states, “[t]he United States needed the Conservatives, and the Conservatives—who had neither the military strength nor the popular backing to maintain themselves in power—needed the United States.” Nicaragua settled into years of an uneasy peace.

The only action of note during this period is the Bryan-Chamorro Treaty, signed in 1914 and ratified in 1916, which granted the United States eternal exclusive canal rights in Nicaragua, a renewable 99 year lease to the Great and Little Corn Islands, and a renewable 99 year lease to build to establish a naval base in the Gulf of Fonseca. Nicaragua, in return, received $3 million USD, which, in reality, the United States funneled back into the hands of foreign creditors (Walker, 2003).

The Bryan-Chamorro Treaty was incredibly important, however. The granting of canal rights to the United States, along with the rights to Great and Little Corn Islands, would prove detrimental to Nicaraguan development. The $3 million USD granted to Nicaraguan was, ultimately, never seen by the people of Nicaragua. Instead, the money was funneled back into the United States and other creditors to pay off loans granted to corrupt governments (Walker, 2003). Moreover, the treaty ensured that Nicaragua not grant canal rights to a country with the actual intent to construct a canal in Nicaragua. A canal means extra jobs, a steady trading outlet,
easier intrastate and international travel, an increase in tourism, and the opportunity to secure more capital throughout the decades of the canal’s existence.

Seeing the subservience of the Nicaraguan government, The United States withdrew US troops from Nicaragua in 1925, believing that it had created a stable and US loyal government. The United States, however, was mistaken. Within months of US withdrawal, the Liberals staged a rebellion. The Conservatives turned to Washington for help and the second occupation ensued.

During the second occupation the United States showed an immense skill for manipulation, crafting new ways to hold power within Nicaragua. In 1928, the United States allowed for free elections in Nicaragua. José María Moncada, a Liberal, was elected to the presidency. However, who was in the presidency for the next decade was of little consequence. Liberal or Conservative, the United States had gained thorough control of Nicaragua through the occupation of the Marines and the appointment of American officials to control the Guardia Nacional, the Commission of Customs, the Railway Department, and the National Bank (Walker, 2003).

The United States intervention in this era of Nicaraguan history was diverse—the United States contributed troops, supported puppet governments, and undermined the Nicaraguan economy. Prior to these decades, Nicaragua had an enviable economic future. There would be a canal that would traverse the continent, ensuring increased trade, tourism, and business. There was a booming coffee enterprise that was becoming more and more public, spreading the wealth across society. The United States undermined this progress, displacing a progressive government with government which would favor United States interest.

**The Somoza Dynasty (1936-1979)**
The Nicaraguan case is unique in several respects. There is, however, perhaps no fact or period of time that is more unique to Nicaragua than that of the Somoza dictatorship, and the revolution that would follow it. There have been other dictatorships which have lasted as long, such as that in Cuba, but there is none other that has had the aura of hereditary transference of power. In one way or another, whether it being through direct rule or through the influence over puppet governments, three distinct generations of Somozas held control over Nicaragua for more than four decades.

Less unique, but just as interesting and pertinent to the case, is the overt search of United States support during the four decade dictatorship. It is ultimately the symbiotic relationship formed by the Somoza’s desire of approval, and granting of approval by the United States, that would lead to the maintenance of the status quo within Nicaragua. Constitutions would be rewritten, personal gain would govern, and poverty would persist to suit the needs of a foreign power and a corrupt domestic government.

This section will not discuss revolution in Nicaragua. Indeed, there were no massive social movements, until the late 1970’s, which would drive social change. This section, instead, will discuss the factors that hindered Nicaraguan development and their source. If we accept that these factors were the result of foreign intervention, and have disrupted the neoliberal model, then we must also accept the fundamental theory—that there is an extraneous factor which prevents the neoliberal model from resulting in development, foreign intervention.

*The Origins of Somoza*

The United States, in the early 1930’s, began to tire of the costly and long standing intervention in Nicaraguan affairs (this is not to say that the United States would cease to meddle in these
affairs, because, as we see, this was certainly not the case). The United States began to phase out their troops, leaving control of Nicaragua in the hands of the Guardia Nacional, where the United States had appointed a leader favorable to United States interest, Anastasio Somoza Garcia (Bermann, 1986).

Somoza quickly consolidated power, appointing his followers to key posts within the Guardia and cultivating relationships with disillusioned politicians. Somoza quickly authorized the assassination of his main political opposition, and critic of United States opposition, Augusto Sandino. He also used fascist gangs to create disturbances so his Guardia could declare martial law. Nicaraguans told US Minister Lane that the Guardia was “making extravagant and unauthorized expenditures, imprisoning government officials without trial, and assassinating innocent people (Bermann, 1986).” Many Nicaraguans believed that the United States would choose the next president in the 1936 election, and that president would be Somoza (Bermann, 1986).

Somoza, despite the fact that he was constitutionally ineligible for the office of president (relatives of the incumbent—Somoza’s wife was Sacasa’s niece—and those holding high military rank were prohibited at the time from running for the presidency) succeeded Sacasa as president in 1936 after surrounding the presidential palace with the Guardia and forcing Sacasa to resign.

There are those who would argue that the responsibility of what would come to pass was not the responsibility of the United States; that the United States could not be blamed for the actions of a sovereign government with a “freely elected” president. However, the United States continuous intervention during the beginning of the 20th century, followed by the immediate
withdrawal of troops in the beginning of the 1930’s, left Nicaragua grossly unprepared to handle internal affairs. This is not to mention that those in power were put in power by the United States and did not necessarily represent the interests of the Nicaraguan people. The United States government also denied the continuous requests of the Nicaraguan public to prevent Somoza from taking the presidency and ignored the allegations of extreme violations of constitutionally guaranteed rights. The United States may not have cast the votes for Somoza (neither did the public of Nicaragua, for that matter), but they facilitated the conditions which would give birth to one of the most ruthless and cruel dictatorships of all time, leading to the continuance of Nicaraguan underdevelopment.

Somoza maintained control through an axis of power—the Guardia, control of the Nicaraguan economy, and, most importantly, with the acceptance and support of the United States. He was heralded by fascists and capitalists alike. He was hailed as the “Mussolini of Central America (Bermann, 1986),” while simultaneously being called very “pro-American” (so much so that Roosevelt attended his inauguration in 1937). Through this axis of control, the Somoza family would be allowed to rule Nicaragua for four decades, continuously favoring personal gain over development and benefit of the Nicaraguan people.

*World War Two*

It was the beginning of World War Two that would provide the Somoza dynasty with its first opportunity for immense personal gain. Keeping with United States interest, Somoza declared war on Japan on December 9th, 1941 (just two days after the Japanese bombed Pearl Harbor). The United States, in response, sent $1.3 million USD worth of arms to Nicaragua under the
lend-lease, constructed air bases in Managua and Puerto Cabezas as well as a naval base at Corinto, and began training Nicaraguan pilots in the United States.

This reciprocity between the two nations left Somoza with a sizable air force, which allowed Somoza to further enhance his military control over the country. The United States presence in Nicaragua also had other adverse affects. The development of military bases in Nicaragua, in turn, provided Nicaragua with dollar spending Americans. From these American dollars emerged a entrepreneurial class, but also, consequently, caused mass inflation, further pushing hardship upon a people already suffering from wartime shortages (Bermann, 1986).

At this point in time, 95% of all Nicaragua exports were going to North America and, through Roosevelt’s Import-Export Bank, the Inter-American Development Commission, and other agencies, Nicaragua and the other nations in Central America were pushed to reduce and even eliminate tariffs, encourage foreign (meaning US) investment, and refraining from the use of customs protection to foster new industries (Bermann, 1986). Under the Roosevelt paradigm, the purpose of Central American government was to promote private enterprise through tax incentives and minimal regulation. After the war, these programs were continued through the International Bank for Reconstruction and Development (later known as the World Bank) and the IMF (Ibid.). Notice that in this World War Two period, one is able to observe the beginnings of neoliberalism and the complete championing of capitalism internationally, regardless of the economic system which may have been beneficial to the individual nation. We must also notice Somoza, fearful of losing US favor, did not, and would not, fight US interest in the region, structuring the future of the state.
Also during the war, Nicaragua began to seize the property of German and Japanese citizens. When the property was put up for auction, there were but a few families who could possibly purchase the estates. The Somozas, being one of those few families, were able to purchase immense land holdings for a fraction of the value (with money he took from the National Bank of Nicaragua, but never repaid). By the end of World War Two, Somoza had amassed over $60 million USD in personal wealth, by far the largest in the region.

The Somoza Puppets

The Somoza government had begun to fall out of United States favor by the end of the 1940’s. Somoza had planned to run for reelection in 1947, despite the constitutional restrictions against serving another term as Nicaragua’s president. Somoza, facing pressure at home and abroad, instead elected to place a puppet president in his place, with the intention of maintaining control. When his puppet president, Argüello, began disobeying Somoza rule in favor of the Nicaraguan people, Somoza violently overthrew the government through an armed coup.

The significance of the coup was not in the resulting governing body. One would expect Somoza, with the support of the Guardia, to be able to maintain control. What is significant however, is the cessation of relations by the United States that the coup resulted in. Somoza had lost one of his essential pillars of governing. To regain United States favor, and to ensure that he could run for the presidency again, Somoza redrafted the Nicaraguan constitution. The resulting constitution was the first in the region to contain anti-communist statements, effectively closing the door to communism for Nicaragua.

This action was immensely important, and the significance should not, and cannot be lost. Obviously, the redrafting of the constitution of Nicaragua was, at least in part, geared towards an
gaining United States favor, which sets a most dangerous precedent—that Nicaragua is willing to do whatever it must, including sacrificing national interest and benefit, to maintain US relations. The second important factor is the alignment with the United States against communism. It is important to note that communism would later take effect in many Latin American countries and, if these economic systems had gone without US intervention, may have succeeded. However, regardless of the possible outcomes (we can never know what the resulting communist economies would have looked like or if they would have provided benefit to the people), Nicaragua had demonstrated its willingness to surrender the right of self determination and the possibility of development to maintain US relations.

This precedent would govern Nicaraguan politics for the next decade, pushing Nicaragua into the Central American Common Market, a market with extreme capitalistic principles which may not have represented the interest of Nicaragua and led to condemnation of Cuba in 1959.

*Anastasio Somoza*

Anastasio Somoza succeeded Somoza Debayle in 1967. The next 12 years were the most oppressive, most corrupt, and most abusive in the history of Nicaragua. Where Somoza Garcia had ruled with an iron fist, Anastasio ruled mercilessly—increasing governmental corruption, intensifying the use of physical force, and completely controlling the political and economic systems.

Perhaps the most disturbing aspect of Anastasio’s rule was the 1972 earthquake in Nicaragua which left 10,000 dead and 50,000 homeless, with thousands more left hungry, without access to drinking water, and without access to basic necessities. The international community had shown immense support for the people of Nicaragua, sending money and food to
alleviate their suffering. Anastasio, however, decreed that all international aid must be first screened by the Guardia. The Guardia then stole millions in international aid from the people of Nicaragua. By the end of his rule, the Somoza’s had amassed over $400 million USD in personal wealth (Walker, 2003).

Following the earthquake of 1972, the course of events in Nicaragua turned in such a way that the precipitation of conflict became inevitable. The Somoza regime demonstrated a flagrant disregard for the human rights of the Nicaraguan people by state-sponsored pillaging, rape, arbitrary imprisonment, torture, and the execution of hundreds of peasants (Walker, 2003).

Conclusions

One could argue that the lack of domestic development in Nicaragua during the four decades of Somoza rule can be directly attributed to the Somozas and their bad leadership. After all, it was the Somozas who continuously placed personal gain over enhancement of Nicaraguan society. Indeed, this is undeniably true. The Somozas ruled tyrannically, mercilessly, and with the sole goal of self advancement. However, we must question the root of Somoza power. Could the Somoza family have ruled for four decades had it not been for the unwavering support of the United States? More importantly, what legacies survive because of the insatiable need to satisfy the United States?

The Somozas were able to rule because of the support that they garnered from the United States. Without this support it is very likely that the Somoza dictatorship would have been overthrown, as had been the historical paradigm in Nicaragua. More importantly, without the consent of the United States, no government had been allowed to stand in Nicaragua. The lengths to which the Somoza family was willing to go are startling. The Somozas rewrote the
constitution of Nicaragua twice, entered into markets and enacted economic policies which were not to their benefit, and bent domestic policy to suit US interest.

The Somoza era was a distinct time period of stagnation of Nicaraguan development, where Nicaraguan society was not permitted to develop based on the whims of the United States and its puppet government in Nicaragua.

The Sandinista Revolution (1979-1989)

As I alluded to in the previous section, there are several aspects of Nicaraguan history which make the case remarkable. The longevity, brutality, and support of the Somoza dictatorship are truly shocking. However, what makes the Nicaraguan case truly unique is the revolution that would take place once the Sandinistas took control in the end of the 1970’s. There has never been a rebel group that has taken power and ruled as responsible, just, and egalitarian as the Sandinistas.

Whatever the reasons may have been—years of oppression, a collective consciousness, or otherwise—the Sandinistas were able to mobilize the support of the people and ruled not for power or politics, but for the people. From the outset, the Sandinistas initiated massive social programs to promote domestic growth and development—launching a massive inoculation campaign that would successfully eliminate polio, initiating “Literary Crusade” in 1980, which would bring the level of illiteracy down from 50% to just 16%, and reduced the rate of infant mortality by a third (Kinser, 1991).

The Sandinistas also agreed to assume the national debt of Nicaragua incurred under Somoza, which the Sandinista government had absolutely no obligation to do. In two years, Nicaragua never missed a loan payment (until the United States support of the Contras became
too substantial and the war had grown to consume much of Nicaragua’s budget); a record unparalleled anywhere else in the developing world (Walker, 2003).

In an equally unparalleled move, the Sandinistas did not place one individual in a place of power, under the guise of president or otherwise, but rather ruled with a nine member “junta,” or Sandinista Directorate (DN), which represented people from all classes of society—the rich, the poor, the Sandinista and not Sandinista alike (Kinser, 1991). All moves by the DN were made unanimously, or with near unanimity, meaning there was no vote that was passed with a 5-4 decision. This move is also unprecedented in any modern developing country. Never before have we seen a change of power in Latin America that has not been followed by a dictatorship. The Sandinistas not only shunned the idea of a dictatorship, but also shunned the idea of having a single man represent the people in the form of president.

Internationally, the Sandinistas were widely accepted, promoting a mixed and equal trade policy with all nations. Domestically, contrary to what the Reagan administration would have people believe, the Sandinistas rejected communism outright. The Sandinistas behaved, economically, in a very pragmatic, mixed, and diverse manner. Even when the Sandinistas, in light of the embargos placed upon them by the United States, were forced to turn to the Soviet Bloc for aid and trade, they did not adopt or impose a Soviet-style, Communist, or even Socialist economy (Kinser, 1991).

In my opinion, the Sandinista government, with the policies set forth on education, health care, and economics, had begun to meet or even met the criteria to ascend to the next level of development, the level of development which would ensure that all citizens would begin to equalize economically, begin to thin the class lines, and indeed push Nicaragua out of poverty
and develop the nation into a global competitor. This level, which Rostow (1971) defines as the drive to maturity, was in the reach of the Sandinistas, but would ultimately be denied them because of the self-interest and intervention of the United States.

In these next sections, I will detail the history of United States intervention in Nicaragua and comment on how this intervention has halted the progress of Nicaraguan development. Walker (2003) splits the Sandinista era into four subsections, from 1979-1980, 1980-1982, 1983-1985, and 1985-1990. For the purposes of our discussion, these time periods, and the events which classify them, will be sufficient to discuss the counterrevolutionary forces supported by the United States which undermined the Sandinista government, and would ultimately lead to the perpetuation of poverty in Nicaragua.

_Euphoria (1979-1980)_

A period of immense euphoria ran rampant throughout Nicaragua following the ousting of the Somoza regime. It had been seven decades since Nicaraguans had experienced freedom or seen the possibility of self-determination. The Sandinistas immediately began to initiate ambitious and widespread social programs, stress political involvement by all social classes and political ideologies, establish a mixed market economy with influence on the private sector, and foster diplomatic and economic relations with all nations, regardless of ideology (Walker, 2003). The Sandinistas demonstrated a desire for development, politically, economically, and socially.

At first, the Sandinistas, although met with some skepticism by the Carter administration, were accepted as a legitimate ruling party and supported economically to the tune of $75 million USD by the Carter administration to help rebuild Nicaragua in the wake of the revolution. This type of aid, it should be said, is productive, and helps to build strong, stable markets throughout
the world. The type of intervention pursued by the Reagan administration, as will be discussed subsequently, is counterproductive, counterintuitive, and ineffective.

In the beginning of the 1980’s it did, indeed, seem that Nicaragua would develop, ascending to the next level of the Rostovian Development Scale. However, a change in November of 1980, from the Carter administration to the Regan administration, would be the beginning of the end of the Sandinista regime in Nicaragua, as well as the hopes for sustainable development in Nicaragua.

_Reagan takes Office (1980-1982)_

The Republican Party, in the summer of 1980, ran on a platform which “deplor[ed] the Marxist-Sandinista takeover of Nicaragua” (Walker, 2003). In early 1981, the United States terminated all aid to Nicaragua, and authorized anti-Sandinista paramilitary training in the United States. President Reagan also, in 1981, signed an executive order authorizing the CIA to fund a counterrevolutionary force, the Contras, based in Honduras. The Contra attacks on Nicaragua would begin in 1981, but would not reach full force until 1982, when the Contra force began to attack bridges, oil-refining facilities, schools, and all other matter of civil infrastructure. The United States, in the same year, would use its pull in the World Bank and IMF to block all loans to Nicaragua. The United States had begun claiming Nicaragua a “communist” country and, as such, dangerous to domestic security. The United States used the guise of Nicaragua communism to excuse intervention in a sovereign state that was no threat, but had the potential to be a strong ally.

With the loss of critical infrastructure, and the need to raise a standing army, it is no wonder that Nicaragua was forced to cut back on the social programs which were so successful
in the beginning of their governance for the sake of guns, bombs, and helicopters. This build-up, clearly defensive, combined with the lack of capital flowing into Nicaragua and the damaged infrastructure, set Nicaragua back years in regards to development. The United States had crippled Nicaraguan society with sanctions and refusal to grant loans, and prevented development.

These examples exemplify the profound affect foreign intervention can have on domestic development. A state, forced to fight against an illegitimate force funded by a larger nation to represent their interest, is forced to sacrifice social consciousness for the sake of security. The United States, in this case, demonstrated a lack of consideration for the Nicaraguan people, sacrificing Nicaraguan development for United States gain.

Weathering the Storm (1983-1985)

Despite the involvement by the United States in domestic and international affairs of Nicaragua, the state was still able to prosper, to a degree. However, as 1983 came and passed, the “storm” became worse. The storm, in this case, being the “covert” action by the Reagan administration which sought to destabilize and economically strangle the Sandinista government.

Militarily, the CIA-coordinated recruitment, training, arming, and organizing of the Contras had exceeded the original force of 500 envisioned by the CIA to over 15,000 by 1984 (this would be the equivalent of a force of over 1.28 million invading the United States) (Walker, 2003). Direct involvement of the CIA in the bombing of oil-refining facilities and the mining of Nicaraguan harbors was also evident (Ibid.).

Economically, Washington engaged in a program of economic strangulation. Washington continued to block loans from the IMF and World Bank. In 1982, the Standard Fruit Company, a
significant source of money and trade in Nicaragua, pulled out their banana-buying operation. Washington also made every effort to halt other nations from trading with Nicaragua, and effort that did have some affect.

Social services were most negatively affected. Increased emphasis was necessarily placed on defense and the government was forced to cut back expenditures on health care, education, housing, and food subsidies (Kinser, 1991). Furthermore, it was clear that the Contras were targeting social service infrastructure. Government employees in health and education were kidnapped, tortured, and killed. Schools, clinics, day-care centers were all targets of destruction.

The affect on the Nicaraguan population was not what the Reagan administration had intended. People actually rallied around the Sandinista government, and voted, in the first fair and free election in Nicaraguan history, to vote the Sandinista candidate, Daniel Ortega, into the presidency. Despite what the US government may have contended, the election was competitive, fair, and free (Walker, 2003).

Nicaragua, at this point, had demonstrated the requisites to advance to the next level of development. Nicaragua had a society that was secularized, blended the class lines, held democratic election, found good and services in which they could specialize in the global market, had a responsible government, had good standing in the global order, and regarded the desires of the people. Furthermore, Nicaragua had embraced the free market, accepting foreign investment, and opening trade barriers. Nicaragua should have developed. Had it not been for the intervention of the United States, Nicaragua would have developed along the expected line of Rostow and neoliberal reform.

*The End of an Era (1985-1990)*
Over the next five years the Sandinista government made the best of an impossible situation. There was some advancement of society. The new National Assembly drafted a constitution in 1987. And, it is also worth noting, the Sandinistas maintained a relatively admirable record of human rights. The Sandinista held that every person had a basic set of rights—not to be raped, tortured, or murdered at the hands of the government, the rights to economic and social self-determination, and civil and political rights were all upheld.

However, these results could not overshadow the economic and political destabilization of the United States. By the time the 1990 elections arrived, the people, faced with a promise of economic aid if they were to vote the Sandinistas out of power, voted to put the National Opposition Party (UNO) of Violeta Chamorro into power.

For the next decade and a half Nicaragua faced yet another period of stagnation, where the reforms of the Sandinistas were undone, and the status quo was maintained. At every juncture, there existed a threat of US intervention, violence, and economic strangulation if the Nicaraguan people voted for the Sandinista party again.

Results, Conclusions, and Contributions

48 percent of Nicaraguans live in poverty, while 17 percent live in extreme poverty (World Food Programme, 2010). Chronic malnutrition affects 20 percent of children under the age of five, while as an entire population, 50 percent of people face a food deficit (World Food Programme, 2008). Only 67.5 percent of people over the age of 15 in Nicaragua have the ability to read and write, while Nicaragua spends just 3.1 percent of its annual GDP on education (CIA World Factbook, 2011).
Nicaraguans are poor, unhealthy, and undereducated. Nicaragua was equipped with the resources, the drive, and the ability to succeed. Yet, at every turn, the opportunities that hard work, resourcefulness, and blood have given Nicaragua, have been denied due to the interference of the United States.

Rostow (1971) broke development down into five stages—traditional society, preconditions for take-off, take-off, the drive to maturity, and the age of mass consumption. Nicaragua currently fits the criteria for the take-off stage, classified by the governing of the state not by tradition, but by economic processes.

Nicaragua has specialized in products, mainly coffee and sugar, and Nicaragua had found its place among global competitors (especially during the Sandinista years). Nicaragua has made moves towards the drive for maturity (the next step in development). However, at the points where Nicaragua has made these strives the United States has intervened either militarily or through the support of another military group, and prevented the movement, placing and supporting a puppet government to maintain the status quo or the standing government has stolen aid, manipulated laws, and done whatever necessary to stay in power, including sacrifice the well being of the people. It is for this reason that Nicaragua has remained underdeveloped.

The neoliberal reforms cannot be blamed. There has yet to exist a system where neoliberal reforms have been allowed to take hold in the absence of foreign intervention. Self interest of governments and individuals has hijacked the process and turned neoliberal reform into personal gain.

This is my contribution to the literature. I build upon the work done by Stiglitz, Chomsky, and Edwards. I do not look to the implementation of reforms or the reforms
themselves to explain underdevelopment. I neither affirm nor deny the affectivity of the neoliberal system. I state that the neoliberal system cannot function in the atmosphere the world provides. Basically, neoliberalism never comes to pass in a vacuum. There are variables which continuously influence the implementation and success of the reforms held in the Washington consensus.

Caveats

No research is a perfect examination of the conditions in which the world exists. I cannot deny that there are other variables which influence the underdevelopment of states, Nicaragua or otherwise. However, I will say that foreign intervention is the most distinct and all encompassing variables to explain the underdevelopment and continuance of poverty in Nicaragua, with implications spreading far outside the boarders.

There may also be issue with the measurement in which I choose to analyze foreign intervention. After all, there is no graphical representation, not any quantification of foreign intervention in any section of this paper. However, in academia today, scholars preoccupy themselves far too often with measurements and quantifiable data. There are simply some things that cannot be quantified, and these two variables fall into this category. One must simply observe their influence on the world as it is.

Future Research

There are endless opportunities for future research in this field. The most obvious would be to expand the study outside of the realm of Nicaragua. It would be fascinating to examine El Salvador, Guatemala, Colombia, Argentina, Chile, or any number of other countries and compare the level of government incapacity and foreign intervention as it relates to poverty.
With in Nicaragua it would be interesting to examine how the election of 2007 has influenced Nicaraguan life and development. In 2007, Daniel Ortega, Sandinista leader, was re-elected to office. It would be interesting to research the relations between him and the United States and see if this is one of the times where Nicaragua has the opportunity to excel to the next stage of growth.
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