THE HISTORY OF THE NICARAGUAN SOCIAL SECURITY INSTITUTE: AN ANALYSIS OF PATH DEPENDENCY

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By

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ABSTRACT

The use of path dependency in political science explanations of institutional development, especially social security helps us to better understand continuities and departures of a policy. The lack of theoretical work on the Nicaraguan Social Security Institute and its history, together with the country’s violent, sudden and disrupted political history that makes institutions vulnerable to arbitrary changes, were the motivation to look for an answer to the institution’s overall stickiness.

This thesis examines the historical development of the Nicaraguan Social Security Institute by using path dependency theory together with an interpretation of the public policy cycle in order to mitigate the absence of influential groups as important agents of change in the process. The Nicaraguan Social Security Institute represents an interesting case of path dependency in a context in which most of the institutions would change constantly and drastically without much regard for their past. This thesis finds that this unexpected dependency was only possible because of the institution’s very peculiar origins and reinforcement processes that made the costs of changing increasingly high throughout the years.
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Victor
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Introduction

Social security means different things in different contexts. According to Barr and Diamond, “in the United States, social security refers to government retirement and disability benefits only, in the United Kingdom to all cash benefits provided by the government, and in mainland Europe to all cash benefits and health care” (2008, Loc. 385). In Nicaragua, social security refers to: a) government retirement, disability and survivor pensions; b) professional risk coverage1; and c) sickness and maternity benefits, as well as health care provision, social assistance, family allocations and other social benefits2 (Mesa-Lago et al. 1997, 9).

The first social security program was founded in Germany in 1889 by conservative Otto von Bismarck, providing retirement and disability benefits. After several years of implementation, other countries in Europe followed. Once World War I ended and the International Labour Organization (ILO) was founded in 1919, social security programs began to take shape within an international consensus. Modern social security as we understand it today was developed by Sir William Beveridge in his report Social Insurance and Allied Services, published in 1942, which “proposed a ‘social security plan’ integrating social insurances, social assistance, and voluntary supplementary insurances” (Mesa-Lago 2008, 3). At the end of World War II, “the ILO Declaration of Philadelphia raised social security to the category of international instrument”(Ibid.), providing guidelines and standards for social security systems to which countries are legally bound upon signature and ratification. In 1948, the Universal Human Rights Declaration defined social security as an individual right. These events in history

1This benefit covers any kind of accident that may occur while working as well as when going or coming from the work place. For a full explanation of the institute’s programs see chapter 4

2 The last two benefits are in the law but they are not provided in practice
promoted the creation of social security systems around the world, as well as the categorization of it as a basic need.

The Nicaraguan Social Security Institute (Instituto Nicaragüense de Seguridad Social, henceforth referred to as INSS) was founded in 1955 during an authoritarian and dynastic dictatorship, in which the dictator ruled for a certain period of time while planning to pass incumbency to a son or other dynastic successor (Bar-El 2009, 5). The INSS developed further in the same direction during the second successful people’s revolution in Latin America and is now functioning in a neoliberal democracy. Even taking into consideration that social security “represents perhaps the purest case of a policy prone to path dependence” (Hacker 2010, 55), one would predict that such an institution would have changed arbitrarily or deviated drastically from its path during these dramatic political processes with such different ideological justifications. The fact is, however, that it not only remained relatively unchanged and on track, but its principles were reinforced, increasing the number of stakeholders and reinforcing path dependence. This path dependency approach let us better identify continuities and departures in the Nicaraguan case.

It would be difficult to understand the development of the INSS and explain its path dependency without looking at the country’s political and social evolution throughout history, considering that partisan politics play one of the most important roles in shaping the development of welfare states through time (Huber and Stephens 2001, Loc71-72). This study is not about the INSS’s social righteousness, political interest, economic logic or financial feasibility. This work intends to explain the INSS’s unexpected path-dependence and certain moments of departure in a country whose “history is among the most turbulent and interesting in
all of the Americas” (Walker 1986, 9). Given this upheaval, the creation of an institute with grand and unreachable objectives was probably unavoidable.

This thesis is divided into five chapters. The first and second chapters review the existing literature on the study of social security, as well as the theoretical foundations, methodology and limitations of this study. I will discuss various theories that influence my argument. The main theory I will utilize is that of path dependency and increasing returns, which argues that self-reinforcement dynamics, or positive feedback processes, explain how, at a moment of inter-temporal choice, an institution’s future alternatives are affected throughout the course of history. The third chapter addresses the Nicaraguan context. I will give an overview of the political evolution of the country. The objective of this chapter is to present key variables for the interpretation of the development of the INSS given its historical context.

In Chapter Four, I identify, order, describe and explain the different outcomes that, “at a ‘critical juncture,’ trigger feedback mechanisms that reinforce the recurrence of a particular pattern into the future” (Skocpol and Pierson 2002, 699). Moreover, I look at, the configuration of the public sphere that includes public opinion, power struggle and policies limiting the government agency to a set of actions where change could only be achieve through continuity of the same party in power (Huber and Stephens 2001, Loc. 104) The conclusion addresses the future of the INSS given its dependence to a particular path in today’s context. The intention of this chapter is to expose the INSS’s future prospects and the alternatives of the institution to go in one direction or another. Finally, I will give an answer to my main research question: Why is the INSS path dependent in a country that has gone through such intense socio-political and economic upheaval?
Chapter 1. Literature Review and Approach to Social Security in Latin America

Social security has always been an albeit contentious an interesting subject for a wide range of disciplines. Opinions can vary from ones like Milton Friedman’s, that “the ‘social security’ program is one of those things on which the tyranny of the status quo is beginning to work its magic” (Friedman 2002, 182), to others who adhere to the idea that “social security can be considered one of the fundamental needs of citizens” (Mesa-Lago et al. 1997, 2). This is likely one of the reasons why there is little consensus on how big or small social security systems should be.

Studies about social security systems in Nicaragua are usually snapshots of specific moments in time. They often evaluate the development of indexes and/or principles for fixed periods. The main variables, generally speaking, when studying these systems are demographics and financial feasibility. They can also be comparative studies with the purpose of understanding how these systems have developed in different contexts. The intention of these studies has generally been to find alternatives in order to improve the efficiency and efficacy of the use of resources and the implementation of provisions. Normally scholars do this through the study of organizational and/or financial analysis of the institutions, sometimes including health care, sometimes not. There are very few studies about historical development of the INSS, Path dependency is a theoretical instrument that can help with the identification of continuities and departures of the system, as well as opening the discussion about the future of the institution and its boundaries.

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3 Referring to the United States Old Age and Survivor’s Insurance

4 Own translation. “La Seguridad Social puede ser considerada como una de las necesidades fundamentales de los ciudadanos.”
International organizations like the World Bank (WB), the Inter-American Development Bank (IDB), the International Social Security Association (ISSA), the ILO, the United Nations (UN) Economic Commission for Latin America and the Caribbean (ECLAC), the International Monetary Fund (IMF) and other smaller cooperation agencies and non-governmental organizations (NGOs) have promoted the discussion about social security in the world and the Latina American region. Social security systems are usually among the largest institutions in many countries. These international organizations often lead the discussion on appropriate management of these systems and implementation of their programs, as they may affect several local, regional and international stakeholders, depending on how big the system is. Changes or reforms in social security systems affect several variables in other systems and sub-systems. According to Whitehouse, “reforming pensions is a central policy issue in developed and developing countries alike. However, it is challenging and controversial because it involves long-term planning by governments faced with numerous short-term pressures. Pension reform usually provokes heated ideological debates and, often, street protests” (2007, 3). It often becomes hard to discuss social security without rhetoric like “taking money from grandma” or “Ponzi scheme” polarizing the public debate.

The literature on social security is vast and is studied in a multi-sectoral manner. These analyses result in different conclusions depending on their outlook and political agenda. It can be complicated to navigate such a controversial topic without being influenced by a specific trend. I intend to contribute to the social security literature in a small and bounded way and in the most impartial manner possible. To do this, I review some of the relevant literature surrounding social

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5 In financial terms
security in Latin America in order to understand its influence in Nicaragua. Later, I focus my attention on those studies that address social security in Nicaragua. The review of Nicaraguan literature can be divided into two sections: a) literature that studies the Nicaraguan social security system; and b) that which reviews history itself and the effects that historical context and political milestones have on institutions. The literature I use for theoretical purposes will be described in detail in the methodological section of this thesis.

1.1 Studies of Social Security in Latin America and Nicaragua

Latin America

Latin America is a region long burdened by poverty and inequality of income. In the last couple of decades, extreme global poverty has been cut in half according to the WB; as impressive as the decline is, Latin America remains one of the most unequal regions of the world (Da Costa 2013). Lack of access to basic private and public goods and services is strongly related to this inequality. Formal labor is scarce, ranging “from 40 per cent in Uruguay to 75 per cent in Bolivia” (ILO 2014, 122) making it hard for social security institutions to enforce their policies effectively. This affects access to traditional institutions like education, healthcare, credit and insurance, on both public and private levels. This is exemplified in the housing market, where 14% of the population cannot demonstrate its income and thus cannot access credit in order to buy a house (Bouillon 2012). Latin American countries share much history, culture and traditions. Many of the problems related to poverty and inequality are structural and can be compared throughout the region, however, local country contexts vary so much that, even among small Central American countries, policies cannot be designed or implemented in the same way.
One of the most prominent researchers and expositors of Latin American social security is Professor Carmelo Mesa-Lago. His work ranges from studies of specific countries in very specific moments to comparative studies that take into account every Latin American country. He has been studying social security in Latin America since 1965. According to his studies, social security systems in Latin American countries were implemented just before they began to be implemented in other developing nations in the world. By the end of the 1970s, all Latin American countries had such programs in place but with significant differences among them. In 1980, before Chile began its structural reforms, Mesa-Lago classified and ranked the countries in three groups based on the date of inception of their first social insurance programs for pensions and sickness-maternity, as well as their degree of development in: a) pioneer or high; b) intermediate; and c) latecomer or low. Latin American countries led a series of reforms that he evaluates by pondering the pros and cons of the public versus private option (Mesa-Lago 2008, 4). Mesa-Lago’s evaluation of the reforms of social security systems in Latin America is one of the most comprehensive and impartial.

The U.S. Social Security Administration (SSA) has been following the development of social security systems around the world since its own inception. One of its first publications, *Social Security in Latin America 1945-47*, Carl Farman characterizes the implementation of systems in the Latin American countries. He recognizes that “the importance of social security to the people and their government throughout Latin America is unquestioned”(1947, 18).

Pay-as-you-go (PAYGO) systems gained popularity after World War II, because the historical context made this option possible. Most of the PAYGO systems around the world developed defined benefits (DB) that could be earned in different ways; these benefits could be
means-tested, flat benefits or earnings-related. In the 1970s and 80s, the conditions that were once met - full employment, rapid population growth, high wages and economic stability - changed rapidly in the face of financial crisis. The decreasing popularity of these systems promoted talks about reforming into Funded Define Contribution (FDC), Notional Defined Contributions (NDC) or a combination of these, privately or publicly-managed (Williamson 2004). The first describes in a strict manner the contributions to the systems whereas the second its more flexible thus its services are more flexible. During this period, literature on social security in Latin America was dedicated to comparative follow-ups of their development.

Chile was the first Latin American country to take ground-breaking measures that defied the traditional sole state administration by providing a private alternative. This decision was not just technical; it took place during one the cruelest dictatorships on the continent. Just as in the rest of the Western world, “a combination of economic changes, political shifts to the right, and rising costs associated with maturing welfare states [had] provoked growing calls for retrenchment” (Pierson 1996). This general atmosphere caused U.S.-influenced elites to introduce a “mandatory funded individual retirement accounts (IRAs) and moved away from pay-as-you-go (PAYGO) schemes” (Calvo et al. 2010). The decision was to establish a “two-tiered social security system […] Most widely discussed is the private pension tier in this new system, known as the AFP plan (Association of Pension Funds) […] Less well known, but also important, is the other tier in the Chilean national system, which takes the form of a government-supported old-age benefit promise. This is a floor or minimum benefit, payable by the government to workers whose private AFP pension is too small to generate a minimum payout” (Mitchell 1998). This move towards partial privatization was a result of a search for
financial sustainability after a long period of economic and social upheaval it did not necessarily prioritize the ILO principles of universal coverage; equal treatment; solidarity; comprehensiveness, sufficiency and quality of benefits; unity, state responsibility, efficiency and social participation in the administration, such transition gave the government the financial independence to be once again subject to credits by international institutions.

Since Chile took these steps to reform the system, “10 other countries in Latin America, as well as countries in Central and Eastern Europe, have adopted some form of what has become known as the ‘Chilean model’” (Kritzer et al. 2011). The main international promoters of this movement of less state involvement were the World Bank (WB) and the International Monetary Fund (IMF). Based on its organizational structure, it could be interpreted that the WB makes its political decisions in a way comparable to the IMF and sometimes takes the IMF’s studies as a basis for their decisions. The IMF does not provide loans without conditions attached; there is usually a strict implementation of fiscal austerity and tight monetary policy with which governments in need of loans must comply. Local politicians are aware of the need to implement these policy measures and use international organizations as scapegoats in order to relieve pressure from their constituents and lower the impact of the political cost (Vreeland 2007).

Evidence of WB involvement in the implementation of such measures, especially in social security, is that “the Bank has been involved in pension reform in more than 80 countries and provided financial support for reform to more than 60 countries” (Holzmann and Hinz 2001).

Since the 1980s, most of the literature surrounding social security in Latin America has been regarding reforms, either from a philosophical point of view that analyzes their principles or a more technical approach that addresses their feasibility. After several years of
implementation and evaluation of the new systems, the WB “acknowledged some of the shortcomings and adverse effects of the reforms implemented in Latin America” (Sarfati 2008). After a couple of publications (World Bank 2006; Gill et al. 2005), “the World Bank and other organizations that promoted IRAs have recognized that pension reform should pay more attention to poverty reduction, coverage and equity, and protect participants from market risks” (Calvo et al. 2010).

Nicaragua

As described previously, the literature review for the Nicaraguan context can be divided into two parts. These are: a) literature that studies the social security system; and b) literature that reviews history itself and the effects history and political turning points have on institutions. With the purpose of giving a better description of how the literature has developed, I have divided it according to the following periods of time: before 1900, describing the foundation of the Nicaraguan State; from 1900 to the Sandinista Revolution; from 1990 until now.

From 1900 to the Sandinista Revolution was the period when the foundations of the modern Nicaraguan state were being cemented. It was a time of international intervention and consolidation of the Nicaraguan elites into a new political system that was established under a new political constitution, which had been modeled after modern France and the U.S. (Toynbee 2003, 22) and was characterized by a modern secular state and division of powers. Nevertheless, according to Toynbee, this “republicanism, constitutionalism and democracy were only a façade, and the real structural elements of the Nicaraguan political life were dictatorship and revolution” (2003, 22).
There is not much written in terms of social policy during this period that can tell us much about the origins of the INSS. Institutions were being put into place, government agencies were being created and the country was still experiencing constant tensions resulting from a century of independence and civil wars in the 1800s, the expropriations of church land in the early 1900s and other traditional political stressors. As a basis for understanding the modern Nicaraguan state and its power structure, I use professor Pérez-Baltodano’s book *Entre el Estado Conquistador y el Estado Nación*. He applies the notion that Nicaragua has developed under a cultural and political perspective of resigned pragmatism. He also applies the ideas of Weber and Morse about a structure of domination characterized by the personalization of power and arbitrariness.

In the way of other primary and supporting documents for describing the historical development of the country and how this history affected its institutions, I will reference books that narrate the development of the dictatorship and economic outlooks, mainly from local institutions and international ones. I will examine the historical process that gave birth to the INSS and the creation and modification of laws, as well as institutional development through use of institutional reports and international conferences, such as INSS evaluations and reports and *La Conferencia Mundial sobre las Administraciones de Seguridad del Sector Público* in Mexico.

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6 “Between the Conquest State and the Nation State” (Own translation as well as every quote from this book that had been translated from the Spanish)

7 The use of pragmatisms comes from one of the most influential philosophical trends in the U.S. in the first decade of this century. The main characteristic according to Pérez-Baltodano is “the acceptance of a framework of limitations and possibilities offered by a tangible reality as a reference for human action.” (Pérez-Baltodano 2008, 109) Pragmatism usually minimizes the importance of history as constitutive force (Diggins 1994, 10 as cited by Pérez-Baltodano 2008, 109) According to Pérez-Baltodano the U.S. positive-pragmatism is rational and it is expressed theoretically in contrast to the Latin American resigned-pragmatism that is a pre-theoretical position before reality.

8 *The World Conference about Social Security Administrations of the Public Sector*
During the revolution the logic of public administration was mainly influenced by Marxist-Leninist principles; a mixed economy was put into place and a new model of democracy began to be tested. New institutions were created and traditional ones were being challenged and abolished if they could not adapt. For this period of time, there are many evaluations on the development of democracy, transitions, international influence, security, the creation of new institutions, and the development and transition of institutions. Still, not many studies about the INSS have been published. The documents that exist are very rudimentary legal comparisons that were created by the institution.

In the 1990s, once the revolutionary party lost the elections and war came to an end, Nicaragua was forced to adjust to a new global context rather than insulating itself from it. Retrenchment policies, as described by Paul Pierson, were being put into place in the country. There was a new strong right wing administration in power and a fiscal and monetary need to drastically reduce the size of the state, there were reduction in the national account to reduce the fiscal deficit which varied from minus 25% of the GDP to 4% in 1988 and 1991 respectively (BCN 2009, 98). During this period of time, new studies about the INSS were conducted, now with a wider perspective and more in-depth investigation about its principles, sustainability and the feasibility of privatization (Rizo 1996; Mesa-Lago et al. 1997; INSS 1999; Téfel et al. 2000). But, Huber and Stephens find, the retrenchment in welfare states increased unemployment in a permanent manner making more people dependent on it as well as decreasing the contributions and stressing the fiscal system which pushed more cuts to entitlements (Loc. 75) In Nicaragua this situation spiraled to a moment where privatization of the system was contemplated. Changes
were made and put in place with the influence, support and financing of the United States Agency for International Development (USAID), the IDB, the IMF and the WB.

From January 1997 to January 2002, Arnoldo Aleman’s administration was one of the most corrupt in the country’s history. Decisions were made arbitrarily, and the INSS fell victim to such decisions. I will review the scholars and institutions mentioned above and contrast their opinions on the INSS. I will also use Salvador Martí’s studies on the Nicaraguan democratic transition and the construction of democracy, as well as the interactions of political parties in the new context and how these changes have affected the path taken by the INSS.

In the 2000s, the creation of new literature about the INSS seems to have ceased. International studies stopped considering it, because reforms did not take place and national pressure groups seemed to be pleased with it until the latest Ortega administration put the discussion back on the table. Thus, for this period, I will use newspaper articles, conferences and presentations about the reform proposals. The main points of discussion over the past two years have been how the INSS has gotten to where it is today and what its future might be. New reforms are now in place after one of the most democratic reforms the institution has seen throughout its history.

1.2 Similar Approaches to Path Dependency in Social Security

There are not many studies conducted about social security systems and path dependency. Among my main influences is author Professor Jacob Hacker. In his book, *The Divided Welfare State: The Battle Over Public and Private Social Benefits in the United States*, he applies two concepts that are related: path dependency and critical junctures in policy development (2002).
He uses the mechanisms of path dependency and policy feedback to explain that established institutions at single points in time change the politics of the future, and he combines this theory with critical junctures, which explain how rare moments in time create dramatic changes and send countries and policies down distinctive tracks (Hacker 2002, 52). Others who have written on this subject include: Robert Cox, who uses path dependency to explain the stickiness of the Scandinavian welfare system (2004); Bernhard Ebbinghaus, who focuses on how path dependence can explain institutional change (2005); and Professor Hugh Pemberton, who examines Britain’s pension system using path dependency in order to explain its particular developmental trajectory (2003, 2005 and 2006). I also take into account other works that use the concept of path dependency but focus on institutions in a general manner rather than specifically on social security (Wilsford 1994; Trouvé et al. 2010; Alexander 2001; Prado and Trebilcock 2009).

1.3 Research Focus and Strategy

This thesis begins studying the INSS and its path dependency from before the institute's creation until now. I have divided this large chunk of time into three sections: 1900 to 1979, 1980 to 1990 and 1990 to the present. In each period, I focus on the reason the institution developed in the way it did. I use path dependency, increasing returns and critical junctures to explain the development of the INSS. I will use Professor Subirats' cycle of public policy to determine at which point in the cycle the institution is located at different moments in history. At the end of this document the reader will be able to identify three things in every period: a) the historical and political context; b) the state of evolution of the INSS in contrast to its previous state; and c) the
critical junctures that reinforced the INSS into a path dependent trajectory. I will base the identification of these critical junctures on theoretical work about path dependency in social policy.\textsuperscript{9} The data and evidence of this phenomenon will come from historical documents, scholarly publications, publications of international organizations and institutional records. I will rely on this documentation to sustain my arguments. I argue that there is path dependency in the INSS despite Nicaragua’s turbulent history. Every other Nicaraguan institution changed dramatically without regard for its path, because the costs of changing were either justified or they were imposed. In contrast, in the case of the INSS, the socio-political, economic and financial costs of changing were too high or unjustifiable.

To follow the evolution of the INSS in terms of its principles, I will use Mesa-Lago’s book, \textit{Reassembling Social Security: A Survey of Pensions and Health Care Reforms in Latin America} (2008). He compares every Latin American country using standardized tables to analyze statistics and determine if the six conventional social security principles were affected by new reforms in the pension and health care systems. For a better understanding of the policy choices in social security, I will use Subirats' policy cycle model to pinpoint where in that cycle positive feedback happens. Additionally, while not the main focus of this study, Subirats’ model may be useful for determining in which stage of the policy cycle positive feedbacks are most prone to materialize. The methodology section of this thesis will explain how these authors help classify the INSS according to its inception and its degree of development. The unlikely path dependency in such tumultuous and arbitrary political development is better understood under a set of theories laid out in the next section of this thesis.

\textsuperscript{9} Described in theoretical framework
Chapter 2. Methodology and Theoretical Framework

In this thesis, I will make use of different terms and expressions that refer to theories or concepts. One of these is B. Guy Peters’ position about the theorization of institutions and how they are measured. He contends that “a good deal of institutional theory could be characterized as ‘variance theories,’ meaning that the structural differences among institutions are assumed to predict differences in policy choices, or the stability of the governmental structures” (Peters 2000, 13).

I agree with the possibility of an institution being a dependent and independent variable at the same time, as it can affect a policy but also be understood as a product of an evolutionary process. Institutions can act autonomously in the policy-making process, but they can - depending on the political system - also be subject to influence from external forces (Peters 2000). Taking this into consideration, I will analyze the development of the INSS as a dependent variable of the social security policy’s development. In order to achieve this, I will use Subirats' policy cycle.

The question that guides my research is: Why is the INSS path dependent in a context where institutions change very often due to constant upheaval, and in which the only thing that persists is the maintenance of the status quo through monopolized power and the arbitrary manipulation of institutions? I will respond to the research question by using the theory of path dependency and increasing returns and identifying critical junctures in Nicaraguan history that have made the INSS path dependent in this turbulent and unpredictable context. I will use
Subirats’ concept of public policy and model of policy cycle in order to better understand the INSS’ vulnerability to change\textsuperscript{10}.

2.1 General Concepts and Theories

Public Policy and Policy Cycle

For the purposes of this thesis, I will adhere to the following definition of public policy:

A series of decisions or actions, intentionally coherent, taken from different actors, sometimes public and sometimes not - whose resources, institutional links and interests change - with the purpose of solving in a punctual manner a problem politically defined as collective. These series of decisions and actions give way to formal actions, with a certain level of variable obligatory nature, that tend to modify the conduct of social groups that, supposedly, caused the collective problem to be solved (target groups), in the interest of the social groups that are negatively affected by the problem at hand (final-beneficiaries)\textsuperscript{11} (Subirats et al. 2008, 34).

Subirats draws this concept from several other authors. He contends that government is not a vending machine that delivers needed solutions to everyone in the proper measure and at the proper time. There is not a linear, institutional answer for a collective problem. The government response is politically-biased by nature and implies the existence of winners and losers in the interactions among involved actors (Subirats et al. 2008; Subirats and Rius 2008).

Subirats lists the elements of the concept of public policy as: a) intent to resolve a public problem; b) the existence of target groups at the origin of the public problem; c) intentional coherence, a conscious choice; d) the existence of decision and activities beyond the decision of

\textsuperscript{10} The INSS is an institution that executes and guarantees the implementation of public policy in a direct fashion. Thus, it is subject to change whenever the policy is reformed.

\textsuperscript{11} Una serie de decisiones o de acciones, intencionalmente coherentes, tomadas por diferentes actores, públicos y a veces no públicos - cuyos recursos, nexos institucionales e intereses varían- a fin de resolver de manera puntual un problema políticamente definido como colectivo. Este conjunto de decisiones y acciones da lugar a actos formales, con un grado de obligatoriedad variable, tendentes a modificar la conducta de grupos sociales que, se supone, originaron el problema colectivo a resolver (grupos-objetivo), en el interés de grupos sociales que padecen los efectos negativos del problema en cuestión (beneficiarios finales) (Own translation)
enacting the policy; e) intervention programs; f) key involvement of the public actors; g) formalized measures; and h) obligatory nature of the decisions and activities. Subirats is also clear on the notion of public policy as an instrument to collectively solve a common problem (Subirats et al. 2008, 35).

The policy cycle idea is gathered from different authors and “should be understood as a framework and not as a grid” (Subirats et al. 2008, 42). This allows us to interpret that “the sequential representation of policies should not be used in a mechanical fashion. Instead, policies should be represented as a continuous flow of decisions and procedures, for which it is necessary to find meaning” (Muller 1990, 33 as cited by Subirats et al. 2008, 42). These procedures can be skipped, implemented very rapidly or applied in its sequence as proposed.

### Table 1. Public Policy and Institution’s Vulnerability to Change

<table>
<thead>
<tr>
<th>Sequence</th>
<th>1st phase</th>
<th>2nd phase</th>
<th>3rd phase</th>
<th>4th phase</th>
<th>5th phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terminology</td>
<td>Emergence of problems</td>
<td>Agenda Setting</td>
<td>Formulation and adoption of the policy program</td>
<td>Policy implementation</td>
<td>Policy evaluation</td>
</tr>
<tr>
<td>Content</td>
<td>- Emergence of a problem</td>
<td>- Filtering of emerging problem</td>
<td>- Definition of the causality model</td>
<td>- Application of selected solutions</td>
<td>- Determination of eventual policy effects</td>
</tr>
<tr>
<td></td>
<td>- Problem perception (definition and identification)</td>
<td>- Outline causality models</td>
<td>- Definition of suitable and acceptable solution(s) to the defined problem</td>
<td>- Action of administrative implementation agents</td>
<td>- Evaluation of extend of impacts, effectiveness, efficiency, relevance, with respect to the original problem</td>
</tr>
<tr>
<td></td>
<td>- Recognition of the necessity of a policy</td>
<td>- Filtering between ideal solution and available resources</td>
<td>- Filtering between ideal solution and available resources</td>
<td>- selection of instruments</td>
<td></td>
</tr>
<tr>
<td>Analyst’s main questions</td>
<td>How is an awareness of the problem reached?</td>
<td>What are the factors that will make the government act in response to the problem?</td>
<td>What are the solutions proposed and accepted by the government and parliament? On the basis of which process are these solutions formulated?</td>
<td>Have the decisions of legislature and government been implemented?</td>
<td>What are direct and indirect effects of the policy?</td>
</tr>
<tr>
<td>Institution’s vulnerability to change</td>
<td>- Medium possibility of change</td>
<td>- High possibility of change</td>
<td>- High possibility of change</td>
<td>- Low possibility of change</td>
<td>- Medium possibility of change</td>
</tr>
</tbody>
</table>

Source: Adapted from Subirats 2008, 43

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12 The vulnerability to change line was added and it was analyzed considering the possibilities that (internal and external) factors might influence the institution or policy toward their interests.
I argue that the possibility of change in an institution can be affected by the degree to which a social policy is vulnerable to change. If the institution is the sole or primary and direct instrument for applying the policy in question, then there is a direct relationship between the direction a policy reform takes and the one that the executing institution takes. These vulnerabilities can lead to critical junctures, depending upon which phase the public policy is in and how vulnerable it is to change in that phase (see Table 1). Thus, the change between one phase and another in the policy cycle could lead to a critical juncture moment. The following quote states the importance of how individual and collective motivation works:

For cognitive, emotional and cultural reasons, the rationality of individuals and social groups remains necessarily limited (Simon 1957). An actor’s behavior can never be reduced to its purely instrumental dimension, that is to say to the accomplishment of a predefined objective based on a considered choice and perfect realization of the best possible course of action. Actors are in part calculating and are motivated by the satisfaction of their personal needs (means-end rationality or Zweckrationalität, according to Max Weber) and partly drawn down towards the defense and promotion of collective values (value rationality or Wertrationalität). It is important to bear this dual motivation in mind when interpreting the behavior of actors in the field of policy (Subirats et al. 2008, 53).

It is important to understand the motivation for change and the incremental actions that led the political actors in society to define something as a problem and implement, evaluate or re-evaluate a policy. It is also vital to understand what influenced them during this policy-making process in order to identify the incremental actions and steps that influential actors take in order to transition from one policy cycle phase to another. These actions and steps help to build the

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13 La racionalidad de los individuos y de los grupos sociales se encuentra siempre «limitada» (Simon, 1957) por razones de orden cognitivo, afectivo, cultural, etc. Por tanto, el comportamiento de un actor nunca podrá reducirse a su dimensión puramente instrumental, es decir, al logro de un objetivo definido ex ante gracias a una decisión basada únicamente en la reflexión y en la elección perfecta de la mejor alternativa de acción posible. Los actores son en parte calculadores y se interesan por la satisfacción de sus necesidades personales (racionalidad teleológica o utilitaria, «Zweckrationalität», en palabras de Max Weber), pero, por otra parte, orientan su acción también a partir de la defensa y la promoción de valores colectivos (racionalidad axiológica, «Wertrationalität»). Es importante recordar esta doble motivación al tratar de interpretar las conductas de los actores en el marco de las políticas públicas. (Own translation)
sequence of contingent decisions in the path. It is not just about how important or necessary the change in policy is but about how susceptible it is to change given the pressure agents are exerting to direct the policy in the way they would like it to go.

**Historical Institutionalism**

In order to understand how path dependency is introduced into policy analysis, I will lead with Ian Greener, who has said that:

The central claim of historical institutionalism is that choices formed when an institution is being formed, or when a policy is being formulated, have a constraining effect into the future (Hall and Taylor 1996; Koelble 1995; Peters 2001). This dynamic occurs because institutions and policies have a tendency towards inertia; once particular paths have been forged, it requires a significant effort to divert them onto another course. ‘History matters’ because formations put in place in the early stages of an institutional or policy life effectively come to constrain activity after that point (Peters, 2001; Skocpol, 1992) (Greener 2005, 62).

According to B. Guy Peters, “the argument for this approach is that the policy and structural choices made at the inception of the institution will have persistent influence over behavior for the remainder of its existence (Steimo, Thelen and Longstreth 1992). This idea of ‘path dependency’ is the central explanatory principle for the historical institutionalists” (Peters 2000, 3). Hacker describes how historical institutionalism is a label that is characterized by “a dual concern with political institutions and long-term patterns of historical development” (2002, 51). He explains how the studies about the effects of institutions get more sophisticated, while the historical aspect is less-developed. To better understand this, he elaborates on the use of path dependency, positive feedbacks and critical junctures (Ibid).
Path Dependency, Increasing Returns and Critical Junctures in Political Science

The concept of path dependency can be found in various scientific disciplines. I use an economic approach to relate path dependency to political science, as the two are very compatible. Conventional economic theory is “built on the assumption of diminishing returns. Economic action engenders a negative feedback that leads to a predictable equilibrium for prices and market shares” (Arthur 1994, 1). Lord Kaldor, in his book *Economics without Equilibrium*, has expanded upon traditional economic theory by applying notions of path dependency to economics in order to illustrate the imperfections of the market. This mode of thought led innovative economists like Brian Arthur to develop and apply knowledge from other sciences, such as biochemistry and physics, to economics. With innovations like this, as well as a new “acceptance of positive feedback, economists’ theories are beginning to portray the economy not as simple but as complex, not as deterministic, predictable and mechanistic but as process-dependent, organic and always evolving” (Arthur 1994, 12).

Path dependency can be a very difficult topic to navigate, but it has rapidly developed in the past decade. Path dependence in political science could easily be understood as:

“A faddish term, lacking clear meaning, but in the best historical institutionalist scholarship it refers to the dynamics of self-reinforcing or positive feedback processes in a political system - what economists call ‘increasing returns’ processes” (Pierson 2000a; of Mahoney 2000b, as cited in Pierson and Skocpol 2002, 699). In this quote, Pierson and Skocpol note the important link between economics and political science. They also make reference to a lock-in moment, as they describe that path dependent processes “can be highly influenced by relatively modest perturbations at early stages. Once actors have ventured far down a particular path, however, they are likely to find it very difficult to reverse course” (Ibid).

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14 “Economics Without Equilibrium” is the title of a series of lectures imparted by Lord Kaldor at Yale University in October, 1983 in memory of Arthur M. Okun.
In the words of Arthur, “self-reinforcement, almost by definition, means that a particular outcome or equilibrium possesses or has accumulated an economic advantage. This advantage forms a potential barrier. We can say that the particular equilibrium is locked in to a degree measurable by the minimum cost to effect change over to an alternative equilibrium” (Arthur 1994, 115). This logic comes to us as a parallel from the world of physics, and it now allows us to draw parallels between economics and political science.

It is necessary to clarify one of the biggest misconceptions surrounding path dependency, which is that a path-dependent process is static and movement away from that path is impossible. Hacker responds to this misconception, finding that “in some cases, a path may be virtually ‘locked in’ by a massive and irreversible commitment of resources, but most of the mechanisms creating path dependence involve the adaptation and response of individuals and organizations over time to a particular matrix of policies and institutions” (Hacker 2002, 54). He thus describes the process of path dependency as “deeply dynamic” (Ibid.).

When addressing path dependency, it is important to take into account the political actors and influential groups that affect institutions. Pierson and Skocpol contend that “there are strong theoretical grounds for believing that self-reinforced processes are prevalent in political life. Once established, patterns of political mobilization, the institutional ‘rules of the game’, and even citizens’ basic ways of thinking about the political world will often generate self-reinforcing dynamics” (Pierson and Skocpol 2002, 699). Under this assumption, I argue that these influential groups, objects of their own path dependence, will influence policies and institutions to divert from one policy cycle phase to another, altering the policy’s vulnerability to change by making
critical junctures possible. In Hacker’s words, critical junctures are “rare moments of dramatic change that send countries or policies down distinctive tracks” (2002, 52).

Hacker enumerates the features of a policy that encourage path dependence. He argues that, to the extent that five conditions hold true, the possibilities for path dependence are greater. These conditions are: a) the policy creates a large scale organization with set-up costs; b) the policy directly or indirectly benefits large organized groups; c) the policy embodies long-lived commitments; d) the policy creates interlocking networks with complementary institutions; and e) the environment in which the policy is formulated and implemented makes it harder to recognize undesired policy outcomes (Ibid., 55).

The general notions put forth above on historical institutionalism, positive feedbacks and critical junctures can give way to differing interpretations. I will narrow the possibilities of interpretation by relying on Ebbinghaus’ reduction of the approach into what he classifies as “path dependence I” and “path dependence II.” Ebbinghaus describes path dependence I as the result of “institutional lock-in due to micro-level diffusion processes,” and path dependence II as “open development path dependence […], a sequence of macro-level institutional changes that are shaped by the lower level lock-in” (2005, 15). The main differences between these two models are summarized in Table 2. These two models have three common features: 1) they both understand institutions as emerging from a “critical juncture at which collective actors establish new rules. The selection of a pathway is the result of political conflicts and power relations” (Knight 1992 as cited in Ebbinghaus 2005); 2) the “subsequent process of institutionalization through self reinforcing processes” and “positive feedbacks allow for the societal acceptance of a newly established institution, providing legitimacy and
objectivation” (Berger/Luckmann [1969] 1977 as cited in Ebbinghaus 2005) and; 3) is a “wider understanding of path dependence in the best sense of the sequence of contingent decisions.

Earlier decisions, once institutionalized, ‘structure the alternatives’ (Rokkan 1999) of later ones” (Ebbinghaus 2005).

Table 2. Two Models of Path Dependency

<table>
<thead>
<tr>
<th>Path dependence I</th>
<th>Path dependence II</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Metaphor</strong></td>
<td></td>
</tr>
<tr>
<td>Trodden trail</td>
<td>Road juncture</td>
</tr>
<tr>
<td><strong>Process</strong></td>
<td></td>
</tr>
<tr>
<td>Diffusion of social norm</td>
<td>Structuring of alternatives</td>
</tr>
<tr>
<td><strong>Model</strong></td>
<td></td>
</tr>
<tr>
<td>Polya urn</td>
<td>Decision tree</td>
</tr>
<tr>
<td><strong>Events</strong></td>
<td></td>
</tr>
<tr>
<td>Repetition of basic decision</td>
<td>Sequence of institutional changes</td>
</tr>
<tr>
<td><strong>Level</strong></td>
<td></td>
</tr>
<tr>
<td>Social network of individuals (micro-level)</td>
<td>Collective or corporate actors (macro-level)</td>
</tr>
<tr>
<td><strong>Beginning</strong></td>
<td></td>
</tr>
<tr>
<td>Small chances events</td>
<td>Major critical juncture</td>
</tr>
<tr>
<td><strong>Momentum</strong></td>
<td></td>
</tr>
<tr>
<td>“Tipping point”: critical mass innovators</td>
<td>Later Junctures; full, partial or no institutional persistence</td>
</tr>
<tr>
<td><strong>Outcome</strong></td>
<td></td>
</tr>
<tr>
<td>Deterministic persistence (inertia) through self-reinforcement</td>
<td>Open process of institutional change</td>
</tr>
<tr>
<td><strong>Self-reinforcement mechanisms</strong></td>
<td></td>
</tr>
<tr>
<td>Coordination (network effects); vested interests (sunk costs); Institutional complementarities (system effects); internalization (taken-for-granted)</td>
<td></td>
</tr>
<tr>
<td><strong>Institutional change</strong></td>
<td></td>
</tr>
<tr>
<td>External to model (inertia only)</td>
<td>Varying: path stabilization, departure, switch or cessation</td>
</tr>
<tr>
<td><strong>Factors of change</strong></td>
<td></td>
</tr>
<tr>
<td>Only exogenous</td>
<td>Endogenous and exogenous</td>
</tr>
</tbody>
</table>

Source: Adaptation from Ebbinghaus 2005, 24

2.2 Weaknesses and Limitations of using Path Dependency in Political Science

Historical institutionalism, explained to some extent through the concept of path dependency, provides an important framework for understanding public policy development.

One of the concerns with historical institutionalism is “whether historical institutionalists in general have headed up blind alleys, because their studies, considered collectively as well as
individually, are improperly designed” (Pierson and Skocpol 2002, 710). In order to improve policy development analysis, innovative ways to address the weaknesses of existing approaches must be considered.

Guy Peters allows us to interpret weaknesses and limitations in a general manner, stating that the problem is founded in “simplifications or incomplete conceptualizations within historical institutionalism. These shortcomings are all the more unfortunate as this approach fails to conceptualize and to give adequate attention either to political conflict, or to the dynamic relationship among institutions, in the normative sense of the concept, and state structure” (Peters et al. 2005, 1276-77). He analyses two problems related to this: 1) “the inability to incorporate adequately political change in the analytical framework”; and 2) “a failure to identify the political conflict” (Ibid). Another limitation is the fact that the complexity of historical institutionalism makes it difficult to trace the process and to establish criteria for demonstrating the existence of path dependence through critical juncture or sequence effects (Pierson and Skocpol 2002, 711).

For Peters, the main problem is “the lack of agency within the approach, and its inability to conceive of, and explain, such changes” (2002, 1290). He argues that “changes tend to be defined in terms […] of a] major shift away from the status quo” (Ibid., 1282). He finds that political actors are “belittled” in terms of their creativity and therefore not taken seriously as agents of change and maintains that too much emphasis is placed on the institution itself rather than the policymakers’ ideas throughout the process (Peters et al. 2002).

It is important to keep in mind that it is nearly impossible to predict change. Adrian Kay argues that the concept of path dependency cannot be used for current or future phenomena, as it
“does not provide any fine-grained mechanisms that might provide necessary and sufficient conditions for the process observed” (Kay 2005, 561). However, Kay acknowledges that “none of these criticisms are fatal to the validity or utility of the concept of path dependency in policy studies” (2005, 569).

In this thesis, I try to minimize the effects of the aforementioned limitations. I use a clear and extensive definition of policy that accounts for the importance of political actors and influential groups. Kay maintains that, when applying the concept of path dependency, one “must be clear about in what sense the term policy is being used and thus about what aspect is path dependent” (Ibid., 569). I adhere to the important notion that path-dependency is a very dynamic process and that the “change continues, but it is bounded change -until something erodes or swamps the mechanisms of reproduction that generates continuity” (Pierson 2000, 265).

2.3 Hypothesis

My hypothesis is that the evolution of the INSS has been a path-dependent process despite massive exogenous pressures. I argue this by using the concepts of path dependency, positive feedbacks and critical junctures to explain change in the institution. The limitations of this theory have been outlined above. I use both path dependence I and path dependence II to explain the evolution of the policy. I consider a multi-dimensional scenario in which not only the policy is path dependent, but also the policymakers and influential groups are path dependent and their decisions are limited by previous actions or stands taken in the past. By analyzing the process in this way, I strive to avoid the mistake of paying insufficient attention to the agency of actors in the policy-making process.
The dynamic, changing environment in which a policy performs can have a positive or negative effect on the interests of the political actors and influential groups involved. Eventually, purposefully or not, one or several groups or actors will promote a change of phase in the policy cycle, either because the institution its not responding to its interests, or it is threatening the status quo. This alters the vulnerability of the policy to change, but in a bounded manner.
Chapter 3. Nicaraguan Background

This chapter addresses the Nicaraguan context by explaining the creation of the Nicaraguan state and the *campesinos*\(^{15}\) as a paid work force, the dictatorship and modernization of the state, the Sandinista people’s revolution and, finally, the last two decades (1990s and 2000s) of consolidation of democracy and the rule of law in the republic. I make use of Professor Pérez-Baltodano’s book to describe the formation of the Nicaraguan state and other authors, such as, Walker, Toynbee and Stimson for historical accounts, as well as treaties and other historical documents for reference. Whenever available, I make use of Mike Alvarez’s work *Classifying Political Regimes*, in which the authors maintain that their study “improves existing classifications by better grounding in political theory, an exclusive reliance on observable rather than subjective judgments, an explicit distinction between systematic and random errors, and a more extensive coverage” (Alvarez et al. 1996, 3).

The objective of this is to provide a general but complete understanding of how influential groups play a transcendental role in the policy cycle, specifically how they are able to be agents of change from one phase of the cycle to another. This provokes the social security policy to become more or less vulnerable to change and thus defines its path, intentionally or unintentionally. It is crucial to highlight moments of political and socio-economic upheaval throughout Nicaraguan history in order to understand the difficulty institutions have in sustaining a certain path without constant, arbitrary change.

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\(^{15}\) Peasants
3.1 The Origins of the Nicaraguan State and the Creation of the Campesino

In Nicaraguan history textbooks, the relationship between the Spanish invaders and the native populations is described as generally peaceful. School textbooks usually describe initial resistance followed by a period in which the Catholic church successfully interceded for the well-being of the native population. Through the acceptance of Catholic beliefs, they co-existed peacefully. It is important to acknowledge the constant oppression by the colonial powers, the resistance by the native population, the struggle of internal political powers and the conflicts between Central American elites as factors in the creation of the Nicaraguan state.

The formation of Latin American states, but especially Central American states, is usually linked directly to European history, to the point that Oszlak, as explained by Pérez-Baltodano, would argue that Latin American countries could only be considered states once they were able to reproduce the European attributes of a state. It can be argued that, “social sciences in Latin America have tended to ignore the structural objective and cultural uniqueness that separates the historical experiences between Europe and Latin America” (Pérez-Baltodano 2008, 51) and have only explained, in the Central American case, the formation of the states since their independence from the Spanish crown and, more specifically, since their involvement in the global market exporting agricultural products (Ibid., 50). According to Pérez-Baltodano, in order to transcend this Eurocentric vision and highlight the historical specificity of Latin American political development, it is necessary to contrast the cultural and structural tendencies of the creation of the European state that spurred the creation of states in Latin America (Ibid., 53).

To summarize, Pérez-Baltodano talks about the evolution of the European states from providentialism where God’s will is self evident and beyond the control of humans to the “raison
d’etat” in a first stage where religious mysticism was replaced by political thinking. This secularization of the state, which Weber describes as “the disenchantment of the world,” was slow and did not end the influence of religion over human behavior. These processes gave birth to a complex coexistence between the worlds of reason and faith. It opened a space for the discussion about legal rationality under a framework of values that transcend the will of a monarch, thus imposing a political framework over his authority. Nicaragua was never able to overcome the enchantment thus, it was never able to establish a proper political framework over its government.

The Political Struggle for the Creation of a Post-Independence State

After independence, there was a need for the new countries to administer their own wealth and political organization, which “required a political thinking capable of visualizing the historical possibilities of the region and the coordination of the needed strategies to overcome the colonial heritage” (Pérez-Baltodano 2008, 95). It was necessary to jump from providentialism to a modern state administration, skipping over the phase of pre-modernism. However, this was not possible, considering, “The Catholic religious thought that during the colony were the obstacles of an authentic American intellectual movement” (Pérez-Baltodano 2008, 101) Rather, Latin American elites,

Conceptualized and explained their reality through philosophy and social theory elaborated by Europeans. For the creole elites, thinking meant “to adopt a foreign ism, to subscribe to certain preexisting theses, adopted true to the word and the more or less faithful repetition of works of the time’s great figures”(Salazar Bondy 1968, 39 as cited by Pérez-Baltodano 2008, 101).

Interpretation of imported culture and theories were not sufficient to lead towards a holistic development of society. It was not fully suited to the context and only fostered distorted
interpretations of what it meant to be independent. The negation of the past and the creation of a utopia based on images of states like France, England and the United States only worsened the possibility of having a form of government that accounted for local realities. The creoles, by denying the indigenous reality of Latin America and their own role as “the carriers of the Spanish political history into Latin America” (Pérez-Baltodano 2008, 107), could only “formalize a ‘legal’ country based on European realities under the existence of a ‘real’ country not yet known” (Ibid.). In order to characterize the Latin American state after independence, it is important to consider that Latin American rationalism and liberal thinking were never a “struggle to re-define the providentialist relationship between God and humans” (Pérez-Baltodano 2008, 108), but rather an effort to reduce church participation in the political arena. This is the foundation for what he calls resigned-pragmatism, which has since been the generalized political praxis in the region. The idea of God in Nicaraguan political culture is fundamental for the creation of the Nicaraguan modern state, resigned pragmatism is no more than the resignation of the political class to problem that, because of their religious believes, are out of their hands leaving them with no alternative but to respond in a pragmatic manner.

**Particularities of Nicaragua in the Struggle for the Creation of a Post-Independence State**

Independence in Central America was achieved at different stages for different countries. Nicaragua first gained its independence as part of the Mexican empire in 1822, later as part of the Central American Federation in 1823, and finally as a sovereign state in 1838 (Walker 2011, Loc. 359). The common characteristics in this process that they all inherited to a certain extent are the peculiarities of the conquest state. The conquest state, “functions within a patrimonial
framework and is characterized by low social regulation, fragmented spatial base, economic dependency and autonomy with respect to the population—especially the indigenous—that had neither the strength nor the rights to condition their rulers” (Pérez-Baltodano 2008, 93). Pérez-Baltodano explains how this phenomenon was enhanced in Nicaragua due to the lack of Spanish presence in the eastern half of the Nicaraguan province’s territory. Pérez-Baltodano describes the post-independence state through an analysis of the relationship between structural determinism and human will, as well as the relationship between the thinking of Nicaraguan political elites and social interactions with respect to the creation of the state. He does this through “the study of the state as the main power and domination structure, that articulates and guides national historical development” (2008, 117). He also sustains that. The consolidation of resigned-pragmatism during this period depended upon

the subjective conditions imposed by the providential doctrine promoted by the Catholic and Protestant churches. The material conditions, imposed by the U.S. on Nicaragua, have contributed to the perpetuation of a providential vision of history, as a process determined by forces that are out of the control of Nicaraguans. In other words, these material conditions have contributed to the institutionalization of a political culture of resigned-pragmatism which derives from providentialism (Ibid., 119).

After independence from Spain, there were only two groups with relevant political positions. According to Coronel Urtecho, the conservatives could only be explained empirically, not intellectually, and the liberals could only see their natural opponents as the representation of a historical period that needed to be overcome. Pérez-Baltodano explains that they were unable to find commonalities between one another. The main problem with this post-independence political structure was illegitimacy. According to Pérez-Baltodano, “the legal Nicaragua was democratic, organized by a constitution as a nation-state, but in reality it was socially, politically and economically unintegrated and organized under the ‘conquest state’ structure” (Ibid., 151).
The federal dream option faded after 1840, forcing Nicaragua not only to focus on establishing a republic but on modernizing the functioning of the state. These modernizations included moving the capital to Managua to prevent future conflict between León and Granada, the professionalization of the armed forces and constitutional reforms that established requirements for citizenship for the first time.

Between 1853 and 1856, Ephraim George Squire was appointed to explore the possibilities of an interoceanic railroad in Central America. He was sent by the U.S. to Nicaragua on a diplomatic mission and, according to Pérez-Baltodano, from this visit forward, the United States “would become the main conditioning force in the historical development of Nicaragua” (2008, 184). A noticeable change occurred in Nicaraguan leaders’ speeches from religious providence to the providence of a stronger, foreign state. This transition was noticed by the U.S. and used by Cornelius Vanderbilt to obtain a concession on the transoceanic route. The clearest manifestation of the Nicaraguan state’s weakness was when its government was not invited to participate in the Clayton-Bulwer Treaty. This treaty established the terms by which Nicaragua, England and the U.S. would or would not be able to make use of the interoceanic canal in Nicaragua.

Immediately following the signing of the Clayton-Bulwer Treaty, Nicaragua, El Salvador and Honduras’ elites realized their weakness and intended to revive the Central American Federation dream, but the project failed quickly. Nicaragua, in its continuous chaos, suffered yet another coup d’état that divided the country into two governments, each representing one of the main cities. This was the first time that intervention by U.S. mercenaries was suggested but denied by Congress.
The Walker Affairs

In the mid-nineteenth century, the conservative and liberal icons were Fruto Chamorro and Máximo Jeréz, respectively. According to Pérez-Baltodano, neither “was able to articulate a political approach that was capable of widening the framework of historical limitations and possibilities within which Nicaragua operated” (2008, 205). Chamorro framed his ideas around cultural and structural limitations, whereas Jeréz was an idealist who totally disregarded heritage. This polarization led to another armed conflict. Liberals contracted the services of Byron Cole, who passed the contract to William Walker, a filibuster\(^\text{16}\) from Tennessee who, under the legal framework of colonization concession, avoided interfering with U.S. neutrality policy. Technically, it was the Nicaraguan government conceding permission to colonize its territory to a private, leaving the U.S. Government out of responsibility. William Walker and H.L. Kinney, both filibusters from the south of the U.S., tried to invade Nicaraguan territory in 1855.

Pérez-Baltodano explains that the combination of Nicaraguan anarchy and U.S. territorial expansionism were the factors that led to Walker’s invasion of Nicaragua. Walker defeated the conservative forces, and it did not take him long to impose his military and political power in order to manipulate and unconstitutionally win the elections. According to Pérez-Baltodano, there are four actions Walker took that contributed to his defeat and deposition: 1) Eliminating the concession for the interoceanic railroad given to Cornelius Vanderbilt in order to give it to his personal friend, Edmund Randolph (Vanderbilt later financed the Central American armies to

defeat Walker); 2) Formalizing English as an official language; 3) Legalizing slavery; and 4) Confiscating land from enemies of the state (2008, 229-231).

The formalization of English as an official language and the legalization of slavery can be assumed to be the impetus for Central American involvement in the fight against Walker. If it were not for Walker confiscating their lands, Nicaraguans may not have gotten involved in the fight against him. As Pérez-Baltodano puts it,

Walker’s racism might have not been offensive for many members of the Nicaraguan elites that shared the filibuster’s vision related to the human condition of the native, the black and the even the mestizo. Even today, some members of this social sector lament Walker’s failure in Nicaragua, without feeling offended by the racist vision and policies. Alejandro Hurtado Chamorro, for example, points out that if Walker would have achieved annexing Central America to the United States, the region’s inhabitants could have “participated in American greatness” (Hurtado Chamorro 1965, 198) (2008, 231-232).

In 1856, the Central American governments pressured the Nicaraguan parties to sign a peace treaty to join forces against Walker. Pérez-Baltodano describes how liberals were conflicted about turning against Walker, and conservatives did not want to subordinate themselves to liberals. On September 12, they did sign and together with the armies of Guatemala, El Salvador and Honduras, they forced Walker to flee. Vanderbilt intercepted him and forced him to sign his surrender before Captain of the U.S.S. St. Mary Charles H. Davis.

In summary, the weakness of the Nicaraguan state was beneficial for several foreign countries. Post-independence social crisis was increased by the conflict over political power between the two main cities: the conservative elites from Granada that represented Catholic providentialism, and the liberal elites from León that represented hollow and superficial theories, copied from foreign nations without practical application in Nicaragua. Both of these elite groups lacked “political thought that was able to identify obstacles and articulate collective
visions” (Pérez-Baltodano 2008, 240). Following the expulsion of Walker, “a main center of power, solid and sustainable, established in Granada would, consequently, produce a relative consolidation of the state in the second half of the century” (Jorge Eduardo Arellano, as cited in Pérez-Baltodano 2008, 249).

Consolidation of the State and Creation of the Campesinos

The national war, according to Bradford E. Burns in his book, *Patriarch and Folk: The Emergence of Nicaragua, 1798-1858*, explains how Nicaraguan elites were now unified under a nationalist sentiment. The patriarchs, as Burns calls the elites, were not able to transfer this sentiment to the masses, leaving them in the same predicament of failing to consolidate Nicaragua as a nation-state (Burns 1991). The instrument to avoid territorial separation of the county and achieve political stability was the Oligarchic Pact. This was signed by a bi-partisan provisional government in 1858. This pact was the foundation for 30 years of relative peace and political stability under conservative governments. Pérez-Baltodano describes how these thirty years can be divided in two stages: 1) traditional and paternalistic, and 2) liberalization. (2008, 255)

The first stage was characterized by three main behavioral norms, according to Alvarez-Montalvan in Pérez-Baltodano. These were: 1) adherence to an established order; 2) obedience to the ecclesiastic and secular hierarchy; and 3) respect for private property. The conservative elites’ main purpose was to establish order, as intellectuals called “*tranquilidad,*” or tranquility. (Ibid, 260)
The international order was changing, and the U.S. was becoming a hegemonic power for the region. This was reflected in Nicaragua by the signature of the Managua Agreement that marked the starting point for U.S. presence on the Nicaraguan Atlantic coast. Nationally, the powers of the Nicaraguan state were distributed between the two parties, the two elite groups, the two cities. The Oligarchic Pact provided a certain level of peace but, at the same time, inefficiencies, such as the division of the judicial power between León and Granada, further fragmented society due to this local distribution of power (Ibid., 262-265).

Coffee was the export product that brought Nicaragua into the international market; it also created a new social sector able to compete with the traditional conservative economic groups. Perez-Baltodano uses the three models of development that Bulmer Thomas identifies in Latin America to describe why Nicaraguan coffee production was developed within resign-pragmatism. The first model is “additive,” where the introduction of an export economy was implemented while the traditional economic structure remains the same; the second model is “destructive,” which requires the transfer of resources from traditional economies to the new export model. Most of the time, this left several resources without the possibility of being reinserted into the new model, leaving them without a purpose and creating huge unemployment gaps. Third was “transformative,” where the new export model feeds from a resource transfer from the old model but, in contrast to the second model, it ends up generating a positive impact in the national labor market. Nicaragua’s model was a combination of the “additive” and “destructive” models that, combined and aligned with the limited regulation capacity of the state and the resigned-pragmatic vision of the elites, provoked the formalization of quasi-forced labor,
“as well as the payment of debts with labor that created permanent dependency conditions between campesinos and landowners” (Pérez-Baltodano 2008, 286-289).

In the second stage of conservative rule, the development of a “coffee aristocracy eased the emergence of a ‘progressive’ conservative sector” (Pérez-Baltodano 2008, 293) with the support of liberals. During this period conflicts between the Jesuits and the government represented the ideological contradictions between the Catholic church and liberals, primarily because the expansion and modernization of coffee clashed with the political and economic power of the church. The Jesuits suffered the pragmatism of the liberated conservatism that forced them out of the country for “supporting indigenous rebellion in Las Cañadas, Matagalpa, who were protesting against privatization of their land and against forced labor” (Pérez-Baltodano 2008, 297).

This struggle for power concluded with the creation of the campesinos that was sparked by the necessity to expand coffee-growing lands. According to Wheelock Roman, “the war of 1881 represented one of the most explosive class-based reactions known to Nicaragua. The indigenous, forever alone, confronted the oligarchy and its powerful material and military resources at the moment that they were the strongest” (Wheelock Roman 1980, 116). Land was required for the economic growth of the Nicaraguan elites through coffee plantations. In order to acquire this land, territorial passion among the indigenous had to be destroyed and a forced labor market created. With this goal, the elites proceeded to reduce and eventually eliminate the indigenous practice of communal subsistence. They also strove to transform the indigenous into a salaried work force through unrestricted illegal practices and aristocratic violence (Ibid.), meaning the use of their class privilege to manipulate laws and justify the use of force.
3.2 The Liberal Revolution, U.S. Intervention and Establishment of the Dictatorship

These three events: the liberal revolution, U.S. intervention and establishment of the dictatorship were very important in Nicaraguan history. Together with the analysis of the evolution of the post-colonial state, they allow for the understanding of the foundation of contemporary Nicaraguan social structure. These events, which concluded with the establishment of a dictatorship and the expansion of the Nicaraguan state functions and capacities, contribute to the interpretation of Nicaragua’s contemporary political struggles between parties and influential groups, as well as these groups’ origins, evolution and importance as agents of change.

The Liberal Revolution

By the end of the nineteenth century, Nicaraguan elites had become dominant. On July 11, 1893, the liberals led a revolution against a bi-partisan government. The signature of the Liberal-Conservative Treaty brought peace and established the government of José Santos Zelaya. The constitution his government created, La Liberrima, was “more a declaration of national liberal ideals than a legal system founded in political thought capable of establishing the framework of limitations and historical possibilities in which the construction of a real nation-state could be promoted” (Pérez-Baltodano 2008, 335). Zelaya was considered by the U.S. to be “a corrupt, brutal, cruel, greedy, egocentric, warmongering tyrant;” (Ibid.) in fact, “in 1909 President William H. Taft denounced him as a ‘blot on the history of Nicaragua’” (Walker 2011, Loc. 412). In contrast, Walker explains how Zelaya could be “described more accurately as a relatively benevolent, modernizing, authoritarian nationalist” (Ibid.).
La Liberrima gave citizenship to everyone older than eighteen years old and eliminated the requirement of owning property in order to gain a public position. It also allowed every citizen to vote, abolished the death penalty, recognized Habeas Corpus, and ensured the right to a proper defense and the independence of state powers (Pérez-Baltodano 2008, 336). As always, the legal Nicaragua was a normative construction based on the constitution, and the real Nicaragua was still politically and socially polarized. Once again, liberals and conservatives were unable to “articulate a consensus of interests and aspirations to organize the Nicaraguan localist and party conflict” (Ibid., 350). There was no consensus to sustain the development and modernization of society. The gap between the state and the people was widened, making the effort to improve the social regulation of the state useless (Ibid., 352).

The downfall of Zelaya and the liberal revolution was the president’s authoritarian tendencies. These tendencies were noticed by his own liberal party in León but, more importantly, by the U.S. as an obstacle to their interests. The moment right after Zelaya’s administration, the U.S. characterized it as a violent period that needed stabilization in which they could provide assistance to the Nicaraguan government upon its request (Stimson 1991, 6-7). The U.S. conflict with Zelaya in Nicaragua intensified around 1909 when, after “the Spanish-American War […] many Americans felt that their country had a legitimate colonial role to play in Central America. Zelaya’s assertion as a regional leader and champion of Central American unity was, at least in part, a response to this threat-a response Washington resented” (Walker 2011, Loc. 437). Zelaya denied the possibility of building an interoceanic canal in Nicaragua to the U.S., and “a few years later, Americans became alarmed at rumors that
Zelaya was negotiating with the British and Japanese to build a second—and potentially competitive—canal through Nicaragua” (Ibid., Loc. 454).

U.S. Intervention

The U.S. decision to intervene in Nicaragua’s political, economic and social future was due to a combination of variables that, taken individually, would have never have sufficiently incentivized the U.S. to venture as far as it did. The U.S. started to implement its expansion of power in 1907, for example, “Mr. Roosevelt’s Administration invited their representative [of the five Central American countries] to a conference at Washington, where, with the assistance and advice of American representatives, mutual treaties of peace and amity were entered into by the five Central American nations, seeking to remove several of the chief causes of revolution” (Stimson 1991, 7) such as territorial disputes.

According to Arnold J Toynbee, there were three causes of the development of U.S. policy of the time: 1) the competition for naval supremacy in the Pacific; 2) the increase in the use of tropical raw materials; and 3) the Mexican revolution. The first one created the need for a naval force presence on both coasts of the U.S., which necessitated its domination of an interoceanic pathway. The second was the same that provoked the division of tropical Africa among the main European powers of the time. In America, the U.S. was the sole hegemonic power, and by commercially opening the Latin American countries, the U.S. was able to maintain its image of not having political control over them. The third cause, the Mexican revolution, created frictions with the U.S. Mexico saw in Central America the possibility to
defeat their northern neighbor by stopping their imperialist expansion and diplomatic activity in the region (2003, 23-29).

After the civil war, the U.S. started using its military power to support its new “control structure based on international law” (Pérez-Baltodano 2008, 360). The U.S. and some Central American governments organized conferences in San José and Washington, D.C. to establish a new order and peace in the region by establishing the Central American Court of Justice to guarantee the kind of institutionalization the U.S. needed in the region. The victory of William H. Taft in 1908 empowered conservatives in Nicaragua to revolt against Zelaya. Meanwhile, Adolfo Díaz, who worked for U.S. mining firms on the Atlantic coast, organized a rebellion with the support of General Estrada, governor of the Atlantic coast and the U.S. State Department. On November 11, 1909, Estrada proclaimed himself president of Nicaragua (Ibid.). During this rebellion, Estrada’s army recruited U.S. mercenaries, who were later captured and executed under Zelaya’s orders, justifying the U.S. to send troops to support the rebellion (Walker 2011, Loc. 454). The U.S. sent a diplomatic notification through its Secretary of State, Philander Knox, accusing Zelaya of violating Pan-American Law.

Zelaya ceded power to the legislative assembly, which later ceded power to Madriz. After a short time, “on August 20, 1910, the Madriz government collapsed and was replaced by a puppet, pro-U.S. regime supported by the conservatives and some opportunistic Liberal caudillos” (Stimson 1991, 7). They followed the same structure for succession of power as the conservatives, a “group or family system of having each president after his term succeeded by another chosen by the group” (Ibid.).
After the rebellion, deposition and upheaval in the establishment of a new order in the country, the economy was very weak. Washington “arranged private bank loans to its new client regime, but much of the loan money almost immediately went into the pockets of corrupt politicians. It was necessary to renegotiate loans and to allow the United States to become involved in the supervision of customs collection and the management of payment of foreign debt” (Walker 2011, Loc. 454-470). These were the steps of the establishment of a state under U.S. rule and order. The U.S. had consolidated its control over the Nicaraguan government, but there was still resistance, which was clear “in July 1912, when a group of dissident Conservatives rebelled against puppet president Adolfo Díaz” (Walker 2011, Loc. 470).

There are two periods of intervention, as mentioned by Walker; the first was from 1912 to 1925, and the second from 1926 to 1933. According to Walker, the first period was symbiotic between conservatives and the U.S., during which:

the most notable product of the [first] period was the Bryan-Chamorro Treaty, signed in 1914 and ratified in 1916. By the terms of this document the United States acquired exclusive rights, in perpetuity, to build a canal in Nicaragua, a renewable ninety-nine-year lease to the Great and Little Corn Island in the Caribbean, and a renewable ninety-nine-year option to establish a naval base in the Gulf of Fonseca. In return, Nicaragua was to receive payment of $3 million. In reality, however, the U.S. officials who ran Nicaragua financial affairs channeled much of that paltry sum into payments to foreign creditors (Walker 2011, Loc. 506).

According to Stimson, during this period the U.S. also tried to improve the electoral system by appointing Professor H.W. Dodds of Princeton University to draft an electoral law that was to be implemented under U.S. supervision. The first election was won by a coalition of conservative and liberals that was overthrown by a coup d’état by extreme conservatives after the withdrawal of the U.S. Marines. The conservative dictatorship of Emiliano Chamorro was not accepted either by the U.S. or other Central American governments, and in response to local
party pressure, he ceded power to Senator Uriza who under this law was selected by congress (Stimson 1991, 10). However,

the United States refused to recognize Uriza as president on the grounds that he had been elected by the same illegal Congress that elected Chamorro. Thereupon a new extraordinary session of Congress was convoked. The eighteen senators and deputies who had been expelled by Chamorro from the previous Congress were invited to return and resume their seats. Of these, three returned to their seats and six others were represented by duly qualified alternates who had been legally elected in 1924. This Congress thereupon, on November 10, elected Adolfo Diaz as first designate (Ibid, 11).

Since the previously elected president and vice president were in exile, the U.S. extended recognition to Diaz as the new president. According to Stimson, former President Sacasa did not recognize Diaz as a legitimate president and, with the support of Mexico, arrived in Nicaraguan territory, making it impossible for the Nicaraguan government to protect the interest and lives of American citizens. The U.S. sent marines to Bluefields in August, 1926. They established neutral zones in the cities of Bluefields on the east coast and Corinto on the west coast without taking sides with conservatives or liberals. This second period of intervention “had a powerful and paradoxical impact on Nicaragua for at least the next half century” (Walker 2011, Loc. 524).

In March, 1927, Henry L. Stimson was sent to Nicaragua with instructions from the president of the U.S. According to Stimson, both parties in conflict were friendly to the U.S. and wanted it to intervene to establish order and liberty, but he did not believe the U.S. had the “sufficient authority to maintain order” (Stimson 1991, 24). He established three necessary requirements for elections to be fair: 1) peace and general amnesty; 2) complete disarmament and; 3) impartial police. Nicaragua already had a police force, but definitely not a neutral one. In 1925, the “Guardia Nacional,” or National Guard (GN), was created as an impartial institution destined to maintain social order as an urban, rural and judicial police. It was considered to be
separate from the army but in collaboration with it to preserve social order (Pérez Baltodano 2008, 423).

Stimson proposed that the U.S. Marine Corps take over the situation. At this point, President Diaz sent a memorandum to Stimson outlining six points: 1) Immediate general peace and delivery of arms simultaneously by both parties to American custody; 2) General amnesty and return of exiles and return of confiscated property; 3) participation in Diaz’s cabinets by representative liberals; 4) organization of a Nicaraguan constabulary on a nonpartisan basis commanded by American officers; 5) supervision of elections in 1928 and succeeding years by Americans who will have ample police power to make such supervision effective; and 6) temporarily continuance of sufficient force of marines to make the make the foregoing effective. (Stimson 1991, 26-27). It was decided that Diaz and Sacasa would retire and allow a neutral substitute but, according to Stimson, “no such neutral existed or could possibly exist in Nicaragua” (Ibid., 28). Since Stimson had Diaz’s approval for intervention, he was now only looking for the rebels’ consensus. Sacasa met with Stimson on April 27, 1927 and disregarded any anti-American sentiment. At the same time, he could not agree to anything without getting in touch with the liberals soldiers represented by General Moncada. Moncada was out of touch with civilization in the mountains without communication, including his nominal chief (Ibid, 29-31). Moncada admitted to Stimson how “neither he nor any Nicaraguan could, without the help the United States, end the war or pacify the country; so that the situation would necessarily grow worse each month” (Ibid., 32). Moncada organized all his troops to put down their arms except for General Sandino, but Stimson left, considering his labor done and underestimating Sandino’s resistance as important.
The best way to characterize the intervention period is to summarize Pérez-Baltodano's interpretation of the period as: 1) an artificial liberal-conservative alliance with no popular support that crushed real political movements, such as Sandino’s; 2) a period with anti-democratic consequences resulting from the intervention that were avoidable; by using the historical situation to overcome the conquest state’s fundamental characteristic and; 3) a period in which the political culture of the power groups, which explains how the intervention ended up turning into a dictatorship and not a political identity. Pérez-Baltodano contends that “the effect of political culture on determining historical consciousness of intervention can be better appreciated if the antidemocratic consequences of U.S. intervention in Nicaragua are compared to the effects of other U.S. interventions, such as in Japan and post-war Germany” (2008, 259-260).

Establishment and Development of the Dictatorship

Liberal Juan Bautista Sacasa was elected in 1932 after the second elections held under U.S. supervision after Stimson’s visit. Sacasa, together with General Moncada, General Mathews (director of the G.N.) and U.S. Minister Hanna, decided to appoint Anastasio Somoza as the new director of the G.N. Sacasa established correspondence with Sandino, providing him and his men amnesty in order to put an end to the conflict (Knut 1993 Loc. 570). According to Walker, Sandino was a man of action more than ideas. Mainly an anti-imperialist who found the military occupation of his country by U.S. troops offensive. (2011)
The U.S. was tired of running Nicaraguan affairs, especially the war against Sandino. At this point, the U.S.’s main objective was to maintain an apolitical army and “as the Marines were leaving, command of this new ‘national’ army passed from the Americans to a congenial, ambitious, English-speaking Nicaraguan politician, Anastasio Somoza García. Less than four years later, an elitist dictatorial system based on a symbiotic relationship between the now corrupted and thoroughly politicized National Guard and the Somoza family had come into being” (Walker 2011, Loc. 557).

The U.S. troops finally withdrew from Nicaraguan territory in 1933, leaving Sandino’s cause without much argument. That according to Walker it was,

The departure of the marines, Sandino signed a preliminary peace agreement, in February 1933, with the Sacasa government. Calling for a cessation of hostilities and a partial disarmament of the guerrillas, the document also guaranteed amnesty for Sandino’s men…In the long run however, Sandino was deceived, captured, and executed (Ibid., Loc. 556).

Sandino had declared that the G.N. was unconstitutional, and Somoza saw this as permanent threat that had to be dealt with; therefore, “on a visit to Managua to confer with Sacasa, Sandino was hauled off by a detail of Guardias and shot on the grounds of the Managua airport on the evening of 21 February 1934. In the succeeding days, details of Guardia troops invaded the Sandinistas settlements along Rio Coco, killing Sandino’s followers” (Knut 1993, Loc. 580). Somoza later allied with conservatives to get amnesty for the killing of Sandino, and liberals accused conservatives of trying to establish a military dictatorship with Somoza as the leader. The country was facing a terrible depression after the war against Sandino and the 1931 earthquake. (Ibid., Loc. 580-661). Sacasa was weakened politically, and “by 1936, Somoza was sufficiently sure of his control of the Guard-and hence Nicaraguan politics-to overthrow the
elected president, Juan B. Sacasa, and stage an ‘election’ in which he was the inevitable winner” (Walker 2011, Kindle Loc. 624-625).

The newly established dictatorship proved to be very skillful in managing local politics. After the elections, the opposition hired U.S. lawyers to prove that Somoza’s election as president was unconstitutional, because he was related to Sacasa and the election was a result of a coup d’état against Sacasa. The U.S. disregarded all these arguments, leaving Somoza without real opposition and installed as president for the next four years from 1937 to 1941 (Walker 2011, Kindle Loc. 1010). Somoza also manipulated the U.S. in a very skillful way:

Though Washington did occasionally react negatively to his designs to perpetuate himself indefinitely in power, the beguiling dictator was always able in the end to mollify U.S. decision makers. In addition to personal charm, he relied heavily on political obsequiousness in maintaining U.S. support. His regime consistently backed U.S. foreign policy. Washington’s enemies were automatically Somoza’s enemies…The United States was allowed to establish military bases in Nicaragua during the Second World War and to use the country as a training area for the CIA-organized counterrevolution against Guatemalan president Jacobo Arbenz in 1954. Somoza even offered to send guardsmen to fight in Korea. In return, Somoza was lavishly entertained at the White House and received lend-lease funds to modernize the National Guard (Walker 2011, Kindle Loc. 639-645).

Somoza’s main objective in his first term was to fix the country’s economic problems (Walker 2011; Knut 1993). By this time, the three main political tendencies of the world had found a representation in Nicaragua: Liberal Democracy, represented by the U.S.; Marxist Socialism, by the Soviet Union and; Fascism. Somoza had found a way to represent them all to consolidate his power (Pérez-Baltodano 2008, 471). To achieve this, he showed himself as “allied to the U.S. and championed liberal democracy; as the protector and allied of the working class; and even as a symbol and hope of the creole fascism” (Ibid.) Despite the fact that Somoza presented himself as an ally to everyone, it was obvious that his authoritarian tendencies “and the true nature of his personal ambitions also started to be revealed with the repressive conduct of his
government and the illicit enrichment of the ruler, that systematically used the coercive force of the state to achieve two objectives: neutralize those forms of opposition that could not be controlled politically; and, to gather a personal fortune that, in little time, made him one of the richest men in the country” (Ibid., 487).

Somoza promoted a new constitution, enacted in 1939, in which he mainly formalized a U.S. based democracy with anti-communist and anti-fascist principles and extended the presidential period from four to six years in order to retain power until 1947 (Pérez-Baltodano 2008; Knut 1991; Walker 2011). The personalization of power created a mystic experience that surrounded the capacities of Somoza as a leader; every development of the government was seen as a personal gift from the dictator. Somoza's success with the laboring class, “was consolidated in 1944, when the Nicaraguan Socialist Party, founded the same year, declared, in its first manifest, its support to ‘the policy of popular benefaction that president Somoza started’ (Partido Socialista de Nicaragua 1944, 103). The ‘benefaction policy’ became the promoter of new social rights such as a minimum wage and the right to rest on the seventh day of the week” (Pérez-Baltodano 2008, 501).

Somoza could not achieve his objective of getting re-elected in 1947. He promoted the election of Leonardo Argüello, who tried to separate from Somoza with an independent platform. After 26 days in government, Argüello was declared “incapable of governing” (Resolución del congreso 1947, 39-40 as cited in Pérez-Baltodano 2008, 506). Benjamin Lacayo was named as his successor, but could not achieve recognition internationally or nationally. In order to resolve the situation, Benjamin Lacayo called an assembly, which designated Victor Manuel Román y Reyes as the new president. International and national pressures resulted in Somoza’s negotiation
of a bi-partisan arrangement that created a bourgeois alliance based on a shared classist position that distributed state power without a strategic state and society development plan. This pragmatism from the conservative party ideologically sterilized the party and helped Somoza win re-election in 1950 for the period from 1951 to 1957 (Pérez-Baltodano 2008, 505-519).

Somoza García was one of the great modernizers of the Nicaraguan state. He was “mainly in favor of the economic logic of the time, that promoted interventionism and state planning; this was by the conditioning and technical support given to Nicaragua on the part of the Pan-American cooperation system” (Ibid.). Pérez-Baltodano notes that “Inter-American cooperation became an administrative structure within a structure in which specialized institutions from the governments of the region got involved in order to take advantage of the financial and technical support offered by the system. Through the norms and conditions that regulated the administration of this support, the Pan-American system became an articulating system of the normative framework in which governments in the region formulated and made their main public policies operational” (Ibid.).

Somoza García modified the constitution again in 1955 to allow him to run again in 1957. He was wounded in León on September 21, 1956 by the poet Rigoberto López Pérez and later died in Panama. According to Pérez-Baltodano, Somoza García transcended his death through institutionalization and reproduction of the structures of power articulated since 1936. Upon Somoza García’s death, his son, Luís Somoza Debayle, was designated by congress to finish the presidential period. His other son, Anastasio Somoza Debayle, was already the Director of the G.N. Luís Somoza promised to continue his father’s policies, despite his disagreements on the U.S.’s role in the historical development of the country. He was not a revolutionary though, and
accepted Washington's role with resigned pragmatism (Pérez-Baltodano 2008, 532-538).

According to Walker, many of the programs Luis

promoted in Nicaragua-public housing and education, social security, agrarian reform-coincided with the reform projects of the Alliance for Progress. In politics, Luis attempted to modernize the Liberal party, encouraging dissident Liberals to return to the fold and new civilian leaders to emerge. In 1959 he even had the constitution amended to prevent any member of his family—in particular his intemperate and ambitious younger brother, Anastasio—from running for president in 1963. From the end of his term until his death from a heart attack in 1967, Luis ruled through puppet presidents, René Schick Gutiérrez and Lorenzo Guerrero (Walker 2011, Loc. 674-677).

During Luis Somoza’s rule, Pérez-Baltodano counts no less than 30 armed rebellions, led primarily by either the Frente Sandinista de Liberación Nacional (FSLN) or Olama y los Mollejones, led by Pedro Joaquin Chamorro. After Luis Somoza’s death, “in June 1967-after a blatantly rigged election-Anastasio Somoza Debayle became the third member of his family to rule Nicaragua” (Walker 2011, 686-687). Anastasio Somoza Debayle re-affirmed his father’s orientation and subordination to the U.S. and, in 1971, he signed a pact with the conservative party to redistribute the bureaucratic power of the state.

After the earthquake of December 23, 1972 of Managua, Somoza increased his economic power and started to aggressively compete with independent capitalist groups by only allowing his companies to participate on public contracts. In response, the private sector, represented by the Consejo Superior de la Empresa Privada (COSEP), began to criticize the regime and ask for democratization (Pérez-Baltodano 2008, 559-561). The regime’s aggressiveness was the result of “the authoritarian and patrimonial vision of power, copied from his father, and was now in open contradiction with the tendencies of the Nicaraguan political development that after second half of the Twentieth Century had created a more plural and modern society” (Chamorro 1983; Velázquez 1986 as cited in Pérez-Baltodano 2008, 563). As a result of the lack of opposition in
1976, Anastasio Somoza was re-elected president. However, early in 1977, the economic crisis combined with the authoritarian attitude of Somoza reduced the state capacity to effectively implement policies that could respond to the population's more basic necessities and contributed to popular mobilization against the regime (Pérez-Baltodano 2008, 564-76).

In summary, until this point, Nicaraguan society had been structured under the control of two groups of families/caudillos, usually organized under a bi-partisan logic. This was later consolidated through coercion by a militaristic dictatorship as a result of what Pérez-Baltodano describes as the inability of the elites to interpret their own historical reality, translating their actions into expressions of resign-pragmatism. The main characteristic of the Nicaraguan State was its arbitrary decisions on the policy making process by new regimes that needed to consolidate its power. Institutions were subject to this, making it hard for them to follow a coherent development.

3.3 The Sandinista’s Popular Revolution

Nicaraguan history has been characterized by the continual struggle of its population against foreign invasion, occupation and intervention. Such conditions managed to determine a social structure that disabled its population from developing its own form of government, thus limiting their ability to locally develop policy. The FSLN was founded in 1961 “on the basis of an imitative, ahistorical and superficial interpretation of Marxism” (Pérez-Baltodano 2008, 577). The FSLN was be divided in three factions: 1) Guerra Popular Prolongada\(^{17}\) (GPP), led by the ideas of the founders, mainly Carlos Fonseca Amador, and founded in guerrillas who would, as

\(^{17}\) Prolonged Popular War
in Cuba, enter triumphant to the capital; 2) Proletario,\textsuperscript{18} led by Jaime Wheelock Roman and founded in a fight from the city’s organized labor; and 3) Terceristas\textsuperscript{19} led by the Ortega brothers as a unification of the last two but also including not just workers from the cities but also the general population (Pérez-Baltodano 2008, 577-579).

The actions that led to the victory of the revolution could not have been successful without the turn that the U.S. took, led by president Jimmy Carter, in the support of international human rights, leaving the dictatorship in a defenseless spot against the actions that it took domestically. The assassination of the internationally-recognized journalist and open opponent to the regime, Pedro Joaquin Chamorro Cardenal, on January 10, 1978, served as a catalyst for the beginning of the end of the Somocista dynastic regime. Because of Chamorro’s assassination, the U.S. cancelled its military support, COSEP launched a general strike, the indigenous community of Monimbó started fighting, the FSLN intensified its political and military activity and took the Chamber of Deputies by force in August 1978. A popular insurrection led by the FSLN was initiated, and Somoza began bombing the civilian population. On May 28, 1979, the FSLN launched an armed popular rebellion called the “Ofensiva Final,”\textsuperscript{20} which pushed the OEA and the U.S. to push Somoza out of power in order to avoid the FSLN from taking it by force. The plan was to cede power it to a Junta de Gobierno de Reconstrucción Nacional\textsuperscript{21} (JGRN) formed by members of the FSLN and the main representatives of other opposition groups. Somoza ceded

\textsuperscript{18} Proletarian

\textsuperscript{19} The third option

\textsuperscript{20} The Final offensive

\textsuperscript{21} Government Board for National Reconstruction
power to Francisco Urcuyo Maliaños while fleeing the country. Urcuyo immediately announced his intentions to stay in power to finish Somoza’s constitutional ruling, and “Urcuyo’s decision provoked the FSLN to consider the agreement mediated by the U.S. and the OEA as void. Thus, the FSLN unleashed its military force, crushing the demoralized National Guard. On 19 July 1979, the FSLN and the JGRN made their triumphal entry into Managua” (Pérez-Baltodano 2008, 580).

According to Arturo Cruz, the fall of the dictatorship did not occur either to Somoza’s accumulation of richness or to the leadership of the revolutionaries but to the limited political participation that the regime allowed its population (Cruz 1986, 18). The FSLN “was able to represent, as viable and legitimate, the aspiration of a Nicaragua founded under three essential values: national sovereignty, social justice and popular democracy” (Pérez-Baltodano 2008, 598). Its method for achieving this was the promotion of “(1) a mixed economy with heavy participation by the private sector, (2) political pluralism featuring interclass dialogue and efforts to institutionalize input and feedback from all sectors, (3) ambitious social programs, based in large part on grassroots voluntarism, and (4) the maintenance of diplomatic and economic relations with as many nations as possible regardless of ideology” (Walker, Loc. 945-948). In the context of globalization, the new Marxist-based organization had a natural ally, but “the Soviet Union had made it clear that it was not willing to underwrite a ‘second Cuba.’ Hard currency would not be forthcoming from that source, nor would military support in the event of a U.S. invasion” (Walker, Loc. 935-936). Walker divides

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22He feed to Miami, U.S. and after being denied entry by Carter he took refugee in Paraguay under the protection of the Paraguayan dictator Alfredo Stroessner only to die later under a group of international Latin American revolutionaries
the years of Sandinista rule into four sub-periods that were clearly conditioned by the country’s international environment. The first, which lasted until the election of Ronald Reagan in November 1980, was a time of euphoria and optimism. The second, spanning the nearly two years from that election to the spring of 1982, was a period of growing awareness of, and concern with, the hostile intentions of the new administration in Washington. In the third, during the almost three years that elapsed from the spring of 1982 through the inauguration of elected president Daniel Ortega in January 1985, the revolutionary system rose to the challenge of withstanding an unprecedentedly massive surrogate invasion, direct CIA sabotage, and economic strangulation while at the same time institutionalizing itself and even augmenting its already wide base of grassroots support (Walker 2011, Loc. 948-955).

The economic crisis created by the U.S.-imposed embargo on Nicaragua, political and military pressure and the imminent reelection of Reagan, pushed Nicaragua to hold elections ahead of time in 1990 instead of 1992, in an attempt to prove it was democratic even if it went against its Marxist principles. The FSLN victory did not solve the ideological contradiction that it had with the revolutionary process. Victor Tirado, a member of the FSLN national leadership, tried to explain how democracy was in the past and popular revolutions were the future, as the imperialist democracy was an error at the same time that elections were being held in the country. These contradictions were manifested more clearly in economic policy when, in 1988, the worsening economic crisis forced the revolutionary government to implement its first neoliberal adjustment and stabilization plan, very similar to the one the IMF had proposed in the rest of Latin America. The government tried to keep ideological distance from the IMF but, according to Martínez Cuenca, Minister of Foreign Commerce, it took too long for the Sandinistas to solve their differences in the implementation of their ideology, forcing them to act against the mixed economy by implementing open market policies (Pérez-Baltodano 2008, 641-650).
The implementation of Perestroika, as the representation of the weakened USSR and, the empowerment of the U.S., served as a catalyst for the political dismantlement of the revolutionary government in Nicaragua. The U.S.-financed counterrevolution had failed, and Reagan began to support the pacification of the Central American region. As a result, Nicaragua went to elections (Pérez-Baltodano 2008, 658). Washington used millions of covert dollars and promised overt funding to weld together a united opposition (National Opposition Union, UNO) out of fourteen disparate micro-parties and to promote the electoral success of its candidates. Leaving nothing to chance, the United States, said one State Department official of the time, decided to “micromanage the opposition” for them to win the elections (Walker, Loc.1180-1183).

It is important to summarize this revolutionary endeavor and recognize that the state’s foreign dependency was not reduced, but rather increased to the point that international aid financed up to 80% of government functioning and foreign debt increased by 1000 percent. This left the government with a weak capacity to confront globalization and its institutions for the next decade, more specifically, with a big balance of payment deficit a weak currency and a destroyed industrial capacity. The gap that kept the state from understanding the people could not be overcome even after all the effort that the revolutionary party invested (Pérez-Baltodano 2008, 660-661). After all, “Nicaragua was still trapped between the reality of the conquest state and the aspiration to be a Nation state” (Ibid., 661).

According to Pérez-Baltodano there are three main reasons why the state was so weak: 1) the disaster created by the war; 2) the financial and commercial embargo; and 3) the indiscriminate use of the Marxist vocabulary by Sandinista elites, perpetuating ambiguities and a lack of definition for the revolution. Even with all this contributing to the failure of the
revolutionary project, Pérez-Baltodano maintains that “the Sandinista Revolution represented a counter-cultural movement, that temporally interrupted the prevalence of a pragmatic and resigned way of thinking that had oriented the political behavior of Nicaraguan elites since independence” (2008, 662).

3.4 Democracy and Implementation of Retrenchment Policies

According to Mike Alvarez, democracy occurs when some government offices are filled through contested elections and “alternation in office constitutes prima facie evidence of contestation. Contestation, in turn, entails three features: 1) Ex-ante uncertainty, 2) Ex-post irreversibility, and 3) Repeatability” (Alvarez et. al. 1996, 5). In Alvarez’s study, dictatorship is considered a residual category in order to establish rules that disqualify regimes as democratic to later distinguish the different characteristics of non-democratic regimes and classify them accordingly. Alvarez categorizes dictatorships as bureaucratic and autocratic. Bureaucratic has an internal ruling in the form of a legislature and external ruling expressed in law, thus, it is institutionalized. Autocratic can be easily characterized as being despotic with no legislation and hence no institutionalization. Some of these are simply transitional.

Democracies, according to their form of executive-legislative relations, can either be presidential, parliamentary or a mix. Nicaragua, according to Alvarez’s classification, was a bureaucracy between the years of 1950 and 1970; a transitory autocracy in 1971; a bureaucracy again from 1972 to 1978; a transitory autocracy from 1979 to 1983; and finally reached presidential democracy in 1984 (1996, 26). Until now, Nicaragua, contrary to popular belief, implemented democracy and its first neoliberal policies during the revolutionary years, but it
only achieved congruency with the UNO victory that “did not allow only a change of government, rather, a regime change…a post-revolutionary transition defined as a process of structural transformations oriented to develop and consolidate a free market model for the organization of the country’s economy; and a representative democratic system for the regulation of political participation and the distribution of the powers of the state” (Pérez-Baltodano 2008, 671-672).

Nevertheless, from 1990 on, “the providential vision of power and history, as well as the resigned-pragmatic political culture, that had dominated the historical development of Nicaragua until the revolutionary triumph of 1979, were going to be re-established as the value framework that would condition the political praxis of the elites and Nicaraguan society” (Ibid.). This was fueled by the economic and socio-political crisis following the war, and mainly “oriented the state to an ‘efficiency based’ perspective, that took part in the neoliberal model promoted by the international organizations of the so called ‘Washington Consensus’” (Pérez-Baltodano 2008, 678).

According to Pérez-Baltodano, in order to implement a neoliberal ideology the Nicaraguan government, with the help of technocrats linked to the Instituto Centroamericano de Administración de Empresas23 (INCAE) with the support of the United States Agency for International Development (USAID), promoted “a series of policies and programs of stabilization and structural adjustment to facilitate the liberation of the market forces and integration of the Nicaraguan economy into the world market. The stabilization measures included reduction of public expenditure, currency devaluation, and credit restriction. The

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23 Central American of Business Management, founded in 1960’s to help the promotion of professional management
structural adjustment program promoted the deregulation of prices and elimination of state control over foreign and national commerce” (Ibid.) The state was weak as recognized by Antonio Lacayo, minister of the presidency\textsuperscript{24}, in a 1994 speech (Pérez-Baltodano 2008, 691).

The FSLN, that was the main opposition party, after its division in two factions it was very weak. “Pragmaticos”\textsuperscript{25} leaders were represented by Sergio Ramirez Mercado, Daniel Ortega’s vice president during the revolutionary years, and the “principistas”\textsuperscript{26} represented by Daniel Ortega, “The FSLN crisis culminated in the formation of the Movimiento Renovador Sandinista (MRS).\textsuperscript{27} According to Pérez-Baltodano, “the FSLN gradually abandoned its revolutionaries positions [values\textsuperscript{28}] to adopt a pragmatic political praxis that was intended to defend and preserve the party power within the new conditions created by the transition” (Pérez-Baltodano 2008, 294).

The weak state caused contradictions between the legislative branch and the executive. The national assembly passed partial constitutional reform that was politically rejected by the president and later fixed through “legal tricks” but created an ambiguous and contradictory constitutional framework; with a weak and fragmented civil society; with a retrenched state due to privatization and subordination to financial international organizations policies; and with a framework of social values that was strongly impregnated by providentialism, pragmatism and resignation, the country was organized under a political system that allowed the social participation in elections of its leaders, but that did not facilitated the development of a social capacity to condition state actions (Pérez-Baltodano 2008, 700).

\textsuperscript{24} A position created to assist the president in every aspect. The powers this positions held were very similar to those of a prime minister.

\textsuperscript{25} Pragmatics according to Pérez-Baltodano’s represented flexibility and creativity to defend the socialist principles

\textsuperscript{26} Principled according to Pérez-Baltodano’s represented defending the traditional socialist principles

\textsuperscript{27} Movement of Sandinista Renewal

\textsuperscript{28} Making reference to national sovereignty, social justice and popular democracy as mentioned before (page, 58)
These conditions were classic characteristics of a conquest state and were used to benefit traditional oligarchic groups associated with the Chamorro administration.

Elections were held in 1996. Arnoldo Aleman led a liberal alliance under the Partido Liberal Constitucionalista that, according to Carlos F. Chamorro, the president’s son and former director of Barricada, the revolutionary government’s official newspaper, managed to capitalize on the previous administration’s missteps and kept the anti-Sandinista cause alive (Ibid., 706). Beyond that, “the practical and immediate objective that liberalism craved, led by Arnoldo Aleman, was to recover the power those political sectors—directly or indirectly—associated with the Somocista liberalism had lost during the revolution” (Ibid., 707). The Nicaraguan liberals won the elections by stimulating “the remembrance of war and economic crisis during the 80s to create an electoral environment that induced the population to choose between the ‘Sandinista past’ and the possibility of continuing the democratic experiment initiated in 1990” (Ibid., 708-709). Once in power, it was evident that “the liberal alliance got to power without a vision or political positioning capable of articulating a social consensus for the development of the state and society” (Ibid., 713). As stated by Minister of Education, Humberto Belli, it was created by the “prevalence of a clan mentality, where what matters is genealogy and not an adhesion to a philosophy and to certain political principles” (Belli-Pereira 1998 as cited in Pérez-Baltodano 2008, 717).

Nicaraguan society, as mentioned previously, was weak at almost every level, and the elites now were represented by the two main parties: the Partido Liberal Constitucionalista

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29 Constitutionalist Liberal Party
30 Constitutionalist Liberal Party
(PLC) and the FSLN. This weakness was an advantage to both parties for their consolidation of a pact that, just like the every other bi-partisan agreement signed before in Nicaragua, provided for the distribution of administrative powers, this time under the democratic framework and consummated by a partial modification of the constitution in 2000. The pact established a protection system for both leaders, Arnoldo Aleman and Daniel Ortega, providing them with parliamentary immunity. The new pact also contributed to the establishment of a political clientele. Meanwhile, Transparency International’s 2001 report placed Nicaragua among the fifteen most corrupt countries in the world and the third most corrupt in Latin America. Corruption extended to the private sector and was reflected in the fraudulent bankruptcies of some commercial banks. The private sector, represented by COSEP, kept from criticizing Aleman’s administration and its corruption out of fear that it might strengthen the Sandinistas in doing so.

In 2001, the FSLN contrasted dramatically with the FSLN of 1979. In 1979, the party was imbued with a philosophical and historical knowledge that justified its revolutionary activity; in 2001, it had a more resigned-pragmatic vision (Pérez-Baltodano 2008, 740-742). Now, “for the FSLN to govern meant to give effect to development projects under the boundaries established by the country's power structure and the normative frameworks for the formulation of public policies imposed by International Financial Organizations” (Ibid., 738).

The liberals continued to exploit the argument that the FSLN represented a Marxist-oriented government. In the wake of the September 11 terrorist attack in the U.S., the liberals in Nicaragua “accused the FSLN of maintaining relationships with countries and organizations

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31 Bankruptcies which only purpose were to access government funds through bailouts when not necessary.
involved in terrorist activities” (Ibid., 746). The liberal party won the elections with Enrique Bolaños Geyer as their presidential candidate. These were the fourth elections conducted since 1984, and they complied with the alternation and contestation principles by allowing “some, even if limited, regularized competition among conflicting visions and interests [in contrast to] (...) those in which some values or interests [of one actor] enjoy a monopoly buttressed by threat or actual use of force” (Alvarez et. al. 1996, 4). Bolaños called his government “the new era.” He “understood, or at least intuited that modernity had been the result of the development of a social capacity to reclaim the sense of history. What he [the president] did not seem to understand, was that such capacity had a very important cultural underpinning,” and his new era was “conceived within a providential vision of history” (Pérez-Baltodano 2008, 748). The new government lacked leadership and coordination, and it cemented its trust in God’s will and U.S. kindness for Nicaragua’s future (Pérez-Baltodano 2008, 750-53). The fight against corruption proved difficult; Bolaños first attacked lower-level corruption during Alemán’s administration and eventually went against Alemán after stripping him of his parliamentary immunity (Walker 2011, Loc. 1475-1489). Nevertheless, “although Alemán was sentenced to a twenty-year jail term in 2004, it was soon apparent that the ongoing Ortega/Alemán pact process would give Alemán a large measure of freedom. Indeed, he served most of his time under house arrest and his conviction was completely overturned in January 2009 by the politicized Supreme Court” (Walker 2011, Loc. 1498-1500).

In summary, the transition to democracy was due to the possibility of contestation for political power. In 1990, after a decade of trying to brake the resigned-pragmatism, the “providential vision of power and history, just as the resigned and pragmatic political culture
determinant during the historical development of Nicaragua” (Pérez-Baltodano 2008, 755) was re-established in a “state that was dependent on foreign [powers] and independent of civil society” (Ibid.). The new electoral democratic political system that was being implemented created the conditions for citizens to participate in the elections of their rulers but with little or no existing capacity for developing a social force capable of conditioning the state’s actions (Ibid., 759).

The government’s fragilities were related to the political and cultural weaknesses of the Nicaraguan elites. The combination of these two “promoted the fragmentation of society in a moment that it [society] suffered the consequences of economic crisis and a social breach caused by the 1980s civil war” (Ibid., 764). The neoliberal polices that were already strong in the rest of Central America by 1990 began to be implemented in Nicaragua “in the last two years of the Sandinista period and intensified under the Chamorro administration…eventually result[ing] in sharp reductions of inflation and modest growth of gross domestic product” (Walker 1997, 299). However, “the capacity of the Nicaraguan political system to create conditions of governance and public safety … was reduced by the negative impact that the neoliberal system, adopted by the governments of the period, had over the regulatory capacity and social administration of the state” (Pérez-Baltodano 2008, 766). Some even consider that this period was not necessarily good for democracy, seeing as

However much the vertical tendencies of the FSLN militated against real participation in party and state affairs by the rank and file, the ‘logic of the majority’ was still the Sandinistas’ ideological lodestar. After 1990, the new state managers put other values ahead of giving the poor and weak the institutions and recognition they need to participate fully in modern society. In this light, the new regime ushered in with the new administrations is less democratic because it is less determinedly egalitarian (Close 1999, 204).
According to Close, the three legacies from the revolution that made democratization possible were: 1) tolerance for opposition; 2) participation of marginalized groups; and 3) a far more inclusive, participatory and egalitarian political culture. At the same time, in 1990, President Chamorro’s administration was also able to consolidate democracy by proving that “crisis does not have to bring constitutional rule to an end, sustained the nation’s level of tolerance for political opposition, gave Nicaragua a free press and delivered a measure of economic stability” (Close 1999, 209). Democracy was definitely being reinforced after the fourth elections since 1984, but

twelve years after the start of neoliberal democratic experiment…the characteristics of the conquest state—the patrimonial nature of the domination system within which it operates, its low capacity of social regulation, the social and territorial fragmentation, its foreign dependence, and its high autonomy level with respect to society—were sustained practically intact (Pérez-Baltodano 2008, 768).

3.5 The Return to Power of the Revolutionary Party

Up to this point, Nicaragua had established a young yet stable democracy with a consolidated presidential and bi-partisan model under a capitalist neoliberal economic administration with the possibility for contestation of power. As mentioned before, the FSLN was now a pragmatic party, competing against a divided opposition. After the imprisonment of Arnoldo Alemán, his former vice president and then president, Enrique Bolaños, provoked the liberals to “break off and form a new party, the Alianza Liberal Nicaragüense 32(ALN), under the leadership of banker Eduardo Montealegre” (Walker 2011, Loc. 1526-1527). As a result of the Aleman-Ortega pact, “by 2006, the Supreme Electoral Council had been thoroughly politicized by the country’s two caudillos [Sandinistas and Liberals]. Since Alemán’s conviction on

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32 Nicaraguan Liberal Alliance
corruption charges had given Ortega the upper-hand in ongoing iterations of the pact, Ortega’s interests would be reflected in the nature and behavior of that key entity” (Walker 2011, 1516-1518). Compared to other electoral processes in Nicaragua, this “election itself was relatively clean. It was observed by international teams from the Organization of American States and the Carter Center as well as two major domestic groups” (Ibid., Loc. 1529-1531). The biggest, Ética y Transparencia (ET), had such a large team that they were able to observe almost every voting place in the country (Ibid., Loc. 1519-1534) and “had an extremely accurate ‘quick count’ of the results—thus ensuring that any later manipulation of the tallies would be detected” (Ibid., Loc. 1534). Daniel Ortega won with 38 percent of the vote, followed by Eduardo Montealegre with 28.3 percent of the vote, even though “fraud—favoring the FSLN—was detected by ET in only four municipalities of one coastal department, the RAAN33. And, though the Carter Center made a series of suggestions for improving the system, its overall assessment of the 2006 election was positive” (Ibid., Loc. 1538-1540) According to Walker, probably the least clean aspect of the 2006 election was the role the U.S. government played in its effort to manipulate the outcome. As in the previous three presidential contests, U.S. personnel spoke out and worked behind the scenes in an effort to orchestrate the victory of one candidate—in this case the ALN’s Eduardo Montealegre. Ironically, however, their efforts actually helped split the anti-Sandinista forces, thus helping to ensure the Ortega victory, which could not have taken place without that split (Ibid., Loc. 1541-1543).

During Ortega’s first period in power, he had a political advantage, given the split of the major opposition and a weak and unorganized civil society. According to Walker, Ortega intensified the corruption of the rule of law; he had a tight control of the party and the pact with Alemán, since his extensive corruption made him vulnerable to new charges against him. Also, “Ortega and Alemán were in a position to control their mutual opponent, the ALN’s Eduardo

33 North Atlantic Autonomous Region by its acronym in Spanish
Montealegre, whose legislative immunity to prosecution under corruption charges dating from the Bolaños administration could easily be lifted whenever the two caudillos saw fit” (Walker 2011, Loc. 1550-1552). The rest of the opposition was organized around some “journalists, former FSLN members, and civil society organizations [that] complained of intimidation and violence by Ortega’s sympathizers.

Elections for the control of municipalities were held in 2008. The result of the 2008 elections ratified Ortega’s victory in 2006. It presented several irregularities, such as the denial of participation to local and international observation groups in the electoral process on the grounds that their opinions and observation procedures were politically biased. More important was the decision of the Consejo Supremo Electoral (CSE) prior to elections to limit the electoral field “by ruling that the MRS and Conservative party were not eligible to participate because they could not present a full slate of candidates. Critics viewed this as an effort to protect the FSLN and PLC from electoral competition, particularly in light of the fact that two tiny parties that surely did not meet all the requisites were allowed to run. The PLC and ALN united two enemies, Alemán and Montealegre, against the FSLN” (Walker 2011 Loc 1561-1567).

According to Walker, some argue that the price of the FSLN’s victory in the 2008 elections was the Corte Suprema de Justicia's (CSJ) revocation of Alemán’s sentence. Following this, “in October 2009, the FSLN justices in the Supreme Court Constitutionality Commission met alone at night and ruled that the constitutional prohibition against the presidential reelection did not apply in Ortega’s case” (Ibid., 1585-1589), allowing for his

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34 Supreme Electoral Council - another state branch separate from legislative, executive or judicial powers

35 Supreme Court of Justice
participation in 2011 electoral process. The FSLN, under the leadership of Daniel Ortega, won elections in 2011 with little opposition. During Daniel Ortega’s second administrative period, opposition has been less aggressive in terms of street demonstration, and the reaction of FSLN supporters was also tamer. Political opposition is still divided in the country, limiting the possibility to create a constructive, ideological alternative that represents the portion of the population that disagrees with the philosophical stands of the FSLN. The Sandinistas have cleverly institutionalized processes that were ignored before, such as the interactions between private companies and the government in annual meetings held between the presidency and the main representatives of the private sector. During the inaugural speech of COSEP’s president in September 2013, he stated that COSEP is convinced that, by making the economy grow, they are making democracy better. At the same event, Guatemalan Julio Zevallos, honored as businessman of the year, said that he was impressed by the sophistication and culture of dialogue between the private sector and the government, commenting that he has never seen such respect for institutions in any other Central American country.

The FSLN has been able to implement policies under a national logic guided by the Programa Nacional de Desarrollo Humano (PNDH), founded in Christian, Solidarity and Socialist principles, attempting to interpret, at least to some degree, the historical characteristics of Nicaragua bounded by the economic possibilities of the country’s reality and the international financial system. Perhaps it could be considered a new attempt to break with resigned-pragmatism, through a renewed emphasis on social programs. “A new literacy campaign,” for example, “initiated by FSLN municipal governments in previous years, reduced illiteracy from

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36 National Program for Human Development
almost 21 percent in 2007 to less than 5 percent in 2009” (Walker 2011, Loc. 2737). Others, like Programa Amor, focused on reversing the disintegration of the family, ending child labor, and getting street children into school. Likewise, the Zero Usury program provides low-interest loans to help women start small businesses; nevertheless, there are still allegations that the program was politicized and clientelistic (Ibid., Loc. 2738-2747).

3.6 Summary in the Light of Path Dependency

Mahoney considers that “path dependence is built around the idea that crucial choice points may establish certain directions of change and foreclose others in a way that shapes development over long periods of time” (Mahoney 2001, 264) and uses that consideration to argue that the liberal reforms of the nineteenth and twentieth century in Central America were “critical junctures and that actors’ choices and structural transformations during this period had profound effect the subsequent evolution of politics in the region” (Ibid.) conditioning the foundations of the national regimes of the mid-twentieth century. I use his considerations about Nicaragua in this summary to better understand and to properly match the role of historical and political context with the agency of influential actors to provide an accurate identification of the INNS’s historic evolution and reinforcement mechanisms. Brian Arthur helps us understand how changing a system or institutions from one state to another requires a combination of luck and timing and explains how “Theory can help identify these states and times, to guide policy makers in applying the right amount of effort (not too little not too much) to dislodge locked-in structures” (1994, 12). This together with Subirats’ policy cycle interpretation, Mesa-Lagos, Téfel, Santamaria and others’ work on social security in Nicaragua will help to adequately identify critical junctures for the INSS in Nicaraguan history considering the importance for
change of influential actors in a “process-dependent, organic, and always evolving” (Ibid.)

system.

The context of Central American countries after independence was that of anarchy, precluding the construction of strong states. Liberal reforms in different countries tried to integrate these weak states into international markets through the modernization of agriculture that had different levels of success, and, as a result, set “countries on distinct paths of long-term development that led to sharply contrasting regime outcomes by the mid-twentieth century” (Mahoney 2001, 265). Honduras and Nicaragua were characterized by foreign interventions that in both cases aborted the liberal reforms. Specifically, in Nicaragua, U.S. intervention turned the liberal experiment into a semi-colonial structure under the control of U.S. policymakers. Such intervention avoided the development of democratizing political movements, thus, easing the possibility of forming dictatorships.

Mahoney uses Barrington Moore’s work, Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World, that helps describe how the nature of the relationship between bourgeoisie and landed elites defined the possibility of creating either a democratic or non-democratic regime. For those countries in which an alliance could not be formed, conflict results promoting bourgeoisie to ally with peasants or to lead political revolutions, setting a democratic path as the solution to the intra-elite conflict. Where the bourgeoisie class was weaker than the landed elite, alliances were formed limiting the possibility of democratization. This structure eased the creation of forced labor in the countryside limiting the peasants’ ability to revolt. According to Mahoney the main limitation to Moore’s analysis is that mentioned by Jeffery Paige on how it Central American coffee growers elites were a
combination of commercial-bourgeoisie and landed-agrarian aspects making it hard to identify the presence of alliance since they were usually developing together. (Ibid., 270-272) According to Mahoney there are some efforts to explain the Sandinistas’ revolution using “Moore’s pattern of peasant revolution leading to communism. In fact, however, a full-blown communist regime was never established in Nicaragua, and a weak variant of socialism prevailed for only less than a decade. It makes more sense to evaluate Nicaragua along with Honduras” (Ibid., 273) in a pattern that avoided the development of commercial agriculture because of intervention making it hard to identify the split with the past, instead by failing to break through to modernity it reinforced its traditional form of politics. (Ibid.) Mahoney’s identification of critical points in Nicaraguan politics and the elites’ decisions that led the development are fundamental for chapter four. The other important critical junctures that are relevant for the analysis of Nicaraguan politics is the labor-incorporation periods, according to Mahoney using Collier and Collier’s Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America, “The way in which state actors incorporated labor movements was conditioned by the political strength of the oligarchy at a time when governments representing middle-sector groups initiated reform programs to transform existing oligarchic states” (Ibid., 277) The strength of coffee elites in Nicaragua did not allow the integration of labor coalitions to compete for state power. Considering Mahoney’s interpretation of Collier and Collier’s work and applying it to the Nicaraguan context we could say that the organized labor did not play an important role because of the lack of enough manufacturing and urban sectors and their inability to develop strong collective action. Nicaragua with a national export economy of labor intensive agriculture, limited the development of a democratic system as the liberal reforms were interrupted by a semi
colonial system, this is considered by Mahoney as a critical juncture, which reinforced the classic
post-colonial way of government organized under a military dictatorship. A second critical
juncture was the incorporation of labor associations into politics that “may have then reshaped
the evolution of national politics” (Ibid., 280) of the country on a different trajectory, these
should be analyzed independently from one another. According to Mahoney the adoption of
neoliberal market reforms possibly was the only way to avoid political and economic
underdevelopment due to the liberal failures on the beginning of the century. These mild reforms
“represents the best temporary solution for achieving national development in a highly
constraining global context where few real alternatives exist” (Ibid., 283). This might be a third
critical juncture that for Nicaragua came a decade later due to the revolution and “while formal
democracy does not necessarily entail enhanced socioeconomic equality or even high levels of
political participation, it does necessarily ensure protection from arbitrary state abuse and a
certain level of governmental accountability-conditions that have been absent in most of Central
America” (Ibid.) and have also an important effect in the institution’s future and stability.
Chapter 4. The Unlikely Path-Dependence of the INSS

At this point, the reader should be able to identify the Nicaraguan historical context and understand how often it was subject to violent, sudden and arbitrary political change. It is also possible to identify some critical junctures that defined the Nicaraguan political arena. These allow for the narrowing of the search for the INSS’s critical junctures. In this chapter, I intend to identify and order, according to their occurrence, the critical junctures and their outcomes throughout time, while describing and explaining how feedback mechanisms were triggered and promoted the reinforcement of certain patterns. To properly take into account the importance that agents of change or influential groups hold in the development of a path-dependent process, the institution’s evolution must be evaluated in light of historical and political development. It is imperative to mention at this point the specificity of the Nicaraguan context and how the arbitrary nature of the state relations to which institutionalization was exposed made it very hard for institutions not to be replaced by new ones that better served the regime in power.

As stated before, I follow the evolution and variation of the INSS according to its adherence to the conventional social security principles established by ILO, making reference to Mesa-Lago’s comparative work in Latin America regarding the “approved (...) `minimum norm' that established the following crucial social security principles: (a) universal coverage; (b) equal treatment; (c) solidarity; (d) comprehensiveness, sufficiency, and quality of benefits; (e) unity, state responsibility, efficiency, and social participation in the administration; and (f) financial sustainability” (2008, vi). These principles were implemented without question until privatization was introduced by Chile’s structural reforms as an alternative around 1980(Ibid),
which opened up this discussion around the world, though not in Nicaragua until the 1990s. I pinpoint the moments in Subirat’s policy cycle where changes took place with the purpose of illustrating the aforementioned importance of influential groups as agents of change.

4.1 The INSS Lock-in Moment

In this section, I identify a critical juncture and the outcomes that, in the form of a positive feedback mechanism, reinforced certain patterns that locked the INSS. The reasons the INSS is locked in are those that make it hard to return to a previous juncture or dramatically change the institution going forward, creating boundaries that, in the INSS’s case, or for that matter any grand public policy, can be social, political, economic, financial or any combination of these. The social boundaries can be measured by variation in the number of stakeholders, as there will be a higher resistance to change when there is a larger number of stakeholders. The political limitations are identified according to the short and long-term political interests of influential groups whose decisions are bounded by their personal needs (means-end rationality or Zweckrationalität, according to Max Weber) or their collective set of values (value rationality or Wertrationalität). The economic reasons are related to the fact that parametrical or structural changes in the institution can affect macroeconomic indexes, thus fixing the possibilities for change to other policy goals, such as those of the monetary policy, leaving the INSS vulnerable to arbitrary changes. The financial factor is more related, though not exclusively, to the institution’s administration and the feasibility of its financial sustainability.

According to Mesa-Lago, Latin American countries were among the first in the world to implement social security (2008, vi). He classified and ranked the countries in three groups based
on the date of inception of their first social insurance programs of pensions and sickness-maternity, as well as their degree of development in: a) pioneer or high; b) intermediate; and c) latecomer or low (Mesa-Lago 2008, 4). Nicaragua is included in the latecomer or low category, along with Paraguay, The Dominican Republic, Guatemala, El Salvador, Honduras and Haiti. These countries all exhibited similar characteristics, such as small and young population with a short life expectancy that allowed them to implement more unified programs with a smaller financial burden (Ibid., 4-5).

The origins of the INSS in Nicaragua, before the first enacted law in 1955, are hard to trace, since there are not many documents that acknowledge the history of the creation of the institution with the purpose of developing better policy in the future. This is not an isolated phenomenon in the world, as Pemberton mentions, noting that the “discussion of the history of the present pensions crisis [in the U.K.] is conspicuous mostly by its absence” (2006, 41). I refrain from discussing any kind of social security policy before the 1900s in Nicaragua for two reasons: 1) Non existent universal citizenship, 2) a salaried labor force was not in place until the beginning of the 1900s. The latest document with direct reference to the first mention of the formalization of social assistance to workers is the Evolución del Seguro Social en Nicaragua an INSS document about the institution’s evolution. However, this document does not contain a bibliography, only making reference to a specific agreement signed by Central American governments in Washington D.C. during the 1920s. It refers to the Conference on Central American Affairs that took place in Washington D.C. between December 4, 1922 and January 7, 1923. The result in terms of social security was the agreement of all the signing governments to

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38 Evolution of Social Security in Nicaragua
unify all the laws for the protection of workers in Central America. This agreement is better summarized by Zepeda as follows: 1) protection for women and children in terms of working hours and minimum age; 2) the prohibition of physical constraint except in national emergency; 3) establishment of a compulsory insurance paid by employers and employees to assure coverage in the case of emergency; 4) the promotion and stimulation of the construction of houses for workers; 5) the promotion of savings and establishment of official pawnshops; and 6) the promotion of cooperatives with fiscal benefits (1976, 193-194). Up to this point, Nicaragua still did not have a public policy for social security, since this did not comply with the constitutive elements of one. It was, nevertheless, in a more or less vulnerable place in the policy cycle-emergence of the problem-where the problem is starting to be defined and in need of representation from influential groups. Since these problems were brought to light by a foreign agent, it is my interpretation, as a result of the time it took to become a policy, that elites were not seeing these six points as a real necessity for the Nicaraguan population or, even more likely, they considered it to be a challenge to the status quo. From this moment on we could say that the evolution of the INSS is the result of an institutional development that has been subject to international trends.

According to Arthur, under increasing returns, static analysis is not sufficient, since multiple outcomes are possible and small events, little by little, promote the move toward one outcome instead of another. The properties of increasing returns are then: 1) potential inefficiency; 2) non predictability; 3) inflexibility or lock in; and 4) non-ergodicity, meaning that

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39 Extracted his concept of public policy Subirats defines the constitutive elements as: 1) A solution of a public matter; 2) existence of objective groups at the origin of the public problem; 3) a at least coherent intention; 4) the existence of diverse activities and decisions; 5) intervention programs; 6) key role of public actors; 7) existence of formal actions, and; 8) a more or less compulsory nature of the decisions and activities.
a small event may decide the larger path of any change (1994, 28-29). Pierson elaborates further on these arguments to make them suitable for political analysis. Hacker mentions that by path dependence, Pierson means a “social processes characterized by self-reinforcement, in which the cost of reversing an existing course of institutional or policy development increases over time” (2002, 53). This explanation of how increasing returns works is helpful for explaining how a lock-in moment is created through accumulating advantages, benefits or preferences of a set of outcomes over others, creating barriers that make it more difficult to move over a different set of outcomes, most certainly because these outcomes will have a lower payoff (Arthur 1994, 115-116). According to Hacker, this process has three crucial characteristics. First, timing matters. Early choices are far more important than later ones. This implies that different outcomes or multiple equilibria are possible. Second, the current institution or policy is not necessarily a reflection of the context that surrounds it and is most likely not a response to contextual factors. Rather, because of the importance of previous choices, the policy might respond to conditions that no longer exist and may be inefficient as a result. Third, institutional inertia plays a significant role, meaning that once past a certain threshold of development, the institution will persist.

I argue that the ratification of the government’s commitment taken at the Conference on Central American Affairs a year after its signature was the first of several other positive feedbacks that led to the first lock-in moment of the social security system in Nicaragua. This is the early choice that, by a single and small foreign influence, started setting limitations on the process of creation of a social security system in the country, the U.S. influence can be also noted in Carl Farman’s conclusion about the importance of “social security to the people and their
governments throughout Latin America” (1947, 18). The policymakers started to enact laws related to workers’ rights, almost one per year since that moment. As a nearly unavoidable consequence, the social security law was passed many years later. These laws were influenced by the agreement on the six points of social security from the Conference on Central American Affairs. During this process, the agency of policymakers can be noted in how they promoted change, from being hardly aware of the problem in the first phase of the policy cycle to the second phase of the policy cycle. In this phase, they included the problem in the government agenda by filtering the problems, outlining their causation and finally, maybe even unintentionally, recognizing the necessity for a policy.

Contextually, the creation of these laws was supported by the fact that the salaried work force started to grow in Nicaragua, and there was a need for regulating it, there were even manpower shortages at moments, specially semiskilled and technical kind of labor (E. Harrison Clark, Walter J. Armstrong 1953, 103, 314). Up to this moment, it is necessary to identify the factors that made the government act in response to that problem. This prompted it to change from one policy cycle to another, making the construction of a policy more possible by increasing the vulnerability to change. This combination of social policy evaluation helps explain the agency of actors by their importance in each of the policy cycle phases, as well as how the promotion of change between phases allows us to effectively “link outcomes with actors and with the process that produced the outcomes. As Hedstorm and Swedberg argue, any acceptable

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explanation in the social sciences must be able to link cause and effect through an underlying social process, rather than through a ‘black box’ (1998, 8)” (Peters 2005, 1284-1285).

When Somoza García came to power, the modernizing process of the government increased the number of state employees, and other sectors were also expanding, especially those related to agriculture. As mentioned before, Somoza was able to portray himself as the champion of every political alternative that had representation in the country. In 1945, he implemented normative frameworks elaborated by the Economic Commission for Latin America and the Caribbean (ECLAC) for formulating and executing economic policy; between 1945 and 1948, the evolution of the state was rapid in terms of the creation of institutions, ministries and other factors dependent upon executive power. Institutions like the Nicaraguan Institute of National Foment (INFONAC) was now expanding state power into areas where only caudillos and family power had previously exerted control (Pérez-Baltodano 2008, 524-526). Somoza's success with the laboring class, “was consolidated in 1944, when the Nicaraguan Socialist Party, founded the same year, declared, in its first manifesto, its support for ‘the policy of popular benefaction that president Somoza started’ (Partido Socialista de Nicaragua 1944, 103). These agreements with the leaders of the popular masses led to the promise, supported in article 97 of the 1950 constitutional reforms, of the creation of a social security institute. According to Martí-Puig and Sánchez-Ancochea, the Central American countries development model contained social, economic and political contradictions that failed to improve welfare for much of the population (2014, 6).

In summary, the interaction of influential groups of workers with politics; the dictator’s need to create support and consensus; and the elaboration of laws by policymakers whose means-
end rationality was bounded by their need for a positive relationship with the dictator and value rationality bounded by the context of the Conference on Central American Affairs, led to a critical juncture that allowed space for the emergence of an institution. As we know, “critical junctures represents moments of political opportunity when significant new policy departures may be put in place or when the forces for change are strong enough to cut into the ongoing path-dependent development of an existing policy and alter its trajectory” (Hacker 2002, 59)

To put this in a more practical manner, policymakers were subject to path dependency I. By repeatedly choosing the defense of workers rights by enacting laws, they started to form a pattern in their behavior, one that later was expected by their constituents. Now, after choosing the outcome that provided them with a higher return, votes, and collectively reinforcing this behavior, thus increasing their returns even further, their congressional support for the working class became locked-in. Somoza took advantage of this process. The dictator achieved his objective of passing the social security law to neutralize the communist influence in Nicaragua by obtaining the support of the working class and simultaneously being on the side of the U.S. for fighting against communism; similar to the conservative Chancellor Otto von Bismarck h was also accused of going against its principles, nevertheless, he achieved this by skillfully managing the policymakers’ means-end and value rationality. On the other hand, the creation of the INSS was a result of a path dependency II process. Its emergence was due to “a critical juncture at which collective actors establish new rules” (Ebbinghaus 2005, 8) during an opportunity created, in this case, by the bargaining of the working class together with the vulnerability created in the policy cycle by the policymakers’ agency to change from one less vulnerable phase to a more vulnerable one.
A Chilean United Nations (UN) technician, Dr. Manuel de Viado, was invited to help with the formulation of the INSS law in June, 1954. He expressed his intention of making social security in Nicaragua as impartial an instrument as possible (Navarro 2003, 52-53). He and a group of national experts created a proposal that was approved in December, 1955 and started functioning in January, 1956 (Navarro 2003, 57; INSS 1975, 7). This was the change from the second phase of the policy cycle, agenda setting, to the third, formulation and adoption of the policy program, in which vulnerability to change increases or at least remains the same.

Policymakers now have to define the causal model and acceptable solutions to the defined problem by filtering ideas and selecting instruments. In the search for the impartial institute that de Viado mentioned, one that would serve the nation’s interest and not to reinforce a party or personal power, the law followed the ILO principles of “(a) universal coverage; (b) equal treatment; (c) solidarity; (d) comprehensiveness, sufficiency, and quality of benefits; (e) unity, state responsibility, efficiency, and social participation in the administration; and (f) financial sustainability” (Mesa-Lago 2008, vi) Nevertheless, the political will that championed the cause had something different in mind.

Somoza was promoting the INSS in his search for support from the working class in order to debilitate any communist political alternative that promoted social security as a right (Knut 1993); he achieved this by providing a solution from a non-communist government, thus kickstarting the foundation of dependence on the ILO logic. Somoza’s populist policies promoted “new social rights, such as a minimum wage and the right to rest on the seventh day of the week” (Pérez-Baltodano 2008, 501). By 1955, right before his assassination, he had already articulated power around the popular sectors of the population through the promotion of-public
housing and education, social security, and agrarian reform, programs that were later followed and/or implemented by his son Luis Somoza Debayle (Walker 2011, Loc. 674-677). The third phase of the policy cycle represents the possibility for tremendous change, because the discussion of alternatives is at its peak, but also allows an institution or policy to be locked-in once solutions for the problem are accepted and processes are formulated.

4.2 INSS Increasing Returns

The first social security program was of a compulsory nature for every person employed, and shortly after the possibility of voluntary affiliation for the self-employed was added. It was also characterized by non-defined contribution, because of its tendency to increase over time, Defined Benefits (DB) Pay-As-You-Go and was administrated by an autonomous institute, not the central government. It was established that the coverage would gradually and progressively advance geographically in order to bring three kinds of coverages to all the citizens. First, Enfermedades no Profesionales y de Maternidad\(^{41}\)(EM); second, Riesgo Profesional\(^{42}\)(RP); and third, Invalidez, Vejez, Muerte y Desocupación\(^{43}\) (IVMD). The participation and funding was tripartite and started with the participation of ten thousand workers (INSS 1975, 8), and although social security started as a relatively small program, it none the less required a massive initial commitment of financial and administrative resources. Overtime, moreover, social security created a common rallying point and organizational incentive for what had previously been a scattered potential interest group: the elderly. More important, social security’s commitments were about as long-lived as any transfer program’s could be. Workers who first started paying into the program in their twenties had to premise decisions about retirement four decades hence on its promised benefits. And because the program very quickly became a virtually pure pay-as-you-go system (in which current workers financed the benefits of current retirees), any attempt to eliminate the

\(^{41}\) Not work related sickness and maternity

\(^{42}\) Professional Risk

\(^{43}\) Disability, pensions, survivors and unemployment insurance
program or shift it’s financing into private accounts entailed an increasingly serious ‘double-payment problem,’ requiring workers to pay for a previous generation’s retirement even while financing their own. (Hacker 2002, 55)

Increasing returns, as previously established, are “social processes characterized by self-reinforcement, in which the cost of reversing an existing course of institutional or policy development increases over time” (Hacker 2002, 53). This, of course, leads to a general misconception of “locked-in” as unchangeable; however, “that a process is path dependent is not to say that it is static or that movement off a path is impossible” (Ibid., 54). If the process is virtually locked-in by irreversible commitments, it only means that movement off that path is more difficult, as mentioned by Hacker. This difficulty will constantly evolve according to the ability and/or possibility of influential groups and stakeholders to afford the cost of that change, collectively and/or individually. Therefore, is better to explain that

the defining future of path-dependent processes is not that change does not occur but that change is channeled by self-reinforcing mechanism that propel the existing path of development. By examining these mechanisms, it is possible to show not only which options are progressively foreclosed, but also which become more attractive to political actors as they work within the constraints of a self-reinforcing developing path. It [is] also possible to identify the particular forces that might undermine a self-reinforcing trajectory by weakening or overwhelming the mechanism that encourage continued movement down that path (Ibid.)

By 1957, when the INSS began functioning, it also started to reinforce its path by gradually increasing the number of stakeholders, empowering policymakers as promotors of the cause, and using the institution as an instrument for the application of grander economic policies, thus promoting inter-institutional dependence. The main issue with these increasing returns was the limited expansion of the social programs. Moreover, inequality grew and workers’ rights were never really protected (Martí-Puig and Sánchez-Ancochea, 2014, 6) leaving space for easier path-departure if necessary. Finally, because of its budgetary independence, it created its own
sustainability challenges. All of this, after the fall of the Somoza regime and the rise of the revolution, could have been easily wiped clean by the revolutionary power. The new regime had the popular support of most of the participants in the system, the political power and will to erase the Somocista heritage, and very different guidelines for the economic development of the country, as well as the ability to acquire debt to financially support any endeavor that it considered necessary. Nevertheless, as Pérez-Baltodano emphasizes, the revolutionary governments were the only ones that took into consideration the Nicaraguan past and made public policy decisions accordingly, breaking with the resigned-pragmatism that characterized the previous political, economic and social development of the country (2008, 662). This allowed the reinforcement process to continue in term of the six core principles of social security and, because the revolutionary government was capable of legitimizing its power by representing “the aspiration of a Nicaragua founded under three essential values: national sovereignty, social justice and popular democracy” (Pérez-Baltodano 2008, 598), it reinforced the INSS on its path in such a changing environment without accounting for unintended consequences, which will be addressed later since the features of this environment of implementation made it harder to recognize those outcomes (Hacker, 2002, 55). As evidence of how the revolutionary government’s intention was to improve the already functioning system instead of dramatically replacing it with another based on different values, are government documents like *La Nueva Seguridad Social de la Revolución Popular Sandinista*. Its introduction by the INSS president, Reinaldo Tefel, states how social security is a human right that the revolution is consolidating and improving by increasing the number of services (1982, 3-5). There is also the *Integración de*
As mentioned before, the factors that increasingly create social boundaries are measured by the variation of the stakeholders involved and the political decisions that bound the stakeholders’ personal needs (means-end rationality) or their collective set of values (value rationality). Economic decisions are limited by macroeconomic indexes that respond to macro goals, while financial decisions are limited by the feasibility of financial sustainability. Since the enacting of the first social security law, the kind of coverage did not change; the INSS only expanded further geographically and in the amount of the population covered. By June 29, 1958, 25,000 more workers were added, and by 1959 their coverage was extended. In 1961, the possibility of voluntary affiliation for the self-employed was added, and by January 1966, the IVM coverage was extended to the whole country (INSS 1975, 1-16). The evolution of people’s coverage subject to at least some level of protection grew by 1,000% in 17 years from 1957 to 1974 (Ibid., 49); the number of stakeholders increased rapidly in these years considering the country context, but not fast or inclusively enough. The 1972-1976 expansion plan, elaborated in 1971, had the main objective of increasing coverage to most urban areas in Nicaragua and to later expand to rural areas over time. (Ibid., 51-57) The biggest economic restriction that the Nicaraguan government had to confront before the revolution was the Managua earthquake in December 23, 1972. This natural catastrophe required the government to increase its outstanding US$ 225 million foreign debt by around US$ 100 million dollars (almost 7% of the GDP) for
reconstruction purposes, and most of the hospitals were destroyed. The WB recommended that a substantial part of the aid should be under concessionary terms (Holsen, Bobb, Datas-Panero 1973, 15). This made the expansion of social security even more difficult for years to come.

Administratively the institution had a board that included representation from almost every sector in the country. The president of that board was named by the president of Nicaragua, the vice-president was the Labor Minister, the Minister of Health was a member, as were the Director of the INSS, two representatives from the private sector and two from the unions, two from the association of physicians, two from the government party and two from the minority party. This board was in charge of the INSS’s general administration (INSS 1975, 16-26). Every group represented on this board had a specific agenda in order to properly represent their constituents. Its inter-institutional relations were mainly with healthcare providers within the country and internationally with Panama, Costa Rica, Honduras and Guatemala to provide extraterritorial health coverage for those Nicaraguans traveling within the region (Ibid., 69-71).

During these years of implementation of the policy and stability in terms of its application, there was not much change in the policy itself, considering “change is seen to reside in the relationship between actors and the context in which they find themselves, between institutional ‘architects’, institutionalized subjects and institutional environments. More specifically, change occurs in (and through) the same time inter-relationship between strategic action and the strategic context within which it conceived and instantiated, and in the later unfolding of its intended and unintended consequences” (Hay 1998, 995). In the case of the INSS, this meant the strengthening of an institution that seemed feasible for the influential groups and policy makers of the time through the implementation of the selected solutions and the actions of the
administrative and political agents. For evaluation purposes, it must be asked if the institution is actually implementing the will of the government and parliament. The possibilities of a change during this period of time were very low. When the armed conflict intensified, the government machinery was oriented to avoid losing control of power, thus decreasing the vulnerability to a change of phase to evaluating the performance of the institution.

The revolutionary government, once in power, had to make changes in order to legitimize its leadership. For that reason, in a rapid fashion they started changing several institutions; some required a total overhaul, such as the security forces, while others just some peripheral changes. These strategic actions from influential groups yielded two results: first, the effects upon the institutional context that produces transformations in that environment, thus changing the course of its development but in a bounded manner; and second, they change their perspective on what is feasible and desirable, because of the acquired knowledge of the context (Hay 1998, 956). The revolutionary government, right after it took power, made two decisions toward the stabilization of the core principles, based on the premise that, even if the social security system was founded under the classic social security guidelines, after twenty-five years it did not expand as promised and served as a sectarian and limited patch that was neither coherent nor progressive regarding the socio-economic needs of the population. In response, the new regime took a series of steps: First, the creation of the Sistema Nacional Unico de Salud (SNUS), in which every hospital and healthcare provision infrastructure was transferred to the Ministerio de Salud (MINSA) with the purpose of providing healthcare to every Nicaraguan under equal circumstances. In order to

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46 The Only National Healthcare System
47 Ministry of Health
do this, the INSS had to transfer resources on a monthly basis that were collected from the insured portion of the population to the MINSA for redistribution among the entire population; Second, the creation of the Ministerio de Bienestar Social (MBI) to give attention to vulnerable sectors of the population and later integrate them into the INSS to form the INSSBI; Third, the enacting of laws to provide non-contribution based benefits.

The portion of the population receiving benefits changed from around 200,000 to around 1,600,000; nevertheless, almost all of the beneficiaries were added on a non-contributory basis (see table 3) with the objective of fulfilling the principles of universality, integrity, solidarity and social participation (INSSBI 1986). The newly created INSSBI was responsible for the implementation of all social benefits in a very integrated manner to government officials, military personnel, and citizens in general. The consequences of this were a gradual increase in independents, a larger structure, and the implementation of a policy without the time to evaluate the long-term consequences, such as financial dependency from the central government, insecurity for future payouts, and an increase in the public debt.

In summary, by the end on the 1980s the INSSBI was a very strong institution. Even if the traditional services, EM, IVM, RP, did not increase their numbers of participants substantially, the added non contribution based services dramatically increased the number of...

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48 Ministry of Welfare

49 Instituto Nicaragüense de Seguridad Social y Bienestar

50 Not work related sickness and maternity

51 Disability, pensions, survivors and unemployment insurance

52 Professional Risk
Table 3. Number of Beneficiaries

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of People</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>27,516</td>
</tr>
<tr>
<td>1965</td>
<td>47,299</td>
</tr>
<tr>
<td>1970</td>
<td>94,973</td>
</tr>
<tr>
<td>1975</td>
<td>130,373</td>
</tr>
<tr>
<td>1980</td>
<td>146,435</td>
</tr>
<tr>
<td>1985</td>
<td>289,779</td>
</tr>
<tr>
<td>1990</td>
<td>261,439</td>
</tr>
<tr>
<td>1995</td>
<td>208,152</td>
</tr>
<tr>
<td>2000</td>
<td>308,531</td>
</tr>
<tr>
<td>2005</td>
<td>380,189</td>
</tr>
<tr>
<td>2010</td>
<td>534,880</td>
</tr>
</tbody>
</table>

stakeholders and, with it, the amount of financial responsibility. After its emergence from a critical juncture in which rules and parameters for its implementation were established, the subsequent process during the Somoza years was that of institutionalization through increasing returns that reinforced the path of the institution. In Ebbinghaus’ words, this “positive feedback allows for the societal acceptance of a newly established institution, providing legitimacy and objectivation (Berger/Luckmann [19690 1977])” (2005, 13). Later, during the revolutionary years, a sequence of contingent decisions, based on short term interests, were implemented in order to improve the performance of the INSS. The alternatives were already structured under the principles that the revolutionary party wanted to follow; there was, therefore, no need for drastic change. After the stage of institutionalization or implementation of the social policy where change was not considered, during the revolutionary year, political actors and influential groups promoted (in the context of a popular revolution) the re-evaluation of the functioning of the institution. The result was a moment of “marginal adaptation to environmental changes without
changing core principles” (Ibid, 17) of the institution, thus promoting its stabilization. This was most certainly not the result of long-term stability but that of marginal adaptation to the changing conditions because of its severe entrenchment due to a previous lock-in moment. We can notice a departure from the original institutional functionality bounded by the previously implemented principles. For a better illustration of this concept, I use two figures modified from Ebbinghaus.

**Figure 2. Path Dependence II: Branching Pathways**

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53 Ebbinghaus 2008, 16
Before any kind of structural reforms were implemented in Latin America, Nicaragua was classified as a latecomer-low implementor of its social security system since the enforcement of the six principles of social security had been weak. The weakness of the implementation of these six principles allowed a departure on how to implement them. The new functions of the INSS where added by executive orders, making them vulnerable to a party change, which was not considered as a possibility under the revolutionary government. Universal coverage that supports the provision of income to those in need of one and healthcare to everyone was low and therefore in the latecomer-low group, with pensions that oscillated from 9% to 27% of the economically active population (EAP). The provision of healthcare would vary from 6% to 22% of the total population (Mesa-Lago 2008, 5-7). The equal treatment principle, which considers the implementation of a flat rate of contribution and a
standard for healthcare services to all members of the community regardless of their socio-
-economic but adjustable to the needs, was the opposite in Latin America; the best organized and
most powerful would not only get attention first, but also nearly full coverage, while the rest
waited for the expansion of the system. There was usually a big difference in the quality of the
service; the more urban, the better (Mesa-Lago 2008, 8-9). The population in Nicaragua had been
distributed in 50% rural and 50% urban with very little variation since 1980 (Anuarios estadisticos Instituto Nacional de Información de Desarrollo INIDE\textsuperscript{55}). The principle of
solidarity and income redistribution is the basis for the institution to be PAYGO, since it
considers that there should be intergenerational solidarity, as well as solidarity between healthy
and sick members of society to create a progressive redistribution helped by a tripartite
contribution in which workers, the state and employers are involved to optimize the
redistribution. These three principles are strongly tied to one another; if one fails, the other two
will work with inefficiencies (Mesa-Lago 2008, 10-11). The fourth principle was that of
comprehensiveness and sufficiency of benefits; its objective is to cover every risk that an
individual might face in society. These risks can be covered either by social insurance or social
assistance, whichever society consider the most appropriate for the context. Coverage types,
according to the ILO, were: “health care; paid leave in sickness and maternity; old-age,
disability, and survivor's pensions; health care and monetary benefits in occupational accidents
and diseases; unemployment compensation; and family allowances” (Ibid., 13). Latin American
countries were implementing most of these, except for unemployment and family allowance.
However, governments were very liberal in the implementation of these benefits until 1980,

\textsuperscript{55} Statistical Yearbooks of the National Institute of Information for Development
when their systems reached a maturity level that forced them to recalculate benefits, but the inflation of the decade delayed the progress. It wasn't until the mid 1990s that the Nicaraguan pension reached 19% of the average income (Ibid). This was due to one of the highest and most prolonged inflation periods in the world, with an average of 3,181.73% between 1984 and 1993 and a peak of 13,109.5% in 1987 (IMF, World Economic Outlook; Kim and Papi 2005, 92).

Almost every Latin American country implemented sickness-maternity programs. The costs of this program increasingly rose due to “liberality in entitlement conditions, inflation, epidemiological transition, rising life expectancy, administrative inefficiency, and predominance of the costly curative medicine over preventive medicine, all of which had an adverse effect on the supply and quality of health services. In the 1980s, the economic crisis and structural readjustment programs reduced public health budgets and services deteriorated further” (Ibid., 13-14). Unity, state responsibility, efficiency, and social participation in administration promoted the reduction of the cost until it was cheaper than private because of unity of registration, collection of payments, facilities, economies of scale. These ended up not being entirely true, due to the segmentation of the population and the fiscal irresponsibility of promoting pension funds to invest in government debt, depositing funds in the Central Bank with no interest, and not paying the government part of the contribution (Ibid., 14-17) The Beveridge report stated that the implementation of social security had to be viable according to the country’s economic possibilities. The implementation should be gradual and prioritized and advance whenever resources became available: “the ILO convention 102 stipulated that the state must ensure that actuarial studies and estimates are periodically done to maintain the financial equilibrium and ... before any modification in the benefits, contributions and taxes ... The cost of benefits and
administrative expenses must be financed in a collective manner through contributions, taxes or both” (Ibid., 17). It later specified methods to achieve a social security equilibrium in the long-term:

Three financial regimes: (a) fully funded capitalization, based on a ‘defined’ contribution expected to guarantee equilibrium for an undetermined period of time, this method can be collective (originally utilized in social security as the ‘general average premium’ but now out of use) or individual (used in contemporary systems of individual accounts); (b) collective partial capitalization (CPC) (usually the ‘scaled premium’) that guarantees a relatively large period of equilibrium, subject to periodic actuarial evaluations that often result in an increment of the contribution for the next period; and (c) PAYG, where income and expenditures must be balanced annually or in very short periods (typical of the oldest and most mature pension programs). The ILO supports three ‘classic principles’ in the investment of social security reserves: (a) security, to guarantee the future of the funds (convention 102 stipulates that the state should not use social security reserves for other purposes, such as to cover fiscal deficit); (b) adequate capital returns, to maximize the fund, attenuate the rise in contributions, and maintain the purchasing power of benefits; and (c) liquidity, to have sufficient cash available when needed. A controversial objective has been that investment has a social function (health, housing, etc.), although done efficiently to ensure the fundamental goal of guaranteed benefits (OIT-AISS 200a, 200zb). And yet many social investments were not done efficiently and led to low or negative capital returns that in the long run harmed the viability of benefits (Ibid., 18).

Nicaragua, as established previously, is a PAYGO system that struggles to adhere to the ILO’s “three ‘classic principles’ in the investment of social security reserves” (Ibid., 18). But with the expansion of provisions in the 1980s, it was almost impossible for the INSSBI to remain sustainable, especially given the inflated government expenditure due to war. This departure became more likely as the revolutionary government started to lose grip of the economic situation. In 1987, 41% of the expenditure was dedicated to defense (BCN 2009, 98).
Figure 4. Government Expenditure as a Percentage of the GDP

Figure 5. Superavit / Deficit of the Non-Financial Public Sector as a Percentage of GDP

Source: BCN 2009

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56 Source: BCN 2009

57 Source: BCN 2009
4.3 Substantiating Dependence

I argue that the second critical juncture was the moment of change of regime that provoked radical retrenchment and, arguably by illegal procedures, promoted the outsourcing of health services. This partial privatization at the beginning of the 1990s was necessary due to the revolutionary endeavor of expanding the services of the INSS, pushing it into an accelerated manner down the path without the necessary financial means for its sustainability, that path departure was “corrected” by annulling the executive orders that made it possible. In the changing environment of the revolutionary years, the influential groups were divided about this matter; those closest to the revolutionary party like unions, teacher associations and veterans, supported the social justice of the expansion, while those closer to the opposition, such as the private sector represented by COSEP and international credit organizations, would support a more financially pragmatic vision. This resulted in unintended consequences in the social security system. First was a disturbance in the relationship between the active contributor and the passive receiver because of an increase in the number of pensioners, increase in the life expectancy and reduction in the number of active workers. Second were insufficient funds to sustain the number of pensions and loss of assets due to the creation of the SNUS. Third was a reduction in the reserves due to illegal fund deviation for other objectives, hyperinflation, and not implementing scaled premiums, which avoided the increasing of reserves; all of this added to the BI financial burden (Navarro 2003, 73). The reality is that Latin America is, “highly uneven social protection resulted because governments either lacked the administrative capacity to enforce contributions to social insurance or deliberately chose to manipulate social insurance to benefit particular sectors” (Mares and Carnes 2009, 94). The Nicaraguan government had
experienced both. During the dictatorship, social benefits were established in order to manipulate the urban organized working class with communist influence, thus, during the revolutionary period it had neither the administrative nor the financial capacity to expand. The departure from its path due to an artificial expansion was only sustainable during a short period of time by avoiding publicizing the costs that were behind the revolutionary sentiment.

During the period of stabilization of the policy during the dictatorship, the vulnerability to change was low given the phase of the policy cycle: implementation. Influential groups and policymakers had no personal or moral incentive or argument to promote a change of phase, facilitating path stabilization through the structuring of alternatives. It is expected that as big a political turn as the revolution was, with a very different ideological basis than the dictatorship, it would change the welfare system drastically; nevertheless, because of the principles of the legislation, its broadness and its slow implementation, the revolutionary government only looked for what, under their logic, was considered to be a better, faster and stronger implementation of the policy, thus, the departure was only parametrical and superficially implemented.

Surprisingly, this big political critical juncture did not change the path of the institution dramatically in an opposite direction; rather, it reinforced its core values by parametrically and gradually changing the institution, departing from its original manner of implementation. The period between 1990 and 1999 was characterized by the government’s effort to lower expenses to lessen the fiscal burden and the Central Bank’s financial control. Salaries were frozen, expenses in goods and services and subsidies were minimized, however, anti-cyclical policies were implemented to soften the blow of these reductions. The privatization of public companies reduced the number of employees by 24,450 through programs such as early retirement in 1991,
labor adjustment in 1992 and the plan for labor mobility promotion from 1994 to 1998. The fiscal and administrative adjustment culminated in the enacting of a new law (BCN 2009, 98-99). The implementation of these retrenchment policies promoted the reduction of the state capacity for the administration of public policy. This “economic internationalization is assumed strongly to favor market solutions and thus to be particularly unfavorable to policies traditionally promoted by social democracy and organized labor. In the case of social policy, trade unions and social democratic parties expressed fears that steps to further economic integration, such as the Europe 1992 initiative or NAFTA, would result in pressures to reduce welfare state provisions to the lowest common denominator” (Huber and Stephens 2001, Loc 2884-2886)

In Nicaragua the FSLN was the party that tried to politically represent interests of the unions, teachers associations as well as the association of the elderly.

These policies represented the new model of government, which by executive order 44-49, article 9 for the restructuring of public administration assigned a commission to evaluate and suggest changes in different state organizations in 1992. Among them was the INSSBI. These changes were made with the financial support of the United Nations Development program (UNDP) (Navarro 2003, 80). According to Navarro, the experts recommended a series of changes that were the reflection of the new political tendencies in the country, such as restructuring the administrative and financial organization of the INSSBI by defining a new legal framework which promoted the active participation of a private sector (Ibid., 81). The retrenchment of the institution responded to a majority of the control of the power of the state by the new administration that provided the least possible opposition in the enacting of new laws and or executive orders in this case. Immediately after inauguration, in 1991, policymakers
pushed, approved and supported the change from a phase of implementation in the policy cycle to a phase of re-evaluation, making the policy, and therefore the institution, vulnerable to change under the influence of the new neoliberal precepts. The critical juncture for the political transition within a democratic stabilization process was the electoral defeat of the revolutionary party. The critical juncture for the INSS was the signing of executive order 44-49, which prompted the restructuring of the institution towards retrenchment by promoting actions that opened up the possibility to privatize. This new juncture happened due to a reorganization of political actors around a new ideology, which was at the same time macro-economically justified by the Nicaraguan need to reduce the fiscal expansion of the previous decade. Thus, a radical retrenchment of the INSSBI took place; there was no time for incremental cuts or a systematic recalibration of the system.

**Figure 6. Path Dependence II: Pension Reforms**

- The transference of the BI responsibilities to Fondo Nicaragüense de la Niñez y la Familia (FONIF)
- Elimination of SNUS
- The separation of the army by the creation of a separate system
- The separation of the ministry of interior by the creation of a separate system
- The provision of healthcare services through private companies
- The creation of a private sub-sector formed by NGOs, labs, pharmacies and other private healthcare providers
In 1993, reforms in the health sector and the INSSBI took place under the justification of returning the right to a separate healthcare provision to its affiliates and money was no longer transferred to the MINSA to hire Empresas Medicas Previsionales\(^{58}\) (EMPs). These private healthcare providers in charge of, almost exclusively, the attentions of the Social Security beneficiaries. These were functioning under irregular legal conditions, since the INSSBI now became a regulator of the EMPs instead of a direct provider. This was not regulated by legislation, and the attorney general’s office denounced it as a de facto implementation of reforms since no legislation was enacted and every change was made through executive institutional order (Ibid., 82-85). In 1995, the BI separated from the Fondo Nicaragüense de la Niñez y la Familia\(^{59}\) (FONIF) with the purpose of promoting and addressing programs from NGOs and civil society separated from the INSS; from this moment on, the INSS was no longer the INSSBI (Mesa-Lago, Santamaria and Lopez 1997, 17). The FONIF did not have the resources to implement all the programs from the BI, many had to be cut. The separation of the army pension in the same year and the Ministry of Interior\(^{60}\) in the next year eased the fiscal burden of the INSS and started preparing it for further and deeper reforms. One of the first studies for the privatization of the pension system was financed by USAID, elaborated by Price Waterhouse in 1992, and had as its principal objective the analysis of the feasibility of implementing privatization in the country (USAID 1992).

\(^{58}\) Medical Service Providers

\(^{59}\) Nicaraguan Fund for Family and Childhood

\(^{60}\) It includes members of the police force, fire departments and any civil administrative personal
The difference between the revolutionary process and the retrenchment in the 1990s was that is the first, policymakers were highly concerned about expanding the institution around the same six principles that the Somoza regime did and “operate[d] in a setting of great complexity and high uncertainty. As a consequences, they will often make mistakes. Thus institutions may not be functional even in a context of farsighted actors, because they do not operate as intended” (Skocpol and Pierson 2002, 14). This unintended functioning of the institution at a sub-optimal level, together with “a combination of economic changes, political shift to the right and rising costs associated with maturing welfare states …provoked growing calls for retrenchment” (Pierson 1996, 145). It must also be taken into account that this happened during a highly complex historical moment, in which Nicaragua was adapting to a neoliberal economy while still mourning the financial and human loss of the recent war. The government functioning under a new regime had to implement some new rules for development founded in the efficiency of the state through decentralization and privatization, thus minimizing and reorganizing the government’s sphere of action. The welfare state of the country was also affected and, according to Pierson, these retrenchment policies are fundamentally different from long phases of welfare expansion, since the political goals of policymakers changed and the political context is dramatically different (Pierson 1996, 240) Nicaragua was undergoing both of these situations. The main cause of pressures on the welfare state was globalization: the increase of commerce, the elimination of tariffs and lowering of transportations costs as well as the internationalization of production and the flow of international capital due to deregulation. High labor costs made countries uncompetitive thus keeping social policy spending levels as low as possible in order keep them from adding costs to labor leading to higher unemployment rates. Corporate profits
are prioritized by lowering taxes, which lowers the countries’ tax revenues and thus their expenditures. This also gives, capital more leverage to negotiate with countries through by the threat of leaving and taking the little revenue and employment they generate. These policies together with the free flow of capitals that limits the possibilities of small governments to control their own monetary policy stripped countries of the possibility of implementing traditional economic policy such as the control of interests rates and exchange rates. (Huber and Stephens 2001, Loc. 3196-3205)

By 1996, according to Navarro, only a year after all the reforms, several studies were appointed to reform the INSS (2003, 87). Policymakers were taking steps towards privatization of the INSS in Nicaragua. After the first set of radical retrenchment policies, a series of incremental cuts took place; this resulted in a reduction in the number of stakeholders that, together with the re-establishment of a resigned-pragmatic vision, might have had an effect on the low level of opposition to these slow-moving parametric changes towards less state involvement in the administration of the welfare system. The policy was very unstable during the first half of the 1990s, undergoing several evaluations and re-evaluations without taking the proper time for the first radical retrenchment to shed outcomes that could be evaluated in order to consider further retrenchment. Policymakers acted according to a neoliberal orientation with very little opposition from a politically-weakened FSLN and a very dependent civil society. The actors that could have had an influential impact are the National Workers Front (FNT), Public Sector Union (UNE), Health Workers Union (FETSALUD), Teachers Union (ANDEN), Federation of University Workers (FESITUN), Industrial and Manufacturing Services Union including Construction Worker and Free Trade Zones (CST-JBE). These groups could have
made a difference but were not taken into consideration and were limited to street protest because of their limited leverage and lack of cooperation among themselves.

There were several arguments in favor of privatization. As mentioned before, the evolution and enforcement of the six core principles had been very unsatisfactory in the latecomer-low group of countries. Mesa-Lago refers to a series of considerations that policymakers applied at the evaluation moment which led them to lean towards privatization in such vulnerable moments for change, like the one Nicaragua was undergoing. According to Mesa-Lago, in terms of universal coverage, reforms oriented to privatization would compromise the financial capability of a public system because contributions were perceived by the affiliate as a tax instead of a service; it was also argued that the general population would be more prone to partake in private insurance, because it would have more incentives since the allocation of resources would be done more effectively and efficiently (Mesa-Lago 2008, 7).

In terms of equal treatment in pensions, both public and private standardization of entitlement conditions had been achieved through formulas that estimate the benefits. In healthcare services, on the other hand, equality is not possible, since packages are sold according to the acquisition power of the insured (Ibid., 10). The principle of solidarity and income redistribution was criticized by promotors of private systems because of the lack of real solidarity in the public system due to low coverage, especially in countries like Nicaragua (Ibid., 11-12). According to Mesa-Lago, reformists promoted the change of the principle of solidarity to “a principle of equivalence that establishes a much tighter link between contributions and benefits to promote incentives for affiliation and compliance, and ensure equilibrium between revenue and expenditure (Titelman, Uthoff, and Jimenez 2000 as cited by Mesa-Lago 2008, 12)
Thus, inequalities under the private system would stay the same with the expectation of the public sector solving them. Private systems do not apply any kind of redistribution principle (Mesa-Lago 2008, 12). The assumption for the comprehensiveness and sufficiency of benefit principles was that the elimination of monopolies in insurance provision would improve it. The provision of a basic plan of health for low-income individuals, and the opportunity for a population with a higher income to supplement their coverage through higher premiums or co-payments were the private system strategy to achieve this (Ibid., 14). Among the changes that were promoted by privatization in terms of unity, state responsibility and social participation in its administration was the elimination of a state monopoly under the assumption that public administration “has led to excessive bureaucracy, inefficiency, and waste of resources thus generating high administrative costs” (Ibid., 16). Reformists promoted that the state regulate the process of service provision through private entities and finance the cost of the structural pension reforms in order to create a market-friendly environment that guarantees “minimum benefits … to the poor, higher-risk persons, and the insured who fail to meet the entitlement conditions.

Reformers strongly believe that a private system is more efficient than a public one because of competition, an important new goal of the reform” (Ibid., 17). The goals and reform assumption of financial sustainability had to be tied to the promotion of national saving and capital markets. The assumption was that there would be an increase in the number of affiliates and coverage and a creation of a capital market because of capital accumulation in pension funds that would later need to be invested in financial instruments. The implementation of reforms were the confrontation between the “social character of social security principles, reflecting the diverse interest of economists and international financial organization (World Bank, IMF, and IADB) on
the one hand, versus the concert of experts and international social security organizations (ILO, ISSA) on the other hand (See Mesa-Lago 1996)” (Ibid., 21).

Mesa-Lago’s evaluation of the INSS in 1996 identified several mistakes and/or inefficiencies in the administration of resources. In general terms, there was no relation between income and expenses per program, and the accounts were shown erroneously or were too vague. In terms of income, charges were made to companies that were not functioning any more or to employees that were not active at the moment; up to 42% of the income did not really exist or was simply unrecoverable, and expenses showed the same problem. The administration had its own account, and income came from revenues of financial instruments and other accounts that should have been applied to their own programs, making it hard to accurately calculate the balance. Investment was confusing and wrongly accounted for, and there was no identification of the kind of instrument used. An overvaluation of assets and reserves masked the deficit. Programs had no differentiated reserves, which resulted in using reserves indifferently to solve deficiencies of one program with reserves from another (Mesa-Lago, Santamaria and Lopez 1997, 60).

These changes were reducing the fiscal dependency of the INSS. This was first through radical retrenchment and later through incremental cuts that had the total or partial privatization of the system as their main objective. Privatization is not necessarily negative or a wrong path to take; in some cases, it may be necessary to face the social, economic, political and financial cost of changing the core principles of an institution. In the case of the INSS, the political cost was very affordable, since the main party of the opposition was debilitated. Even considering this, both the FSLN and PLC parties agreed on democracy as the appropriate political regime for the
country. The FSLN showed little trust in elections during the 1990s, as well as other institutions that formed the state. One explanation for this could be that the FSLN believed that these institutions were representatives of what they have historically rejected. The PLC showed more confidence in the institutions in general. The elites of both parties considered the constitution and other basic institutions to be fundamental for the development of democracy, which would bring the benefits of economic growth, redistribution and protection of individual rights and freedoms. These benefits were perceived to different degrees by the two different political parties, allowing for the identification of two ideals of democracy: social democracy on the left, with a highly redistributive element, and liberal democracy on the right, with an emphasis on the enhancement of individual rights and freedoms (Martí and Santiuste 2008, 95-102). Both the FSLN and the PLC constituents were probably more in favor of a democracy that defended individual rights than redistribution, thus representing little or no political cost in the short run for the privatization-promoting right wing. How the corporatist policies implemented in 1980s by the FSLN contrasted with the IMF-inspired neoliberalism has previously been touched upon.

Professor Martí argues that, in Nicaragua, as well as in other Central American countries, the retrenchment policies implemented by the state and rigidly conditioned by the IMF and WB, provoked a reduction in the policymakers’ alternatives and margins for negotiation and in the decision-making process. This massive deregulation was particularly difficult for countries coming out of a civil war, like Nicaragua (Ibid., 102-103).

Hacker enumerates the features of a policy that encourage path dependence. He argues that, to the extent that five conditions hold true, the possibilities for path dependence are greater. These conditions are: a) the policy creates a large scale organization with set-up costs; b) the policy directly or indirectly benefits large organized groups; c) the policy embodies long-lived
commitments; d) the policy creates interlocking networks with complementary institutions; and e) the environment in which the policy is formulated and implemented makes it harder to recognize undesired policy outcomes (Hacker 2002, 55). The INSS complies with each and every one of these conditions. Changing into a private system would have required paying the political, social, economic and financial costs. In 1998, the policymakers, within their own bounded reality, started promoting reforms towards privatization of the system. The Comisión para la Reforma de Pensiones en Nicaragua\textsuperscript{61} (CEPREN) was created under a ministerial resolution\textsuperscript{62}, overstepping the legislative branch, with the purpose of analyzing the situation and developing a solution (Navarro 2003, 91-92). Any solution that they would find must have been, at least partially, deficient because of the accounting problems mentioned by Mesa-Lago in his analysis. The CEPREN concluded that the current system was not sustainable in the short, medium or long term, therefore a profound structural reform was needed (Ibid., 92). The CEPREN recommend the transition to an individual capitalization pension system managed by Administradores de Fondos de Pensiones\textsuperscript{63} (AFPs). It would be compulsory for every affiliate of the previous system. Funds would be privately managed and state-regulated by a new institution, the Superintendencia de Fondo de Pensiones or Pension Funds Superintendency (PFS). The funds would be gathered from workers’ savings, a bonus to compensate the currency devaluation and the profit from investments made in capital markets and later converted into an annuity. AFPs would be incorporated under Nicaraguan law, function under the Nicaraguan commercial code\textsuperscript{64} and be

\begin{footnotes}
\item[61] committee for Pension Reform in Nicaragua
\item[62] Resolution No 014-98
\item[63] Pension Funds Administrators
\item[64] The Nicaraguan Commerce Code is now in 2014 being updated from the 1930 original
\end{footnotes}
regulated by the PFS (Ibid., 92-98). Every study made by the government or not was disregarded. The only study that was applied almost to the letter was the USAID “Factibilidad de una Industria Privada de Pensiones en Nicaragua,” written by International Links, Ltd, Price Waterhouse’s subcontractor under the Financial Sector Development Project contract (USAID 1992).

The World Bank considerations at the moment were that:

Nicaragua is in the midst of reforming its social security system. This system is based on a defined benefit pay-as-you-go (PAYG) scheme that is not longer viable, given its low payroll taxes, overly generous benefits, short averaging period and high rates of evasion. When combined with the institutional and administrative weaknesses of INSS, the result is, according to the simulations, a cash deficit in the system since 1997 and the depletion of its reserves in the immediate future. Therefore, unless the structure of the system becomes sustainable and more equitable in the long run, benefits will have to be drastically cut or suspended and/or, contribution rates increased considerably (World Bank 2000, vii)

The financial cost of the transition was by no means sustainable for the Nicaraguan government by itself. The transition was financed by a US$ 15 million WB loan, mainly for consultancy (Navarro 2006, 3). In macroeconomic terms, Nicaragua was not prepared for the implementation of a private system; nevertheless, the WB considered that, even so,

A major caveat in implementing a mandatory, fully funded, defined contribution system based on individual capitalization accounts is that financial markets must be developed sufficiently to manage the funds safely and with diversified investment instruments (James, 1996). In Nicaragua, financial markets are not well developed and few financial instruments are available. This, however, does not mean Nicaragua should postpone the implementation of its reform; on the contrary, pension reform and financial market reform should go hand in hand and the discussion of the financial requisites for pension reform (Annex II) incorporated into the broader analysis of overall financial sector development. (World Bank 2000, 22)

As a result of these monumental efforts, the Nicaraguan policymakers were determined to implement privatization and abruptly interrupt the system’s historical dependency from its core

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65 Detailed charts of the differences between systems in Annexes
principles by assuming every affordable cost and financing those that were not affordable.

Reforms were passed by congress in 2000 and 2001 with a yearly budget for implementation of US$ 10 million (Navarro 2006, 3). Consecutive regulation was enacted in 2002, 2003 and 2004. However, between 2000 and 2001, Nicaragua’s greatest financial crises took place. The government issued bonds to bail out the banks “BANPRO and BANCENTRO [two of the major banks in the country]… bought out two of the failed banks in 2000 and were issued the bonds ostensibly to cover the bad debts of the banks they absorbed” (Envío 2008). These bonds were valued at around US$ 21 million in 2008 (Ibid). In spite of all the regulatory institutions in place to supervise the implementation of new social security legislation, its implementation never actually began (Antón 2007, 41), giving policymakers and international financial institutions time and space to re-evaluate the cost and actual feasibility of implementing the new system. According to Antón, the main reason for not implementing the privatization of the system was the financial infeasibility of paying out the pensioners that were already participating in the existing program (Ibid., 42). In November, 2005, congress passed Law 568 to abolish Law 340, “Ley del Sistema de Ahorro de Pensiones,”66 and Law 388, “Ley Organica de Superintendencia de Pensiones,”67 the pillars of Nicaraguan social security privatization. The arguments in favor of Law 568 were, first, that the Nicaraguan constitution establishes that social security is a right for every Nicaraguan and this must be provided by family, society and the state. Second was the argument that it is a state responsibility and a societal right to decide the way to implement a social security system that guarantees the equitable implementation of these rights, as well as the

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66 Law for the Pensions Saving System
67 Organic law of Pensions Superintendency
financial feasibility within the economic development of the country. Third was that according to studies made by the government’s economic assessors and international financial organizations, the macroeconomic stability of the country was at risk due to the unsustainable debt that the implementation of such system could create. The financing alternatives were not sufficient and created social inequality by forcing the general population to pay a fiscal burden created by the transition costs of a system that would only benefit the formal labor sector of the country (Law 568). The INSS’s Path dependency was, at this point, self-evident. The cancelation of the implementation of the private system is proof of how the Nicaraguan system could not break its dependency even after all the effort. This is an excellent example of failed departure from the path. There were all the intentions for implementation, but it was prevented by an international trend promoted by international organizations with the objective of influencing the INSS institutionalization through a non-incremental aspect of policy change. The international organizations played the role of accelerators and creators of standards for the communication between governments. Policy diffusion works under the logic that governments compete with and learn and from one another, diffusion is not clustering of polices and it is not always beneficial, in Nicaragua the conclusion, after all the evaluation, was that it was not beneficial. According to Shipan and Volden “How external diffusion pressures affect policy choices depends on the capacity of policy makers, political circumstances surrounding policy change, and the characteristics of the policies themselves” (2012, 6)
4.4 INSS Latest Reforms

The failed structural reform of the INSS was indicative of the institution’s high dependency to its path and its core principles. Even when the policymakers promoted the evaluation of new alternatives and re-evaluation of the policy that was being implemented, thus exposing the policy and the implementing institution to a constant, high vulnerability to change, the financial and economic costs were too high considering the Nicaraguan reality. Perhaps, if Nicaragua had possessed a mature financial market, its internal debt had not increased due to bank bailouts, and macroeconomic development had been more stable, the implementation of a private system might have been feasible through international loans. If dependency had been less strong, another critical juncture may have presented itself in 2001. The failed implementation of the process that resulted from the incremental changes made towards privatization eliminated the possibility of the creation of a critical juncture. The system kept functioning under its same core principles, and any legislative change that represented a structural reform was not ultimately implemented. The only variations that were now possible and proven to be viable were parametric adjustments to improve the performance of each principle.

According to Martí, the political left in Central America has undergone considerable changes in recent years. The most interesting of these are the relationship of the left with the status quo and their moderation towards market regulation. In Nicaragua, this is noticeable with the FSLN’s continuation of the country’s economic policy, which had been previously implemented by the opposition (Martí and Santiuste 2008, 107). However, there are several questions that Martí poses that are important to consider in order to understand the policymakers’ and influential groups’ interaction in the case of the latest reforms in the INSS:
If the elites agree on a democratic political game, accept institutions and agree on the policy to be implemented, how is it possible that they hold such an evident ideological distance among themselves? Is it just so that they can differentiate among themselves? Or is it so that the left can hang on to its revolutionary icons and symbols and so that the right can carry on admiring the North American government? Or is it a strategy to mobilise voters at certain times? Perhaps it is the only way of mobilising a progressively apathetic electorate and creating conflicts to keep public debate alive (Ibid.).

The INSS is certainly less likely to undergo a structural reform toward privatization under the FSLN administration for two reasons. First, the elimination or substitution of the core principles of solidarity and redistribution could represent too high of a political cost. Second, the FSLN now abides by the recommendations of the international financial institutions and the democratic game that allows it to interact within an agreed-upon system with the opposition, the same that considered implementation of a private system to be unfeasible for the country. According to Martí, in terms of stability, “it is difficult to predict what will be the result in the long term since, although the elites agree in accepting (and benefiting from) democratic institutions, most citizens have not obtained any substantial benefits from them” (Ibid), meaning that the legitimization of any drastic change may be difficult. Therefore, policymakers might not be willing to take chances when it comes to the drastic modification of the INSS.

By 2007, the INSS was in the implementation phase of the policy cycle, with a low possibility of change, especially in the wake of the failed attempt at reform. Nevertheless, a law-ordered and programmed external actuarial evaluation had to be conducted in 2008 and 2009, as well as a study for the strengthening of the pension system. The result of these evaluations did not come as a surprise. In the end, the reforms were not implemented because of the financial and economic cost, but the necessity of improving the system still existed. The INSS leaders decided to publish a document in August, 2010 summarizing a set of actuarial proposals, thus...
pushing for a change to the evaluation phase in the policy cycle and making the policy and the institution more vulnerable to change. Nevertheless, these changes were already bound to be parametrical because of the aforementioned limitation of the FSLN and the institution’s recent history, which proved to be too dependent to be structurally changed, at least at this point in time.

According to the INSS publication “Propuesta de fortalecimiento del sistema de pensiones del Instituto Nicaraguense de Seguridad Social,” the INSS functions as a PAYGO system based in the principle of solidarity. This means that, as a minimum requisite to receive a pension, one has to be sixty years old and have contributed for at least fifteen years, not necessarily consecutively. The payments of pensions can last as long as thirty-five years, either for a pensioner or survivor of a pensioner. The Chamorro administration abolished Article 56 of the regulatory law, which provided inactive participants who are already 60 years old and have contributed at least five years with a reduced pension equivalent to the minimum salary. The minimum paid pensions are based on the industrial minimum salary and are adjusted approximately 5% annually, while the maximum pension is US$ 1,500, as is the maximum contributory salary. Those who earn more than US$ 1,500 per month are charged based on that maximum amount. Considering these characteristics, the institution will face a serious financial crisis in the period of 2017-2021 (INSS 2010, 2-3).

The actuarial situation of the IVM pension system showed that the IVM branch, under current conditions, is not feasible in the long run; its sustainability would require a significant rise in contribution from 10% of one’s salary to 27.8%. There are around 50,000 beneficiaries that are close to retirement, and 8,000 that can already claim their retirement but have not.

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68 Proposal for the Strengthening of the INSS
Together, these will represent an increase in pension payment equivalent to 11% of the current payments. This study suggests that the IVM system is only solvent until 2017. The system is extremely generous. Financially, the institution could only pay up to 3.2 years of pension with its financial assets and is only solvent in the short term (Ibid., 4-5). As a result of this study, the INSS promoted the discussion of parametrically reforming the system to improve its solvency. The proposed alternatives are summarized in the following table.

Table 3. Result of Alternative Policy Options to Strengthen the Nicaraguan Pension System

The INSS proposed a combination of all these alternatives because of the urgency of achieving an adjustment. The institution proposed an increase of the maximum contributory salaries to expand the number of affiliates to enlarge the contributions to the system, allowing a better redistribution of wealth, while at the same time increasing the number of contributory years to 30 instead of 15 but providing alternatives for those who do not participate in the formal sector, allowing them to receive a proportional pension. It would be necessary to modify the formula with an annual accumulation of 1%, a basic factor of 70%, contributions of 30% and the average salary as a reference. With these changes, lower-income affiliates could have a 100% replacement rate and the highest salary would have a replacement of up to a minimum of 54.5%. It would also be necessary to gradually increase the retirement age to 65 years while increasing the participation of new workers in the system by at least 25%, with a gradual increase in the contribution rate from 10% to 13%. Finally, the creation of an alternative, complementary system for workers who are able to save an additional amount in an INSS-managed individual account.

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69 Source: “Propuesta de fortalecimiento del sistema de pensiones del Instituto Nicaragüense de Seguridad Social”
This account would be set up to earn interest and benefit at the same interest rate as the rest of the INSS’s investments. At the time of retirement, the saved amount would be returned in monthly payments, the remainder upon death would be given in its totality to the survivor of the affiliates (Ibid. 11-13).

The evaluation process requires the effectiveness, efficiency and relevance of the initial problem to be determined. Once the debate began with the INSS’s initiative to publish the proposal for strengthening the institution at the end 2010, three main tendencies could be, for the first time, easily identified. This was perhaps because of the strengthening of the institutions that represented them. The first sector was the government, which was concerned about the macro stability of the country and the INSS. This interest could possibly be explained by the government’s interest in fulfilling the population’s expectations of economic growth in order to avoid a political crisis provoked by the confrontation of extreme political positions between the ruling party and the opposition (Martí and Santiuste 2008, 107). Second, the private sector represented by COSEP, was generally in favor of the long-term sustainability of the INSS; nevertheless, it had to consider the financial consequences of implementing the government’s suggested policy changes. Third, the unions who, as representatives of formal sector workers, were defending their benefits, especially retirement minimums, age requirements, and years of participation in the system. The public discussion, initiated by the government, empowered other sectors of the population to participate.

By 2010, the Nicaraguan pension system was a PAYGO, income-based defined benefit scheme. The retirement age for both men and women is 60 if they had contributed at least 750 weeks to the system except for those who enrolled after 45 years old and contributed for at least
half the time from enrollment to retirement, there is no early retirement alternative in the Nicaraguan system. Retirement can be voluntarily postponed until age 65 as long as they continue contributing to the system, their pensions would increase by 1% every 50 weeks of contributions after the age of 60 to a maximum of 5%. The maximum earning for the calculation of benefits is NIO 37,518.00, pensions are not taxed and pensioners don pay social contributions.

The first two are the Integrated and the IVM-RP. There are two ways of participating in the system trough formal labor and a voluntary participation for the self-employed population. The Integrated option insure workers against disability, old age and death, work related accidents or illnesses, as well as health (sickness and maternity). The IVM-RP does not cover health (sickness and maternity) and it is designed for the population where the INSS cannot offer health care services (OECD/IDB/The World Bank 2014)

**Integrated System**

<table>
<thead>
<tr>
<th>Category/Source of financing</th>
<th>Employer</th>
<th>Employee</th>
<th>State</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability, old age and survivors</td>
<td>7%</td>
<td>4%</td>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>Workmen’s compensation</td>
<td>1.5%</td>
<td></td>
<td></td>
<td>1.5%</td>
</tr>
<tr>
<td>Sickness/Maternity</td>
<td>6%</td>
<td>2.25%</td>
<td>0.25%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Victims of war</td>
<td>1.5%</td>
<td></td>
<td></td>
<td>1.5%</td>
</tr>
<tr>
<td>Total</td>
<td>16%</td>
<td>6.25%</td>
<td>0.25%</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

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70 OECD/IDB/The World Bank (2014)
The voluntary form of participation is either 10% of the declared income for old age, disability and dependents benefits or 18.25% of the declared income for old age, disability survivors and dependents benefits, health and maternity benefits, and family allowances. There are welfare pensions provided to victims of war and others, as well as, public programs to protect the indigents, elderly and low-income population.

<table>
<thead>
<tr>
<th>Category/Source of financing</th>
<th>Employer</th>
<th>Employee</th>
<th>State</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disability, old age and survivors</td>
<td>7%</td>
<td>4%</td>
<td></td>
<td>11%</td>
</tr>
<tr>
<td>Workmen’s compensation</td>
<td>1.5%</td>
<td></td>
<td></td>
<td>1.5%</td>
</tr>
<tr>
<td>Victims of war</td>
<td>1.5%</td>
<td>0.25%</td>
<td></td>
<td>1.75%</td>
</tr>
<tr>
<td>Total</td>
<td>10%</td>
<td>4.25%</td>
<td>0%</td>
<td>14.25%</td>
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</table>

OECD[IDB/The World Bank (2014)
The benefit for old age pension is 40% of the average earnings plus 1.365% for each additional 50 weeks of contributions exceeding 150 weeks, if the beneficiary earning were less than twice the minimum wage the calculation would be based on 45% of the average earning and 1.59% for each additional 50 weeks after the first 150. The maximum pension is 80% of the average earning or 100% if the average salary of the beneficiary is lower that two times the minimum wage. The average is calculated from the last 250 weeks of contribution or the ones before, whichever is higher, multiplied by 4.33. These pensions are paid month by month with an additional payment in December, the pensions are pegged to the dollar and adjusted every November 30. Those pensions that are less than the manufacturing minimum wage are adjusted by the Commission on the Minimum Wage and depending on the sustainability of the pension system.

In 2012, “La Unión Nacional del Adulto Mayor” (UNDAM), after 5 years of appealing to the FSLN governments to return the benefits of a reduced pension (granted by the reforms in the 1980s and taken away during the retrenchment in 1990s), installed a permanent protest in front of the INSS building. The support of the group called #OcupaINSS, a movement that was perceived by the government as representative of the opposition and not truly in support of the elderly, escalated the UNDAM protest to confrontation. The government was later able to disperse the group and, as proposed in 2010, reinstated the reduced pension in July of 2013. This change only increased the expenses of the institution without giving an income alternative to support it. By complying with the demands the government added pressure to the INSS’s sustainability indexes, making the institution more vulnerable to financial distress.

72 National Association for the Elderlies
The need to modify the institution was now imminent (La Prensa September 26, 2013). The debate about the INSS reforms intensified during the last trimester of 2013. Government advisors pressured the three main participants in the public debate to compromise in order to reach an agreement. The policy rapidly changed into a phase of formulation and adoption by using a version of the government’s first proposal. The stakeholders started an accelerated process of defining a suitable and acceptable solution, juggling the few available resources they had. COSEP opposed the reforms as they were proposed by voting against in the INSS board of directors and expressed their discomfort, as well as their position on parametrical reforms. They felt that, beyond buying time through the change of parameters, the INSS needed the help of some structural changes in the Nicaraguan economy in order to be sustainable in the long run (La Prensa January 14, 2014). It is important to highlight that the private sector did not push for a structural change in the INSS but in the Nicaraguan economy. Reforms were passed through Executive Order 39-2013 to modify the previous Executive Order 975 for the regulation of the social security law and were published in the official legal journal on December 20, 2013 (La Gaceta 2013, 242).

The changes went into effect January 1st, 2014 and, were in term of the contribution made to finance the system; the maximum earning for calculation of benefits; the calculation of the benefits and the dates and, methods on how to update the value of the pensions. The value of the pensions would still be pegged to the dollar exchange rate as the 30 of November of each year. Those pensions for which the initial calculation was less than or equal to two times the minimum wage would be adjusted in July of each year. This adjustment would be made by

73 Comparative table in Annexes
adding the percentage increase in the average pension of all system beneficiaries over the last
twelve months to the current pension amount. The maximum earning for the calculation of
benefits would be NIO 54,964.00 representing an increase of 46.5% from the previous maximum
and it will be followed by an increasing in 2015 of NIO 72,410.00 that represents an increase of
93% before reforms and a 31.7% from 2014. Beginning in 2016, every January 1st, the
institutions will adjust the maximum according to the variation on the average wage of the
beneficiaries. The IVM will be calculated as before, by multiplying the monthly wage by a
replacement rate. The replacement rate is equal to the sum of a basic factor plus an annual factor
which varies according to the condition of the beneficiary. In the case the beneficiary income
was less than or equal to two times the minimum wage the basic factor will be 45% and the
annual factor will be 1.591% for every 52 weeks after the first 150 weeks. Those who opt to
continue working after their retirement age and have contributed 15 years or more to the system,
will increase their pension by 1% up to a maximum of 5% and having a maximum replacement
rate of 100%. Those who’s income was higher than two time the minimum wage will have a
basic factor of 37% and an annual factor of 1.15% for every 52 weeks after the first 150 weeks
and those who diced to retire late will have the same benefits as the ones in the previous group,
the maximum replacement rate will be 80%. In both cases the pension will be paid monthly plus
an additional payment in December, pensioners will also receive an extra 15% for disable
spouse, 10% for each child under 15 or direct relative under their care older than 60 years old.
The contributions to the systems will change as reflected in the next tables.
The implementation of these reforms lowers the possibility of future changes to the policy. This new moment of stability caused by a parametrical/peripheral adjustment may mean that further discussion of the problem is not likely to happen until influential groups establish the necessity for another change, thus provoking a change in the policy cycle phase. These changes, would be bounded by the institution’s path.

74 Elaborated from data taken from “La Gaceta 2013, 242”

75 Elaborated from data taken from “La Gaceta 2013, 242”
4.5 Summary

The INSS’s first critical juncture, in which the Nicaraguan policymakers collectively established new rules for the regulation of a welfare system, was the result of increasing returns that started with the ratification of the Central American Peace Accords in Washington D.C. The inaction of the first law locked the system in, making it progressively harder to change from that point forward due to the increasing social, political, economic and financial costs. The six core principles of the social security system were reinforced during the revolution. In such an ever-changing environment and the upheaval to which the country was subject, it is difficult to conceive that such an ideologically-different regime would reinforce the principles of an institution that was created during the dictatorship, especially one as important as the INSS.

In the 1990s, during a period of economic stress for Latin American countries, which was considerably harder for small economies coming out of civil wars like Nicaragua, neoliberal retrenchment policies found a fertile environment in which to be implemented. In the case of social security systems, the Chilean system that had gained popularity in Latin America since the 1980s gained popularity in the Nicaraguan context, and its feasibility studies for implementation were promoted by international financial organizations and cooperation agencies. These two factors combined, the Nicaraguan context and the promotion of retrenchment in social security systems in Latin America, resulted in a drastic retrenchment of the INSS and promotion of a radical change of system that would likely require the transformation or elimination of more than one of the six principles under which the INSS functioned. In order to make this possible, one had to go against the path that had been increasingly reinforced in Nicaragua; high social, economic, financial and political costs. Every effort was made and support provided to make this
transition possible. Dependency could have been drastically changed by the agency of influential
groups and their decision-making process in different stages of the policy cycle within a very
unpredictable environment. Nevertheless, the dynamic nature of a path dependent process,
combined with the upheaval and fragility of the Nicaraguan context, especially in the financial
sector (which was fundamental for the change of system), at that point in time made the
transition costs too high to afford politically, financially, economically and socially. The
unaffordable nature of the change restricted the implementation of the privatization of the
system, proving a strong path dependency. As additional evidence of this dependent process,
there is the parametric change that the INSS recently experienced in 2014.
Conclusions and the INSS’s Future Prospects

In this thesis I explained the little-mentioned historical moment and reasoning behind the origins of the INSS. Later I focused on explaining, through path-dependency, the reason the institution developed in the way it did. The main question is, why is the INSS path dependent in a context where institutions change very often due to constant upheaval, and in which the only thing that withstands is the maintenance of the status quo through monopolized powers and the arbitrary manipulation of institutions?

To make proper use of path dependency, I use an extensive definition of public policy that accounts for the importance of the political actors and the way they help to shape in a bounded manner the change in such a dynamic process. The public policy cycle concept is used as a framework to represent the continuous flow of decisions and procedures during which alterations to a policy are more likely to happen. The policy’s vulnerability to change depends upon the phase of the cycle in which the policy finds itself, which at the same time depends on the agency of the political actors, who are bounded by their own dependency. These changes between policy phase, triggered by the agency of the political actors, that lead to critical junctures are the criteria to determine the existence of path-dependency. These actions and steps help to build the sequence of contingent decisions in the path. It is not only about how important or necessary the chance in the policy is, but how susceptible it is to change given the pressure agents are exerting upon it.

A path-dependent process is a deeply dynamic one, very prevalent in political life, that has to adapt in a particular setting of policies and institutions to different actors. To determine if the institution is path dependent, one must analyze the five conditions mentioned by Hacker: a)
the policy creates a large scale organization with set-up costs; b) the policy directly or indirectly benefits large organized groups; c) the policy embodies long-lived commitments; d) the policy creates interlocking networks with complementary institutions; and e) the environment in which the policy is formulated and implemented makes it harder to recognize undesired policy outcomes (2002, 52).

Chapter three, explains the Nicaraguan history with the interest to identify more easily, the political culture, the tremendous upheaval, the arbitrary decision making of political leaders to better identify critical junctures of the INSS and the evolution and reinforcement mechanisms. There are three critical junctures in Nicaraguan political development, first, when the liberal reforms were interrupted by a semi-colonial system that reinforced the post-colonial way of government and supported the development of the military dictatorship; the second, was the incorporation of labor associations into politics as a new pressure group, and, the final critical juncture identified in this thesis is the incorporation of democracy that even if it did not enhance the socioeconomic conditions or even the levels of political participation, it did integrate protection from arbitrary state abuse and governmental accountability, at least to certain level that, can only increase with the strengthening of democratic principles.

The political junctures identified in Nicaraguan history are correlated to the critical junctures of the INSS, these are discussed in chapter four. The INSS’s first juncture is when the welfare system is established in 1955 as a result of increasing returns that started in 1922 during the Central American Peace Accords in Washington, D.C. The creation of the law, virtually locked the system in and reinforcement mechanisms such an increasing number of stakeholders, large set-up costs, long term commitments with the working class. In the decade of 1980s, during
a tremendous upheaval that included, international embargo, civil war with foreign intervention, change of economic regime to a semi-controlled economy and implementation of a different political system that included a large scale reorganizations of society, one would have expected that an institutions as important as the social security, founded during the dictatorship, would have also change according to the needs of the new elites. Nevertheless, the six core principles of; universal coverage; equal treatment; solidarity; comprehensiveness sufficiency, and quality of the benefits; unity, state responsibility, and social participation in the administration; and financial sustainability were not only reinforced but expanded, buttressing the institutions’ path dependency. I conclude this was due to the origins of the INSS as an anti-communist instrument, for which it need to have highly socialist and populist standards. The institution was still subject to arbitrariness, this time, to enlarge the INSS’s capacity and its machinery. It was arbitrary since it did not take into consideration the long term financial and economic impact of such expansion.

In 1990 the general retrenchment of social policies due to budgetary restrictions also affected the INSS. The institution was reduced in structure before 1980, later on, privatization was proposed, promoted and almost implemented. In order to make privatization possible the INSS had to confront a high financial cost to improve the financial system and secure future pensions, high economic cost since the economy was not stable enough and a high social and political cost by braking the social contract that was signed with millions of Nicaraguans. In the end, the implementation of privatization was canceled substantiating the INSS’s path dependency. The last parametrical changes in the law are merely reinforcing the nature of the institution into the same path.
Social security institutions are generally good examples of path dependent entities. These institutions have large numbers of stakeholders that transcend generational boundaries, and they directly benefit workers, who are organized and represented by unions in Nicaragua. The long-term commitments that the INSS provides with the help of its inter-institutional relationships with the health, finance and public credit ministries, as well as its coordination with unions and the private sector, make the formulation of the policy very complex. This can make it difficult to identify unintended outcomes during the implementation phase. Nevertheless, the development of these institutions’ dependency requires a certain level of stability. Nicaragua’s history has been, for the most part, a good example of the implementation of arbitrary decisions made under authoritarian regimes, limiting political stability. Nicaragua’s small and highly dependent economy make it subject to market fluctuations. This requires a precise and strong implementation of economic policy, which is especially hard to accomplish if arbitrary decisions are biased to benefit economic elites. Constant civil war, political conflict and revolution made the implementation of any policy subject to these instabilities.

Institutions in Nicaragua were subject to changes that were not so much the result of historical consistency or dependency as they were of the arbitrary needs of the elites to achieve their objectives. The only historical moment that was able to pragmatically and positively implement public policy was the Sandinista revolution of the 1980s. This was a period during which most of the institutions in the country were changed drastically. However, these changes were made taking the Nicaraguan historical context into consideration. Considering that Nicaragua was a state that had just gone through a high level of institutionalization during the dictatorship, most of the institutions reflected the needs and wishes of the status quo to which the
revolution was opposed. The main reason why the INSS’s core principles continued to be reinforced during this period was the fact that the dictatorship only implemented this policy as an anti-communism policy and to achieve the support of the small but organized labor sector. The Sandinista revolution financially and institutionally expanded the INSS, deepening and strengthening the institution’s core principles to unprecedented levels. These changes led to several unintended results, such as financial instability of the institution and political vulnerability. During the Chamorro and Aleman administrations, the implementation of retrenchment policies was more unavoidable than it was necessary. The INSS was subject to radical pragmatic parametrical changes that retrenched the INSS’s ability to implement its policy. The objectives of this retrenchment were, nevertheless, accompanied by a political change towards the privatization of the institution; therefore, several steps were taken to calculate the costs of the change.

Pension policy, for instance, is a critical issue for both developing and developed countries. The government of Nicaragua was addressing this situation and facing short-term social, political, economic and financial pressures in order to change the system to what they believed to be a better solution for the Nicaraguan reality. In the end, even with all the effort made through local and international agency, the costs of changing the system to one that required the modification or elimination of more than one of the INSS’s core principles was too high for Nicaragua’s economy to bear. Any policy and/or institution that is subject to arbitrary changes will never achieve “the best of its many possibles equilibriums” (Arthur); for this to occur, it is necessary to take into account the contextual historical and political implications that
create positive feedbacks and lead to a critical juncture in which policymakers, limited by their own political constrains, direct the institutions within its boundaries.

One of the possible explanations for why the INSS has not changed throughout time must be that the institution has always been looked upon by the upper-middle class and wealthy Nicaraguans as an instrument of charity, similar to the phenomenon explained by Pérez-Baltodano when he refers to the relationship between target groups and civil society leaders, “who were trying to eliminate poverty out of moral obligation rather than necessity” (2008, 720-724). This is hardly the result of years upon years of the subjugation of society to the burden of resigned-pragmatism that limited influential groups in Nicaragua to act in defense of their own destiny. Perhaps, it is because they do not see themselves as owners of it, or because those who have the decision-making power in the policy process are not exposed to sufficient feedback about Nicaraguan needs. The elites and elite-adjacent groups have enough possibilities for self-provision that they possess the freedom to choose whether or not to participate in this social contract based on the six conventional principles of social security. This has allowed them to bring up ideas of total or partial privatization of the system and, in this way, legalize the factual detachment that they have from social participation. Nicaraguan reality has proved the implementation of that idea to be impossible. This does not mean, however, that a state-based alternative, such as tax exemption for health and retirement accounts, cannot be implemented as an added benefit, justified under the right to satisfy the demand for a better retirement for those who can afford to pay for it privately.

A general conclusion reached in this work is that it is possible to narrow the alternatives that an institution or a system has for change. For this, one must consider an (multi-level)
analysis of path dependency that includes: 1) the institution’s own dependency, considering it as both a dependent and independent variable in the analysis; and 2) the path dependency of policymakers to understand the political alternatives they have. These two must take into consideration both the historical and political context in which the system or institution develops. The first allows us to define the degree or factor of resistance to change, one way or another, that policymakers will have to confront inside the institution and from direct or indirect stakeholders. The second defines the challenges that policymakers will confront with their constituents if they decide to change the path of the policy. This determines if they have the political power or possibility to promote a change of stage in the policy cycle to make the institution more or less vulnerable to change in order to later alter it. A third scenario that is not considered in this study is the strength of constituents to promote a change of stage in the policy cycle.

Knowing all this context, the political actor's boundaries and the institution's dependency development, could give advantage to influential actors or groups to push the policy into a vulnerable phase in the policy cycle to later steer its development towards, at that time, its considered more appropriate. This implies that, those influential actors or groups with the knowledge of the institution’s dependency, its origins, the mechanisms in place to make a proper change of phase in the policy cycle could use this advantage, by knowing the precise moment, to pressure change towards its interests, personal, collective or both.
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## Annexes

<table>
<thead>
<tr>
<th>Year</th>
<th>Covered Risk</th>
<th>Covered Population</th>
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</thead>
<tbody>
<tr>
<td>1930</td>
<td>Retirement System</td>
<td>Teachers</td>
</tr>
<tr>
<td>1940</td>
<td>IVM, IVM plus Savings</td>
<td>Railway and banking system employees</td>
</tr>
<tr>
<td>1949</td>
<td>IVM</td>
<td>National Guard</td>
</tr>
<tr>
<td>1950</td>
<td>The constitution orders to create the INSS to cover sickness IV and Unemployment</td>
<td>Public and private sector employees</td>
</tr>
<tr>
<td>1955</td>
<td>The INSS law its enacted to protect against EM, IVM and RP</td>
<td>Every salaried worker</td>
</tr>
<tr>
<td>1956</td>
<td>INSS regulation its enacted</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>INSS starts functioning as a compulsory regime</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>IVM and RP</td>
<td>State and autonomous institutions in urban Managua</td>
</tr>
<tr>
<td>1958</td>
<td>RP</td>
<td>Application of RP to people covered by IVM and EM</td>
</tr>
<tr>
<td>1959</td>
<td>EM, IVM, RP</td>
<td>State and autonomous institutions in urban Managua</td>
</tr>
<tr>
<td>1963</td>
<td>EM, IVM, RP</td>
<td>Workers of the urban and suburban Managua</td>
</tr>
<tr>
<td>1965</td>
<td>EM, IVM, RP</td>
<td>Workers of Tipitapa and rural areas around it</td>
</tr>
<tr>
<td>1965</td>
<td>IVM and RP</td>
<td>Bank workers in the country</td>
</tr>
<tr>
<td>1965</td>
<td>E</td>
<td>Extension of medical attention benefits for worker’s children between the ages of 6 months and 2 years old</td>
</tr>
<tr>
<td>1966</td>
<td>IVM</td>
<td>State and autonomous institutions in all Nicaragua</td>
</tr>
<tr>
<td>1967</td>
<td>EM, IVM, RP</td>
<td>Miners</td>
</tr>
<tr>
<td>1967</td>
<td>RP</td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>EM, IVM, RP</td>
<td>Workers from Leon are added</td>
</tr>
<tr>
<td>1972</td>
<td>EM, IVM, RP</td>
<td>Workers from Chinandega, El Viejo and Matagalpa</td>
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<tr>
<td>1979</td>
<td>Creation of the SNUS</td>
<td>All insured and uninsured population</td>
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<tr>
<td>1979-1982</td>
<td>Enacting of laws and decrees to give IVM rights without contribution and increasing of benefits</td>
<td>War victims and their family members, uninsured miners, participants of the literacy campaign, popular militias, revolutionary watchers, circus workers older than 60 years old, popular education workers, fighter of the agricultural production, defenders of the motherland, war orphans, grace pensions</td>
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<tr>
<td>1981</td>
<td>EM, IVM, RP</td>
<td>Integration to INSS of the railway, central bank workers and teachers</td>
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<td>1982</td>
<td>The INSS becomes the INSSBI</td>
<td></td>
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<tr>
<td>1984</td>
<td>IVM</td>
<td>Temporal permanent campesinos</td>
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<tr>
<td>1995</td>
<td>INSSBI becomes INSS again and the programs are transferred to the Fondo Nicaragüense de la Niñez y la Familia (FONIF)</td>
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<td>1995</td>
<td>EM, IVM, RP</td>
<td>The army pensions got separated from the INSS</td>
</tr>
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<td>1996</td>
<td>EM, IVM, RP</td>
<td>The ministry of the interior got separated from INSS</td>
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<td>2000</td>
<td>IVM</td>
<td>The law for the saving system for pensions is approved</td>
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Table 1-1

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<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
<th>Economically Active Population</th>
<th>Coverage of the EAP (%)</th>
<th>Coverage of the Population (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>1,461,000</td>
<td>440,643</td>
<td>6.20%</td>
<td>2.70%</td>
</tr>
<tr>
<td>1965</td>
<td>1,629,000</td>
<td>501,583</td>
<td>9.50%</td>
<td>4.50%</td>
</tr>
<tr>
<td>1975</td>
<td>2,155,000</td>
<td>542,880</td>
<td>22.70%</td>
<td>8.60%</td>
</tr>
<tr>
<td>1980</td>
<td>2,524,464</td>
<td>872,600</td>
<td>16.80%</td>
<td>19.00%</td>
</tr>
<tr>
<td>1985</td>
<td>2,976,556</td>
<td>980,028</td>
<td>29.60%</td>
<td>23.10%</td>
</tr>
<tr>
<td>1990</td>
<td>3,510,560</td>
<td>1,207,311</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>4,139,486</td>
<td>1,458,995</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>