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AGRICULTURE AND MACROECONOMIC REFORMS IN ZIMBABWE: A POLITICAL-ECONOMY PERSPECTIVE

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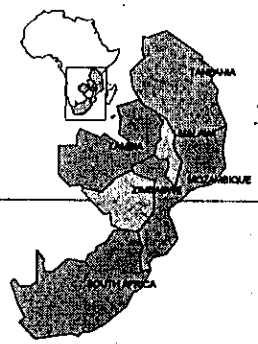

AGRICULTURE AND MACROECONOMIC REFORMS IN ZIMBABWE: A POLITICAL-ECONOMY PERSPECTIVE

by

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ABSTRACT

Zimbabwe's pre-independence economy was characterized by centralized controls established to avoid international sanctions and to benefit the ruling minority. The 1980s saw these controls further entrenched, albeit with some effort to improve racial equity and considerable investment in rural infrastructure and social services. Disappointing economic and employment growth, arising from severe foreign-exchange constraints and barriers to entry, led to the implementation of structural and policy reforms beginning in 1991. The effects of the reform program during the early years were severely distorted by a devastating drought in 1992, but there was response to the lifting of the most important of these barriers; namely, the limited access to foreign currency and subsidies directed only to formal-sector producers. The most obvious benefits were reduced transport bottlenecks, considerable increases in employment in the informal urban sector and opportunities for small-scale milling and commercialization accompanied by strong multiplier effects in the rural areas. The strong response to maize deregulation resulted in reduced prices, particularly for the rural and urban poor who could easily access hammer-milled maize. The increased cost and deterioration in education and health services, however, had large negative consequences for the poor. Unemployment, low growth rates, and corruption are the most visible outcomes of the reform process, despite some successes. The inability of the economy to respond more effectively to the decontrols arose from the inconsistencies of the government and serious fiscal indiscipline. Zimbabwe has considerable natural, human and infrastructural potential for development, but these can only be realized with a reduction in the fiscal deficit which in turn will reduce government borrowings and the interest rate. In addition, outdated restrictions on land subdivision and state ownership of natural resources, centralized controls, and corruption must be addressed if Zimbabwe is to avoid economic disaster.

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AGRICULTURE AND MACRO-ECONOMIC REFORMS IN ZIMBABWE: A POLITICAL ECONOMY PERSPECTIVE

INTRODUCTION

Events in Zimbabwe during seven years from the start of economic reforms in 1991 have highlighted the contradictions in the ideologies underlying economic development and institutional reform in the country. They have also highlighted the futility of undertaking partial reforms.

Zimbabwe embarked on liberalization of its foreign exchange, banking, marketing and pricing policies in the early 1990s. However, the fiscal deficits continued to increase and key resource allocation systems remained centrally controlled. The gains from liberalization have been disappointing. The benefits were undermined by high inflation and interest rates, caused by excessive government borrowing. High interest rates, together with the rigidities that prevent resources from moving efficiently, make investor response to the liberalized markets very difficult and haphazard. The uncertainty created by conflicting messages portrayed in the rhetoric and actions of the government further reduce investor confidence. This paper traces some of the emerging political and institutional forces that have influenced economic policy and considers the success, constraints and potential for agriculture in Zimbabwe.

government with little to change except to try to reorient the existing state controls to benefit black Zimbabweans. The economy was already largely under the control of the State with all utilities, communications and most transport and agricultural marketing owned by State monopolies. These state owned and controlled enterprises had been established to service the ruling white elite and as a result of the international economic sanctions, they were inward-looking. Local industries and established commercial enterprises were heavily protected and subsidized. There was a system of price controls throughout the economy with very strict limits on imports, effectively excluding the development of any competition since most production involves some imported inputs. Access to foreign currency was rationed, favoring companies in operation in 1966. Price controls, based on costs of production and fixed mark-ups, encouraged high-cost processes with research biased toward increasing yield or quality rather than decreasing costs (Muir and Blackie, 1994). The economy was severely constrained by the distortions, controls and isolation from the world economy. Poor economic performance contributed to bringing the Rhodesian government to the negotiating table.

The euphoria of Independence in 1980 brought with it a brief respite, and it was widely believed that with access to foreign investment, aid, a peace dividend, and more active participation in the world trade, Zimbabwean economy would boom. This it did in 1980 and 1981 with economic growth economic rents made from military equipment purchases led to continued heavy military expenditure throughout the 1980s and into the 1990s.

The new government produced a number of policy documents outlining their intention of combining growth with equity rather than undertaking a radical redistribution. "The central objectives are to foster rapid economic growth, full employment, dynamic efficiency in resource allocation and an equitable distribution of the ensuing benefits" (Zimcord, 1981:1). An important part of the strategy for achieving greater equity between rural and urban areas, and of raising the standards of living for the poor, was the reconstruction of damage from the war, the provision of better infrastructure in the rural areas, and investment in social services, especially health and education. These objectives did not change in the 1990s but the approach to their attainment did. The structural adjustment process, theoretically, focuses attention on market-based growth, transparency, and access to resources.

Few of the early policy documents stressed food self-sufficiency or even food security, which was taken for granted after decades of assured food supplies. However, after the poor harvests in 1982-84, food self-sufficiency became one of the most oft-stated goals, making it politically essential to ensure affordable, assured access to basic commodities.

The decade of the 1980s was disappointing on both the growth and equity fronts. The average annual growth rate was 2.9%, which was barely sector in the 1980s. Despite the redirection from large to small farmers, the resources available were inadequate to begin to meet the needs of a sector so ignored and undeveloped for decades. By 1989 there was still only an average of one extension worker for every 800 farmers and there were few technical packages relevant to communal farmers in the drier areas.

The main focus of the development strategy to achieve these objectives was to reduce government participation in the economy and to increase the rate of savings and channel them to productive investment, to expand trade and to encourage the operation of market forces. Although not clearly articulated in the plan, there was an increasing focus by the government after 1990 on the need to redress racial inequity. There was some effort to promote gender equity but less on regional and income equity, and very little attention was given to the poor either rhetorically or in practice.

In 1992 the country experienced the worst drought of the century which came after several dry years and the country's water and food reserves were low. Mass starvation was avoided but the cost to the economy was enormous as reflected in the sharp decline in GDP (see Table 1). The substantially increased government expenditure to feed the nation, combined with a tight monetary policy and continued increases in military and other government expenditure, forced up interest rates. Thus, while import barriers were being lifted, high interest rates reduced investment, making it especially difficult for new entrants with a low asset base. In addition, the drought diverted foreign currency reserves to food imports. The effect of the drought was particularly severe for the poor as they lost more than 60% of their cattle and other livestock. In 1996 many households had still not recovered their asset base and in a survey of the poor, the majority considered the 1992 drought to be the

However, key elements of the reform program were not implemented and until these are addressed, there is unlikely to be a strong response in the formal sector. These reform failures, in addition to the drought, contributed to Zimbabwe's poor economic performance since 1991.

Trade and Exchange Controls

The most significant reform under the ESAP was the devaluation of the Zimbabwe dollar, which was accompanied by the lifting of controls on access to foreign currency and the lifting of import controls. These changes removed the most restrictive supply constraint in Zimbabwe, encouraging new investment and a more broadly-based expansion of the economy.

The exchange rate was devalued in the 1980s at around 10% per annum in the first five years and at about 5% per annum in the later half of the decade. In 1990 it was devalued by 14% and in 1991 by 44%, which brought it into line with the normally accepted currency overvaluation of around 50% in the late 1980s (Jansen and Muir, 1994). Gradual freeing of the exchange controls took place starting with the retention of export earnings, the opening of local foreign currency denominated accounts and a dual exchange rate system (an official rate for government imports and debt service and a marked-based rate for all other transactions). By July 1994 only one rate remained in place and exporters were effectively allowed to retain export earnings in foreign currency accounts (FCAs). All foreign exchange requirements for external payments were

The quantitative restrictions were initially replaced with some increases in applied tariffs. The Minister of Finance has the power to adjust the tariffs (except GATT- bounded tariffs), and the statutory rates were raised, some to over 100% in December 1993. The tariff structure is highly complex, making it extremely difficult to derive a general tariff rate applicable to a group of commodities. One of the objectives of the reform is both to lower and simplify the tariff levels over time. This process was started in 1994. However, in response to requests for domestic protection, tariff rates were broadly adjusted in 1996 as follows: 5% for raw materials, 15% for partly processed goods and consumables, 30% for intermediate goods, and 50-110% for finished goods (EIU, 1996). Some of the categories of intermediate goods were subsequently revised downwards and those for finished goods upwards as a result of strong protests by local industry. The value of tariffs and import surcharges were approximately Z$500 million in 1991 and by 1993/94 were over Z$2 billion.[3]

The free access to foreign currency and open import licensing resulted in severe competition for local manufacturers who had been protected for so long from both internal and external competition. Few companies were able to compete successfully, especially with the very high interest rates and strong labour unions which made restructuring and retrenchment difficult, despite

[3]Calculated from the duty drawbacks in GATT (1995).

unnecessary. However, those competing with South African firms considered their retention important to reduce the impact of South African export incentives and internal subsidies. Export permits are still required for most agricultural commodities and various minerals. An 0.1% levy is collected on all imports and exports to fund trade promotion but no other export taxes are applied. However, commodity taxes were introduced in 1996 in the form of a 10% levy on tobacco, a principal export (tobacco contributes around 25% to total exports). Although the levy is not an export tax it has the same effect since over 95% of tobacco is exported. Government has proposed other agricultural commodity taxes, with export crops as the main target.

Monetary Policy

Inflation intensified in the 1980s. By 1991 the annual inflation rate was about 23%. Government expenditure was identified as the major source of increasing inflation, especially as to accommodate this, money supply grew at around 35%. The introduction of ESAP with deregulation of interest rates, devaluation, and lifting of price controls, combined with the drought, resulted in an inflation rate of 42% in 1992. The early inflationary pressures were expected since the economy was heavily reliant on imported inputs and the competitive price effects from the opening of the economy would take some time to be realized. The Reserve Bank responded by raising reserve requirements and the rediscount rate, selling government stock, and taking other measures rates as the Reserve Bank relies on monetary policy in the face of increasing fiscal deficits to hold down inflation. To reduce the negative effects of high interest rates on investment, the government allowed certain exporters, with various limitations, access to the cheaper international financial markets.

Fiscal Policy

Fiscal policy has been dominated by the increasing deficit financed mainly from local borrowing. Under the ESAP, government expenditure was supposed to fall to 38% of GDP and the deficit to decrease to 2.4% (Table 2). In fact, it has continued to escalate and at over 10% of GDP, the deficit is the main cause for the disappointing supply response and growth in the economy since the ESAP was introduced. The budget deficit is expected to be between 12-15% of GDP for 1998.

Table 2. Reform targets by 1995 (in 1990 prices)

Indicator	Target
GDP growth	4.6% per annum
Investment	$6,900 m. in productive sectors (83% by private sector)
Foreign investment	$300 million
Savings	24% of GDP (19% in 1985-1990)
Govt. expenditure	38% of GDP (46% in 1990)
Budget deficit	2.4% (8.9% in 1990)
Inflation	9% (25% in 1990)
Employment resettlement	108,500 new formal sector jobs and 50,000 new entrants to informal sector 87,000 resettled smallholders (52,000 in 1990)

Source: Govt. of Zimbabwe, Second National Five Year Plan 1990-95.

deducted at source. In addition, there is a sales tax of 15-25% on all goods and services[8]. Thus the consumption income of wage and salaried workers (those with the highest propensity to consume locally produced goods) is severely eroded. The negative demand effects are probably less restrictive than the continued supply constraints, but they do affect dynamic incentives to invest for the local market.

In an effort to increase revenue the Government introduced a 10% non-tax deductible levy on tobacco; 5% on tobacco farmers and 5% on tobacco buyers. This effectively translates into a 10% tax on farmers since the buyers are able to offset the tax by reducing the price paid. This tax sets a dangerous precedent since it affects resource allocation, moving resources out of tobacco which has a strong comparative advantage, into other commodities. The government is also considering commodity taxes on all unmanufactured agricultural exports in an effort to raise revenue and encourage investment in higher value-added industries. The experience of other African countries regarding export taxes has been so negative that it is surprising that the

[8]An additional 2.5% was added to sales tax plus an additional levy of 5% on income tax in December 1997, but the levy was subsequently removed after mass protests. These tax increases are to fund the benefits to be paid to ex-combatants and have been strongly opposed by workers.

concessions to new entrants and small farmers to avoid undermining the recent progress in wider participation in the industry.

It is obvious from the graph that fiscal policy has not been corrected in line with the stated policies. The expenses on the administrative and security ministries have increased or remained static whereas those in the productive and social sectors have declined. This reflects the lack of accountability inherent in a system where the ruling elite are so firmly entrenched. Despite all the policy statements to reduce government expenditure and to reduce state intervention, resources continue to be directed to those well-connected to the political and military elite. The expenditures in these service ministries were diverted to personal gains, while resources which would benefit economic growth and the poor were reduced. This is done in total disregard of the impacts on the economy, Zimbabwe's poor, or international opinion. The rapidly increasing corruption and misdirection of resources have contributed to increasing budget deficits.[10]

A much greater sale of government assets in order to try to increase revenue will probably take place in 1998. This is, however, not a long term

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[10]Diplomatic mission staff were paid excessive salaries with the highest paid earning more than the U.S. President. Rents from military expenditures, the sale of State assets, access to War Veterans injury compensation, housing schemes and others misappropriated for select individuals who, and even after being publicized, remain unpunished. With the economy on the brink of collapse in late 1997 and early 1998, new top-of-the-range vehicles were imported for Ministers. These are a few examples of recent maladministration.

the disappointing response of the industrial and commercial sectors to trade liberalization.

The first five-year period of reforms resulted in the commercialization of some state entities and the reduction of previously very large parastatal subsidies. Agricultural marketing boards and electricity were the first to undergo these changes, along with the railways and airlines. In due course these State commercial enterprises are to be partially sold to the private sector but with specific provisions to ensure preferential access to shares for black Zimbabweans in order to try to address racial equity. Even where these entities are no longer *de jure* monopolies, they remain *de facto* monopolies and the costs of these inefficiencies could, and have been transferred, from the State to the consumers as subsidies are converted to price rises.

The structural adjustment program is premised on a movement away from a centrist state-controlled economy to a market economy. The inherited colonial, settler and UDI institutions and modus operandi, together with the Marxist orientation and background of those in power, have made the transition extremely difficult. Some seven years after the introduction of the ESAP, there is still a culture of licenses, controls, order, and a paternalistic attitude which assumes responsibility for the survival of individual entities, even when they are inefficient. There is only a limited understanding of competition and how essential the removal of barriers to entry are to the successful working of a considerable. However, they are probably far less than the losses which result from the dynamic effects of poor communications on development. With the liberalized agricultural markets, access to market information is critical and the smallholders cannot be expected to participate effectively in modern development without better communications systems.

The government's commercialization of some parastatals greatly reduced the subsidies but several of these still remain a heavy drain on the government budget, in particular Zisco Steel and the Grain Marketing Board (GMB). Most parastatals have been commercialized and a few (including Dairy and Cotton Marketing Boards) privatized. Cotton producers have benefited from more open competition although entrance is limited by high initial capital costs. However, both dairy farmers and consumers are not yet benefitting as there is little competition in the dairy industry. The pressure on commercialized enterprises is to make profits and to cut back on some services; for example, AFC loans to the communal sector dropped from an average 26% to 12% pre-1991 to post-reform (Oni, 1997:70). The enormous losses of the GMB came from the drought relief programs and the servicing of those debts. The GMB is required to hold combined financial and physical stocks of the equivalent of 936,000 tonnes, and will continue to need a subsidy after clearing the debt even if it

The reforms worked more effectively than even the most ardent free market advocates had anticipated. The controlled agricultural marketing system had been inimical to both growth and equity. It was not only the static impact that had discouraged specialization, growth, and output. The dynamic effects resulted in few opportunities for any expansion of local exchange and no local integration and few, if any, multiplier effects in the rural areas from surplus production. The dynamic effects of a free market system have already begun to have a beneficial impact on rural development.[13] The market no longer operates along a single channel between major cities and the rest of the country. As the marketing of major commodities opened up for local investment and development, traders became established and marketing of other commodities and opportunities for local production, trade and exchange are beginning to widen.[14]

The decontrols were also effective because they were accompanied by the lifting of restrictions on foreign currency and imports, allowing for purchase of transport, processing equipment and other inputs by new entrants. Rural entrepreneurs were able to take advantage of the investment made in road

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[13]There was an increase of 115% in the number of hammer millers between 1992 and 1995, the surplus grain areas having the strongest response (Zimbabwe National Hammermiller Status Study, USAID, 1996).

[14]Opportunities form informal competition have expanded after price rises in the formal sector of over 50% on oil, soaps and other basic commodities in 1997/98.

agreements with processors. However, participation requires better access to information and involves more risk, since prices are not known in advance.

The 1980s resulted in implicit taxation of most agricultural commodities except wheat, and the post-reform period has reduced these considerably. There are still distortions resulting from the macro-environment which makes it difficult for new business and competition to be established. The adjusted nominal protection coefficients (NPCs) for agricultural commodity exports in the 1980s averaged around 0.6 whereas in the 1990s they have probably remained closer to 1, except for tobacco which varied between 0.8 and 0.9, depending on assumptions.

On the whole, most farmers have benefitted from decontrol although it is too early to carry out any reliable analyses, particularly as no data is systematically collected on the average producer prices paid. The first year of private trading following the good 1994 harvest resulted in maize producers being paid a little less than the GMB price by private traders in communal areas (ZFU Marketing Survey). However, the main advantages to producers of using private traders are instant payment, farm-gate collection, packaging and grading services. The 1995 harvest was poor and the prices paid to producers by private traders was more than double those paid by GMB by early 1996. In 1995/96, prices did not drop for maize in nominal terms and for most commodities they actually increased (Table 3), despite very good rains and large

Table 3. Nominal agricultural producer prices 1980-1995
(Z$ per ton, exceptions noted)

	1980	1982	1984	1986	1988	1990	1991	1992	1993	1994	1995	1996	1997
Maize A	85	120	140	180	195	225	270	550	900	900	1050	1200	1200
Sorghum:											0		
White A	105	115	140	180	195	225	270	550	520	520	650	920	700
Red A	105	115	140	180	80	180	270	550	520	520	650	920	600
Wheat AS	135	190	250	300	365	460	520	995	1450	1450	2100	2550	
Cotton c/kg	38	52	57	75	85	117	135	163	267	320	370	420	
Soya A1	160	200	287	340	420	485	560	950	1323	1600	1600	2000	2900
Groundnuts^	390	450	500	750	1000	1250	1250	1500	1800	2400	4500	5000	
Beef c/kg	81	128	148	180	254	285	304	370	370	461	n/a	1413	
Tob.# Z c/kg	80	167	206	313	393	426	639	1135	802	1380	1890	2900	2660
Tob. US c/kg								162	124	173	212	294	233

Sources: GMB Annual Accounts; Min. of Agriculture Statistical Bulletin, 1996; Tobacco Marketing Board: personal communication.
Notes: Except where otherwise indicated these are the Marketing Board set price-floor price after 1994.
^Groundnuts: shelled Grade P1/A1. 1997 only unshelled available as 4000.
*Maize prices in 1995--GMB paid above set floor price. Indicative average given as Z$1680.
#Tobacco prices are the average price paid on the auction floors.
¯The average bid price on ZIMACE (no CSC data available 95 and 96).

marketing of higher-value commodities and services. In the poor rainfall, deficit areas, the producers have benefitted from the opening of markets and even the closure of depots since they can now legally take advantage of the high demand for grains in those areas.

The most remarkable result of decontrol has been the significant increase in rural and urban small-scale millers, the increase in the number of rural traders, and the opportunities for real growth with equity as the multiplier effects and options for local specialization and exchange expand. The supply response was almost immediate and occurred despite the high interest rates which particularly affect new enterprises, the stringent health regulations[17] which effectively mean that every urban small miller is operating illegally, and the many other bureaucratic and financial problems facing their entry. Barriers to entry for rural traders are significantly reduced by the lack of any licensing requirements, thus allowing the market to be highly competitive. There is some lobby for licensing to reduce operations of unscrupulous traders and to raise local district revenues. However, experience elsewhere indicates that the

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[17]There are over 23 stipulated requirements to meet urban health regulations. These are broadly applied to all food processing and many of the requirements are unnecessary. Their existence, however, makes investors vulnerable to arbitrary closure by politicians and bureaucrats with other agenda. The regulations may even be inappropriate to large, industrial manufacturers. They were introduced during the era when prices were controlled and based on costs of production such that their costs were borne by consumers or government subsidies and attracted no objections from the industrialists.

becomes clear that poor consumers have benefitted financially and nutritionally from decontrol.[18]

In January 1998 the GMB increased nominal selling prices of maize grain by 30% to $2900 and, as a result, roller meal prices were increased by 20%. These increases were subsequently reversed by government in the face of strong protest from low-income urban wage workers who find it more difficult to access the cheaper, hammer-milled maize. The GMB did not release more maize on to the market at prices related to the $1200 purchase price but rather it related these to import parity prices needed to replace the grain exported to Zambia. The price increases have resulted in renewed calls for maize meal subsidies which would undermine all the new informal millers and do little to contain prices over time. The government may take a political decision to reintroduce subsidies. What is required, however, is a more effective floor and ceiling price system to be established to ensure that the GMB fulfills its price stabilization role.[19]

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[18]The hammer-milled maize contains more vitamins and nutrients, although it is often less preferred and does involve much more time investment to obtain.

[19]Readers are referred to Child, Muir and Blackie (1985: 371) for recommendations on trigger price levels.

meeting and exchange of other commodities. The increased competition has also forced industrial millers to become more efficient, reducing real prices but with some costs to formal sector employment. However, more people have been employed in the informal sector, although at lower wage rates.

Fiscal Impact and the Role of Government in Agricultural Marketing

The drought of 1991/92 made the achievement of the reduction of agricultural subsidies impossible. As the worst drought in written record, it came after almost a decade of below average rainfall so that both the surface and underground water supplies were also very low and families were holding no stocks of food from previous years. This involved the government in a large and expensive supplementary feeding program. Another drought in 1994/95 also affected the subsidy position. The government did not provide the GMB with the funds to repay its borrowings and, given the very high interest rates, the accumulated debt forced it into a situation of ever-increasing deficits. The government now finances this deficit and the GMB is expected to make profits on its commercial operations and to receive government funding to maintain specific basic services to smallholders and to maintain a national strategic food and food-financing reserve. However, in general, subsidies to agricultural parastatals have been reduced significantly in the 1990s, the losses (except the and inefficiencies. The negative dynamic effects could offset any gains. However, it is possible for the government to invest in infrastructure, research, training, provision of information on prices and opportunities through the radio and to reduce import taxes on vehicles for trucks registered in rural areas and reduce excise taxes on fuel sold in rural areas. There would be leakages into private benefit but these concessions would be concentrated in rural areas and may attract investment into these areas. The government must avoid enacting any legislation or policies which may introduce barriers to entry, and provide an enabling environment for the provision of private-sector credit in rural areas.

Land is regularly used in political polemic as a diversion from government failures. However, an analysis of government actions would indicate that they are more concerned with maintaining political control than with redressing the land imbalance. By 1984, 65% of the land targeted for resettlement by 1995 had been purchased, mostly with British funds. Very little land was resettled between 1990 and 1995. The rhetorical response to the limited success with resettlement has consistently been the unavailability of land, despite the fact that government was offered 1.7 million ha. in Natural Regions I, II and III between 1986 and 1989, but purchased only 540,000 ha. (Maposa, 1995). There is much evidence that shortage of land was not the main factor in the slow pace of resettlement. In 1994 the government-owned 345 farms, of which 29 were vacant, 64 were on offer for lease, and of the remainder, 71 farms (97,000 ha.) had been specifically acquired for resettlement but were leased out. These were in addition to the State farms, which have to be subsidized in most years. In 1993 the Comptroller and Auditor General's Report shows that of land purchased for resettlement, 236,000 ha. were idle and 52, 000 were leased out to private individuals and organizations. Analysis of successive government budgets shows very small allocations of government expenditure to land and resettlement (less than 0.02% in most years). The limited budget for land purchase and resettlement indicates the lack of

- the government has the right and duty to "protect" farmers from bankruptcy; and
- the country does not wish to change the highly dualistic land allocation system. The basic structure is to remain the same as that found in 1980: a few relatively large, capital-intensive, highly profitable farms and a mass of small, communally or state owned subsistence farms with very low incomes. The only difference will be improved racial equity and some more land for smallholders but the inefficiencies of the past are perpetuated. A land reform based on political patronage is maintained.

The original prohibition on subdivision was implemented in the 1950s in reaction to the findings in the United States on the economies of scale associated with large-scale agriculture. It did not, however, take into account the very different resource scarcity in the two countries. The strong support for this probably came from attempts to maintain *de facto* segregation since at the time there was no *de jure* segregation on land ownership. By the 1950s there were black Zimbabweans who could afford to buy small farms. Legislation preventing subdivision ensured that black farmers remained in the Purchase areas since very few could afford to buy the farms in the large farm sector unless they were subdivided.

The recently declared government policy is to purchase 50% of the remaining large farms and to utilize some as State farms, an unspecified number to remain as large farms allocated to selected individuals, others sub-divided and allocated as medium sized farms to selected agricultural graduates, and some to be allocated to smallholder resettlement. The position of farm workers on this remains unclear. There is every possibility that of the 1,503 farms (about 4 million hectares) designated for purchase in December 1997, less than a quarter will be used to resettle smallholders. Government policy documents and statements refer to the need to maintain productivity by allocating land to State farms and to large-scale indigenous farmers. Land, therefore, is not part of the reform process towards a more market-based economy nor to reducing poverty but is designed to increase political patronage and to some extent to address racial equity. As a result, a key resource in the economy is immobile and the structure remains essentially unchanged, although it now serves a different elite. Recent findings show that smallholder resettlement in Zimbabwe can, and have, led to higher incomes and more equally distributed incomes and that resettled households crop twice as much land and earn three times the unit revenues of communal area farmers in the same natural region (Kinsey, 1997). There is much evidence that small farms in Zimbabwe can be efficient and that subdivision could significantly increase agricultural output given the right circumstances and support.

There is a strong political imperative that hinders the introduction of sub-division and land taxes. The Land Tenure Commission has recommended their patronage and involves the political elite in the payment of land taxes, it is unlikely to be implemented without pressure from the electorate and donors.

Another formidable task in addressing the land issue in Zimbabwe relates to tenure in the communal and resettled areas.[23] There has been some action promised on reformulating the leases in resettled areas but less is being done to address the anomalies in the communal sector, particularly with respect to the allocation and control of natural resources. These resources are currently owned by the State and are essentially open access and the cause of friction between various state, political and traditional leaders and line ministries (Bond, forthcoming). There could be effective common property regimes if tenure is changed and more control is given to the local communities.

Government Expenditure

Fiscal policies continue to undermine the economy and the reforms. The targeted 4.5% GDP growth rate per annum for five years was not achieved; instead, real per capita incomes declined over the period. The budget deficit has remained high at around 10% of GDP instead of being reduced to 2.4%. The policies and institutions reflect a political system that allocates resources to powerful political lobbies. However, unlike the system in the United States, the Zimbabwe system is geared to the benefit of powerful individuals rather than voter blocs, and the checks and balances that restrain any one individual or

[23]This issue was thoroughly investigated by the Rukuni Commission (1994).

statements of forthcoming fiscal prudence and budgets which promise high growth and lower government expenditure. This is also rarely translated into practice, but loan officers appear to require only stated intentions in order to expand their portfolios and loan funds to the government. Of particular concern, as it relates to the expected expansion of the economy in response to decontrol, has been the increasing local financing of the deficit, fueling inflation and interest rates and discouraging new domestic investment.

Increased defense expenditure was anticipated in 1980 to accommodate the returning freedom fighters. The justification for continued high defense spending in the 1980s was the implicit threat from South Africa. However, since the peace accord in Mozambique and the majority rule government in South Africa, there is no longer any justification for the very high levels of defense expenditure. Military leaders are enriched by providing lucrative opportunities through payments received on equipment orders. Everyone, including government spokespersons, accepts that the large government deficit is a major stumbling block to increases in incomes, employment and equity in Zimbabwe. However, the reality is that the government has made little effort at expenditure reduction and that which has been carried out has affected the productive and social sectors and capital expenditure rather than the non-economic sectors, wages, and recurrent expenditure.

individuals and individual groups in the light of corrupt allocation of tenders, housing, compensation, land, etc. and anomalies in government expenditure.[24] The informal sector and the deregulation of markets appear to have been the only positive factors to have resulted from the partial macro-economic reforms implemented in Zimbabwe. Until government expenditure is reduced and there is a real commitment to systems which are transparent and encourage efficient resource allocation, it is unlikely that the Zimbabwean economy will fulfil its considerable potential. The future of agriculture in Zimbabwe is uncertain. Unless the collateral value of land is certain, production of high-value, export commodities is likely to decline. This will have severe impacts on growth because of the strong multiplier effects of agriculture and the importance of adequate foreign currency reserves in the Zimbabwean economy. The partial reforms have had some benefits, but without increased mobility of resources and reduced inflation and interest rates, economic growth will continue to be slow. The current and proposed institutions may address racial equity but are likely to increase poverty and income inequality.

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[24]The government recently decreed that all municipalities were to build official residences for the "executive mayors". The one in Harare is expected to cost over Z$20 million; this is against the backdrop of severe housing shortages for the poor and declining basic services and rates escalating faster than inflation. The 1996 national budget provided four times more for a State Guest house to be built in Gweru than for the acquisition of land for resettlement. The list of such gratuitous expenditures at the expense of urgent development investments is lengthy.

commitment to a market economy and to the implementation of social programs that will ensure effective "trickle-down."

There are many similarities between Indonesia and Zimbabwe, which highlight the incompatibility of the conflicting ideologies of market-based economies operating under corrupt dictatorships, supported by international donors, faced with very skewed income distributions, where the rich comprise ethnic as well as political elites. An economy can only benefit fully from reforms when there is a decline in government expenditure on administrative sectors, free mobility of resources, assured property rights, and deliberate mechanisms to promote growth with equity.

The informal sector in Zimbabwe did gain considerably from the reforms. The position of agricultural workers in wage negotiations improved because other opportunities became available through the informal sector. The position of the unemployable has declined as domestic prices increase and access to social benefits are directed to associates of the elite. The real incomes of wage and salaried workers have been eroded while those of the political elite and corporate executives have risen. The reforms negatively affected formal-sector employment. With increasing population, particularly of literate school leavers, demands for formal-sector jobs and higher incomes have increased.

The crises in Zimbabwe in 1997/98 were brought about by a combination of excessive government expenditure, corruption, and a government afraid of losing power. Until a conducive environment for investment is established, it is unlikely that Zimbabwe will attain its economic potential .

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FIGURES

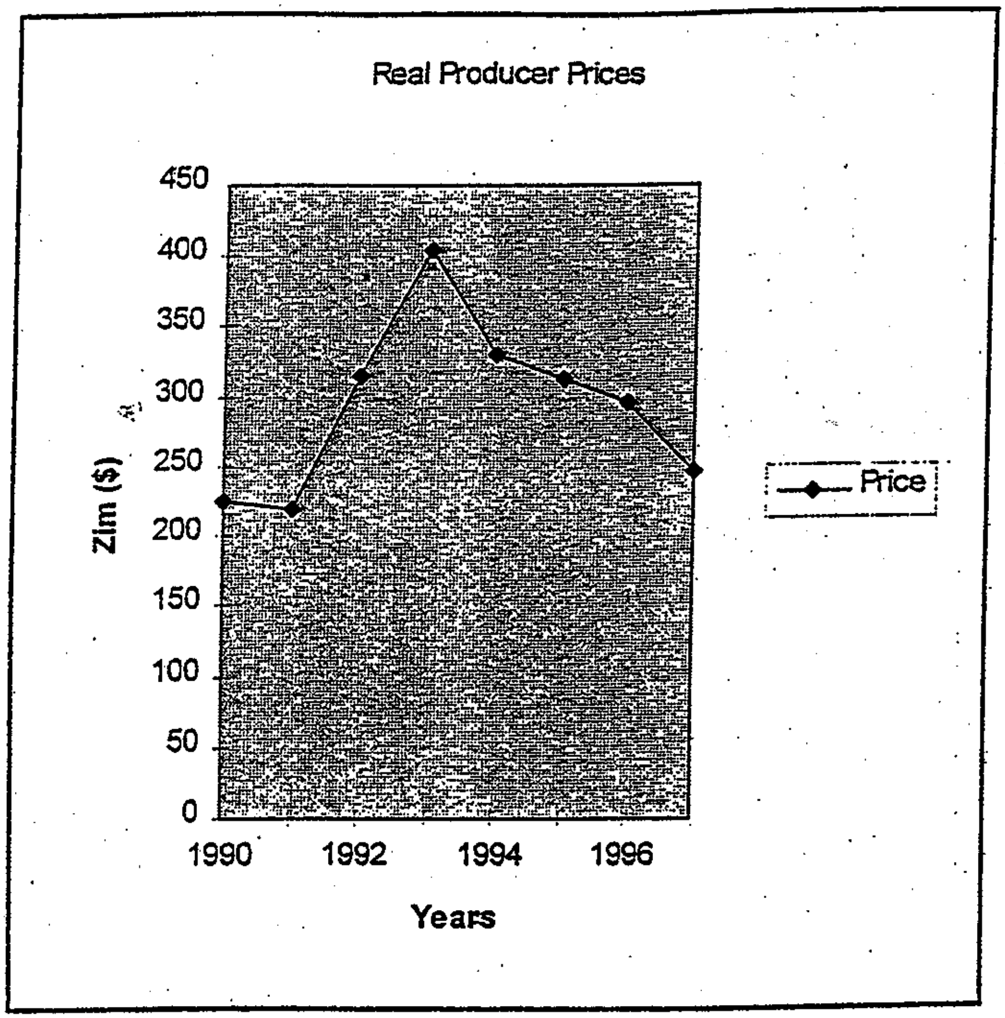
NOTES FOR FIGURE 1: BUDGETESTIMATES FOR VARIOUSMINISTRIES

1) The ministries titles change but the breakdown approximates to the following:

Agriculture and Lands Ministries	Security Ministries	Social Spending Ministries	Administrative Ministries	Productive Ministries
Agriculture Lands	Defence Home Affairs	Health Education Social Welfare Housing Construction Local Government Labour Manpower Public Service	Finance Legal, Foreign Affairs, Justice, Law & Order, Constitutional & Statutory President Cabin etc, Parliament, EmploymentCreation, CombinedOperations National Affairs & all the political ones	Transport, Energy P.T.C. Ministry of Information, Roads, National Supplies, Natural Resources, Water works, Mines, Industry and Commerce

2) Social spending ministries include Local Government, part of which should go to administratio Social spending is overstated and administration is understated.

Fig 3: Real GMB Maize Producer Prices



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