A Program for Economic Prosperity in Nicaragua*

Introduction

Nicaragua is experiencing serious economic problems:

1. Severe inflation.

2. High unemployment.

3. Substantial black market activity.

4. A capital city devastated by earthquake and in need of rebuilding.

This report offers a package of economic measures that would relieve these problems. The package contains four components:

1. Tax reform: replace other taxes with a tax on land values.

2. Currency reform: adopt monetary rules that will give the Nicaraguan currency a predictable, stable value.

3. Removal of restrictions on trade.

4. Special measures designed to promote the redevelopment of Managua.

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Nicaragua's problems are the problems of many other countries; the measures proposed to relieve them could be proposed for any number of other countries as well. The problems are interconnected, and so are the proposed measures. Inflation is caused by excessive growth of the money supply. This is induced by a perception that the government needs more revenue than is available from sources other than expansion of the money supply. Thus the inflation cannot be stopped unless the government's need for money can be met in some other way. Meanwhile, the high rates of inflation make Nicaraguan

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*This report was prepared by Nicolaus Tideman, Professor of Economics at Virginia Polytechnic Institute and State University, Blacksburg, Virginia. The report was prepared for a trip to Nicaragua January 8 through 18, 1987, organized by Basic Economic Education, Inc. of San Diego, California.

citizens reluctant to keep more córdobas (Nicaraguan currency) than is absolutely necessary. Nicaraguans want to exchange córdobas for dollars and other foreign currency that keeps its value more reliably. But this further depreciates the value of córdobas relative to foreign currency and adds to inflation. To relieve this problem and maintain the ability of the government to obtain revenue by printing money, restrictions are placed on exchanging córdobas for foreign currency and on purchasing foreign goods. This action, however, tends to cripple the economy. Businesses have some essential needs that can be met only by foreign purchases. For example, they may be using foreign machinery that sometimes requires spare parts. The government permits such businesses to apply for special permission to purchase foreign currency. However, the uncertainty as to whether important needs will be met and the delays in obtaining permission hurt firms, discourage investment, and reduce employment. Uncertainty about future controls and taxes make potential private investors reluctant to invest in rebuilding the Capital.

A sound tax system is the key to breaking this logjam of problems. A tax on land values is the one tax that can be levied without discouraging economic activity. If a tax on land values were used to its full potential, the government could obtain adequate revenue without resorting to printing money. If the money system were put on a sound basis, it would not be necessary to have controls on purchases of foreign exchange and foreign goods. There would be no black markets. Productivity and employment would rise. If the government were to make a credible commitment to maintaining a tax regime that did not tax productive activity excessively, private sources would come forth with the capital needed to rebuild Managua and expand the economy.

The Taxation of Land Values

The taxation of land values is attractive not only for its economic effects but also for its moral foundations. Land titles in Nicaragua, as in virtually every other country in the world, are founded on historical conquest and appropriation. Spanish conquistadors subjugated previous inhabitants, claimed the land for Spain, and Spanish monarchs decided who would own the land. In early years the native inhabitants were enslaved as well. The land titles of today can be traced back to Spanish land grants.

There would be little support for the idea that the actions of the Spanish invaders were proper, and yet the land titles that originated with those actions appear to be regarded as valid. Partly this is because of an understandable inertia in social institutions: a lack of consensus on who was to control different parcels of land would produce a most unproductive confusion. If the present owners should not own the land, who should?

The taxation of land values makes it possible to collect the value derived from land for the benefit of the entire community without disturbing land titles as such. The moral basis for the taxation of land values is that land values are produced either by nature, by the growth of communities, or by the provision of public services. To the extent that land values are produced by nature and by the growth of communities, it is proper that the return to land be shared equally by all persons. To the extent that land values are produced by the provision of public services, it is proper that the return to land be collected to finance the provision of those services. The only possible moral basis for the private collection of returns to land would be that a person was using no more than his share of what nature provides. But the provision to each person of his share of what nature provides can also be achieved by collecting all returns from land, allocating to the provision of public services that portion of the return that results from public services, and sharing the remainder equally.

The economic argument for the collection of returns to land in the form of a tax on land values is that a tax on land values is one of the few sources of revenue for governments that can be tapped without diminishing incentives for productive economic activity. (Other sources of government revenue in this category are charges for services according to the marginal costs of providing those services, the sale of surplus public assets, and charges for scarce privileges such as the right to operate radio stations or to emit pollutants into the environment.) The reason that a tax on land values does not reduce incentives for productive economic activity is that, when land values are taxed, the amount of the tax that a person owes does not rise when the person becomes more productive or fall when he or she becomes less productive. There is no tax saving from being less productive or tax penalty for being more productive. Thus both from a moral perspective and from an economic perspective, a tax on land values ought to be a government's first source of revenue.

There are two principal forms that a tax on land values can take. The first and more traditional form is a tax in proportion to the sale value of land. Such a tax is used to good effect in many places. Yet there are limitations of such a tax that should be mentioned. The more heavily land is taxed, the lower will be its sale value. This means that a tax on the sale value must take account of the effect of the tax in reducing the sale value. For modest rates of tax it is not too difficult to do this. However, if a tax on land values were to be used to its full potential, sale prices would be extremely low. Land that happened to be slightly underassessed would derive more of its value from the accident of underassessment than from its productive potential. In these circumstances it would be very difficult to ascertain appropriate sale values to serve as a basis for taxation. The second limitation of a tax on the sale value of land is that land may have a high sale value not because of its current income-yielding potential, but because of its future income-yielding potential. A tax on the sale value of land may thus require an owner of land to pay a tax on a piece of land at a time when that land is not yielding him a corresponding income.

A tax on the rental value of land does not have these limitations. The rental value is unaffected by a tax on rental value. And because rental value is based on what someone is willing to pay for the use of land for a given year, the path of rental value through time is closer to the path through time of the income from land. If there is a limitation of a tax on the rental value of land it is that there is less experience with such a tax.

Whatever form of tax on land values was used, an assessing system would be needed. The traditional approach is to have the assessing done by government officials. While there is always reason to be concerned about the possibility of poor performance by officials responsible for an important government function, there is less reason to be concerned about the performance of officials responsible for assessing land, because:

1. The assessments can and should be open for all to see;
2. When land is properly assessed the assessed value per square foot will vary smoothly over space; and
3. The assessments should correspond to observable offers and transactions.

If it is desired to have an assessment system that is even less susceptible to poor performance by officials, a market system of assessment can be used. In such a system anyone who wishes can be an assessor. If it is land values that are taxed, a market assessor operates by offering to buy any parcel of land in a reasonably large block (perhaps that occupied by 200 families) at a specified price per square foot. The highest price offered becomes the assessed value, and the person who offered to buy it at that price is paid a small commission (perhaps 1% of the taxes collected) for providing the assessment.

A market system of assessments for a tax on the rental value of land requires that the tax be 100% of the rental value. In stating a rental value, a market assessor is then offering to take over use of the land and pay the stated rent, with the understanding that in future years, the rent offered by other assessors must be paid.

To take account of locational factors such as proximity to roads, rivers, and central markets, the prices offered by assessors can be allowed to vary smoothly with distance from such facilities, but the assessors should not be allowed to vary their assessments on a site-by-site basis, according to how intensively each site is actually used.

Whether a system of government assessors or a system of market assessors is used, if land is naturally endowed with valuable qualities (such as soil nutrients) that can be depreciated by the owner, it will be important to charge owners for any such depreciations. This is accomplished by specifying a standard for such qualities that land is expected to meet. Land is then taxed as if it meets the standard even if it does not. This may generate a situation where land has a "negative price." New owners would be compensated by previous owners for taking over land that was taxed according to the value it would have had if it had not been run down.[1] In this way a tax on land value can be made independent of the use to which the land is actually put, as it must be to preserve the economic efficiency of a tax on land, while at the same time the value of natural attributes of land is appropriated for the community as a whole.

One of the early actions of the Castro government in Cuba was the appropriation of sugar plantations owned by U.S. corporations. An ensuing dispute over whether the compensation offered was adequate was one of the principal events leading to the estrangement of relations between the U.S. and Cuba. If instead of appropriating the plantations the Cuban government had taxed them according to the value of the land they occupied, the value of the plantations could have been appropriated for public purposes without providing the basis for a complaint of confiscation.

Currency Reform

Paper money started as receipts for gold or silver that was deposited in warehouses. The keepers of such warehouses, whether governments or private individuals, noticed that with the preponderance of gold or silver locked up in the warehouses, it was possible to issue receipts for metal that did not exist, and as long as they did not overdo it, they could get away with it.

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1 A market assessor who was required to purchase land according to an offer under a tax on the sale value of land would have his required payment for a site reduced by the calculated loss in value from failure to meet the standard. For a tax on the rental value of land, the corresponding rule would be that land would be taxed as if it met the standard, whether or not it actually did, and anyone who wished to terminate the use of substandard land would be required to make a lump-sum payment to the subsequent user, to compensate for its deficiency.

When people began to suspect that they could not get the promised gold or silver if they asked for it, there would be a "monetary panic," when many of the holders of paper money tried to exchange it for gold or silver at once, and the ones last in line got nothing. In recent decades governments have avoided the risk of monetary panics by declaring their currencies "inconvertible." This results in what is known as "fiat money." It is not guaranteed by its issuer to have any specified exchange value.

While there are no monetary panics with fiat money, there is a tendency for fiat moneys to be subject to erratic and often severe inflation. Without the discipline of convertibility to limit the issuance of currency, the amount issued comes to depend on the momentary need of governments, with the result that so much is issued that its value falls very rapidly. As a result, money loses much of its potential to contribute to the smooth functioning of an economy:

1. Because of the uncertainty in the future value of money, potential trading partners find it difficult to make agreements for the future exchange of goods for money;
2. Because money loses its value so rapidly, people who need to save find it unattractive to keep their savings in the form of money;
3. Because money loses its value so rapidly, people also seek to reduce the proportion of their incomes that they hold in the form of money for ordinary purchases and for contingencies.

The erosion in the value of money that results from excessive expansion in the quantity of money is in effect a tax on holding money. It is a tax that is very tempting because it does not require a complex administrative structure, but only a printing press. It is also tempting because many people will believe that higher prices are the fault of greedy merchants rather than the government. However, the temptation to finance the government by printing money should be resisted, because the lack of a currency with a stable, predictable value severely impairs an economy and adds to the pressure for trade restrictions that further impair an economy.

The provision of a currency with a stable, predictable value requires forbearance by those who issue the currency. The provision of currency must be seen not as an opportunity to extract goods from the rest of the economy in exchange for paper that costs almost nothing, but rather as a solemn obligation. Currency must be regarded as a non-interest-bearing loan to the issuer of currency, a loan that must be repaid whenever repayment is requested. Any profit that accrues from the provision of currency must be seen not as a rightful, predictable income, but rather as a stroke of good fortune that could cease at any time without giving cause for complaint.

There are at least four different ways of seeking to make the value of a currency stable and predictable. The most traditional way is to announce a rate of exchange between the national currency and a widely used foreign currency that tends to keep its value. If this approach is to be effective, a country must allow no circumstance to serve as a reason for changing the announced exchange rate.

An alternative and simpler way of providing a currency with a reasonably predictable value is to have no national currency at all, but to use instead the currency of some other country with a reasonably good record of maintaining the value of its currency. While the U.S. dollar is one currency that comes to mind in this connection, it is not necessarily the best. The German mark, the Swiss franc and the Japanese yen all have better records of maintaining their value in recent years than the U.S. dollar. On the other hand, since many countries keep their currencies tied reasonably closely to the dollar, it is possible that using dollars as currency would provide the greatest stability in terms of exchange rates with other currencies.

A third approach to providing a currency with a stable and predictable value is to have a strict and invariant rule for the rate at which the money supply is allowed to grow. An important limitation of this approach for a country that is currently experiencing severe inflation is that it is likely to lead to a period of falling prices and economic dislocation when the reform occurs. This is because the improvement in the stability of the currency will induce people to seek to hold a larger fraction of their income in the form of money, which will require prices to fall if the quantity of money is not permitted to expand.

A fourth way of providing a currency with a stable and predictable value, and the way that might be expected to yield the most stable prices, is to define the currency in terms of commodities and stand ready to exchange the currency for commodities whenever anyone requests it. The traditional way of doing this was to promise to exchange a unit of currency for a specified quantity of gold. This, however, subjects an economy to a general rise in prices if gold becomes more plentiful and to a fall in prices if gold becomes more scarce.

A commodity-defined money that is much less subject to such shocks can be created by defining the currency in terms of a group of standardized commodities that are important in the particular economy. In the case of Nicaragua, the commodities might be corn, rice, cotton, sugar and beans. To keep the general price level as stable as possible while the prices of the individual commodities defining the currency vary, the monetary authority should define the currency as redeemable for a bundle of commodities whose composition would be flexible in a prescribed way. For example, 1,000 córdobas could be defined as exchangeable for a bundle of corn, rice, cotton, sugar and beans such that the weights of the five commodities, in kilograms, when multiplied together, came to 1,000. Then when someone wanted to exchange 1,000 córdobas for goods, the monetary authority could deliver, for example, 10 kilograms of corn, 5 kilograms of rice, 2 kilograms of cotton, 2 kilograms of sugar, and 5 kilograms of beans. Any other combination of quantities with a product of 1,000 would also satisfy the obligation. The rule that the monetary authority would follow to minimize the cost of redeeming the currency would be to satisfy the requirement in such a way that the money spent on each commodity was the same. Thus the quantities mentioned would be the lowest-cost bundle if the market prices of the commodities were 20 córdobas per kilo for corn, 40 córdobas per kilo for rice and beans, and 100 córdobas per kilo for cotton and sugar.[2]

The price of the least expensive bundle of goods that satisfied the requirement could never rise above 1,000, because if it did, people would redeem their money for goods until the prices fell. To keep the prices from falling, the monetary authority would promise to accept for currency any bundle of commodities that satisfied the requirement. A small fee would be

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2 A natural generalization of the example is to define the unit of currency as redeemable for a bundle of goods with quantities $q_1, q_2, \ldots, q_n$, such that $q_1^{a_1} \cdot q_2^{a_2} \cdot \ldots \cdot q_n^{a_n} = K$, where each a_i is the fraction of income typically spent on commodity i and K is a constant that determines the price level. The lowest-cost bundle that satisfies the requirement is then a bundle such that the amounts spent on the commodities are proportional to the a_i's.

charged for exchanging commodities for currency in either direction, to keep administrative costs down.

Whatever mechanism was used to stabilize the value of the currency, it would be important to manage the transition to a stable money in such a way as to not shock the economy unnecessarily. The danger in moving to a fixed-growth-rate rule was mentioned earlier. With any money stabilization device there is a further problem in connection with pre-existing debts and other contracts that had been arranged under the presumption that the value of the currency would continue to fall. It is a troublesome fact that the real cost of satisfying any such obligation depends on the price level at the time the obligation is due. People agree to interest rates and future prices that seem inordinately high because they expect the general level of prices to rise by the time the obligations are due. If, because of a currency reform, prices do not rise as expected, those who have promised to pay money in the future will face financial hardship and possibly bankruptcy. It can be argued that this need not concern us because people should understand that they are taking risks when they sign contracts, and at an earlier time unexpected inflation imposed costs in the other direction. However, there will be serious consequences for the economy as a whole if many people face financial distress or bankruptcy at the same time. Therefore it is important to seek a transition that minimizes disruptions to existing relationships.

Because the contractual obligations that must be paid at any particular time were contracted at a variety of different times, when different expectations prevailed, there is no way of managing the transition that accommodates all expectations. However, if there is a rate of increase in prices that seems to accord with the preponderance of expectations, it is possible to have a transition to stable prices that takes account of this. The simplest way of meshing former expectations of increasing prices with a regime of stable prices is to introduce a new unit of currency (the sandina?) that will have a stable value, and announce that the former units of currency will be made available for paying old obligations, at an exchange rate that will fall over time to reflect the expectations of rising prices.

Removal of Restrictions on Trade

Among the most serious consequences of rapid inflation are the restrictions on trade that are introduced as an indirect consequence. Expansion of the money supply causes the value of the córdoba to fall. The monetary authorities, however, declare the córdoba to have a specified value in terms of dollars or other foreign currencies. Because the córdoba is not actually worth what the monetary authorities say it is, their reserves of foreign exchange would be exhausted if they allowed everyone who wished to exchange córdobas for foreign currency. Rather than acknowledge that the córdoba is not worth what it is supposed to be worth, the monetary authorities refuse to sell foreign currency to some of the people who want it, and then try to prevent them from getting it anywhere else. But it is extremely difficult to prevent people from engaging in currency trades. The only ones who can be controlled to a significant extent are the large companies. What the artificially high value of the córdoba means for them is that the profit from exporting disappears. Unemployment results in the export sector. Imports that can be purchased with foreign exchange obtained at the official rate are inordinately cheap, and there are many more claimants for the foreign exchange than can be accommodated. Foreign exchange has to be rationed by bureaucrats charged with deciding what needs are most essential. Consumer goods disappear from the shelves of stores. Unemployment results in the retail trade sector. Meanwhile, people notice that it is possible to bring foreign goods into the country in small quantities through unofficial channels, sell them on street corners, and make fantastic incomes, because the goods cannot be obtained in the ordinary stores. Teachers, lawyers and engineers leave their jobs in the professions for which they were trained to sell foreign goods in market stalls. This is the path to poverty.

To have a prosperous economy, people must be allowed to trade with whomever they wish. What is required of the government in this regard is not action but non-action. People must be allowed to purchase as much foreign exchange and as many foreign goods as they wish. It would be better to have a monetary authority that provided no assistance to anyone in obtaining foreign exchange than a monetary authority that provided foreign exchange to some parties on favorable terms and tried to prevent others from getting any. The economy would experience the greatest prosperity if all tariffs, quotas, and other trade restrictions were eliminated. With an exchange rate that reflected the true value of the córdoba, exporters would find it attractive to export, and expand employment. The import trade would return from the market stalls to the retail stores, and employment in retail trade would expand. Professionals would go back to their professions.

The importance of the removal of restrictions on trade for the economic development of a country can be seen in the rapid growth recently exhibited by Korea, Taiwan, Hong Kong and Singapore, all of which are notable for their relative lack of trade restrictions. Among socialist countries, Yugoslavia has long benefited from the relative freedom of its enterprises. Hungary has recently liberalized its trade rules and has seen its income rise. There are signs that China and possibly Russia are moving in the direction of more liberal trade as well.

Promoting the Redevelopment of Managua

Managua is in need of redevelopment not only because of unrepaired earthquake damage, but also because, even apart from the earthquake damage, it has such unrealized potential as a beautiful capital city. The task of stimulating investment in the rebuilding of Managua may be divided into two parts: Motivate investors to invest, and insure that the investments made are appropriate.

To motivate investors to invest, one must take account of the concerns of investors. An investor generally makes an investment decision on the basis of a calculation that the investment will result in a profit. Such calculations always involve substantial uncertainties. One of the greatest of these uncertainties is whether the political environment will change in a way that turns a profit into a loss. The greater the perceived probability of political changes that will generate losses, the greater will be the apparent profit that will be needed to induce investors to invest. Even if all barriers to trade were removed today, it could be some time before investors would trust sufficiently to make substantial long-term investments in Nicaragua. The risk with respect to short-term investments would be perceived as smaller, and therefore the consequences of a removal of restrictions on trade would be concentrated initially on short-term investments.

It is important to ask what the government of Nicaragua can do to minimize the time required for trust to develop to the point that substantial long-term investments would be made. One thing that might be done is to undertake an "economic literacy campaign," a campaign to educate the public about the country's economic policies and why they have been chosen. Public understanding of the sources of economic prosperity would make it more difficult for future leaders to undo the policies.

Another area of potential importance is the reaction of public officials to profits when they occur. If public officials say that the profits demonstrate that investors are immoral predators on a defenseless public, potential investors will conclude that political changes are likely that would result in the confiscation of their investments if they were to invest. This kills the goose that lays the golden eggs. A healthier response to the existence of profits is to make their existence widely known, particularly among potential investors. If additional investors can be induced to pursue the opportunities for profits that exist, employment will expand and profits will fall. By treating investors as welcome partners in a cooperative enterprise in which all can benefit, it should be possible to create the confidence among investors that would be needed to persuade investors to make the long-term investments that are needed for the rebuilding of Managua.

To insure that the investments made are appropriate, a modification of the usual property tax can be employed. Under the usual property tax, a person is taxed according to the value of his land and the improvements on the land. The tax on land is a good and productive source of government revenue. The tax on improvements, however, discourages investment. The tax on land can be made more productive if, instead of adding to the tax in proportion to the amount of improvement that is undertaken, the tax is either increased or decreased according to the effect of the improvements on the rental value of surrounding land. If a person uses land in a way that is ugly or produces unpleasant smells, the rental value of the surrounding land will fall. Such a person should be taxed not only for the value of the land that he occupies, but also for the decline in the value of other land that results from his activity. On the other hand, if a person uses land in a way that adds beauty or in other ways increases the value of surrounding land, such a person should have the resulting increase in the rental value of surrounding land subtracted from his land tax.

To avoid arbitrariness or the appearance of arbitrariness in such a tax, it would good to apply general rules and schedules rather than case-by-case decisions. It would also be good to make all such adjustments as transfers of the tax base from one site to others, rather than as increases or decreases in the tax base. In other words, if the owner of a given site was engaging in an activity that reduced the value of surrounding sites, the tax bills for the surrounding sites would show explicit credits for the loss of value resulting from that activity. The sum of these credits over all affected sites would equal the addition to the tax bill of the given site. Similarly, when the activities of a given site added to the value of surrounding sites, their tax bills would show additional taxes which summed to the credit for the given site.

With a conscious effort to make investors welcome, with a program to educate the public in how the chosen policies promote the prosperity of the country, and with a program of rewarding or charging investors according to the impact of their activities on other land values, it should be possible to achieve rapidly the rebuilding of Managua.

Mission to Nicaragua to Promote Land Value Taxation

Nicolaus Tideman

INTRODUCTION

In 1985, Jeff Smith, the Director of Education at Basic Economic Education (BEE) of San Diego, California, traveled to Nicaragua as a member of a delegation of representatives of environmental groups. While in Nicaragua, Smith met with officials of CONAPRO, the Nicaraguan Council of Professional Organizations. He talked with them about another interest in his life, the idea of replacing other taxes with a tax on land values, as a way of promoting prosperity and economic justice. He was invited to put together a delegation that would travel to Nicaragua for the specific purpose of talking about land value taxation (LVT). Thus it happened that in January, 1987, BEE sponsored a trip to Nicaragua. The participants in the trip were 14 advocates of LVT and about 10 of other persons who came on the trip for the chance to see Nicaragua or for other professional reasons. Two of these were delegates from the Peace and Freedom Party of California, who were particularly interested in learning about Nicaragua's system of proportional representation.

The advocates of LVT on the trip were:

Mike Curtis, a teacher from Arden, Delaware

Jim Dorenkott, conference coordinator for BEE, from San Diego

Roy Fink, a retired plastics engineer from Evansville, Indiana

Fred Foldvary, author of a book on ethics and economics, from Berkeley, California

Felice Gruskin, an accountant from New York City

Floyd Morrow, President of BEE, lawyer, former city councilman, from San Diego

Marlene Morrow, a legal secretary, from San Diego

Mary Rawson, a city planner, from Vancouver, British Columbia

Wendy Rockwell, a chemical engineer and the group's interpreter, from Fairhope, Alabama

Tom Sherrard, a patent attorney and legal counsel to BEE, from San Diego

Dorothy Shields, a librarian from Vancouver, British Columbia

Jeff Smith, a linguist and Director of Education at BEE, from San Diego

Nicolaus Tideman, Professor of Economics at Virginia Polytechnic Institute and State University, in Blacksburg, Virginia

Tom Wrigley, a retired businessman from San Diego

While the trip was, for the advocates of LVT, an opportunity to present the case for LVT, for the Nicaraguans the trip was an opportunity to expose North Americans to attractive features of their society. Thus the group's schedule included events that served both purposes.

Chronology of Events

Thursday, January 8. We arrive at the Intercontinental Hotel at about 10:00 p.m.

Friday, January 9. Morning: We attend a very informative lecture by Judy Butler, an American anthropologist whose edits the publication Envio, and documents the continuing struggle on the Nicaraguan East Coast. It turns out that land rights play a central part in that struggle. When the Sandinistas came to power they sought to impose rules on the East Coast that ignored generations of traditional land rights. Now that they understand why their initiatives provoked such resistance and are prepared to recognize traditional rights and allow substantial autonomy for the region, a negotiated settlement to the struggle seems possible.

Afternoon: There is a celebration in Managua's central Plaza for the adoption of Nicaragua's new Constitution. Workers have the day off. Many head for their homes. Many head for the Plaza. There are speeches by Alan

García, the President of Peru, and by Daniel Ortega, the President of Nicaragua. Everywhere there are people of all ages peddling foods: pastries, fruit, soft drinks sold in plastic bags so that the seller need not part with the valuable bottles.

Saturday, January 10. Tour of Managua. The most interesting stop is at the Sandinista newspaper, Barracada.

Sunday, January 11. Trip to the beach at Pochomil. Return to Managua in time for the 5:00 "peoples' Mass."

Monday, January 12. Morning: The scheduled event is a visit to a veterans' support group. Several members of the group attend instead a presentation (intended primarily for another American group whose visit overlapped) by Jaime J. Bonilla L., of the Independent Liberal Party, one of the opposition parties that decided to withdraw from the election that put the current Assembly into office, on the ground that the election was not conducted fairly. Some individual members of the Party departed from the decision and accepted seats Assembly that were allotted in accordance with the votes that the Party received without campaigning. Sr. Bonilla's presentation is harshly critical of both the Sandinistas and also U.S. support for the Contras. The harsh criticism of the Sandinistas includes charges of political repression that probably have at least some basis in fact. On the other hand, the fact that the criticism is possible is evidence of openness in the country. Nicaragua is a country of remarkable contrasts and ambiguity. Whatever the prejudices with which one comes to the country, evidence can be found to support them.

Afternoon: We make two presentations. The first is to Horacio Roz, the Chief Administrator, and Jorge Luis Dubon Martin, the Subdirector for Economic

Cooperation, at MIDINRA (Ministry for the Institution of Agrarian Reform). The second is to Maria Antonia Zelaya B., the Chief Administrator of CIERA (Center for Study of Agrarian Reform). In both cases there is agreement with our initial assertion that all the land of Nicaragua belongs to all the people of Nicaragua. When we suggest that the best way to institutionalize this understanding is to collect from those who use land a fee (tax) corresponding to the rental value of the land, there is initial scepticism. The idea is entirely new to our listeners. As the conversations progress, they begin to have glimmers of the virtues of the idea. Sra. Zelaya says that when peasants are given land, they tend to have the feeling that it doesn't really belong to them, because they have not paid for it. She suggests that requiring them to pay a tax for the use of land might help persuade them that their claims to the use of the land were valid. Our ideas seem too novel for our listeners to embrace fully, and yet they seem receptive to thinking about them further.

Late afternoon: Several members of the group arrange an impromptu meeting with Julio Barrios, Subdirector of CRIES (Regional [Caribbean] Center for Research in Economics and Sociology). He expresses marked interest in our ideas and asks us to return two days later for a longer meeting. Unfortunately, other duties later require him to cancel that meeting, and we leave before we can meet with him again.

Evening: We hear a speech by Commandante Reynaldo Reyes Davis, a Miskito rebel leader who is negotiating with the government for an acceptable level of autonomy for the East Coast. Davis keeps a gun with him at all times as he travels around Managua. A notable quote: "An Indian without land is not an Indian."

Tuesday, January 13. Morning: Briefing by Sister Mary Hartman, an American nun who heads the Nicaraguan Human Rights Commission. She presents a picture of human rights in Nicaragua that contains some criticisms of the government, but is reasonably favorable overall. There is another, private, human rights commission that is more critical of the Sandinistas and is said by some to be secretly financed by the American government.

Afternoon: Visit to Open Prison Number 23½. Following this, a briefing by Viraluz Mireces, poet, university librarian, and Vice Minister at the Ministry of Culture.

On Wednesday, January 14 most of the group leaves for a trip to Leon and Matagalpa. Some stay behind for meetings in Managua. The chronology takes up first the activities of those who travel to Leon and Matagalpa.

Wednesday, January 14. The group meets with a Leon Neighborhood Defense Committee established by the Sandinistas. These committees are described by some as spies for the government, and by others as a natural and necessary institution in a country fighting an insurgency.

Later the group meets with Sr. Hernandez, the Governor of Leon, a province of 650,000 people. Leon grows 80% of the country's cotton and provides 90% of the country's port services. Sr. Hernandez says that our ideas are interesting, but not practical in this time of civil strife. This is a recurring theme. Are the ideas really not practical, or is the strife an excuse for not thinking about them more seriously? A case can be made that land value taxation has the potential to defuse the strife. A significant element in the appeal of the Contras is the dissatisfaction that peasants feel with the replacement of individual farming operations with State farms and cooperative farms. Land value taxation would recognize the rights of all to the land, without requiring collectivization of farming activities.

Thursday, January 15. A television is presented to a tuberculosis hospital in Leon. This is a gift from previous visitors to the hospital from

Berkeley, California, who asked a member of the group to present it for them. Later the group visits AMNLAE, a women's association, and then travels to Matagalpa, a mountain resort town, where they spent the night.

Friday, January 16. The group visits a State coffee farm that hosts a brigade of international volunteers who pick the beans. Some of these volunteers are Americans. Then they travel back to Managua, to attend a briefing on U.S. policy in Nicaragua, by Al Laun, an official with the U.S. Information Agency at the U.S. Embassy.

Meanwhile, those who stay in Managua have meetings of their own.

Wednesday, January 14. Four members of the group meet with Gustavo Soto, the Economics Subdirector of INIES (Nicaraguan Institute for Research in Economics and Sociology), and his chief assistant, Carmen Menudo Muniz. They provide us with an overview of the Nicaraguan economy. We learn, for example, that prices are doubling every two weeks or so. It is clear that this inflation comes from excessive expansion of the money supply, which is motivated by a desperate need of the government to raise revenue. It would be so much better for the economy if the government would raise revenue by taxing land, instead of by printing money. A tax on land (in proportion to its <u>potential</u>, not its actual yield) is practically the only tax a government can levy that does not interfere with an economy's productivity. Soto and Menudo were moderately receptive to our ideas.

In the afternoon there is a meeting with Alberto Arene, Subdirector of the Ministry of External Cooperation. This is one place where we make no headway with our ideas. At this ministry there seems to be no perception of the possibility that internal reform could be an important part of what was needed to put the Nicaraguan economy on the right track. They tend to see the solution entirely in terms of arranging for more gifts from other countries.

Several members of the group visit a center for refugees from the war in El Salvador, to deliver a donation raised by American friends. The Salvadoran refugees do not spend their lives in refugee camps like so many of the Palestinian refugees. Instead, they quickly become integrated into the Nicaraguan economy. Unless, which seems unlikely, there is a corresponding flow of Nicaraguans into El Salvador, this flow of Salvadorans into Nicaragua is evidence that, whatever the discomforts of living under the Sandinista government are, they are less than those involved in living under the regime in El Salvador.

Thursday, January 15. The group visits a day-care center run by Salvadorans. In the afternoon, several members of the group meet with Juan José Medina M., president of APEN (Nicaraguan Association of Professional Economists) and General Manager of Cred-O-Matic, the Nicaraguan credit card company. Medina is a very intelligent and savvy person. He sees the difficulties of the Nicaraguan economy as arising from the deep compassion of the Sandinistas for the plight of the poor of Nicaragua, and a resulting impatience with constraints that come from unintended consequences of government policies on the economy. With his background in the private sector, Medina is particularly sensitive to the way that free exchange and the replacement of other taxes by a tax on land values would promote economic activity. Medina expresses an interest in arranging exchanges between APEN and associations of professional economists in the U.S. We explain that in the U.S., professionals tend not to be so highly organized that such exchanges would have any official sanction. We promise to look into the possibility of arranging such exchanges nevertheless.

Later there is a meeting at the Managua Office of Planning, where the group meets with Silvio Ocampo, the director general, Mario Barahona Solis, an assessor, architect and urban planner, and Maria Teresa Illescas Rivera, an administrator responsible for international relations. Like urban governments practically everywhere, these officials feel a desperate shortage of resources. They are attracted by the idea of financing urban improvements by the resulting increase in land values.

Friday, January 16. We meet with the National Council for Secondary (and Collegiate) Education. We are told that the Sandinistas do not permit the teaching of distortion. The ideas we advocate appear to pass the test of what may be taught.

There is also a visit to the Carlos Fonseca Amador campus of the National University, and its Department of Economics. We meet with Vice Dean Elios Cruz Silvio and Professor Veronica Rojas. We learn that all Nicaraguan universities lack teachers, books, paper, pencils--anything and everything that makes a university a university. There is interest in the possibility of receiving a visit from someone who would teach about land value taxation.

The two groups link up in time for the briefing at the U.S. Embassy.

Saturday, January 17. The official trip is over. Some of the group arrange to travel together to Costa Rica. Some arrange a trip to the town of Bluefield on Nicaragua's East Coast. This trip entails a bus ride first to the town of Rama, where the road from Managua ends. They spend the night in Rama.

Sunday, January 18. Bluefield is reached by a three-hour ride in a speedboat, down a jungle river. There the group talks with Richard Stevens, an official whose duties involve helping to implement the East Coast autonomy project.

Monday, January 19. Return to Managua by air.

Tuesday, January 20. Interview with Julio Morales, head of the Nicaraguan Socialist Party. This party sees the Sandinistas as too pluralist, not sufficiently committed to socialism. Nevertheless, they see the Sandinistas as the current vanguard of social change, and their party did sign the constitution.

In the evening, one member of the group, Fred Foldvary, encounters a young man in a café who recognizes the copy of the Spanish edition of Progress and Poverty, by Henry George, that Fred is carrying. This is the book that started the movement for land value taxation. The young man had picked up the book in the library of his private school, and has good things to say about it.

Wednesday, January 21. Several members of the group have a very informative interview with the Electoral Commission. Later, they talk with a representative of the Marxist-Leninist Party. This party regards the Sandinistas as entirely unacceptable because of their lack of commitment to socialist principles. They refused to sign the Constitution.

Reflections

Nicaragua's history has been one of domination by the Somozas and other families that claimed vast holdings of land. This has made the overwhelming majority of the population receptive to the idea that there is something fundamentally wrong with the claims of a few to own all the land. There is also a strong entrepreneurial streak in Nicaraguans. The "black market" thrives to such an extent that it is virtually essential to the operation of the Nicaraguan economy. Many Nicaraguans do not take easily to the idea that all economic decisions ought to be made by the government.

The Sandinistas received about 60% of the votes for the current Assembly. Thus they have a mandate from the people. To some extent, the struggle with the Contras provides the Sandinistas with an understandable excuse for economic difficulties. But their mandate may not last too much longer if they cannot deliver an economy that works.

The Sandinista government is desperate for revenue. Like many other governments in difficulty, the Sandinistas have resorted to printing money. This provides them with resources without the need for explicit cooperation by citizens. But the inflation is also very destructive to the economy. Prices become meaningless unless they are changed frequently, but changes in prices controlled by the government tend to provoke hostility from the populace.

There is a tendency to blame all problems on the struggle with the Contras. But there are also elements of awareness that some of the initiatives that have been tried have not been appropriate.

Nicaragua is a nation in ferment. The Sandinistas are in charge, but they are not unified behind a particular plan of social change. There is deep compassion among the Sandinistas for the plight of the poor people of the country. Perhaps because those in power are relatively new to power, they tend to be blind to the limits of what can be accomplished by administrative edicts. On the other hand, the youthfulness of the administrators tends to make them relatively open to new ideas.

These factors appear to make Nicaraguans potentially receptive to a regime of land value taxation and freer trade. Land value taxation can provide the government with the revenue that it needs to stop printing money so recklessly. Uniquely among taxes, a tax on land values raises revenue without stiffling the productive potential of an economy. At the same time, LVT reflects the understanding that land, the gift of God to his children, belongs equally to all. The requirement that those who direct the use of land pay for this privilege also serves to induce anyone who is not able to use land well to release it to someone who can. It is devoutly to be hoped that officials in Nicaragua will be able to see the possibilities that land value taxation offers for their country.