«HOME GROWN» (?) AUSTERITY MEASURES: THE CASE OF ZIMBABWE

By

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INTRODUCTION

Although this conference is about the IMF and economic stabilisation in Africa, it may be of interest to mention at the outset that within Zimbabwe the role of the IMF in shaping economic policy, and the extent to which current austerity measures are indeed «home grown» has been the subject of controversy and even bitter recriminations. Academic critics *(1)* and some members of the parliamentary opposition have suggested that the government's austerity measures were imposed by the IMF. One member of parliament went so far as to suggest that the IMF had «recolonized» Zimbabwe *(2)*. Government officials have reacted sharply to these allegations. The Minister of Finance, Dr. Bernard CHIDZERO, has categorically denied the «views held by the school of thought that views the IMF as a major bogeyman to international finance» – a view he believed came from lack of understanding of the role for which the fund was established. Significantly, however, he added:

> *« In saying this, I am not the less critical of the Fund's tendency towards short-term management measures as against long-term development objectives, to say nothing of the general issue of conditionality. Yet I can assure this House that we are not unschooled in this regard, nor are we wanting in vigilance and negotiating versatility» (3).*

One source of the controversy has been the secrecy shrouding the negotiations with the IMF leading to the 18-month standby arrangement reached on March 24, 1983. Commenting on the secrecy of the negotiations, the Herald (March 26, 1983) editorialized:

> *«Zimbabwe has a democratically elected people's government and therefore, the people, its supporters have the right to know what the IMF has asked of this country. It is in the public national interest».*

Similar sentiments were expressed by the Sunday Mail (March 27, 1983).

The government could point to a series of measures that it had already introduced prior to the signing of the agreement with the IMF. An indirect support to the government's claim that its policies were «home grown» comes from Roger RIDDELL, former Chief Economist of the

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Confederation of Zimbabwe Industry, when he notes that government policies have in a «a number of key areas... even been harsher than the IMF proposed, as for instance in the sphere of wage controls and in the rapid reduction in food subsidies» *(4)*. Critics might, however, argue that these measures were part of the fairly standard set of «preconditions» that the IMF calls for before any agreement is signed. In this debate both government and its critics may be partly correct. As KILLICK *(5)* notes it is quite possible that a number of measures written into a programme would have been undertaken by the government anyway with or without an agreement with the IMF, so that it is not necessarily the case that programmes consist chiefly of policies demanded by the IMF. There is so much interchange of views between the IMF and national officials and IMF conditionality is so familiar that virtually any government seeking IMF assistance ought to be able to draw up a programme acceptable to the IMF without the assistance of IMF staff. IMF programmes, despite claims by the IMF that they are tailor-made for each country, contain standard ingredients, the most familiar of these being: (a) devaluation of the domestic currency, (b) restriction of domestic credit, (c) reduction of government expenditure usually through removal of subsidies to consumers or ailing parastatal bodies, (d) upward revision of interests, (e) greater reliance on «market forces» for the setting up of prices, (f) introduction of policies favourable to inflow of foreign private capital, and (g) introduction of measures in favour of increased production of tradeables rather than non-tradeables *(6)*.

Whatever is the true story, we shall give the government of Zimbabwe the benefit of doubt and simply assume that the austerity programme is indeed «home grown». We note, in passing, however, that the controversy does illustrate the problems of reconciling the exigencies of capitalist accumulation and the quest for political legitimacy. Having decided that accumulation in Zimbabwe would need a large dose of private capital – local and foreign – the state had to enjoy the «confidence» of capital and the IMF stamp of approval which is often considered crucial. This in turn, demanded a set of policy measures that would tilt the scales in favour of capital and against the popular classes so central in the struggle for independence and the political legitimacy of the state.

SOME SALIENT FEATURES OF THE ECONOMY

The recent economic history of Zimbabwe is an interesting and complex tale in which so many factors have played crucial roles. It is consequently not easy to disentangle one factor from the rest without doing damage to the historical record. During the last two decades the economy has had to weather economic sanctions and an armed struggle waged by the Patriotic Front; has been readmitted to the comity of nations following the attainment of majority rule and national sovereignty; has suffered the worst drought in recent history; has been the object of South Africa's destabilization measures; and has been a victim of the current world recession. We cannot, in such a brief study, give full cognisance of the economic effects of these experiences. We shall, however, give mention, albeit brief, to any of these factors whenever necessary.

In 1980 the population of Zimbabwe was 7,6 million, of which 3 % was white and 0,5% Asian. Since then, the percentage of whites has fallen as a result of emigration. Relative to the country's per capita income, the level of urbanization is low – about 20 % of the population concentrated in Harare and Bulawayo. By comparison, the average for the «lower middle income» countries (in which the World Bank has placed Zimbabwe) was 33 %, while 44 % of neighbouring Zambia's population was in the urban areas.

In 1982, 1,045,900 inhabitants were in wage employment, accounting for 14 % of the total population. Agriculture was the single largest source of employment absorbing approximately a third of wage employment. Other important sectors were manufacturing industry (15 %), private domestic service (11 %); public administration (8 %), distribution (7 %), mining (6 %) and transport and communication (4 %).

GNP per capita was US $ 630 in 1980, comfortably placing Zimbabwe in the World Bank's lower middle income group. However, as a major outcome of the racist policies of the settler regime, there were great income inequalities between blacks and whites. The single most important source of inequality was the grossly skewed distribution of land, with the 5 % white population allocated about half of all the land. Wages of blacks averaged 10 % of those earned by whites. Great as these inequalities were from wage earnings, they still underestimated the full extent of income differentials between blacks and whites. While for blacks the bulk of income was derived from wage employment, for whites additional income came from such non-wage sources as profits and dividends.

One structural characteristic of the economy has been the decline of the proportion of Gross Fixed Capital Formation (GFCF) to Gross Domestic Product (Table 1). This fell from between 20 % and 30 % of GDP in the early seventies to around 15 % for the period 1978 to 1980. This low level of capital formation has created serious capacity constraints in the economy. It has contributed to what is generally considered as excessive ageing of the country's machinery and equipment, since little has been invested for replacement of worn-out equipment. This was made particularly clear by the relative fall in the foreign exchange allocated to imports of machinery and transport equipment from the mid seventies to the beginning of the eighties. As we shall see, the economy with such a weak base in its productive capital stock was unlikely to sustain the post-independence demand upsurge without serious inflationary pressures or massive borrowing abroad to sustain imports that would add to domestic supply. In any case, the present government has had to contend with the effects of the low levels of investment that took place in the seventies.

The imposition of economic sanctions by the international community forced the pace of industrialization and diversification. The share of the manufacturing sector increased rapidly and stood at an impressive 25 % of GDP in 1979. While in 1965, 600 separately identifiable products were made in the country, this number had reached 6,000 by 1980. The most dramatic transformation following systematic diversification was

agriculture where food production for the domestic market assumed a dominant role. The share of tobacco, the major export crop fell from 56.3 % in 1965 to 24.7 % in 1979. Crops such as wheat, cotton, soya beans, and coffee, gained in importance from a combined share of 1 % of agricultural sales in 1965 to 25 % in 1979.

Table 1: Key Economic Indicators

Year	Central govt's deficits (A) MIL. $	GDP (B) MIL. $	Rate of growth of GDP current prices (C)	Rate of growth of GDP 1969 prices	(A) (B) per cent	GDFCF % of GDP	Current account (surplus) deficit of GDP
1975	95.2	2012	–		4.7	24	3.5
1976	95.2	2179	7.82		4.4	19	(0.7)
1977	201.6	2217	1.71		9.1	18	(0)
1978	219.7	2339	5.5		9.4	15	(1.1)
1979	351.8	2780	10.85		12.7	14	2.6
1980	479.9	3531	27.01		13.6	14	4.4
1981	452.9	4528	28.2		9.9	15.5	9.7
1982	491	4983	10.1		9.9	19	10.7
Average Rate of Growth							
1975–1979	19.6	7.4					
1980–1982	1.2	18.4					

Source: *CSO Quarterly Digest of Statistics,* Dec. 1982.

As a result of the diversification and increased domestic production of previously imported goods there was a decline in the trade dependency of the economy, when this is simply defined as the ratio of imports and/or exports to Gross Domestic Product. For instance, the ratio of exports to GDP fell from 36.5 % in 1966 to 30.6 % in 1976, and has remained at that level ever since. The import/GDP ratio fell from 33.8 % in 1965 to 24 % in 1980. Nonetheless, Zimbabwe remains very dependent on foreign trade. More significantly, to the extent that there was a restructuring of the content of imports towards more «essential» commodities such as fuel, machinery and spare parts, the economy's room for manœuvre as regards the magnitude of imports is limited. There are simply not many products that could be removed from the list of imports without adversely affecting the economy's productive capacity.

Although Zimbabwe's manufacturing is relatively well developed, enjoying substantial backward and forward linkages with the rest of the economy, it has proved not a particularly dynamic earner of foreign exchange. This is especially clear when one observes that of the Z $ 171 million rise in manufactured goods exported from 1965 to 1980, two products, ferro-chrome and steel, accounted for nearly 87 % of the increase.

Several factors account for this lethargic performance of the manufacturing sector. Most important, as indicated earlier, were the sanctions. In addition, however, the high levels of protection, together with real economic expansion from 1967 to 1974, stimulated production of goods for the highly protected domestic market. Much of this expansion relied heavily on the excess capacity that was created during the Federation. As a result, although manufacturing rose rapidly between 1965 and 1975 this was achieved with very low levels of investment indeed. Consequently, serious capacity constraints were to emerge in the manufacturing sector and the sector has proved extremely inefficient and uncompetitive on the world markets.

TRADE AND BALANCE OF PAYMENTS

The rapid growth rate of the late 1960s and early 1970s came to a sudden halt with the onset of the first «oil crisis» in 1973. The «oil crisis» was preceeded by an unprecedented rise in commodity prices. For Zimbabwe, the positive effects of this turn of events showed themselves in 2.2 points improvement in the terms of trade in 1971 and 4.0 in 1972.

In 1972, the net balance on current account was actually positive (Table 2). However, by the end of 1973 the inflationary pressures from abroad began to take their toll. Terms of trade fell by about 3 points in 1974 and in that year the deficit on the current account was $ 52,8 million. The deterioration in terms of trade continued up to 1979 when the index reached 55.9 (1964 = 100). The removal of sanctions saw an improvement in trade which went up by 17 points in three years. 1983 witnessed a fall once again.

Table 2: Balance of payments: current account

Year	Merchandise Net	Investment Income Paid Abroad	Invisible Transactions	Net Balance on current account
1966	16.3	19.2	– 33.5	– 17.2
1967	1.5	13.4	– 27.0	– 25.5
1968	– 21.6	14.9	– 27.1	– 48.7
1969	26.6	17.8	– 28.5	– 1.9
1970	17.1	21.0	– 42.7	– 25.6
1971	0.7	30.4	– 53.9	– 53.2
1972	70.5	35.1	– 60.2	10.3
1973	75.1	35.1	– 98.6	– 23.5
1974	82.3	39.8	– 135.1	– 52.8
1975	47.7	45.0	– 118.7	– 71.0
1976	153.6	58.0	– 138.0	15.6
1977	144.3	47.0	– 145.7	– 1.4
1978	182.2	40.0	– 150.9	31.3
1979	139.1	53.0	– 215.5	– 76.5
1980	60.3	47.0	– 224.5	– 164.2
1981	– 46.0	110.0	– 393.6	– 439.6
1982	–114.0		– 418.9	– 532.9

Source: *CSO Quarterly Digest of Statistics*, Dec. 1983; *Annual Economic Review of Zimbabwe*, August 1981.

The value of imports has jumped from $ 438 million in 1974 to over a $ 1000 million in 1983. However, the indices of volume of imports fell from 114.6 in 1974 to 66.4 in 1979 and was to exceed 1974 levels only in 1982. In other words the unit of value of imports more than doubled over the period.

With the onset of the second «oil shock» in 1979, the balance on merchandise account fell from $ 182 million to $ 139 million, despite the rise in the value of exports by 14 %. The value of imports rose by 34 %. The major contributor to this was the cost of petroleum products, the value index of which increased by 110 %. Chemicals, which are largely influenced by petroleum prices, increased by 24 %. Other imports increased by about 12 %. The result was a 16 % deterioration in the country's terms of trade.

All in all, Zimbabwe was in balance of payment difficulties at independence and of course before the second «oil shock» had set in. But what is certain is that for the 1980 to 1982 period, the situation had worsened because of a number of factors among which the recession may be included.

ECONOMIC GROWTH PERFORMANCE

One of the most significant effects of the recession has been the slow rate of economic growth and the decline in per capita incomes. Real per capita incomes declined from $ 204 in 1974 to $ 164 in 1979 and was $ 192 in 1982 all calculated at the constant prices of 1969.

It was only after the end of the war and the lifting of sanctions at the end of 1979 that the economy was to witness positive real rates of growth once again although by this time terms of trade were at their lowest in years. In 1980 the economy expanded by no less than 14 % in real terms. This was undoubtedly an enormous upsurge and it restored in one single year all the lost output of the post-1975 recession years. In 1981 the real growth rate was 6 %. One major contributor to these high growth rates was the loosening of the foreign exchange constraints. This was facilitated by improved terms of trade and greater inflow of foreign capital following the end of sanctions. In addition, the stimulus provided by government expenditure and higher consumer demand mobilized the prevalent excess capacity into greater output. It is important to stress that investment played an insignificant role in the aggregate demand that was the basis for 1980–1981 high growth rates. As we noted, Gross Capital Formation was low (Table 1). This fact alone suggested how short lived the expansion would be as the economy ran into capacity constraints. And already in 1982 the negative impact of the second round of oil price increases in 1979–80 and the capacity constraint were to produce a real growth of –45%. In the following year output fell by 4.0 %. Estimates for 1984 are a 2 % fall in real GDP.

EMPLOYMENT

Between 1966 and 1975, wage employment increased in all sectors of the economy. By 1975, 1,050.2 million people were in wage employment. This figure was to be equalled only in 1982 (Table 3). One immediate effect of the recession was the reversal of this trend, as employment

Table 3: Total Employment and Earning (Annual Averages)

Year	Thousands	Earnings (millions $)
1965	736.6	400.7
1966	747.5	411.7
1967	750.6	432.0
1968	790.0	470.0
1969	835.5	514.2
1970	853.3	559.0
1971	891.0	624.5
1972	952.9	699.1
1973	997.5	781.3
1974	1039.9	904.3
1975	1050.2	1049.6
1976	1033.4	1153.8
1977	1012.2	1247.6
1978	986.2	1333.0
1979	984.7	1501.6
1980	1009.9	1881.1
1981	1037.7	2394.6
1982 (Sept.)	1046.1	

Source: *CSO Quarterly Digest of Statistics*, Dec. 1983.

began to fall sharply so that by 1979 it had fallen to below 1973 levels. Only public administration increased its employment. If we confine ourselves to two major employers of labour – the agricultural and manufacturing sectors – we see that the two factors that contributed to the downturn were increased world recession which led to difficulties in importation of crucial inputs for the manufacturing sector and poor harvest due to climate and the security situation.

INFLATION

Higher fuel prices and higher prices for other imported goods immediately translated themselves into higher domestic prices. In the period 1965–75, the average year to year change in the price index was 2,6 %. However, between 1973 and 1974 the average rate of price increases jumped from 3,4 % to 7,1 %, this being the highest rate of change in the price index in over twenty years. The Reserve Bank *(7)* identified the following as main contributors to the inflationary process:

i) real wage increases, without improvements in labour productivity;
ii) higher sales taxes;
iii) increases in food prices; and
iv) rapidly rising import prices.

All these are cost-push factors, effective demand pressures having played a rather insignificant part in fanning the inflationary pressures in the economy. Of the above listed cost-push factors, it was the rate of increase in import prices that has been «the most persistent and significant, both directly and indirectly» *(8)*. Import prices increased by between 10 % and 13 %. In these import prices increases of fuel costs played a preponderent role. Between 1973 and 1978 the rate of inflation fluctuated between 7,1 % and 10 %. 1979 witnessed an acceleration of price increases, caused mainly by a 39,3 % increase in import prices, largely associated with the dramatic increase in oil prices and wage increases of more than 12 % following the discontinuation of the wage restrain policy pursued in previous years and a further 11 % rise in food prices. By 1980, this acceleration in prices seemed short-lived as the rate of inflation fell to a relatively low 6,9 %. However, a year later the trend started in 1979 reasserted itself as price increases returned to their two digit levels. By 1983 the rate of inflation was over 20 %, apparently the positive effects of the removal of sanctions (the sharp drop in the rate of increase in import prices) and increases in labour productivity associated with the end of the war run their course during the year.

In a society so sharply divided along class and race lines, it is useful to further disaggregate the movements in prices for different income groups (table 4). The information available is up to September 1983 before the removal of subsidies for the low income groups. Estimates are that since then the rate of inflation in prices for the lower income families is over 30 % and about 16 % for the higher income groups.

THE DROUGHT

Magnifying the deflationary impact of the external shock and adding to the general atmosphere of uncertainty has been the worst drought in recent Zimbabwean history. The drought has so far lasted three seasons. Given the importance of agriculture as an earner of foreign exchange, supplier of raw materials to local industry, employer of labour and provider of food to the labour force, the drought could not but have had far reaching implications. Zimbabwe, which under normal times exports food crops, has had to import food crops especially maize which as late as 1982 earned the country more than $ 40 million (two thirds of total food exports). Futhermore, the government has had to allocate substantial amounts of money to drought relief, thus tending to blunt the effects of austerity measures such as removal of subsidies. However, of even greater long-run importance is that land reform and resettlement, which are the linchpin of

Table 4: Zimbabwe: Consumer Price Index, 1964–1982
(1964 = 100)

Year	Higher Income – All Items Percentage Change		Lower Income – All Items* Percentage Change		Average Rate of Price Increase %
1964	100.0	–	100.0	–	–
1965	101.7	1.7%	102.5	2.5%	2.1%
1966	104.3	2.6%	105.7	3.1%	2.9%
1967	106.4	2.0%	108.2	1.4%	1.7%
1968	108.7	2.2%	109.7	2.3%	2.3%
1969	111.7	2.8%	110.1	0,4%	1.6%
1970	115.6	3.5%	112.4	2.1%	2.8%
1971	119.1	3.0%	115.8	3.0%	3.0%
1972	124.3	4.4%	119.1	2.8%	3.6%
1973	128.8	3.6%	122.8	3.1%	3.4%
1974	138.5	7.5%	130.9	6.6%	7.1%
1975	149.2	7.7%	144.0	10.0%	8.9%
1976	162.6	9.0%	159.9	11.0%	10.0%
1977	178.2	9.6%	176.4	10.3%	10.0%
1978	190.0	6.6%	193.6	9.8%	8.2%
1979	211.5	11.3%	220.1	13.7%	12.5%
1980	231.0	8.4%	232.0	5.4%	6.9%
1981	264.7	14.6%	262.5	13.2%	13.9%
1982	313.5	18.4%	290.5	10.7%	14.6%
1983 (Sept.)	353.7	22.4%	343.0	17.0%	20.0%

Spirce:
Source: *CSO Monthly Digest of Statistics,* April 1983.

the government «growth with equity» strategy, have been adversely affected, having been made more costly and uncertain in their effect on production. In considering policy responses in the next section it is, therefore, very important to keep in mind the spectre of the drought.

MONETARY TRENDS

Although in 1970–75 money increased steadily (Table 5) the increase was matched by average rate of growth of real output and therefore posed no inflationary pressures on the economy. As a result of the first round recession, 1975 witnessed a slowdown in monetary expansion when the demand for credit by the private sector fell as a result of the sluggish investment tempo and a decline in foreign assets. It was only in 1980 that the money supply was to show a sharp increase. In 1979 there was a slight increase in the money supply (M2) accounted for by increased foreign assets, claims against the private sector and a decrease in fixed deposits. Net claims against the Central Bank declined thus dampening the expansionary impact of private sector borrowing from the banks. In 1980 the increase in money supply was 34.2% caused by heavy borrowing from the

Table 5: Change in Money Supply (M2)

Year	Percentage Change
1968	0.5
1969	16.3
1970	13.0
1971	15.4
1972	13.9
1973	12.6
1974	18.4
1975	5.5
1976	17.5
1977	6.6
1978	13.4
1979	13.3
1980	34.2
1981	8.7
1982	19.4
1983	(less than) 1.0

Source: *CSO Monthly Digest of Statistics,* January 1983; Reserve Bank of Zimbabwe, *Quarterly Economic Review,* several issues.

banking sector by both the central government and the private sector. The monetary expansion would have been greater were it not for the fall in foreign assets caused by increments in foreign exchange allocation for imports. In 1981 there was a modest increase in the money supply largely due to high lending by the banks to the private sector. With deterioration in terms of trade resulting in a decline in foreign assets, it became clear that the running down of foreign assets could not be seen as a long-term solution and it further became clear that domestic credit expansion would have to be restricted in the mid-term.

1982 saw a return to the historical rates of expansion of money largely due to increases in lending to the government and private sector. These were partially offset by decreases in other assets and increases in fixed deposits coupled with a $ 5.0 million increase in foreign reserves. However, by the end of 1982 government had already instituted policies to restrict monetary expansion and the drain on foreign assets.

One important effect of the recession was the high levels of excess reserves held by the banks. The low investment demand, partly caused by political uncertainty but also by the foreign exchange constraints especially on the high import dependent manufacturing sector, accounted for excess liquidity in the system. Only after 1980 do we see a fall in the liquidity ratio.

DEBT PROBLEM

Largely as a result of sanctions Zimbabwe was at the time of independence the least indebted country in Africa. We do not have information on total external debt over the UDI period. One thing is clear though: up until 1976 public external debt declined in absolute terms and as a share of both GDP and export earnings. We do not have information over the same period for the private sector. However, if the country's debt service ratio in the years 1978, 1979 and 1980 for which we have information is anything to go by, private foreign indebtedness must have been low, although the low levels of outflow to service debt may also have been a result of the blocking of foreign funds.

Whatever is the true picture, the debt service-ratio (defined as debt service divided by export earnings) in 1978 was a mere 0.9%. With the attainment of independence and the removal of economic sanctions combined with the problem of falling export prices and volumes and increases in import prices and interest rates, Zimbabwe joined the ranks of other African countries facing the problems of debt repayment. By 1981, the debt service ratio was already 16% (Table 6). The following year it took up more than a quarter of the country's earnings and the estimates by the Minister of Finance was that this would reach 30% in 1983 and would only begin to decline in 1985 or so *(9)*. The dramatic increase in public external borrowing must have contributed to the rigid rise in the foreign debt.

Table 6: Zimbabwe Debt Service Ratio 1978–1984

Year	Ratio
1978	0.9
1979	1.3
1980	2.9
1981	4.4
1982	16.0
1983	26.0
1984	30.0

Sources: (a) OECD Geographical Distribution of Financial Flows to Developing Countries, 1978/81, (Pans, 1982);
(b) *CSO Monthly Digest of Statistics*, April 1983;
(c) World Bank, *World Development Report*, 1983;
(d) Zimbabwe, *Budget Statement*, July 1983.

POLICY ISSUES AND RESPONSES

Because of the war situation and economic sanctions it is not easy to relate pre-independence policy to specific economic problem. In general, the Rhodesian regime, despite its professed laissez-faire ideology, interfered extensively in economic affairs. However, because of the peculiar

political and economic position of the country, a number of measures carried out were of a highly *ad hoc* nature, the *leit motif* of all of them being maintenance of white privilege, attraction of whites to Rhodesia and financing the war. As the war intensified, some desperate measures were adopted to bolster the beleaguered MUZOREWA regime. The white power establishment allowed MUZOREWA a profligate budget in 1978 so that the government was able to introduce a whole series of consumer subsidies on a numner of mass consumption goods.

The new government of Zimbabwe was confronted with an entirely different set of socio-political parameters and international environment. With a population expecting substantial changes in access to productive assets and social services on the one hand and a nervous minority to be persuaded to stay in the new Zimbabwe on the other, the government was faced with serious policy dilemmas. The government's major policy declaration on the economy called for «growth with equity», presumably on the grounds that only a high rate of growth would permit improvements in the living standards of the majority without adversely affecting the white minority. In other words, the policy of «reconciliation» called for high growth rates if only to avoid zero-sum game situations.

The National Transitional Plan predicted a growth rate of 8.2% growth for 1982–1985. Such optimistic objectives were apparently based on the post-war boom of 1980–81 and the widespread expectation of economic recovery in the advanced capitalist countries. In retrospect, the expectations were unfounded. The post-independence boom was based on the rather fragile ground of increases in consumers' demand and the using up of extant capacity. And as we observed above investment demand played no role in this upsurge of economic activities.

Consequently no foundations were laid for future expansion. Nevertheless, the fact remains that for the first three years the economic measures adopted were basically optimistic about a number of determinants of the rate of accumulation and government's sources of revenue.

FISCAL POLICY

The end of the war led to an immediate shift in government expenditures. The combined share of Defence and Home Affairs dropped from 40% to 23% while Social Services (Education, Health and Local Government and Housing) increased from 20% to 27%. Partly to meet the pent-up demands on the state by the majority it now represented, government expenditure went up sharply after independence. In 1980 budget, government expenditure was 16.8% higher than it was in the previous year. In 1981 it went up by 25.7%. The growth was 27% in 1982 and 36.7% in 1983. This should not, however, suggest that the government had opted for an inflationary fiscal policy. The high increases in government expenditure were (at least in the first three post-independence years) accompanied by even higher increases in government revenue. Revenue receipts which had declined in 1979, went up by 15% in 1980, 47.9% in 1981, 36.2% in 1982, and 30.4% in 1983. However, by mid-1982 and certainly

by the end of the year, it became increasingly clear that with deteriorating balance of payments, worsening fiscal position, growing indebtedness, persistent drought and rather weak signs of world recovery, switches in policy were necessary. The need to do something about the situation was quite clearly voiced by the Minister of Finance, Dr. CHIDZERO, on December 9, 1982 when devaluation of the dollar was announced and we take the opportunity to quote him at length:

> *«Our balance of payments – the income and expenditure account for our transactions with the rest of the world – has moved into serious deficit, a deficit that has been partly financed by long-term capital inflows, including project finance and Zimcord resources, but more particularly by the running down of our foreign exchange reserves and by the use of short-term commercial borrowing. That is not something we can go on doing for very long, and unless we can see it only as a bridge across a short-term difficult path we cannot, we must not, unduly burden our future export earnings with debt service obligations. Rather we must now curtail our demand and our consumption, and match these with our own earned resources. In short we cannot live beyond our means. Already government has reduced substantially the allocations for imports in the last quarter of 1982 and has tightened exchange controls and these savings measures will be continued into 1983. But dealing with this side of the equation is not enough on its own. We must also address the earnings side. We must take measures which will promote exports in a highly competitive world, and will sustain production for exports in a period of depressed market prices for our minerals, agricultural produce and manufactures. To do these things we must take a number of policy measures for adjustment» (10).*

On the revenue side the government introduced additional measures expected to yield an additional $ 150 million.The surcharge on company and individual taxes was increased from 15% to 20%. The general sales taxes on selected consumer durables rose from 18% to 23%. Customs and excise duties were also raised. Most controversial of these measures was perhaps the introduction of a 2% tax on income of persons in employment earning over $ 100 per month who are not liable to pay-as-you-earn schemes. This would drag in an estimated half a million people into the tax collectors' net.

Even prior to this policy statement, there were signs that, during the second quarter of the 1982–83 fiscal year revenue would fall short of budget projections as a result of poor performance of the corporate sector and lower than expected growth in personal and indirect tax receipts due to stagnant levels of employment and domestic demand. It became clear to government that the prospective deficits would be unsustainable and that budgetary restraint was necessary. A freeze on new staff recruitment was imposed and so were cancellations of or cuts in many

appropriations for new equipment and projects. In any case total expenditure for the 1982–83 fiscal year increased by 36.2% to $ 2587 million which was less than the projected 47.8% expansion in expenditure.

It was only in Zimbabwe's third budget of 1983–84 that the implications of the recession on fiscal policy were fully taken into account. Total expenditure was to amount to $ 2810.9 million; a figure 8.7% higher than the out-turn for the previous year but less than the planned expenditure for the year 1982–83 and, considering the two-digit level of inflation, the «stand still» budget actually meant reduced government expenditure in real terms.

Quite clearly, despite the high expectations of the population and impressive strides in rural health and education, government fiscal policy was basically «prudent» especially when one considers what other «populist» regimes in Africa have done.

MONETARY POLICIES

As early as February 1981, the Reserve Bank felt that the economy was overheated and additional measures to dampen demand and the expansion of money had to be imposed. On February 27, 1981 the Reserve Bank raised the bank rate from 4.5% (which had prevailed for more than 15 years) to 6%. The prime lending rate of commercial banks also went up from 7,5% to 9% while all other lending rates and savings rates moved up in sympathy with these changes. The main objectives of the Bank's measures was «to promote savings and to discourage non-essential and postponable expenditure under conditions of growing inflationary pressures that have been accompanying the high level of economic growth». These measures were also to contribute towards the curbing of «excessive» monetary expansion. The Bank felt that even when viewed against the spectacular real growth of 1980, the 34% expansion in money was simply not sustainable.

A few months later, on September 17, 1981 the Bank had once again to raise the bank rate from 7% to 9% pushing up the commercial bank's prime lending rate which reached 13% with immediate effect. As one can see in Table 7 other lending rates also went up in sympathy with movements in the bank rate.

Other measures included imposition of higher liquidity ratios. The statutory ratio, which was 20% in 1980, reached 30% by March 1984. On March 28 it was raised to 35%, and with effect from June 21, 1984 it will be 40%.

DEVALUATION OF ZIMBABWE DOLLAR

On December 9, 1982 the Zimbabwe dollar was devalued by 20%. In 1984 it deteriorated further against all major currencies so that, for example, effectively the devaluation of Zimbabwean dollar against the U.S. dollar has been close to 40%. This is of course partly a reflection of

Table 7: Lending Rate

	Commercial Bank	Accepting Houses	Finance Houses	Building Societies	
				Mortgage	Advances
End of	Minimum overdraft rate	Minimum rate on acceptance credits	Hire purchase rate (2)	Residential property	Commercial property
1975	7,50	6,00	10,00–17,54	7,25	8,00
1976	7,50	6,00	10,00–17,54	7,75	8,50
1977	7,50	6,25	10,00–17,54	7,75	8,50
1978	7,50	6,25	10,00–17,54	7,75	8,50
1979	7,50	6,25	10,00–17,54	7,75	8,50
1980	7,50	6,00	11,00–17,54	7,75	8,50
1981	13,00	11,25	17,00–23,00	13,25	14,75
1982	13,00	10,65	18,00–23,00	13,25	14,25

Source: Reserve Bank of Zimbabwe, *Quarterly Economic and Statistical Review,* 4 (4), December 1983.

the general firming of the dollar against virtually all other major currencies. Consequently, the fall of the Zimbabwean dollar against other currencies was milder. The rationale for the devaluation was that it would help establish equilibrium in the balance of payments by raising the domestic price of tradeables, thus stimulating the transfer of resources to exports and reducing imports which would now be dearer in terms of the domestic currency. Furthermore, devaluation would make the country's exports more competitive in foreign markets. The latter is particularly important for those exports which are not denominated in foreign currency.

ECONOMIC LIBERALIZATION

During the UDI period, because of the imposition of sanctions, counter-measures were taken to conserve foreign exchange and as a form of retaliatory action. Profits, interests and dividends emanating from foreign investment from the U.K., U.S.A. and Canada could not freely be remitted to outside the country. The government decided to do away with the discriminatory aspect and to facilitate remittance of investment incomes. The government was of course aware of the balance of payments cost of such liberalization. The Minister of Finance argued:

> *«It is axiomatic that no foreign investor will invest money in future development in Zimbabwe if he is debarred from repatriating that investment when he so desires. Thus all new venture capital invested in Zimbabwe, irrespective of source, and which has been*

> ***transferred through banking channels, may be freely repatriated after a period of two years subject only to the relevant amount being reduced by any income that may have been remitted in the two year period...»***
>
> ***«The net cost in a full year is likely to be between $ 40 and $ 45 million and will have an adverse impact on the balance of payments in the future. It is my judgement that the gain will outweigh any loss. I shall review the position from time to time to determine if further relaxation will be possible» (11).***

In addition from July 1, 1980, current interest earned on accumulated blocked funds, which might include dividends and profits that have been paid to blocked accounts, would be freely remittable to both companies and individuals.

The Minister's expectation was that the «changes in policy which I have just adumbrated will go far to satisfy the foreign investor and financier». He hoped that the foreign investor and financier «will recognize the sincerity of this government's undertakings, and that they will now see this country as a stable and sound area for investment».

It is important to keep these remarks in mind because the attraction of foreign investment has been a major objective of government policy and has in many ways coloured the government's perception of its options.

One immediate effect of this was a rather dramatic increase in net investment income paid abroad (Table 2). The expected inflow of foreign capital was not forthcoming. And so in March 1984 the government was to dramatically reverse its policy in order to stop the large leakages of surplus through invisibles. The government imposed a «temporary» embargo on profits remitted abroad (except on investments made since 1979) and tighter controls on some emigrants income. The government was also to acquire the foreign investment held by Zimbabwean residents in exchange for government bonds. To charges that this was a first step in the nationalization programme of a self-proclaimed socialist government the Minister of Finance retorted that this was «utter nonsense» *(12)*. The Minister has been at pains to stress the temporary and conjunctural nature of these measures:

> ***«We need all the investment we can attract, whether private or public; and you can be sure we are aware of the importance to the private sector of the ability to remit. It can be a crucial factor in decision making, and the recent package should be viewed in light of this understanding» (13).***

We shall return to this problem of liberalization when we discuss the more general question of policy options.

SOME SOCIO-ECONOMIC EFFECTS OF THE AUSTERITY MEASURES

What have been the effects of the adjustment measures adopted on the economic performance of the economy? This is a central question yet one most difficult to answer because of the short time span during which the measures have been in force. One other problem is that the short-term effects of these measures may totally differ from the long-term outcomes, or so at least the government hopes. However, as Keynesians have argued, policy is usually made in the short-term and one must not ignore the short-term costs of policies given their differential impact on different social groups. In any case government is aware of the short-term costs of its adjustment policies and the Minister of Finance has not been averse to making Churchillian appeals for sacrifice and patriotism during these hard times. In this section we shall consider the socio-economic effects of government policy in light of what has actually happened. Final judgement will have to wait a little longer and will require more refined data and analytical tools than those used here.

We shall begin with what is for Zimbabwe the central issue of redistribution of assets and incomes. We noted earlier that the government's strategy aimed at «growth with equity». Consequently, one would expect the government to adopt a stabilization programme which is at least neutral in its distributive effects. Those who advocate the rather monetarist programme adopted by the government argue that the control of supply of money, reduction of government deficit, «setting prices right», exchange rate devaluation and doing away with subsidies produce neutral distributive effects by reliance on the non-discriminatory «invisible hand» of the free market. If it does cause shifts in income distribution it is at the expense of «privileged groups» such as highly protected oligopolies in the import substitution sector and organized labour receiving subsidies and highly inflated wages. Potential beneficiaries of the monetarist programme are supposed to be producers in the tradeable sector and small-holder producers in the usually unprotected agriculture sector. In the case of Zimbabwe, the Finance Minister has actually argued that removal of subsidies on commodities largely consumed by wage-earners would benefit the poor in the communal areas who never bought the subsidised products *(14)*.

It is too early to judge the distributive effects of the current programme. In capitalist economies one major source of income for vast numbers of people is wage employment. Decline in employment has therefore profound effects on income distribution. Experience elsewhere suggests that the kind of demand management measures adopted by the government may add to the reduction of employment in the economy. First we have the effect on overall growth. In general such packages lead to decline in growth rates at least in the short-term. Indeed the IMF which encourages the type of demand management measures adopted by the government states:

> *«Experience with the process of stabilization has been that growth rates in the short-run may fall below their previous trends. Available evidence indicates that there is little scope for avoiding outcomes of this sort».*

There is extensive literature tending to confirm the fact that a number of demand management policies usually adopted by government may lead to unforeseen reduction in output *(15)*. Take the case of devaluation; one expectation is that the loss of jobs due to contraction in the demand for non-tradeables will be more than compensated by expansion in the tradeables sector towards which productive resources will have been shifted. This is more likely to happen if the tradeables sector is relatively labour intensive. In Zimbabwe the expectation has been that devaluation would raise the domestic price of exports, raising profit margins and thereby stimulating investments. There is evidence to suggest that although profit margins of export firms have improved, there has been no increase in investment in the export sectors or in volume actually exported. Levels of exports have risen by only 7 % in nominal terms but in real terms have declined by over 30 % during the last two years. Several factors may account for this lethargic response to measures designed to stimulate investment in the export sector. One factor hinted upon by the Reserve Bank is the excessive stocks held by exporters coupled with continued low worldwide demand for the country's exports. There may also be the «animal spirits» of the capitalists that explain the reticence of investors. Furthermore, some important exports of Zimbabwe are denominated in foreign currency and are unlikely to be more demanded because of the devaluation. Consequently there is no increase in employment in the tradeables sector to compensate for the deflationary effects of the demand management measures on the non-tradeables sector.

EFFECTS OF WAGES

One characteristic of orthodox stabilization programmes is the asymetric treatment of goods, prices and wages *(16)*. Prices of all other commodities are suddenly freed after a period of repressed inflation while the nominal price of labour power (nominal wages) are frozen. Although there is still some form of price control, a similarly asymetrical treatment of prices of commodities has taken place to the detriment of those who sell their labour power. We already noted that a wage freeze had been imposed, and in those cases where wage increases were allowed, these fell short of the rate of inflation. However, for most wage earners the real crunch was to await 1983.

One major component of the deficit reduction measures was a drastic cut in producer and consumer subsidies. Historically, the government has subsidized producers of certain controlled products, produced largely by white commercial farmers. It was only in 1979 that the then government of Bishop MUZOREWA, for reasons given above, introduced consumer subsidies. Other implicit subsidies to producers took the form of

favourable transportation tariffs for such products as maize. As Table 8 shows both producer and consumer subsidies rose sharply between 1980 and 1983, from $ 37,7 million to $ 126,5 million, an average annual increase of 78,5 %. On September 2, 1983, the government reversed the trend by first reducing consumer subsidies by 35 %. Subsidies on some products were completely removed. Producers subsidies were generally not only maintained but were actually increased by as much as three fold for maize. In the 1983–84 budget, drastic cuts in both producer and consumer subsidies were carried out. Total subsidies fell by 49 % (see Table 8).

Table 8: Zimbabwe: Producer and Consumer Subsidies 1980 to 1984 (Estimates) Z $ million

Type of Subsidy	1980	1981	% change	1982	% change	1983	% change	1984	% change
Producer Subsidies									
Beef		9.6	–	25.7	168%	33.2	29%	36.5	10%
Dairy		4.5	–	10.4	131%	18.5	78%	+	–100%
Maize		9.7	–	5.1	– 47%	22.8	348%	+	–100%
Soya beans		1.9	–	1.0	– 47%	+	–100%	+	–100%
Drought relief		10.0	–	+	–100%	+	0%	+	0%
Total producer	29.6	35.7	21%	42.2	18%	74.5		36.5	51%
Consumer Subsidies									
Bakers flour		14.9	–	8.5	– 75%	+	–100%	+	0%
Edible oils		5.0	–	6.2	24%	+	–100%	+	0%
Maize meal		12.5	–	64.8	418%	–		–	0%
Opaque beer		0.7	–	0.4	– 43%	+	100%	+	0%
Total consumer	8.1	33.0	307%	79.9	142%	52.0*	35%	28.0*	– 46%
Total Producer & Consumer	37.7	68.7	82%	122.1	78%	126.5	4%	64.5	– 49%

Source: *Estimates of Expenditure for 1981, 1982, 1983 & 1984.*

+ not indicated – implying zero.
* wheat and maize meal subsidy only.
– not available.

The removal of subsidies had quite dramatic effects on prices of basic commodities. Table 9 shows clearly the effects of these changes on controlled prices. Government sought to lessen the burden by awarding wage increases for those who on September 1 were earning $ 300 per month or less. The increase were $ 5 per month for workers in the agricultural, mining and domestic service sectors and $ 10 in all other sectors. Considering the minimum wages in the various sectors, it is clear that the increases in wages were not more than 10% and was considerably lower for workers close to the $ 300. Given the dramatic changes in the low income consumer index caused by the overall inflation and the more direct effects of the removal of subsidies, wage earners suffered severely and saw losses of most of the gains made since independence as a result of increased minimum wages.

Table 9: Zimbabwe: Changes in Prices of Basic Consumer Items 1982–1983

ITEM	YEAR 1982	YEAR 1983	% Increase
Maize meal: 5kg:			
Roller meal	76 c	98 c	22 %
Super refined	$ 1.57	$ 1.62	3 %
Loaf of bread:			
Brown	26 c	33 c	27 %
White	28 c	35 c	25 %
Cooking oil, 750ml	$ 1.04	$ 1.50	44 %
Meat: 1kg:			
Super filet	$ 3.92	$ 5.92	52 %
Rump	$ 3.30	$ 5.14	52 %
Wingend	$ 2.38	$ 3.64	53 %
1 kg Grade 2:			
Filet	$ 3.30	$ 5.50	67 %
Rump	$ 2.86	$ 4.73	65 %
Wingend	$ 2.10	$ 3.55	69 %
Milk:			
600ml	13 c	24 c	85 %
300ml	7 c	12 c	71 %

Source: *Ministry of Trade and Commerce.*

EFFECTS ON THE URBAN POOR

We noted earlier that critics of the monetarist solution adopted by the government generally argue that they harm the poor. Although there are no detailed household surveys with which to gauge the effect of the recession and stabilization measures on different income groups, one can use simple tools to detect the direction if not the magnitude in the movement of the earnings of the poor. Since 1974 Zimbabwe has had estimates of the Poverty Datum Line (PDL) defined by the Riddell Commission as «the income required to satisfy the minimum needs of a family of a given size and composition within a defined environment in a condition of basic physical health and social decency». The original PDL study conducted in 1974 by the University of Zimbabwe, was updated by the Riddell Commission in 1980 to take into account changes in the cost of living and the reforms by the new government on fees for schools and medical services. We have for our purposes upgraded the 1980 PDL to take into account changes in the cost of living in the last three years.

The Riddell Commission undating of the PDL came up with an estimate of $ 128,52 as an average of PDL incomes indicated in Table 10. The minimum wage in industry and commerce was $ 85 with effect from January 1, 1981. In other words the minimum wage was 50% less than the

Table 10: Urban Poverty Datum Line Incomes for a Family of 6 on $ per month – December 1980

Code	Harare	Bulawayo	Masvingo
G	126.14	131.46	117.62
H	132.93	138.33	124.65
Average:	128,52		

Source: *Report of the Commission of Inquiry into Incomes, Prices and Conditions of Service,* 1981.

Note: G is a family consisting of a man and a woman, an infant, a boy aged 5–8, a girl aged 11–12 and a boy aged 13–14.

H is a family consisting of a man and a woman, a girl aged 5–8, a boy aged 9–12 a girl aged 13–17 and a boy aged 15–18.

PDL income. It was apparently on the basis of this that the Commission recommended certain wage increases. By the end of 1983, the minimum wage in the industrial and commercial sectors had reached $ 128,72. However, by the end of 1983, the average PDL was $ 201 (table 11). Thus the minimum wages in the best paying sector fell far below the PDL for the year. With an estimated PDL of $ 158,6 for that year close to 50% of wage earners in the non-agricultural sector earned less than $ 150 a month. With the wage repression in the last two years and acceleration in the rate of inflation, the number of wage earners falling below the 1983 PDL has increased substantially. Things got worse in 1984 when in addition to rapid increase in prices, the government introduced a 2 % tax on those earning $ 100 a month as part of its austerity measures.

Table 11: Estimated Urban Poverty Datum Line Incomes for a Family of 6 in $ per month – December 1983

Code	Harare	Bulawayo	Masvingo
G	197.2	205.6	183.96
H	207.9	216.3	194.90
Average:	200.		

Note: The estimates are based on increases of the low income consumer price index of 13.2 % for 1981, 10.7% for 1982 and 32.5 % for 1983.

EFFECTS ON THE RURAL POOR

Most of the poor of Zimbabwe live in the rural areas either as workers on commercial farms or as smallholders. The government has argued that in general some of the most severe austerity measures have been aimed only at the more privileged urban dwellers. Indeed, prima facie, some of the measures could have benefited the poor if they led to an improvement in the terms of trade in favour of agriculture. This is one of the

strong arguments advanced by the advocates of IMF-type adjustment programmes: removal of protection for inefficient local industries favours the agricultural sector by making available to it cheaper inputs and consumption goods. In addition if the full effects of the devaluation are allowed to trickle down to the small producers of tradeables, then the domestic price of the products will be high. To understand the full effects of recent policy measures detailed information on terms of trade, the share of gains between middle men (or marketing boards) and peasant farmers would have to be known. This information was not available at the time of writing the paper.

However, in the context of Zimbabwe, absence of such information does not prevent us from saying something about what is happening to the rural poor. This is largely so because the agrarian question evolves around the issue of land distribution. Expenditure on acquisition of land and resettlement schemes is probably a more important indicator of what is happening to rural poverty than are the market relations discussed above. In this respect one item of expenditure whose reduction is of significant political saliency is that of the allocations to the Ministry of Lands and Resettlement which was among one of the sharpest curbs. Land redistribution is the centrepiece of the «growth with equity» strategy. Implementation of the land acquisition and resettlement programme was already under severe strain even before the current financial squeeze. Some argue that the drought and administrative deficiencies accounted for the slow progress. They argue that it is just as well there is a slackening of the resettlement programme given the deficiencies of the past schemes and the stretching of the existent implementation capacity *(17)*. One could then argue that the reduction in expenditure on land reform is dictated purely by internal management and implementation problems rather than by budgetary responses to the recession.

Yet certain pronouncements by government suggest that the government would have wished to have additional funds for its resettlement programme. The Prime Minister has, for instance, blamed Britain for being slow in releasing funds that, according to the Lancaster House constitutional agreement, Britain was to donate to Zimbabwe for purchase of land. Britain has, in turn, retorted that it is Zimbabwe which has failed to release the counterfunds for the project. For every amount Zimbabwe releases Britain is to release an equivalent. It is tempting to surmise that given the urgency with which the government views the land question and the sense of frustration at the slowness of the pace voiced by the Prime Minister, the adopted adjustment measures have played a role in the allocation reduction. In any case, given the monetarist flavour of the adjustment programme such «social» programmes as land reform are easy candidates for the fiscal guillotine.

We noted above that the Minister of Finance has suggested that the removal of subsidies can only have affected the privileged urban population. Two special characteristics of Zimbabwe today would raise questions about the Minister's assertion. One is the reliance of significant sections of

the rural population on remittances and purchases of goods by relatives in urban areas *(18)*. This dependence on urban incomes has been further deepened by the drought. Quite clearly any further burdening of the urban dwellers must affect the level of remittance to the rural areas. This is an area calling for more research. However, there does seem to be sufficient prima facie evidence that the rural poor have been adversely affected by some of the measures adopted by the government against urban dwellers.

GENERAL MACROECONOMIC EFFECTS

We have already noted the decline in output accompanying the stabilization measures. This it seems was expected by the policy makers. What perhaps is most disheartening for policy makers is that despite the great social sacrifices entailed by the programme, the macro-results are so far dismal. Sure, there has been an improvement in the balance of trade and the deficit on visible trade has been removed. However, this improvement has been achieved largely through decline in imports by 60% in real terms. Improvement in exports in 1984 seems largely to reflect favourable movement in world prices and demand for Zimbabwe's major export than foreign exchange policies. Such a dramatic fall in imports could only signal a severe slump in output and investment. In the capital account there was no improvement in the deficit presumably because one crucial expectation by the government that there would be an increase in private long-term investment did not materialize. In the words of the Reserve Bank «private long-term capital inflows were minimal». One of the main arguments for seeking the IMF stamp of approval is the expectation that this will attract long-term foreign investment. So far Zimbabwe's performance in this respect has been poor, and we have already noted government's attempt to stem the further outflow of investible surplus.

In most Third World countries, inflation has proved more intractable than the authors of stabilization policies had expected. The persistence of high rates of inflation in a country whose stabilization measures have not been preceded by hyperinflation must be surprising. The Reserve Bank's comment in this is noteworthy:

> *«Furthermore, despite the recession and the weak balance of payments situation, the rate of inflation has remained high, with prices increasing over the past eighteen months at an annual rate of between 15% and 20%. This has taken place despite tight control of the money supply (money supply has risen over the past twelve months by less than 1%), which in turn reflects both fiscal restraint and significant success in financing the budget in a non inflationary manner. The government has also pursued a policy of wage restraint but, not-withstanding these policies, inflation has remained high, largely due to the impact of imported inflation, particularly following the depreciation of the exchange rates: a significant decline in output and the impact on prices of the decision to reduce subsidies on a wide range of basic food commodities» (19).*

All in all, the stabilization policies adopted by government have failed to achieve any of the short term effects that are usually used to justify the immediate hardships the policies bring with them. There has been not let-up on inflation, the balance of payments situation has not improved, foreign investments have not been forthcoming and increases in exports have not taken place at the expected rate.

The question that immediately arises is whether the government had any other options. Armed with hindsight, one can see that much of the early optimism of the government was unfounded and that there indeed were serious errors of judgment. It is clear that the decision to somewhat liberalize the capital account was wrongheaded. Given the very high rates of interest abroad, the relative newness of the government and the uncertainty about political events in the country, the measures to «deblock» profits, interests and dividends were premature. To the extent that the austerity programme was indeed «home made» it is difficult to understand the government's decision to take such a high risk based on unknown responses by foreign investors and financiers. Indeed given the general reticence of foreign capital to reinvest in the Third World during this period and its tendency to repatriate profits to high interest rate hard currency economies the dangers inherent in the decision should have been foreseeable.

It seems the government was too anxious to establish its credentials with the financial world. There was thus the mistake of treating the trade and capital account similarly during the «liberalization» period. Indeed, if one of these accounts was favoured it was the capital account. There is, however, a strong case against liberalization of the capital account ahead of the trade account given the differences in the relative sensitivities of the two balance of payments accounts. The government seems to have reversed the sequence and thus created severe problems of capital outflow and weakening of the basic balance.

We noted earlier the sluggish performance of the economy between 1974 and 1979 and the low levels of capital formation during the period. It was thus imperative that government policy should seek to raise the level of investment if the high growth rate indicated by the National Transition Plan was to be met. In the absence of any explicit policy statement it is fair to surmise from government policy and practice that too much faith was placed on private and especially foreign investment to raise the level of capital formation. Consequently in the austerity measures government's own investment programme does not seem to have been given priority. Indeed, the public investment programme has been slushed by about 25 %. The use of public investment in a countercyclical manner and to offset the fall in private investment during such periods has been pursued by governments infinitely more conservative than the government of Zimbabwe. One would have thought that, given the absence of any ideological bias against state investment *per se*, such an option to sluggish private investment would have been seized upon.

There is little doubt that some austerity programme was necessary and that consumption had to be curtailed, although this does not itself answer the vital question about whose consumption. Such a reduction in consumption need not have gone together with reduction in investment. In a country such as Zimbabwe austerity measures ought to have clearly discriminated between consumption and investment demand and in the case of the latter it seems naive to have expected the private sector to have taken the initiative, given the inherently myopic view of the sector's investment decisions, and its poor performance during the last decade and the «wait-and-see» attitude of both domestic and foreign capital. Government deficit could have been reduced by increasing taxes, reducing current expenditure, and at the same time expanding public investment. Given the ideological bent of the government, this strategy would have been compatible with the long term objective of increasing the role of the public sector in the economy.

We noted that government policy was based on the acceptance of a capitalist economy during the «transitional» period. However even with this option, the government generally adopted measures that only deepened the neo-colonial structure of the economy and weakened the position of local capitalists vis-à-vis international capital. In order to attract foreign investment, the government ignored its own investment code restricting the purchase by foreign capital of on-going locally-owned industries. Thus two transnational firms (Dalgerty and Heinz) were allowed to take over well-run and profitable food-processing firms.

The government has opted for an export-oriented development strategy. And if the Heinz-Dalgerty deals are anything to go by, such a strategy will increasingly rely on transnational corporations. We will not go into the economic feasibility of such an option for Zimbabwe. What is of greater interest is the fact that in general such strategies demand a «disciplined» and docile labour force which can only be ensured by «strong», authoritarian government.

The distribution of the burden of the austerity package has been biased against the poorer sections of the society. We noted that the increase in the low income consumer price index has been twice as much as that of high income consumer index. We also noted the introduction of a 2% tax on low wage earners and the removal of subsidies on basic commodities.

One major complaint by Third World governments has been that the IMF is «insensitive» to the political implications of its proposed austerity measures. Imposition of IMF austerity measures has led to «rice riots» and even to the overthrow of regimes. In the case of Zimbabwe, the imposition of harsh austerity measures on a population that justifiably expected improvements in its living conditions after years of racial injustice and war was a courageous step by the government. Yet, at the time of revising our paper, the IMF had suspended its stand-by-agreement with Zimbabwe reportedly for failure to meet some of the stipulated targets. In other words, the IMF was calling for more blood at the time when there was growing resentment of the austerity package and when the ruling party was fighting for its re-election.

It is probably a measure of government's popularity that so far there has been no open confrontation between the state and labour. However, prolonged existence of these measures does not augur well for the socio-political stability of the country. Given the enormous income disparities in the country, there surely was much more room for austerity measures that would not have placed upon the poor so much of the burden. For instance, income taxes could have been made more progressive, sales taxes more discriminatory in their incidence and land taxes could have been imposed. Some recent actions by the government suggest overreaction to the crisis. The government has apparently swung from the optimism of the immediate post-independence period to an overly conservative fiscal and monetary posture. It has, for instance, limited new borrowing – whether public or private – to concessional loans or those with a minimum five year grace period and has reportedly turned down loans including those from East Germany and Yugoslavia.

CONCLUDING REMARKS

A number of policies discussed here are rather new and perhaps ought to be given more time before passing final judgment over them. Remarkably, whether these policies were indeed «home made» or not, they bear an uncanny resemblance to the standard IMF programmes imposed in many other Third World Countries. The general effects of these programmes on employment, prices, income distribution and economic growth are well-known, and it should not have come as a surprise to policy-makers that, at least, in the short term all these would move in an undesirable direction. Although the question of whether IMF staff or local economists devised the austerity programme touches upon the very important issue of national sovereignty, it is probably no consolation to the victims of such programmes that they are «home grown».

Our discussion has been strictly confined within the political parameters of present day Zimbabwe. These parameters have, in the period of «transition», confined the actual choices to basically capitalist options on the grounds that the inherited capitalist structure was the only logical point of departure. One probably ought to have begun the whole exercise of evaluating government policy by discussing whether indeed its basic premise was correct and whether a transition to socialism can be made without fundamentally challenging the existing structure. This would have been an interesting exercise in itself. It would have entailed a confrontation with the fundamental question of the nature of the state and its role in the economy of Zimbabwe. In a recent publication, the Minister of Transport, Dr. USHEWOKUNZE *(20)* has characterized the situation as that of dual power which pits two camps against each other: «The few rich blacks and whites who team up to run the old colonial economic structure for their own benefit and for international capital» against the «progressive elements who are advocating collective responsibility over the exploitation of our products and the distribution of our products according to need...» If present economic policy is an indicator of the balance of social forces in the country, it does not augur well for the latter.

FOOTNOTES

1. See, for example, Ann Seidman, «Debt and the Development Options in Central Africa: the Case of Zambia and Zimbabwe» in J. Carlson, *Recession in Africa*, Uppsala, 1983. See also the anonymous article «Zimbabwe in the Grip of the IMF», *Moto*, April 1983.
2. *Parliamentary Debates*, September 6, 1983.
3. *Parliamentary Debates*, September 6, 1983, Column 232.
4. Riddell, Roger, Zimbabwe: The Economy Four Years after Independence *African Affairs* – Vol. 83, No. 333, October 1984.
5. Killick, T. – «IMF Stabilization Programmes», in Killick, T. (ed.) – *The Quest for Economic Stabilization: The IMF and the Third World*. Heinemann, 1983.
6. On standardization of this «package», see Ariel Buira, «IMF Financial Programmes and Conditionality», in *Journal of Development Economics 13 (1/2)*, 1983. See also articles in W. Cline and S. Weintraub, (eds.) *Economic Stabilization in Developing Countries*, The Brookings Institution, Washington D.C., 1981. Also in Killick, T. *op. cit.*
7. Reserve Bank of Zimbabwe, *Quarterly Economic Review*, September 1980.
8. *Ibid.*
9. The Minister of Finance has predicted that on average, the ratio would hover around 23% for the next five years. See the *Herald*, July 23, 1983.
10. Economic Policy Statement, reprinted in Reserve Bank of Zimbabwe, *Quarterly Economic and Statistical Review*, September 1982.
11. Minister of Finance, *Budget Statement*, July 24, 1980, extracted in Reserve Bank of Zimbabwe, *Quarterly Economic and Statistical Review*, Dec. 1980, pp. 17–8.
12. «Zimbabwe Moves to Curb Liquidity and Attract Funds», *Africa Economic Digest*, May 25, 1984.
13. *Ibid.*
14. See House of Assembly, *Parliamentary Debates*, September 6, 1983.
15. Lance Taylor – «IS/IM in the Tropics: Diagrammatics of the New Structuralists Macro-Critiques» in Cline and Weintraub, *op. cit.*
16. A. Foxley – «Stabilization Policies and their Effects on Employment and Income Perspective», in Cline and Weintraub, *op. cit.*
17. B. H. Kinsey, «Emerging Policy Issues in Zimbabwe's Land Resettlement Programmes», *Development Policy Review 1 (2)*, November 1983.
18. Recent household surveys suggest that as much as one third of rural households depend on remittances for their subistence.
19. Reserve Bank, *op. cit.*, p. 5.
20. Ushewonkunze, H. *An Agenda for Zimbabwe*. (Publisher unknown); reviewed in the Herald, June 4, 1984.

RESUME

Cet article étudie le programme d'austérité du Zimbabwé, qui à en croire les pouvoirs publics aurait été élaboré par le Zimbabwé lui-même. Or ce programme est une réplique des recommendations habituelles du FMI, à savoir : la dévaluation, le resserrement de crédits, l'arrêt des subventions aux articles de consommation courante, le retrait de l'Etat des activités économiques et la «libéralisation» du régime des échanges. Il traite également des effets de ce programme sur divers variables macro-économiques dont, entre autres, l'emploi, la croissance et l'inflation. L'on constate dans la majorité des cas une détérioration de la situation. La plupart des améliorations, là où il en existe, tiennent à l'évolution de variables «exogènes» telles que : de meilleures conditions au niveau du marché mondial et de meilleures conditions climatiques.

La question du conflit entre les impératifs de l'accumulation de capital, objectif visé par la politique gouvernementale, et les exigences de légitimation politique y est également abordée. Bien que le programme Zimbabwéen satisfasse aux normes du FMI, celui-ci a suspendu l'accord de soutien qu'il avait conclu avec le Zimbabwé sans consultation préalable avec ce pays.