

"Naught for your comfort but that the waves grow higher and the storms grow wilder" - African Economies in the mid-1980's.

by

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External Impact Requires National Response

The generality of economic debacles in Sub-Saharan African economies, since 1975 for mineral exporters and since 1977 for others, suggests that the dominant causes of sustained recession and increasing disintegration are - in a majority of cases - external. The structures, histories and policies of the now crisis ridden SSA economies vary so widely, the downturns have been so sudden and the ability to recover so limited (unlike the 1973-75 crisis period) as to make assertions about general, dominant domestic policy causes somewhat implausible.

External shocks reduce domestic efficiency

For example lower export purchasing power causes lower imports, lower capacity utilisation in manufacturing, erosion of the tax base on domestic manufacturers, lack of 'incentive goods' for farmers to buy. It also means extra work for policy makers and analysts, for import managers and allocators, for productive unit managers scrabbling desperately for fuel, for spares, for transport, for local and imported inputs. In many SSA economies nothing would increase policy and managerial performance so much or so rapidly as a reduction in the import capacity (or foreign exchange) constraint.

However, the dominance of external causes - still less debates about whether their direct and indirect impact to any specific country's crisis is 50% or 75% or 99% - must not be seen as justifying a call for an external cure:

1. if the world economic setting has changed national policies and relations to the altered external economic context must change;
2. the buoyant world economy of 1945-69 cannot be whistled back into existence - even its transitory partial reappearance

over 1976-78 is beyond reach - and assertions to the contrary serve SSA very ill;

3. nor is there any real plausibility to hopes for a breakthrough on North/South negotiations either on structure or on massive transfers. The Brandt Report's strategy for survival had and has much to commend it but it has not itself survived the forces massed against it.

In policy review three dangers must be guarded against:

- A. Radical back and forth shifts at short intervals with high disruption costs and no perseverance for long enough to bear fruit;
- B. Resolute drifting or refusal to take and act on any policy decisions;
- C. Grim dedication to particular policies which may or may not have been sound when adopted but can no longer function.

The price of alternating rapid chopping and changing with resolute irresolution for decades is grimly illustrated by Ghana and Argentina.

Starting Where We are

No policy maker has the option of starting where he wishes he were today much less where he aspires to be in 20 years time. Nor can he alter the past to change where he has arrived. Time past and time future are contained in time present. Time past is only redeemable by understanding and acting on it in the present to alter the future. Time future can only be altered by acting here and now. Courses not taken and the paths to which they would have led remain possibilities only in speculation and abstraction.

Analysis of past alternatives and of future goals from which to chart direction is essential. But it must not be allowed to mystify suggesting that will and desire can evade or overcome the necessity of starting where we are.

There can be no long term unless we grapple successfully with the short, no first arrival unless we take the first steps - and take them in the right direction. In Africa where we are is in crisis - in the political economy not of autonomous development or of dependent development but in the majority of cases in the political economy of deepening stagnation, incipient or actual disintegration.

That means that the first imperative is to consolidate, to regroup - in a word to survive. Only when that is done can a forward dynamic be resumed. Failure to begin consolidation and regrouping now will mean more and more collapsed economies like Ghana and Uganda for whom the barriers even to halting the dynamic of decline, still more to real consolidation and most of all to restored growth even to where they were in 1960 and 1970 respectively are very high and craggy indeed.

Consolidation has four priorities:

- a. maintaining the core of existing productive, infrastructural and human capital stock (in installations, institutions and human beings);
- b. rehabilitating critical elements of the economy's and society's capital stock which are run down (e.g. cocoa in Ghana, railways in Zambia, rural water facilities in Tanzania);
- c. maintaining or raising the rate of utilisation of existing capacity - in agriculture, in transport, in manufacturing, in basic services;
- d. identifying and closing gaps (in infrastructure or production chains or basic services) which critically hamper achieving the first three priorities.

The achievement of these four tasks can lay a foundation for new advances (whether on the previous basic national political economic project, a revised or a radically altered one). Until that foundation is laid trying to restore a rapid development dynamic is like laying brick walls on quicksand.

To be concrete consolidation means more imports of spares and chemicals for textile factories and less or no new factories

and capacity expansion, more spares for existing rural water projects and a slowdown in new capital/import intensive one's establishment, more parts for lorries and less new lorries. Of course selection is needed - spares for tractors which have always been underutilised and uneconomic and whose potential viability has been wiped out by oil price increases and reduced import capacity are as much of a nonsense as manufacturing plants dedicated on day one and closed for lack of imported inputs on day two. The basic point - and one which has only been partially realised and even more partially acted on by SSA governments or external donors - is that priority must go to operating maintaining and rehabilitating what exists.

How does the principle of starting where we are and consolidating to build a foundation for renewed advance relate to externally oriented, export led growth strategies (as quite explicitly advocated on the World Bank's Agenda for Action) and to what I will call National Political Economic Integration Strategies (whose regional context and twenty year goals are sketched in the OAU's Lagos Plan)?

Export Led Growth

Primary product export led growth is a high risk, low payoff strategy. It will only benefit its practitioners if one country in ten follows it. The growth rate prospects and price elasticities for most of Africa's traditional exports are dismal in the extreme (a projection on which the Bank and UNCTAD are in close agreement). The 50% deterioration of the terms of trade for many African exports since the early 1970's (over 67% since 1977 for coffee, tea and cocoa) is now projected to continue for the 1980's as a whole.

Those projections assume continued low growth of African exports. Given the low price elasticities were SSA exports of these products to rise rapidly African economies would receive less - not more - foreign exchange. For coffee if an African country raises its rate of export growth for every kroner of exports

it gains other African exporters will lose one and a half and all other coffee exporters taken together about five. At bottom the primary export led growth theme - at least for the 1980's - rests on a simple fallacy of composition.

Export led growth based on manufacturing might be more desirable and promising - only might since the rapid increase of industrial economy protectionism against Third World manufactured exports from garments through instant coffee to steel gives ground for doubt. But for SSA in the 1980's it is not practicable.

The main successful exporters of manufacturers to break into the world market in the 1970's did so either on the basis of cheap labour tied to a commercial tradition, cheap capital and first rate infrastructure, or on the basis of a 30 or 40 year inward looking development of a broad manufacturing sector backed and guided by detailed state intervention which then shifted to selective export promotion. As no SSA economies have low labour costs, cheap capital, first rate infrastructure (except perhaps Mauritius) the first route is a non starter. The second - that of Brazil, of the Republic of Korea and of the Peoples Democratic Republic of Korea is more interesting, more relevant and more like what some African industrial strategies have sought to achieve. But, however well or ill designed and implemented these strategies, none is over fifteen years old versus the 30 to 40 years historical experience suggests is required to build a strong enough, broad enough industrial sector. In the 1990's perhaps for a few economies (e.g. Zimbabwe, Nigeria, even Tanzania) not in 1980's.

National Political Economic Integration

The past record of limited bursts of growth turning to stagnation - and in the present crisis decline - demonstrate the desirability (or even in most cases necessity) of national political economic integration (or self reliance, or delinking or economic liberation - the terms overlap and the variants within each are numerous) strategies. They further increase the case for attempting them in a regional context.

If rapid domestic growth pulled along by still more rapid export growth is not possible what alternative is there to domestic (internal) oriented production and market expansion as the leading force? If the Balance of Payments constraint chokes off growth and export increases are hard to come by, is there any option other than increasing domestic production and use linkages to allow higher levels of national production at any achieved level of exports? If radical instability (or prolonged decline) of export markets and terms of trade imposes major shock and start/stop costs, is it not critical to reduce the degree of dependence on exports and imports as insurance and as a means to broaden alternative practicable economic choices?

But the crisis not only makes nei strategies seem more desirable - it also makes them much harder to begin or where begun in the late 1960's to sustain. Real national purchasing power per person (physical output per person corrected for loss of export purchasing power in terms of imports) is declining for a majority of SSA economies; a poor market base for internally oriented expansion. Import constraints block use of existing and building of new capacity; a far from ideal resource availability position for building up intermediate and capital goods production and developing new agricultural and natural resource based primary production as inputs into domestic production.

The first thing an nei strategy based on genuine economic structure transformation requires is an absolute increase in imports. In small economies it often requires an increase in the ratio of imports to national production (e.g. People's Democratic Republic of Korea but not Brazil). Certainly this is likely for economies needing to import most of their fuel and capital goods - the condition of most SSA economies throughout the 1980's (no matter how hard they explore for oil or how rapidly they expand their very small construction materials and machinery/engineering goods production).

In brutal fact the crises has hit those economies with moderately well advanced nei strategies particularly hard.

If an economy by 1977 produced 90% of consumer manufactured goods, 50% of intermediate goods and construction inputs and 10% of capital goods - spares - engineering products, and had reduced the operating input (raw materials, parts, spares) proportion of imports to 25% (low in African, moderate in global terms) it had gone a long way from the colonial toward the nei structure. It imported basically fuel, capital goods, intermediate goods, and more marginally food and consumer durables.

If - as is more likely than not - it has since suffered a sharp terms of trade deterioration, a rise in debt service burden and a deterioration in domestic food availability relative to demand, the results are catastrophic. Import cuts have reduced domestic manufactured goods availability by four times the foreign exchange cost 'saved', fuel-food-debt service take up over 75% of export earnings, the erosion of the manufactures tax base has hurled the recurrent budget into deficit fuelling unprecedented inflation, parallel markets grow rapidly and lack of the goods that used to be produced domestically cripples incentives and prevents even maintaining real peasant or minimum wage earner incomes. Precisely because the economy had gone further in domestic economic integration - but still had very critical import requirements - the multiplier effect from lost import capacity is greater than for the pure export economy.

None of this invalidates nei as a strategy nor as one criteria for picking out what to consolidate. It does suggest that consolidation is the first step toward resuming or adopting an nei strategy and that in their initial years such strategies are very vulnerable to external shocks.

Notes Toward Identifying Priority Themes

In SSA the contexts (of history, of state governing coalition composition, of economic structure, of exact relationship with the world economy, of present state of morale and of dilapidation, of weather, of opportunities) of states and their territorial economies and of major sub-units (geographic, ecological and social) within countries differ widely. No general strategy for consolidation can be drawn up except with a specified objective correlative of a particular economy at a particular point in time. Nor can such a strategy be prepared in any meaningful sense by a single intellectual or bureaucrat (or even a large mixed committee of them!) nor presented in a half hour talk (especially in a talk outside any specific African context and, indeed, outside SSA as a whole!).

What can usefully be done - analysis, reflection and identification of general themes by intellectuals and bureaucrats are important - is to indicate priorities. This is important for the following reasons:

1. under conditions of extreme resource scarcity (foreign exchange, high and middle level personpower, fiscal revenues, investible surpluses, food, petroleum, products, etc.) priority setting, coordination and enforcement is in itself the first priority. 'To plan is to choose' and to choose is to exclude the secondary or postponeable to include and be able to include and act on the essential and urgent.
2. there are a number of common priority areas which do apply to most - indeed perhaps all - SSA economies and struggles to reconstruct them today.
 - a. increasing the capacity utilisation and growth rates of goods producing sectors (including transport and energy);
 - b. defining the goals and scope of the public sector (and acting on that definition) in terms of the necessary and of the possible;

- c. creating and maintaining practicable incentive patterns which serve social, economic and political economic goals including raising production at acceptable real resource costs;
- d. serious attention to coordinated prices policies at macro (e.g. wages, salaries, bank credit, exchange and interest rates, grower prices) as well as micro (e.g. relative grower prices, particular wage and salary differentials, producer-distributor-consumer prices for critical goods, rates of indirect taxation on particular items) level and to testing proposed or actual price patterns in terms of realism (do real resource availabilities balance demand at these levels) and of implied incentives (to produce, to shift production, to smuggle...);
- e. efficiency defined in terms of stated goals and progress toward them achieved at as low a real resource cost as practicable;
- f. the uses and limits of external commercial borrowing;
- g. the possible improvements in quantity and quality (i.e. relevance to priorities) of external concessional transfers (aid);
- h. increasing exports not to have export led growth but to reduce dependence (on begging and borrowing) and to finance those imports necessary for consolidation and national economic integration.

Producing More Goods

SSA economics must produce more goods (especially food, agricultural inputs into manufacturing, basic manufactured goods for consumption and construction, transport, energy) absolutely and relative to services. This priority is not an alternative to sustaining or expanding or creating basic education, preventative and curative health, pure water or crop failure relief services; rather it is the necessary condition for

sustaining or achieving them. To pose the question primarily in terms of alternatives (as some proponents either of production or of basic services do) is to mystify. The advocacy of expanded textile production out of existing capacity in Tanzania, for example, is not advocacy of reducing availability of pure water - it is, by its incentive and government revenue impact, a necessary condition for maintaining and expanding access to pure water.

The two basic arguments for increased goods production are balance and revenue base. Balance is needed in respect of specific goods: for example, energy, food, housing and of physical goods in general vis a vis services. The need for basic goods and services is for a balanced package - adequate health, education and water with inadequate food, clothing and fuel is as unsatisfactory as the reverse combination.

The second argument is that physical goods (including for this purpose energy, construction and perhaps transport) provide the basic surplus (public or private, fiscal or household) to finance the purchase of services. The government revenue base for health, education and water depends primarily on industry and agriculture as does the household cash income available to pay for marketed services.

None of this is to argue that basic services are not productive. Health, education and water are among the most productive investments/operations in Africa. The retrospective evaluation of IDA shows high rates of return on projects in these categories and IDA integrated rural development programmes have often 'failed' because the production technology package was unsound not because the infrastructure and basic services components failed to achieve their targets. Common sense also tells us that healthy, literate workers and women freed from spending half their time fetching wood and water will be more able and more motivated to produce. By that same logic, however, more food is needed (literate, healthy but weak from hunger is not

a productive combination) for balance and more production of goods in general to restore the government revenue base to finance primary education, health, pure water and woodlot development and/or operation.

Public Sector: Priorities and Problems In Sub-Saharan Africa

The public sector has played and will continue to play a leading role. This was true in the colonial period - detailed state interventionism not laissez faire was the order of the day - and is true in South Africa; it is more a matter of contextual necessity than ideological preference. Both historical analysis of Western and Central Europe - for example by Professor Gershenkron - and examination of how Japan, both Koreas and Brazil broke through to possessing major domestic industrial sectors and competitiveness internationally in selected lines indicate that late starting economic development has required detailed state economic intervention, extended protectionism and, usually, as substantial public sector role in production/finance/external trade. Given the very late start, weak private domestic sector capacity, poor domestic savings mobilisation capacity and extreme openness to trade, African economic development (whether capitalist or socialist) will require large public sectors - both governmental and public enterprise. The exact forms, sizes and emphases will (and should) vary but, without public sector leadership African economic development (or even emergence out of recession) will not take place.

There is no general case that African public sectors do too much, in most cases they probably do too little. (Globally, excluding consumption transfer payments, recurrent government expenditure is typically near 25% of national product - SSA levels are in that range as much as West European or South Asian. On transfer payments, i.e. 'welfare' as normally defined they are below any other region.) Nor is there any general case that the private sector could or would do better - especially in in terms of providing services to poor peasants and workers at prices they could afford. E.g. private sector agricultural

marketing does not in general provide a higher share of retail (or export or factory) price to peasants. It may well substitute 'efficient' capitalist profits for sluggish employee wages but one must doubt whether that does much good for the peasant or the national economy,

The case for change rests on the demonstrable fact that many African public sectors do what they do very badly and do not seem to have clear priorities or sequences. To seek to do now what can be postponed (e.g. international airport upgrading) or what is better done by private or co-operative/local public enterprise units (e.g. retail shops, rural short distance lorry and bus transport) is disastrously expensive. This is true not simply because these activities themselves are hardly priority but even more because it means that urgent priorities (e.g. in macro economic policy and/or in national storage facilities) and key sectors in which a public enterprise role is critical (e.g. banking, external trade) are left vacant or done very badly.

Precisely because the public sector is vital - in basic services, in macro economic policy and market management, and in production/trade/finance, it must identify priorities, sequences and goals and constrain what is attempted within the limits of the possible. To fail to do this - as many SSA governments have failed - is to achieve less than is possible and to fail to build up a process of increasing public sector capacity and efficiency.

Because SSA economy and state resources have in many cases declined since 1977, there may often be a case for specific cutbacks in public sector activity. But this case is not an ideological one nor is it grounded in any belief the private sector will take over. Nor should it be directed primarily at public enterprises as such, still less at basic services. General administration, defense (especially in cases with no real threat of external aggression), retail trading, fancy infrastructure would seem to be the areas deserving intensive scrutiny for possible reductions in coverage and resource allocations.

Incentives - What Motivates Who To Do What?

Of course people respond to incentives. Of course material incentives are important - especially to poor people. But to proceed from saying incentives are important to saying higher real grower prices and wages are everything is chopped logic and, often, unworkable economics. To try to follow such a price/wage centered incentive strategy in SSA today is 'throwing money at the problem' often with no serious examination of whether the money will result in more goods or merely more inflation.

Many SSA economies have, because of sluggish physical growth and falls in the purchasing power of exports, less national purchasing power than in 1979. Raising or even holding constant real grower prices and minimum wages requires reducing real salaries, real government expenditure and real enterprise (public or private) profits. Such radical, rapid shifts in income distribution may not be possible and - at least in their impact on basic services and investment potential - may also not be desirable. Attempts to carry out this approach in the face of worsening external constraints and domestic production in Tanzania in 1980-1981 did not work. Grower prices - as a whole - were held constant in real terms, minimum wages eroded moderately, real government spending was cut as were real salaries. But this did not allow regaining external, general internal, or fiscal balance and by 1982 was clearly no longer sustainable.

For export crops it is unclear why higher real prices are desirable on economic logic grounds. If the global purchasing power of raw coffee has fallen by over two thirds since 1977 (as it has), why should (and how can) its domestic purchasing power in an African economy be raised? To do so is to violate the basic principles of market economies. It may, on tactical grounds, be plausible planning economics - albeit managing incentives to encourage more investment in losers is not a planning principle of general, long term validity. Free market economic logic it is not.

There are other incentives than price - and ones which SSA States should be able to deploy at bearable real resource costs within an operation - rehabilitation - consolidation strategy. Examples in respect of peasants include:

- a. payment in cash on purchase at buying points accesible to peasants and with buyers present at frequent, known in advance intervals;
- b. provision for sale (via shops) of goods peasants want on which to spend their cash income;
- c. basic education, health and pure water services.

These are critical incentives - at least if one is to believe what peasants say when asked. They are also incentives which can be provided if priority attention is given to them. The point about peasant statements has wider implications - actually asking open ended questions about priorities to peasants is not a normal part of framing incentive or integrated rural development policies and projects (least of all by donor agencies advocating participation and targeting on the needs of the poorest of the poor). Doing so often demonstrates the practical dangers of speculating abstractly about incentives - in one Tanzania region the top priority in a significant proportion of villages was 'vermin control' (ie. either shotguns and cartridges or government employees with them to reduce baboon damage to crops), not one fancies a result anybody predicted (nor, unfortunately, one the Kigoma Integrated Rural Development Project took seriously).

Price Policy: Macro-economic Management

Price policy does not refer solely or even primarily to price control. Rather it relates to macro-economic management: wages and salaries, grower prices, indirect tax levels, foreign exchange price (exchange rate), manufacturer-wholesaler-retailer price structures, interest rates, domestic bank credit formation and their interaction with each other and an overall monetary demand/physical supply balance.

Since no state in the world actually practices true laissez faire in respect to price management, it is most unlikely SSA states will move in that direction. Nor - even in the case of states arguably engaged in processes of transition to socialism - do they show any tendency to attempt generalized material balances planning. Therefore, the remaining option - market management largely through price management - and the effectiveness of its use is central to the macro economic impact (for better or for worse) of state policy.

Certain general criteria for such market management can be set out:

- a. consistency of main prices relative to each other.
This consistency need not be at global market price relativities - which apply literally in no country - but if it is very far out of line specific problems of foreign exchange price (exchange rate) and foreign trade management must be faced and managed if either external or internal balance is to be maintained;
- b. consistency of total - and key sectoral - monetary demand with real resource supply. Unless the claims on real resources add up to the real resources available overall, by key sector (eg. construction, government tax revenue and recurrent expenditure) and vis a vis foreign markets/sources (eg. 'basic' external balance) there will be specific or general shortages, inflationary pressures, domestic parallel markets and illicit external trade/currency transactions. Some such examples are inevitable - no

price setting, including 'free markets', moves instantly and totally effectively - the question is how general and severe they are. In most SSA economics today the answer to that question is 'easy' - very general, very severe;

- c. moderately efficient in the sense of avoiding gross shortages and underutilized scarce resources (eg. textile plant at 30% of capacity and textile supply at 50% of what the domestic market would buy at prices consistent with profits to the mills), rapid (over 20%) and hyper (over 50%) inflation and huge drains in administration and management personnel. The last point is important - very detailed, low level intervention and using management to try to block the results of price policies which do not 'add up' are lavish, usually inefficient uses of scarce personnel. They are very cost ineffective - whatever their theoretical or even practical gains, eg. to urge central governments to collect charges (especially volume related charges) from urban and rural water standpipe users is normally a nearly pure example of inefficiency. The cost in terms of administration (administrators and institutional capacity) is high and the net (collections less collection costs) revenue trivial. Both cross subsidies (high rates on the - richer - piped water to home users to cover urban standpipe costs) and annual local charges levied at village level on all user households (whether literally to cover water system maintenance or other locally determined projects) are likely to be infinitely more efficient as to management cost and to have other side benefits.

Concentration on testing price management for consistency, adding up and cost efficiency has more to offer than theoretical or theological arguments phrased in terms of revealed truth and permanent verities (which in practice often turn out to be obscurantist half truths and highly variable falsehoods). This is true in small (eg. rural water charges) and in large (eg. interest rates). It is

particularly relevant to exchange rates. The proponents of 50 - 75% devaluations as low cost, single instrument 'cures' and those of no devaluation, now or at any level of domestic/global price imbalance are 'like minded' and mutually strengthen each others crude, reductionist theological perceptions of what is actually normally a complex, time and space bounded issue in macro-price management whose possible workable answers are actually workable only within a package of other price and real resource availability measures. To approach this type of economic management exercise as one in which there is any universal revealed truth is to approach it in a way likely to contribute much more to the problems than to their solutions.

Material Balances, Muddled Markets and All That

Markets do clear but whether they do so smoothly, swiftly and in ways efficient either for overall national production levels or for acceptable levels of real income for poor peasants and workers is another matter altogether. How badly they perform in the second set of issues is open to debate and varies from context to context. However it is widely agreed that 'free' markets perform relatively badly if:

- a. uncertainty is high and information inadequate;
- b. physical availability of key goods and services is below levels necessary to sustain recent past levels of economic and social activity;
- c. income distribution is relatively unequal and liquid asset distribution even more so;
- d. substantial demand for foreign exchange relates to a desire to 'expatriate' (export) capital;
- e. certain areas or markets (eg. rural) have high risks and physical access problems and available goods can be sold at a substantial profit in more accessible, low risk (eg. major city) ones.

All of these conditions apply in most SSA economies today. Therefore, some use of direct ('material balances') resource

management is necessary. Again this is not primarily a matter of ideology or of technical preferences but of contextual necessity. Three critical examples can be cited:

Rural goods supplies (eg. textiles, hoes, kerosene, cooking oil, salt, sugar, tea, cement, roofing sheet) are unlikely to be supplied by the 'free' market. Bad roads, limited transport, lags in distribution and payment, total goods supplies below large city demand at prices guaranteeing high, prompt profits, create a situation in which the rural markets are not worth the risk and bother to dynamic, flexible, efficient (at maximizing risk free profits) entrepreneurs (including public sector national market manufacturers and wholesalers). The need to see that such incentive goods do reach rural areas is evident on production as well as distribution grounds. Therefore, allocations of basic commodities to stores in district centres (whether via public or private wholesale and transport enterprises) are likely to be essential in a substantial number of SSA economies. Experience in Mozambique and Tanzania suggests that for 20 - 30 basic goods such "rationing by region" can be made to work when given serious priority in product allocation.

Petroleum product allocation must include both geographic and use criteria. Market forces alone would result in a totally disproportionate share going to large city saloon car users and far too little to up country lorry and bus operators, manufacturing and processing units, poor household lighting, and power stations. So long as prices are set in a pattern allowing profits on all products sold to all districts, private (and public) petroleum products wholesale companies will cooperate in geographic and sectoral rationing. Individual private user rationing of gasoline (as opposed to first come first served) is unlikely to save much gasoline but may have some value in terms of equity among saloon car owners or psychological value as a very evident imposition of sacrifices on elites.

Foreign exchange allocation by use - in terms of using and maintaining national productive capacity - cannot be left purely to the market. This is particularly true if luxury

and amenity consumer goods (especially durables) are very scarce while a substantial number of households have cash to spend. Under such circumstances brandy, cigars, Mercedes will yield higher margins and quicker returns than inputs into agriculture, manufacturing, road transport or basic services.

These examples may - to many readers - suggest a more general need for broader backup planning on a material balances basis and/or for altering income and liquid asset distribution. What they do demonstrate is an immediate, non-ideological case for non-price allocation of certain goods under conditions of crisis and uncertainty.

Efficiency: For What and How?

Efficiency must be defined in terms of goals, eg. rural income levels, urban employment growth, enterprise profit, export expansion. Goods are usually multiple and partially complementary. On the whole academic and aid agency analysts have come to accept both of these not very remarkable conclusions. The problem is what is to be done about them.

Too often the result is either paralysis or an attempt to equate efficiency with enterprise micro profitability on the basis that there should always be a single, overriding, measurable goal. Neither is a necessary or desirable result. That most decisions require taking into account how much is achieved toward several, not fully consistent goals, seems perpetually to surprise academicians.

Everybody else - from the peasant interplanting a field, through the housewife shopping and the Treasury analyst working out possible tax rate changes, to the Prime Minister selecting a cabinet - knows that such is the nature of decisions and that trying to reduce goals to one falsifies the position rather than simplifying it.

Operationally efficiency requires:

- a. consistency among targets and among instruments for achieving progress toward them;

- b. possibility of achieving minimum acceptable progress toward targets and operating programmes and policies specified at least to some minimum plausible level given probable real resource availabilities;
- c. sub-targets related to each goal and time period to allow decision takers to select 'tradeoff ratios', 'minimum acceptable levels' and 'preferred packages' which are roughly possible/consistent.

General theoretical discussion about 'efficiency has social content' versus 'efficiency means profit' often create an unholy alliance against taking action on consistency/possibility/sub-target improvement. Such improvement can frequently be pursued by easily identifiable, non-ideological means which are little affected by the abstruse debates about the ultimate nature or natures of efficiency. These include:

- a. better accounting - a precondition either for financial management or accountability;
- b. avoiding 'uses' of resources which serve no plausible aim, eg. bad export marketing which loses 20% on average of potential export proceeds;
- c. not using two cross cancelling policies, eg. Treasury dropping 10% export tax to encourage output and local councils - marketing bodies - rural agencies insisting on new charges adding up to the equivalent of 15% additional export tax;
- d. actually setting targets of output, unit cost, etc., and testing results against targets;
- e. ensuring that all government and public enterprise units are (in name and practice) accountable to a domestic public sector body and ultimately (and if possible directly) to workers, consumers and tax payers. (Accountability of a department or enterprise to an aid agency to the exclusion of a domestic body usually means no accountability at all and certainly prevents any consistency in public sector macro-management.)

Attention to these and similar approaches could raise SSA public sector efficiency markedly. Theoretical debates about multiplicity of goals and technical mathematical programming constraints are a very inefficient way to tackle the problem.

Borrowing, Bridging and Bankruptcy

For SSA as a whole, and for all but two or three SSA economies individually, commercial borrowing cannot be the way out. Had 1979-80 been followed over 1981-82 by a global trade and commodity price recovery like 1976-1977 things might have been different; bridging loans of up to 30 per cent of annual exports at 10-12 per cent repayable over five years might have been prudent for - perhaps - half of SSA economies. But 1976-77 was not repeated, nor will it be.

Long term commercial loans to African states and companies are simply not available. Short term bank loans (also not now in fact available to most SSA states in a volume even vaguely approaching their trade deficits) are under present and recent past situations, like opium, addictive debilitating, deadly. A state which seeks to borrow net equal to a quarter of its imports on 5 year repayment, 18-20 per cent interest terms will find that by year 5 annual debt service exceeds total exports, total debt is about three times annual exports and gross borrowing required one and a half times exports. Collapse may be put off for a few years but at the price of making it more certain and deeper.

Under conditions of extreme external imbalance, the only prudent commercial loans are those for projects which will - on cautious estimates - generate net foreign exchange in excess of interest and repayment over the life of the loans.

Some major export and production gap filling import saving projects can pass that test. Most suppliers credit, however, has been for hotels, airports, capital cities and other projects which cannot. SSA states were unwise to contract it and industrial economy (capitalist and socialist) governments and financial institutions to make it so readily available to back construction and machinery companies. The heritage of these attempts to protect imports and investment on the SSA side and to protect exports and employment in the North is - and for half a decade will be - reduced SSA import capacity, payments delays and, in some cases, default (and as a result reduced North exports and increased financial institution portfolio risk).

Apart from the special problems of external debt servicing, recent past interest rates (16-20 per cent nominal, 6-10 per cent real) are a major deterrent to productive investment. Very high interest charges are acceptable only for investments which are relatively certain to have high early profits and cash flows - a characteristic much more commonly associated with speculative ventures than production. This is especially true since the money price of exportables cannot be counted on to rise parallel to inflation so that on borrowings to finance them the nominal rate is, in practice, the real rate as well.

Aid: Quantity, Quality, Usability

A massive increase in aid is highly desirable. It is also highly unlikely. The Brandt programme is not surviving. This does not mean that the SSA governments, the World Bank or the Nordic aid agencies should cease to argue the case for more transfers. It does say that no SSA government should do its calculations on the basis of increased concessional resource inflows until these are negotiated and signed. Nor should anybody promise (except from his own agency's pocket and within its means to pay) more concessional finance in return for policy changes entailing short term costs. Such promises are at present irresponsible. The government believing them and creating a programme requiring unpleasant policies and additional concessional finance to offset their worst effects and to finance their positive side is only too likely to be stuck with unpleasant, by themselves unsustainable, policies and not get the added concessional finance to make them bearable and workable.

Therefore, the main way of making aid contribute more to reversing SSA economies slide into disintegration is to improve its quality and usability. Bluntly that means less project finance for new capacity which cannot be used and more finance (programme and project) for operating, maintaining and rehabilitating existing core economic and basic service sectors' capacity utilisation and capital stock levels. A checklist of priorities appropriate to most SSA economies is fairly easy:

- a. key operating inputs (eg. pharmaceuticals for health services, dyes and chemicals for textiles, paper for textbooks, phosphate for fertilizer plants, sulphates for plant disease control);
- b. critical maintenance items (eg. spares for lorries and for mechanical workshops, switchgear and fuses for power systems, roadrollers and bitumen for main highways and shovels for feeder roads);
- c. fixed asset rehabilitation (eg. half destroyed roads, derelict lagging and woodmilling operations, broken down port and rail equipment);
- d. gap filling projects (eg. power transmission lines to utilize hydro instead of oil power, production allowing major export increases, discovery and exploitation of oil, training to fill identified middle level person-power gaps such as artisans and accountants).

Whether funding is called project (eg. "Highway Rehabilitation" or "Teaching Materials Development") or programme, recurrent cost or balance of payments support is of little practical importance. That it be targeted to areas critical to halting production decline and capital stock deterioration and that it be quick disbursing are essential.

Similarly, there are exceptions (some assets are not worth maintaining, some production is not priority, some new projects - especially those with very low foreign exchange costs in construction or operation - are worth having) and qualifications (eg. not all countries are in the same position, key sectors vary) and limitations (eg. after consolidation it should resume forward progress - at that point capacity utilisation support should be phased back toward capacity creation). But the main point - fully accepted by few SSA governments or aid agencies and fully acted on by none - is simple. Under present African economic conditions much more external help should go to operating, maintaining and rehabilitating existing - but threatened - capacity and substantially less to creating new capacity which cannot be used because of foreign exchange and fiscal constraints. Such assistance is not unemployment relief or handouts -

it is, in many cases, the only way Africans and African production units can employ their existing local resources, capital stock and labour.

Export or Borrow, Beg and Collapse

The bottom line for most SSA economies today is more earned foreign exchange that is more exports. Without more exports it will continue to be impossible to operate or maintain the existing economy i.e. to sustain, let alone increase, real grower prices and wages.

The need for more exports is greatest in the case of a government pursuing a national economic integration strategy. To launch such a strategy with imports dominated by food, fuel and inputs into agriculture and manufacturing, already so low as to hold material product 25% to 33% below historic capacity utilisation levels and only 40% to 60% covered by exports is to spit into the wind.

An nei strategy requires structural change. It requires more construction and machinery - i.e. more imports absolutely and usually relative to total uses of resources. Only with a long time lag (20 or 30 years) can it be expected to achieve really sharp reductions of imports to total investment plus consumption ratios.

Thus the precondition for a sustained nei strategy is a healthy balance of payments including a dynamic earned import capacity (i.e. exports). Unfortunately 'delinking' as heard by decision takers - and as often preached - has argued the reverse: import substitute and let exports look out for themselves or (worse) 'delink' from exports and national production will look out for itself.

'Delinking' from exports first is the surest way to block - not to implement - a national economic integration strategy. Shifting from exports to grants or loans to pay for imports does not increase self-reliance! The very large body of 1960s and 1970s intellectual advice which, at best, has failed to make this point and, at worst, has argued the

reverse has much to answer for. As I warned in 1970: to restructure for economic self reliance requires additional imports, these must be paid for, the most self reliant way of paying is from exports, if exports are allowed to stagnate the nation - and its self reliance strategy - will be delivered bound hand and foot into the hands of its creditors. Evidently I did not argue hard or convincingly enough to overcome the loud chorus of denunciation of that line of argument as neo-colonial. To argue for raising exports is not necessarily to advocate an export led growth strategy. Nor is it necessarily to argue that investible surplus must come from exports. As it happens, the author doubts the viability of either proposition for a majority of SSA economies now or in the foreseeable future.

The essential purpose of exports is to pay for imports. Any strategy - especially in a small economy or sub-region (eg. Botswana or even Tanzania, SADCC) - will require imports to sustain capacity utilisation, maintenance and rehabilitation, new investment in capacity augmentation and structural change. These must be financed by loans, grants, foreign investment and exports. Availability, debt servicing burden and maintaining control over political economic decisions limit how much investment, grants and loans can or should be used. The remaining figure is the level of exports required for the viability of the national development strategy. Its rise over time is the necessary rate of growth of export value. Especially if the initial economic structure is very fragmented and terms of trade evolve badly, export growth at least as rapid as that of national product is likely to be necessary. With positively evolving terms of trade, high rates of real concessionary finance flow growth or industrial sectors where capital as well as operating input requirements has been reduced to 20% of total value, a lower rate would be adequate. But mere will is not adequate - the People's Democratic Republic of Korea over 1955-1975 needed a rate of growth of imports and exports greater than that of gross national product to sustain a national economic transformation strategy which - whatever else it was -

was austere inward looking and placed a high value on self reliance. If that was true for the PDRK few African economies and governments can hope to do better in terms of economising on import needs and export requirements.

Similarly exports need not yield investible surpluses. What they must do is allow investible surpluses to be transformed into operating and investment goods not produced locally. For example, what coffee must do in respect to Tanzania is to generate import capacity. It need not pay any export tax, provide any marketing authority surplus or give rise to major savings out of or taxes on grower incomes. So long as taxes on and savings from all economic sectors are adequate and export proceeds allow their transformation into the specific goods needed, both external and domestic balance are attainable even if the export sector itself generates no surplus at all. (Given the horrendous global purchasing power loss of most of Africa's agricultural exports since 1975-77 it is quite fatuous to suppose that they now generate or could generate substantial fiscal or investible surpluses. The high noon of marketing board surpluses and export taxes was probably in the 1950s and its brief efflorescence in the 1976-77 beverage boom has already faded in all but a few countries.)

However, to underline the necessity of export (earned import capacity) growth and the empirical implausibility of a primary export led growth strategy for SSA as a region does not answer the question "What is to be done?" There probably is no general answer for all SSA economies. Several approaches can be identified which - in varying degrees - could break export stagnation for a majority:

- a. primary product export rehabilitation, for example cacao in Ghana, cashew in Tanzania including transport, processing, procurement as well as direct production inputs and incentives;

- b. new or massively expanded resource based exports with plausible future market potential, for example coal in Mozambique, iron and steel in Zimbabwe, paper and amonia/urea (from natural gas) in Tanzania.
(Admittedly the short term market outlook for coal, fertilizer, paper and iron/steel is none too good but the medium term is distinctly better than for, say, coffee, tea, cocoa);
- c. processing/manufacturing existing raw material exports to capture additional value added, for example cacao butter-powder-paste in partial replacement of cocoa beans, wood products/lumber from logs, shoes/leather products/leather from hides and skins, paper from pulp, metal from metallic ore concentrates.

How much can be achieved how fast is a question which can only be answered in a particular country context. In the cases in which there is currently quantitative export stagnation and export cover of imports of 40-60%, the most which can be hoped for is to achieve a positive trend increase of, say, 5% a year in export earnings and to reduce the trade gap deficit to, say, 20-30% of imports over the next few years. Development of more coherent medium term export development strategies parallel to implementing more readily identifiable rehabilitation, processing and new natural resource based exports is a priority for the consolidation phase to allow a proper import capacity development element in subsequent renewed development - especially if focused on national/regional political economic integration (or self reliance) lines. In few cases will 'more of the same' export mix be a sound strategy by itself, nor will the prudent additions usually all be self evident.

Export promotion is not an alternative to import substitution, nor is there any necessary linkage between it and trade liberalisation. Import substitution in the specific sense of reducing levels of imports needed to operate the existing economies at present or (better) higher capacity utilisation levels are a priority. What

items are appropriate depends on national ecology, and acquired comparative advantage in skills, knowledge and plant. Barley may be a good example in much of East and Southern Africa (beer is widely consumed, an incentive good and a major fiscal instrument however much development theorists deride it!) and light engineering (spares, construction inputs) fairly generally. Import substitution in the broader sense of reducing import needs if the plant and economy can be operated at full capacity and the alternative to local production is finished products imports is not a priority during consolidation. It requires more total imports (not less) as well as overall economic buoyancy levels not currently attainable.

Trade liberalisation as a general or universal proportion rests on the assumption of relatively full employment globally and nationally. As a specific argument against protectionism it assumes that the growth of industrial sectors behind high tariffs (eg. USA, Germany, Japan, Korea, Brazil) has been warped or slowed - not made possible or accelerated by protection.

Clearly neither the world economy nor SSA economies in any way approximate to full employment. Protection (including quantitative allocation of import capacity) can therefore lead to higher domestic output than a liberal trade regime if it causes employment of domestic plant, raw materials and labour which would otherwise be unemployed. For example to license the import of sulphur to go with local phosphates, water, power, factory and labour to produce fertilizer both directly (in mining and manufacturing) and indirectly (in agriculture) raises material output relative to what it would be either if the licenses were auctioned and brandy or refrigerators imported or were a smaller volume of finished fertilizer imported. At present in Africa - as would have been the case in Singapore or Korea or Brazil in the early 1960s -

wholesale removal of industrial protection would mean wholesale deindustrialisation not selective restructuring of the sector. Under present circumstances the plausible rule of thumb is nearer to "some production is better than no production" than to "any protection is bad protection".

However, trade restriction - like export promotion - should be selective. The aim is to generate external balance consistent with political economic development at as low a real resource cost as possible. Export subsidies and import barriers are likely to be needed both to help counter the dumping of global unemployment into SSA and to follow the historic path of most 'late starting' economies of protecting the economy until some sectors become fully competitive. But efficiency in achieving external balance requires far more hardheaded analysis of the true resource costs of subsidised exports (eg. tea and tobacco in Tanzania) and of very high import protection (eg. textiles and tins in Kenya, razor blades, detergents and toothpaste in Tanzania). This is not an area in which it is hard to identify 'best' and 'worst' cases (allowing selective promotion and conversion or excision) so long as one avoids theological revealed truths about the evil of all trade restriction or the justifiability of all industrial protection.

Looking Ahead: Pessimism of the Intellect

What types of SSA economies seem reasonably politically economically viable in the short run? The answer is not none: five categories - of which four have, or recently have had actual examples - seem to be definable.

The first two categories are:

- a. economies which have 'found' enough petroleum to cover domestic needs and to bolster export earnings (e.g. Cameroon, Ivory Coast) but not enough to produce illusions of unlimited wealth;
- b. economies in the well known 'initial export opening up boom' in which exports explode from a low base pulling the whole economy along for a decade or two before plateauing out (e.g. Gold Coast 1890-1910, Sudan 1945-1960, Tanzania 1955-1965, Ivory Coast 1960-1975, Malawi 1965-1978, Botswana 1967-1982?). This period evidently does not necessarily lay the foundations for longer term development, but it does provide a fairly resilient economy while it lasts.

The problem with these two categories is that will and resource reallocation alone cannot allow a government to move its economy into one of them. The case for petroleum exploration exists but, even where chances of discovery are fair, the time lag is likely to be long. (e.g. Tanzania 1969-1982 with no actual petroleum finds) counting only the period of the modern state backed exploration effort and not the 1940's and 1950's prehistory). As to an initial export opening up boom this has already happened in most cases. To 'repeat' it either requires a major new export (the Nigerian oil boom was perhaps an example of a second 'opening up') or a revival of a totally collapsed export sector (e.g. Cacao in Ghana?). For a majority of SSA economies this route to viability does not exist.

The other three categories are - perhaps - more readily 'achievable':

- c. preserving a significant export enclave and supporting services to it; using enclave revenues to satisfy the 'needs' of a cohesive political - TNC - security force elite; abandoning the rest of the polity and economy; securing external guarantors who (for their economic or security reasons) see a collapse of the economy's government as unacceptable. The classic e.g. is Zaire - Citoyen Mobutu's regime is viable in its own political economic terms and worth sustaining in those of its foreign friends;
- d. allowing creative, flexible, dynamic African capitalists a free hand to organise scarce resources under conditions of scarcity without interference by (and preferably with support from) the state. Uganda magendo in 1979-1980 met this test; 16th century capitalism and very nasty but accumulating, diversifying, beginning to build back from exchange into production. Uganda of the magendo godfathers ('mafutamyingi!') was more economically viable than the present death in life deadlock of a state with just enough backing to block a magendo style 'medieval' capitalist development but far too little power or foreign exchange to recapture control over or direct the economy in any positive sense;
- e. a populist or proto-socialist variant of "d" - basic abandoning of urban and industrial structures (90% of townspeople back to the land), a national scarcity economy centred on food and limited inputs into defense forces and health, quasi material balances planning at district level, a long, slow return toward a more complex structure of production and use. This was the basic economic model of the "Khmer Rouge" albeit one badly warped in practice by the irreconcilable fractions within that regime.

The problem with these three models is not their unattainability. It is their sheer nastiness. Each requires writing off the welfare of a very substantial majority of the territory's people. Each requires extreme repression to survive. (True, "e" might not if the workers and peasants were 'conscious' it would lead to gains for them and/or their grandchildren. But, workers and peasants do not have any such consciousness so a repressive elite would be vital to operate such a regime.) Even the most ardent supporters of African capitalism hesitate to call for support to or emulation of one of Africa's most dynamic, innovative and strongly based capitalist classes - Uganda magendo! But, on present trends, Africa will be littered with examples of such economies and perhaps also with a less malignant variant of "c" where aid supports a non-functional (but also non-exploitative because it has no power to exploit) elite at the centre and the rest of the people survive (or starve) more or less on their own with only a thin semblance of an organised public or private sector. (The cynical might suggest that Guinea-Bissau and Upper Volta had achieved this type of 'stability'.)

Optimism of the Will

Fairly evidently the types of political economic stability in SSA one can rationally posit or describe are either attainable only for a few (eg. locate oil, have an export boom) or are unacceptable both in terms of the interests of the territories' own workers and peasants and of the goals of Nordic aid agencies. Therefore, the question 'Africa out of recession how?' remains as crucial and the answers to it as unclear in late 1982 as in 1979 when the looming spectre of generalised collapse was first seen.

There are as yet no coherent strategic answers which link to operational measures for implementation. The 'Lagos Plan' presents a consistent, arguably correct set of goals for 2000 but gives no clue how to survive to 1985.

'Accelerated Development' revives the 'private sector, primary export led growth' led strategies of the 1890s or 1930s or 1950s with no very clear long term goods. That might be acceptable as a consolidation out of recession approach except for the inconvenient facts that its export engine of growth as described seems unlikely to be functional in the 1980s and the cumulative impact of its proposals on basic services and income distribution would probably wipe out most of the achievements of the 1960s and 1970s.

The main body of these remarks has not offered a 'third way'. Rather it has sought to identify themes and approaches that may be useful in constructing national consolidation strategies to lay foundations for resuming dynamic development in the second half of the 1980s. (In broad terms that renewed development could well be along 'Lagos Plan' lines.) By the same token, these themes and approaches may assist Nordic aid agencies in selecting projects, programmes and policies to support.

This is hardly a message of great optimism or of great certainty - in a quarter century the author has never been less sure what would be viable in Africa from the point of

view of Africans nor less sanguine about the near term course of events. But nor is it a message calling for folded hands and resignation. Much was achieved in the 1960s and 1970s. Several of the weaknesses which threaten that achievement are identifiable. A number of African states and peoples are fighting hard against collapse. The vision of a generalisation of Zairian style enclave elite stability, the creative capitalism of Uganda magendo and the paralysing stagnation of Upper Volta or Guinea-Bissau to all of Sub-Saharan Africa should in itself be an incentive to remain in the company of those Africans who can at least categorize themselves as 'undefeated because we have gone on trying'.