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The World Bank,  
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1818 H. St. NW,  
Washington, D.C. 20433,  
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RHG/SH

19th February 1990

Dear Stanley and Ram,

Here are my initial reflections on the "elite consumption including military topic". I suspect they are broader than what you want in the paper but the breadth may be useful to ground-site-locate what you do want.

I do see a basic tension. The Mercedes driving/Italian silk-suited/gold jewelleried, cigar smoking/cognac drinking businessman out from his 50 room - own generator - air-conditioned Ikoyi mansion on a drive through the slums of Surulere to his first class seat on a 747 from Ikeja to the Ritz is an obscenity. But if he is an entrepreneur adding value, employing people at fair wages, selling on open (home or export) market, paying company plus personal direct and indirect taxes, does one wish to stamp on him? Consumption is a key incentive for him; he is a necessary price of a market - mixed economy. (Real entrepreneurs don't exist at subsistence and invest everything else all their lives pace Weber on Calvin! The Lebanese who come closest, i.e. for 20-30 years living fairly austere in West Africa, are a bloody nuisance as they invest in Lebanon so one would be a bit better off if they consumed more in WA and paid indirect taxes on it!)

Public elite spending is another matter and should/can be cut out. (I won't buy the necessity of presidents-ministers living like plutocrats!) But private seems to me to be only, a.) reducible (taxation, competition, ending public contribution to it) and b.) alterable in form (lower import content).

I've covered amenity expenditure partly to clear my own mind and partly because there is (ought to be?) a continuum. Also because again I think there is a public/private differentiation. For instance, if a bottle of beer and a packet of cigarettes plus a suit for himself and two dresses for his wife are incentives that lead to an honest day's productive work that can pay a wage to buy them - right on. I believe in incentive goods for the less poor and not poor as well as the very poor. (And I believe in reasonable taxes on amenity goods too!) But an air conditioner in every office or a separate assembly hall and dining hall in a school are amenities of which I take a dimmer view. (Unwisely maybe - I happen to be in an aircon office at Fazenda, Maputo as I write! But I'd readily accept a ceiling or pedestal fan instead...)

I've put military non-war in main memo. I take it we want more Costa Rica's? i.e., more productive investment - social services - growth and

less coups because police keep peace better, cost less, don't stage coups and cause state to devote mind to staying out of regional conflicts?

Main war cost look-over is in a separate memo. Much as we may consider Khartoum's civil war spending elite/luxury consumption that is killing Sudan, no government in midst of war will view its military as a dispensable luxury. The economic case of crippling cost of war/peace dividend is more useful to pro mediation elements in a state when presented freestanding not linked to miscellaneous luxury expenditure. (Zimbabwe for example did move to mediate ZANU/ZAPU/Dissident confrontation and get army out of it because it recognised the cost. And in private it was not annoyed if potential economic and external security value of a settlement was put forcefully. But to have been told this was - like Sheraton Hotel - elite state consumption would have provoked an explosion. No, they didn't explode when that was said of the Sheraton, merely arguing the decision had looked better ex ante).

a luta continua,



Reg Green

P.S. I think there is a confusion (or danger of one) in LTR reference to production approach to regional economic relationships. What you say is true of a school of thought - largely academic and largely non African. But SADCC has used that term rather differently:

- a. state's and people's bottom line concerns are production, consumption, employment;
- b. trade is a major way to achieving these - an important means to these ends;
- c. production of transport and communications is crucial to 'invisible' trade and to making visible trade economic and in these sectors a state leading role is inevitable;
- d. trade in visible goods is severely hampered by lack of information. While this must operationally be at enterprise level, state action (trade fairs, enterprise delegations, etc) can catalyse enterprise interest and frame trade agreements backed by cross central bank credits can help (at least sometimes);
- e. who will produce which goods depends on country and sector, e.g. electricity in practice largely state and manufactures varying by country but with large private or joint venture component usual;
- f. coordination can improve market, capacity and capacity definitely to come knowledge. It can therefore help save wasted expenditure on 'export' plants in sectors with no room and direct attention to market opportunities. (SADCC never tried binding plant allocation and was so tentative because it didn't assume who would build the plants!) Light engineering (where Zimbabwe and

Tanzania do win some international tender aid contracts!), chemicals (including fertilisers) are growth areas but not the only ones (e.g. textiles, paper studies).

This isn't the fixed allocation - heavy industry - barter model. I don't say you feel SADCC does follow the "fa-hi-b" model but, unfortunately, the Production Based term is used by SADCC.

There are two problems with neo-Vinerian model I think you understress:

- a. No SSA finance minister will sign a blank cheque denominated in hard currency (which is what a free trade or common market with 30 day clearing of balances in hard currency amounts to). A frame agreement on balance or level of imbalance with some corrective mechanisms before \$ settlement is only common prudence and doesn't exclude enterprise initiative or require barter lists;
- b. the whole ethos of Common Marketing in SSA has turned on exporting, earning a surplus from neighbours and turning this into hard currency (or avoiding being the object of such a policy). That is a route to nowhere (or to a curious type of low level, semi-stable, 'agreed' imbalance network like CMEA Zone one). If mutual trade (with or without imbalance) is the goal then finding useful imports is just as essential as finding export markets! The curious Botswana-Zimbabwe tensions in large part turn on fact Zimbabwe Trade Ministry wants exports only and their resolution on fact Zimbabwe Finance sees useful imports as almost as good as forex and more attainable (because both countries then have a production stake in the trade).

## THE PRICE OF WAR: Macroeconomic and Human

By R. H. Green

### Introduction

1. For 1990 only four SSA countries are projected by FAO to have severe food shortages - Sudan, Ethiopia, Mozambique and Angola. These are the four countries with large scale fighting on their soil as a result of civil war and/or external aggression. In these countries in the 1980-87 period GNP per capita fell ranging from over 1.5% annual decline in Ethiopia to over 8% in Mozambique. In 1990 it is possible that GNP per capita will rise modestly in Mozambique and Angola - the two of the four countries in which reduction of the scope, scale and cost of war has been possible. Estimates of life expectancy at birth are lower and of infant and young child mortality higher than in SSA as a whole and even more markedly compared to other Eastern and Southern African countries.
2. Large scale war - especially on a country's home territory but also in the case of solidarity and support operations such as those of Zimbabwe and Tanzania - is both economically and humanly devastating. Even the impact of a nearby war cutting natural transport links can be massive as exemplified by Malawi, Zimbabwe and Zambia. Nor do the costs and consequences of war stop as soon as the fighting does as illustrated by the cases of Zaire, Somalia, Chad and Uganda.

### Costs - A Sketch Typology

3. Direct, readily identifiable war costs include military expenditure, direct war destruction of assets (including crops and livestock) and combat related military and civilian casualties. Even this limited definition can total 15 to 20% of GDP in years of widespread, severe conflict but it is only the tip of the iceberg of total costs.
4. Opportunity costs arise especially in respect to forex, skilled personnel and decision taking/articulating capacity. SSA military

expenditure - especially in a war context which is more fuel, transport, ammunition and weaponry intensive than a peace time or riot control military - is dominated by import content.

Given import/GNP ratios this suggests that if 60% of the war increment to military budgets is imported every \$ extra on the military budget causes at least \$2.5 fall in non-military GNP (i.e.  $.6 \times 4$  to  $5$  multiplier  $\times$  added military). The skilled personnel cost is illustrated by Angola. Its armed forces are regional standard and able to use and maintain sophisticated weaponry and transport. Its civil government services capacity (except in respect to petroleum) is very low even by SSA standards, e.g. markedly lower than Mozambique. The war has eaten up the significant flows of trained personnel achieved since independence. Decision taking opportunity cost is illustrated by Tanzania. The response to 1973/74 import price (food-fertiliser-petroleum) and drought (73/74 and 74/75) was rapid (beginning in January 1973) and led to fairly adequate, coherent policies within 6 months. The mid-1978 coffee price/import over liberalisation/budget laxity crisis was not faced squarely until late 1979 and the first articulated, semi-coherent approach was not reached until the second half of 1980. Why? Primarily because the Amin invasion and Uganda war virtually totally distracted attention from economic strategy (including fiscal and forex balance) until the second half of 1979.

5. The long term opportunity cost cumulates and becomes self-reinforcing because maintenance and investment in both productive capacity and infrastructure are losers, squeezed by war bills on fiscal and forex accounts. Thus utilisable capacity and underlying capacity growth suffer. This effect cannot be reversed at the end of the war - the lower capacity base and investible surplus-taxable capacity-export earnings basis are permanent facts and catching up on deferred maintenance can be a monumental and decade long undertaking.
6. Decision taking and budgetary constraints usually hit food security, health, water, education and real wages disproportionately whatever the government's preferences. The human investment and human condition results can be massive. It is the worsened nutritional

status/weakened medical services (especially preventative) interaction which causes most war related deaths (e.g. in Angola, Mozambique, Ethiopia, Sudan, Chad, Uganda).

7. These factors are in turn exacerbated by chaos and generalised insecurity especially in rural areas. Refugee or displaced persons households find rehabilitating their livelihoods very difficult to impossible until the war ends (and beyond). Food relief transport is hampered by attacks and by considerations relating to not feeding the enemy. Direct drought related deaths in Africa in the 1970s and 1980s have been virtually all in cases of interacting war in the afflicted country and drought, not of drought alone. Tanzania and Zimbabwe probably faced more weather related crop shortfalls in the first half of the 1980s than Mozambique or Angola and Mali than Chad. But Zimbabwe, Tanzania and Mali escaped famine because the chaos/transport barriers of major wars on their territories did not afflict them, whereas they did lay their deadly hand on Chad, Angola and Mozambique.

In Summary - War as Economic Disaster

8. A decade of war can reduce GNP to half of probable non-war levels and raise infant and young child mortality by 100 (per 1000) over what it would probably have been with peace. Even shorter, less sweeping (or less on own soil) hostilities can cost 10% of GNP and thousands of nutrition/health interaction related deaths which would not otherwise have occurred.
9. Because capacity has grown less rapidly, human resources been crippled and serious imbalances accumulated (not least unserviceable external debt) an end to war does not lead to early recovery to non-war growth rates and even then from a lower GNP base.
10. The war - food insecurity - malnutrition - transport disruption - health service interaction is the chief cause of war related deaths. In SSA over the past two decades drought without war has not led to famine deaths; drought with war in the country usually has.

11. War reduces GNP growth. War in a country appears without exception to reduce sustainable growth to 2% or less - i.e. negative per capita. War largely abroad and spillover effects (e.g. Malawi) have the same result on all but very strong (e.g. Botswana, Zimbabwe) economies.

Wars In SSA - Perspectives and Prospects

12. The largest cluster of war conditions in SSA surround RSA and flow from the regional aspects of its total strategy. These are also the cases in which a "peace dividend" is most likely over the next three to five years. RSA has reduced intervention across its borders directly and by proxy and accepted Namibian independence. The logical counterpart of the shift to negotiation domestically would appear to be to halt aggression regionally. The independent states are increasingly aware of the costs of war. Zimbabwe and Namibia have achieved substantial internal reconciliation to avert civil war or high level dissidence replacing external aggression and similar efforts in Mozambique and Angola would be likely to succeed if the externally fuelled dissident armies were not still in receipt of substantial external assistance.
13. The second largest cluster of war conditions is in the Horn - Ethiopia, Somalia, Sudan. Here the wars are now primarily civil rather than inter state. They are locking all three states into declining GNP per capita and increasing inability to provide the minimum resource flows needed for any economic or social policy. How much impact this will have on strategy - war or reconciliation - remains to be seen. The clearer and more detailed explanation of war costs might raise the ability of reconciliation advocates in these states to alter policy parameters.
14. The other major war in (on the border of) SSA is in the former Spanish Sahara. The economic damage to Morocco is clear; its past or future policy impact is not.
15. Uganda, Burundi, Zaire and Chad have multi decade histories of endemic civil wars and/or high levels of dissidence amounting to war.



At the moment these are at low levels and in three cases reconciliation as a route to rehabilitation is being pursued at least partly because of the perceived social and economic consequences of war.

What Is To Be Done?

16. What outsiders (including citizens outside the government decision taking group) can do is less than clear and probably varies from case to case. Simple denunciation of war seems to have limited impact and, at least in the Horn, aid reduction has not notably altered state policy toward reconciliation to date. The most hopeful sub-region - Southern Africa - is sui generis with all states fairly well aware of war costs, seriously committed to internal reconciliation and having no intent to engage in war against RSA except to resist its direct and proxy aggression.
17. Serious setting out of war costs should at least marginally affect government strategies because the GNP growth and mortality consequences are so stark. By itself such information (sensitization) is unlikely to result in rapid outbreaks of peace. What it can do, especially over time, is to increase the self-conviction, numbers and influence of advocates of reconciliation/negotiation.
18. Offers of mediation/independent chairing of negotiations and back up data provision/analysis by the OAU, mutually respected outside governments and institutions and even eminent individuals can be useful. But their use appears to be to create an enabling climate when peace advocates have gained strength internally; not to cause a major shift in balance of forces. Nor have any of the three major mediation exercises (Ethiopia, Mozambique, Angola) with external facilitators achieved a resolution of differences or a cessation of hostilities to date.
19. Imaginative use of promises of rehabilitation support might be useful either in the context of mediation efforts or when these were being weighed seriously but had not yet begun. For example, in the Sudan

presumably rehabilitation of infrastructure and of livelihoods (including livestock) as well as extension of basic services are a sine qua non for peace to be stable. A post-war Sudanese economy cannot provide them for decades - especially to the South and West where they are most needed nor to the 1.5 million Southern refugees in the North (whether to secure livelihoods there or to re-establish themselves in their former home areas). A standard SAP/Consultative Group exercise without an added reconciliation/political stabilisation component backed by additional finance is unlikely to provide an adequate resource augmentation.

20. The principle that pledges for either, a.) initiatives seriously under consideration or b.) desirable measures already begun are more "cost efficient" and lead to more sustained domestic progress than old style conditionality (with "trigger clauses" and their ilk rightly or wrongly perceived as triggers on cocked weapons to enforce externally crafted and to prohibit non-conventional domestically crafted) applies to external initiatives to secure shifts from war to peace. (By the inverse token, radical and coordinated reduction of supply of military and dual purpose hardware in the cases of war, backed by not providing it on soft credit would be of some use. This is easier to argue now that RSA's aggressive thrusts seem to be running down at the same time Cold War tensions/competitions are abating or even going into reverse. However, the tenacity with which bankrupt states pull resources out of collapsing economies to pursue unwinnable civil wars and the amount of chaos, destruction and death low technology wars can cost - as exemplified by Renamo/bandidos armados - warn against expecting massive, general, immediate outbreaks of peace.)
21. Whether the World Bank can play a role beyond analysis of costs is unclear. It seems a slightly unlikely mediator in any formal sense. Whether it could catalyse (with indications of own potential support plus mobilisation of other backers) reconciliation/rehabilitation support packages capable of affecting changes toward "enabling climates" for peace deserves exploration.

R. H. Green  
Falmer, February 1990

ELITE AND AMENITY CONSUMPTION AND INVESTMENT AND INCENTIVES, BASIC NEEDS,  
SUSTAINABLE DEVELOPMENT

By R. H. Green

I. What Is The Problem?

1. Priorities In Use of Scarce Resources
  - a. National (Public and Private)
  - b. State (Government Budget)
2. To Prioritise Is To Exclude or To Limit
3. To Prioritise Production By Poor People, Human Investment,  
Broad Access Basic Services Is To Limit Amenity/Elite C and I
4. Elite/Amenity C and I Tend To Have High Import Content (at any  
rate the actual patterns in SSA do)
5. Elite C and I Exclude Most People Leading To Social Tensions  
(with either loss of productivity, or real resource costs for  
security, or both)

NB - appears to depend on source of income, degree of inequality  
and visibility of elite consumption as well as simple existence  
of or even % of real resources to elite uses -

6. But Incentives Require Ability To Earn Above Basic Needs - Thus  
Imply Amenity and Some Elite C and I
7. In Public C and I Balance/Systemic Structures Are Needed (i.e.  
Primary Health Care Needs Hospital/Research Infrastructure).  
Some Items May Be Amenity (at least on their face)

NB - Diversity in Elite/Amenity C and I gaps with basic and % of  
real resources used as well as visibility - very wide.

Nowhere non-existent but - e.g. - Dar es Salaam and Maputo quite different from - say - Lusaka and Luanda. Apparently greater Elite C and I prevalence/visibility in West than in Eastern/Southern and in Francophone than in Anglophone Africa. (Not always easy for outsider to see scope Elite C and I, e.g. Mogadishu where it is relatively large and relatively invisible since weird approach to capital projects is not elite public investment as such no matter how deplorable the 'toothpaste tube theory of fixed capital' may be!)

- No apparent close correlation Elite C and I and political economic project, quality of economic policy or economic performance? Or is there if we compare countries in same GNP bands?
- What is amenity C and I relates to per capita GNP, e.g. not same in Botswana and Mozambique or Cote d'Ivoire and Burkina Faso?

## II. Toward Working Definitions

### 1. Elite Consumption

- a. Private - goods and services not now or in foreseeable future accessible to over 1 to 3% of households. (Luxury Hotels/Restaurants, Saloon Cars, Imported Luxe Food-Beverages, Private Hi-Quality Health care, Overseas Private Health-Education-Tourism)
- b. Public - goods and services de facto (even if not in intent) available now or in foreseeable future to at most 5% of households and not distributed on basis of special need (e.g. Reference Hospital In-Patient Care, Subsidies and Tax Allowances for Elite Goods or Groups).

### 2. Amenity Consumption

- a. Private - goods and services not essential to basic needs but fairly widely consumed (actually or potentially in foreseeable future). GCI sheet, bicycles, transistor radios, electricity, piped water, cigarettes, beer and a significant portion of textiles/clothing are examples.
- b. Public - goods and services not in foreseeable future extendible to all/almost all households and not largely financed by charges (i.e. if urban household piped water is self-financing or not subsidised more than standpipe/tap water, then amenity consumption aspect is private only).

### 3. Elite Investment

- a. Private - investment to produce elite consumption, e.g. luxury housing, hotels/restaurants at luxe level, factories to produce domestic market luxury goods.

- b. Public - ditto (e.g. world level consultancy hospitals, luxury palaces-residences-offices, saloon cars for personal use, de luxe airports, highways).

#### 4. Amenity Investment

- a. Private - investment to produce amenity goods and services. (Problematic in identification where part of consumption is necessity and part amenity, e.g. textiles/clothing.)
- b. Public - ditto (e.g. urban household piped water and telephone service to residences if not full costed - if full costed amenity investment but arguably private in terms of cost incidence.)

#### 5. Non-War Military Spending

(War Costs Considered In Separate Memo)

- a. Problem in defining 'necessary' levels. (Can argue from Costa Rica case no necessity military as opposed to police unless demonstrable external threat or quasi-civil nor exist.)
- b. Problem relating costs to purposes. (At extreme all wasteful or mistaken expenditure is amenity/luxury. Is this useful? E.g., too expensive primary health posts/clinics are not really same thing as limited access regional hospitals. How evaluate whether specific force levels and hardware are "toys for the boys", mistaken analysis of what is needed, rational choice? E.g., until Amin invasion/Uganda war I supposed tanks were an eccentricity in Tanzania defence budget. In event they were "cost efficient"....)

NB - For above purposes public, e.g. state plus public utilities narrowly defined. Other public enterprises are treated as private. Public consumption is defined in terms of falling on public purse not on who actually consumes, i.e. hospital

services or household piped water are consumed by households not the state as such.

NB - A problem arises when a good or service is mixed production/personal consumption in nature. Telephone services are an example as are vehicles used for work and for personal consumption. This is similar to problem with respect to goods which are both necessities and amenities (e.g. clothing/textiles). Estimates of the amenity/luxury consumption share may be practicable; on the investment side they are much more problematic. (e.g. the % of telephone calls which are amenity consumption is not an estimate of incremental capital cost to allow these calls to be made. At the extreme - if all lines business or mixed use and all below 100% use the incremental capital cost would approach 0.)

### III. Toward A Taxonomy Of Costs/Constraints

1. Opportunity Cost - Domestic Scarce Resources  
(Could have produced something else.)
2. Opportunity Cost - Forex  
(Could have redirected import capacity and/or lowered import contents.)
3. Opportunity Cost - Resources Idled

If elite/Amenity Consumption/Investment are more scarce resource intensive than Necessity production the actual cost of resources used is an understatement of total cost because they idle less scarce/non-scarce resources. In the case of forex this is probably important as their import content seems on average to be higher, at least in SSA today.

4. Social Costs
  - a. Low Morale --> low productivity by those below elite and/or amenity consumption circles
  - b. Civil Unrest --> production dislocation, security costs
  - c. Higher Levels Absolute Poverty (social, political and economic cost)
5. Economic Non-Sustainability
  - a. Generalising elite - and, less clearly, amenity consumption patterns non-feasible because of general resource, fiscal balance, external balance constraints.
  - b. Continued growth with existing gaps in consumption patterns non-feasible for socio-political discontent reasons.



c. Continued growth on present patterns non-feasible for reasons of inadequate levels of overall and/or human investment.

6. Ecological Non-Sustainability

a. Particular ecological damage/cost of elite/amenity consumption/investment.

(This is not immediately evidently the case. Luxury furniture isn't a major cause of deforestation nor are saloon cars - in SSA - a major polluter.)

b. Indirect ecological damage from diversion of resources. E.g. absolute poverty - low availability forex leading to 'deforestation' because neither imports of kerosine nor development of small scale sustainable silviculture can be financed.

c. Impact via opportunity cost on infant mortality - food security - education and therefore population growth (i.e. falling infant mortality, women's education and reasonable food security are positively correlated with falling fertility and population growth).

#### IV. Incentives and Consumption

1. Incentives - in whatever form - presume inequality of income and access to services. They virtually assume some households have incomes adequate to achieve access to amenity consumption goods. Incentives oriented to professionals and entrepreneurs are likely to result in incomes giving at least a few households purchasing power for elite consumption/investment. The last is almost certain to be the case even if formal wages/salaries for professionals are low and the scope of open, private enterprise is limited with, in that case, parallel markets and nomenclatura class incentives outside formal salary structures providing the incentives-incomes-funding for luxury consumption.
  
2. Incentives do not operate only at high (luxury) or middle (amenity) income levels. The concept of incentive goods for peasant farmers is an example of action on the (usually well-founded) belief that availability of necessities and semi-amenities to buy does lead to greater effort and greater production (as well as some consumption switching from own production to purchased goods). It is generally agreed that without such availability higher prices for peasant production will have little impact on output because they are not real from the peasants' perspective. Similarly basic health service, primary and adult education and food security safety nets are usually perceived as having incentive/morale effects as well as enabling their recipients to produce more. The case for higher urban wages as incentives (or perhaps more accurately the case against very low ones as disincentives) is less frequently made. However, quite apart from physical ability to work hard and full time, higher wages up to some point have positive effects on morale and effort. The (business) concept of an "efficiency wage" encompasses the morale and effort as well as the ability aspects of payments higher than absolutely necessary to secure a given number of workers. (Granted SSA and external in SSA enterprises are not usually terribly efficient and often do not see "efficiency wages" as a goal, wrongly equating minimising payments per worker to minimising labour cost per unit produced.

Yes, so does IMF! And Bank has been known to slip into this position.)

3. The incentive/physical ability to produce aspects of minimum wages and of wage structures are not the same in different contexts, probably not linear and not well understood. Clearly socially necessary or socially expected (as opposed to physically necessary or legally 'required') minima and differentials do have incentive/disincentive results when provided/not provided. Equally clearly these vary by country both as to levels and as to differentials with some, but not very close, relationship to GNP per capita as well as to the practicability of wage earning households also generating significant 'informal' incomes. Above some level (partly contextually determined) both minima and structures can be counter-productive by encouraging importation, avoidance/evasion and/or limited access to public services because of the level of labour costs. But the inverse is also true - too low wages and differentials have serious deleterious effects on morale, effort, attendance and ability to produce. For example, the Tanzanian minimum wage has hovered in the \$10 to \$15 per month range since 1985-86. The household living cost to avoid absolute poverty is about \$40. Yes, there is "informal" income and occasionally 2 wages in same household. But the absenteeism, moonlighting, daylighting, klepsi klepsi, borderline corruption/anarchic user fees (e.g. licence clerk must eat so \$0.50 guarantees normal and \$5.00 expedited attention to application - by no means necessarily with any failure to check that it meets criteria), low morale, urban social discontent. In Maputo the salaire minimale is - since 1986 - being held around \$30 - household cost to stay out of absolute poverty \$45. Granted the war and history going further back limit the "informal" incomes but there is more room for efficiency by workers and for targeted gap plugging. Yes - having gotten to \$10-15 (from \$45 in 1974) how does one claw back to \$25-30 in a finite period consistent with real resource balance? If one cannot I do not think 1% to 2% per capita real GDP growth is socio-politically sustainable to 2010 and suspect one cannot get the productivity breakthroughs to move to 2 and one-half per cent

to 4% per capita real GNP growth. (This is what I mean by implosion risk - urban sector component.)

4. A related issue is that of trends in real incomes - for households over adult life cycles and for small producers and wage/salary earners in general. Declining or even static real incomes have negative incentive effects (albeit a shift from a negative trend to a static position will for a limited time - 2 to 4 years - have a positive impact). It is probably not irrelevant that successful NICs all appear to have rising real wage trends at least for workers directly involved in core manufacturing activities - the SSA example being Mauritius. This is easiest to identify at overall level but in terms of real increases presumably applies at household level, i.e. a set of length of employment and of skill differentials combined with opportunities to gain skills (and increments for them) can have a positive incentive effect even if average real wages/average small producer incomes are more or less static, e.g. Tanzania 1967-73?
  
5. A special incentive is the incentive to stay on the job. If certain activities which are nationally (and quite possibly macroeconomically) crucial are badly paid relative to other lines of activity, then qualified persons will shift to areas not requiring their specialised skills but paying better, e.g. doctors to drug store proprietors or teachers to shop clerks. Similarly if skills are internationally marketable there are levels of differential beyond which qualified personnel will migrate or emigrate. This case is complex - unskilled and semi-skilled labour migration (to the Cote d'Ivoire and South Africa in particular) results from lack of employment opportunities at home more than from wage levels and may be economically desirable because remittances exceed lost production less minimum subsistence of the migrant worker. Similarly Cabo Verde and Mauritius have substantial outflows of semi-skilled and skilled workers, who do remit and return home, without any exceptional skill shortages domestically. Arguably in these two (not by any means typical) cases the export comparative advantage lies in

semi-skilled/skilled labour. In the cases of the Sudan and Somalia the importance of remittances is also very high but at semi-skilled and skilled levels there are demonstrable skill shortages directly related to low domestic wages (e.g. for teachers, nurses, doctors, engineers, judges).

6. An incentive relating directly to motivation to acquire skills is provided by differentials (and access to training on the job or on released time). How large the differentials need be, probably is largely socially or historic pattern determined, i.e. 10% income gains for learning intermediate skills part time over four years should be an adequate incentive but may not be if traditionally (i.e. in recent memory) the differential was 50%. In the public service in SSA after tax/including fringe benefit differentials above 10:1 (not uncommon in Francophonia) are probably quite unnecessary for incentive purposes while oddities like Ghana's 1983-85 2:1 are clearly too narrow. Does the World Bank believe the 5:1 it advised in Ghana is adequate? If so I'm surprised - my rule of thumb was 6 to 7.5:1. (7.5 was in a sense a target in Tanzania. Present problem seems to me not so much the erosion of the range to 6:1, as erosion of the 1 so all levels are absolutely too low for incentive purposes. Mozambique is about 8:1 but at 8 level there are losses to enterprise/agency sector. In between no real career structure so incentives may exist but can't be seen to do so or acted upon by individual thus not very useful or "cost efficient".) Ironically fairly large differentials plus free courses after hours do not work if base is so low workers have to do extra outside work to make ends meet so cannot "afford" courses, e.g. Mozambique.
  
7. Incentives and productive capability enhancing payments are not easily separable. For example, to do a competent job a brain surgeon or a jet pilot needs a standard of consumption (including rest and quiet) higher than a yam ridge maker or ditch digger - with an economic analyst or a harbour crane driver in between! (A Neo-Keynesianism as he thought applied economists were or ought to be rather like plumbers!)

8. The point of my reflexions here is that elite/amenity consumption as such are inevitable if anyone has incomes significantly above absolute poverty line. To extent initiative raise production overall, then some pattern of incentives and elite/amenity consumption is consistent with absolute poverty line and below households faring less badly than if there were an income ceiling at or just above absolute poverty line. (To that extent at least I agree with Rawls.) Presumably the issues are:
- a. efficient incentives (not overkill)
  - b. pattern of amenity/elite expenditure
  - c. limiting government support for private amenity and ending it for elite spending (i.e. I would pass financing much of radio and TV costs other than by a licence or purchase tax on sets because of external gains and potential and desirable spread of access to radio and perhaps TV to large % of population but would wish to see no budget support direct or indirect for private elite medical services, e.g. St. Anne's in Cote d'Ivoire and private doctors/nursing homes/health insurance to pay for them in Zimbabwe)
  - d. ending govt. elite expenditure (e.g palaces, luxe offices, grand houses) and trimming amenity expenditure (e.g. civil service housing, air conditioning - but not fans) on itself. A special problem here is that of too high real top pay levels since short term affect of cuts (and to lesser extent of allowing inflation to erode) will be efficiency loss (disincentive) even if this will be clawed back as new 'standard' becomes accepted.
9. The above is problematic. The rich, fat merchant in a gas-guzzling Mercedes, himself guzzling champagne and foie gras does exist and driving through an ex-urban slum he is an obscenity. But (pace Ricardo and Marx) capitalists do consume much more than "socially necessary subsistence" (as, to a lesser extent, do artisans, economists, professors, senior officials!) and usually

don't do their jobs well unless they can so consume. That merchant may (or may not) be causing increase in GNP far above his own consumption and creating employment keeping a few hundred households out of absolute poverty. How far can his income and his consumption be taxed without rendering him useless as an entrepreneur/manager? What - objectively, not in his eyes nor perhaps even in those of a female head of absolutely poor household - is the minimum package of opportunities to earn and to consume consistent with an "enabling climate"?

10. (It is interesting that Angola says "no limit", or virtually none, for posts, sectors where it sees highly motivated personnel-companies-entrepreneurs as crucial. Not, I may add because they have converted to neo-liberalism! Old Leninist NEP philosophy nearer the mark in explaining what is, arguably, SSA's most bourgeois and least egalitarian government. However, an Angola historian could argue the Leninism was an overlay to please GDR/USSR just as apparently neo-liberal wordings seem to me even more evidently to please Banco Mondiale plus EEC plus Export Credit Guarantee Agencies. The core of that government are the great (black) Creole merchant families of Luanda who were rich, influential, favoured under late Portuguese Kingdom but suppressed by Republic which wanted opportunities in 'overseas provinces' for *moyen Portuguesa* in trade and government posts. They lost power/wealth but held on to education, respect, cosmopolitanism and so were able to regain power. No - Mozambique had same class but while they have a good number of senior technical and some second line political posts they are not dominant. FRELIMO is and has always been a very different creature from MPLA. The Mozambique answer - trying to clarify what is implicit - is as little inequality as is consistent with entrepreneurs doing a good job and as little visible elite consumption as possible but as much ability of households to get to amenity level as possible consistent with state having resources to rehabilitate and broaden access to basic services and to production by/employment of absolutely poor households so they can escape absolute poverty. This is also more or less Tanzania answer. Botswana has so many resources relative to rest

of SSA and own past it hasn't had to choose but does avoid elite state spending. Zimbabwe is intermediate between Mozambique/Tanzania and Angola but much tighter than latter on state spending on itself or its top employees/leaders. Malawi's stance is pseudo - laissez faire - actually very interventionist for selected groups of rich potential entrepreneurs - and in practice a less efficient /prioritised variant of Angola. Zambia is Zambia. KK shares M/T perspective but, while this determines official rhetoric, most Ministers, State Senior Officials/Managers do not agree so policy is chaotic but nearer Malawi than M/T. This para - is (-) to show I'm well aware it is miles from a form usable in a Banco Mondiale study, or a SADCC or a UNICEF one, or even without careful rewording in anything I'd be able to print while still working in several of states or for their regional bodies! But we may need to think about this type of issue and its concrete embodiments to be able to formulate useful things we can say.)



V. Private Elite/Amenity Consumption: What Is To Be Done?

1. One cannot eliminate elite expenditure by households unless one eliminates high income. One cannot reduce it much as a share of GDP unless one reduces top 2% or 5% share in personal income.
2. Reduction in some SSA countries and for some elite consumers is likely to be economically efficient, i.e. overkill from incentive perspective. (Some, not all, e.g. Mozambique needs more middle and small businessmen to produce more and as a consequence consume as well as invest and earn more. Some will be elite not amenity consumers.) The practicable routes are:
  - a. progressive income (and perhaps land and housing) taxes;
  - b. differential indirect tax levels weighing most heavily on elite consumer goods;
  - c. facilitating more entrants into professions (including management) and business to reduce market rents and widen amenity while perhaps narrowing elite income group;
  - d. avoiding excess incentives/too high levels of public sector top pay (where these still exist) if this can be done without losing too many able persons to private sector (i.e. either private sector tracking state as largest employer or a de facto incomes policy for high level enterprise personnel) or abroad. (The abroad danger probably exists only at intolerably low absolute levels, e.g. Ghana or lack of personal security, e.g. Uganda, some Francophone and Lusophone Africans, or both acting together, e.g. Zaire. For example, Tanzania does not have a very high brain drain except from minority communities despite a rather austere public sector pay policy long before the 1979 on economic crises. But what levels minimise losses consistent with acceptable internal salary costs and socially non-corrosive differentials is not clear and probably quite variable among countries.)

- e. making investment/saving more attractive relative to consumption. This is somewhat problematic in practice albeit desirable in principle. The nearer an entrepreneur is to the model of consuming at a minimum necessity level and investing all his surplus, the better in terms of real resource costs of his incentives, of growth of productive forces and (probably) of social tensions. But most entrepreneurs-managers-professionals-officials in SSA place a high value on consumption and it is doubtful they could be induced to shift much to investment let alone financial system savings (A more propitious investment climate would be more likely to generate additional investment from additional effort/income than to switch present consumption);
- f. by ruthless elimination of public purse subsidies to private elite consumption. One channel is too high public sector emoluments. Another is corruption at the greed (as opposed to need) level, albeit the objections to this flow are much broader than its contribution to elite consumption. A third is de facto subsidies exemplified by the regime of overvalued currencies freely usable for luxury imports bearing relatively low (by world standards) taxes in parallel to relatively high indirect and producer taxes on domestic and imported necessities which characterises the CFA Zone. A fourth is direct subsidisation of elite goods (fairly uncommon - amenity goods are commoner, e.g. milk) and services. The problem in elimination is handling mixed goods, e.g. gasoline (saloon cars - light urban commercial vehicles - rural "mammy wagons" and produce collection lorries), electricity (residential lighting and cooking industry and commerce but also residential and office air conditioning), university education (need to maintain access for poor household students vs equity in clawing back from subsequent high incomes), hospital services (need to maintain access for poor patients without high subsidy to less or not poor, separation luxe room and board services from expensive but necessary medical ones). Each case can be handled better than it usually is but perfect (and perhaps general) answers/'solutions' are unattainable (or so costly as to be counter-productive).

3. Changing the pattern of elite consumption may be almost as important as reducing its share of GNP. Brazilian and Indian elite consumption is higher as a share of GNP than is typical of SSA but is not usually perceived as causing comparable macroeconomic problems. It is arguably also less blatantly obvious because the absolute poverty - necessity - amenity - luxury/elite consumption spectrum is more of a continuum without the sharp breaks which frequently obtrude on even random observation in SSA. African elite consumption is non-African in style and makeup as well as in high direct and indirect import content in a way in which Brazilian is not non-Brazilian or Indian non-Indian.
  
4. The importance of indigenising elite consumption is both direct and indirect (demonstration effect).
  - a. Reduction of import content would directly save forex and - less clearly or uniformly - increase domestic demand for non scarce resources (e.g. locally handmade de luxe furniture vs Scandinavian luxe furniture imports);
  - b. it would also create a pattern of aspirations more meetable individually (narrower gaps between amenity and luxury goods) and more sustainable/growth supporting nationally (lower import content and an import content more amenable to being met by mutual trade among SSA countries).
  
5. The problem is on how to achieve this shift! Some elements include:
  - a. higher indirect taxes on inherently high import content luxe goods (whether imported or 'import substituted', i.e. an excise or sales tax rather than an import duty unless - e.g. perfume - it is impossible to set up tax categories to differentiate the non-African from the African good!);
  - b. facilitation of high labour/low import content service provision (e.g. restaurants, some types of hotels and resorts?) albeit

since public sector operation of such establishments is implausible how to encourage private activity is none too clear.

6. Saloon cars (and fuel and spares and parking and urban highways...) are the largest and most intractable single element in SSA elite consumption. (This is not unique to SSA but the problem is peculiarly acute there.) The aspiration for a car as a visible symbol of success even when it eats up over 50% of the family income of a professional household with two salary earners is a fact and one extending well beyond the elite. (The author is ill-placed to understand as opposed to observe. He has never owned a car and perceives them as nuisance with costs far beyond benefits which is as eccentric for a North American or European as for an African - and is a view even his wife fails to comprehend.) However, at the margin something can be done:
  - a. facilitate restoration of public (whether private, co-op or public enterprise operated - ideally all three in competition) transport so this lower cost/more accessible (i.e. to much wider income range) substitute for the private car is a dependable, available alternative;
  - b. increase enterprise and department pools of business only vehicles and halt (or at least limit to 1 or 2 per unit) provision of freely usable personal vehicles and/or subsidised loans to purchase them;
  - c. increase availability of bicycles (including ones with motors) and scooters which are lower cost and seem to be acceptable substitutes for saloon cars in Asia;
  - d. end petrol subsidies and raise saloon car licence fees while attempting to limit transport price increases by reducing taxi, bus, lorry licence and registration taxes.
7. The attempt to encourage a more African elite consumption pattern by Africans does face four obstacles:

- a. the example of expatriate or European minority community households in SSA (who are viewed more as models and less as curiosities than in most of Asia or Latin America);
  - b. the example of tourists (which is probably less than that of permanent residents because it is seen to be 'out of the ordinary');
  - c. the access to European (or Japanese) consumption patterns provided by facilities serving tourists - hotels, casinos, shops, etc. (These cannot be segregated by colour nor - except perhaps casinos and resorts - by passport and making them "hard currency only" has its own problems albeit it may sometimes be the least bad option available - this is partly written in the Hotel Polana!);
  - d. advertising and television (whether intended to sell to SSA or not) presenting Euro-American amenity/elite (both elite in the SSA context) consumption patterns and the absence or weakness of any balancing advertising - presentation of more African elite/amenity consumption patterns or life styles.
8. Paras 6 and 7 should not be read as implying that the problem of Africanising African consumption patterns is wholly intractable. The Asian (except the Philippines?) and even mainland Latin American patterns are more distinctive and nationally integrated. (For example, in both cases rich people spend more of elite consumption on food and its preparation - restaurant or household employee done - and the food is almost wholly indigenous whether traditional or modern. Caviare, Pate with Truffles, Chateaubriand, Asparagus, Cauliflower, Apple Tart, Champagne and Burgundy followed by Cognac - with all imported - is a Dakar or Lagos or Kinshasa or Nairobi or Luanda elite menu not a Bombay or Hong Kong or Rio nor - in fairness a - Manila one! More hopefully it isn't really a Dar or Maputo or Harare one for reasons that are not wholly cost or access related.)
9. Private amenity consumption should be viewed differently. Facilitating production/employment of poor people and providing them

with access to basic services/human investment so they can advance out of absolute poverty is a basic goal. Keeping all households just above the absolute poverty line is not desirable economically (incentive/domestic demand), socially or humanly. Third dresses or shirts, shoes for everyday wear, transistor radios, sewing machines, concrete blocks and sheet metal roofs, bicycles, bottled beer, cigarettes (except on health grounds), fans and hotplates, domestic meat and seafood, ground or instant coffee, are not usefully lumped with Mercedes, cognac, 20 room mansions, brocaded silk, household air conditioning, Texas steaks as is frequently done.

10. In respect to this range of goods the principles may be:
- a. avoiding permanent subsidisation (or initial subsidisation likely to become permanent) which should be reserved for absolutely poor households or goods consumed primarily by such households;
  - b. providing and enabling climate for private, co-op and/or public enterprise production of and for mutual trade among African economies in these goods. (Also in some cases facilitating commercial network capacity to get these goods to small towns and rural areas.);
  - c. promoting local content (i.e. manufacture not importation, local input sourcing) to the extent dynamically efficient - including by tariffs designed to offset "foreign goods preference" since that aspect of "consumer sovereignty" can have very negative macroeconomic and external balance consequences. (Yes - there are problems of definition. But - e.g. Zimbabwe produces quite drinkable wine, edible chocolate, smokeable cigarettes and pipe tobacco. Anybody wanting foreign substitutes for snob appeal, fear of the local or luxeness should pay at least a 100% 'surcharge' unless the imports are in the context of SSA or Regional preferences, e.g. Mozambican preferences for Zimbabwe wine and Zimbabwean for Mozambican seafood and cashew nuts. The exact tariff level is really a matter of effective shifting of shiftable consumption while not causing large scale smuggling to supply those who won't shift.)

d. in cases of conflict, prioritising basic over amenity goods but seeking to limit such cases, e.g. machetes and jembes have priority over bicycles for steel or scarce lorries or railway bogies but why either/or except in very short run? In the SSA context the most common conflict may be in respect to imports (spares, inputs, machinery) and/or credit. It is somewhat naive to expect pure market (currency auction, commercial bank interest rate) solutions to be optimal, but equally naive to expect pure administrative allocation to work. The real question is probably 'sectoral' (or product group) level allocations within a broadly market tested frame. (For example, cigarette making is very profitable whereas basic agricultural tool production is only moderately so. But one hardly wants an Investment Bank - public or mixed - to act solely on that criterion. Agricultural Input, Basic Consumer Goods, Amenity Goods perspective allocations within an annual lending budget may, in some contexts, be a pragmatic solution.)

## VI. Elite/Amenity Private Goods and Services Investment

1. The bulk of this investment is in producing the goods and services in question. That portion of investment is thus most usefully discouraged, reduced, altered by action on consumer demand.
  
2. Luxury housing is a special category because it is treated as Gross Fixed Capital formation (which it is) and therefore as investment (which it is in the sense of producing a commercial or implicit user/owner income stream but not in that of contributing to productive capacity more generally). Here the basic objection is probably import content. Alteration to use more local materials and fittings can be facilitated/quasi-coerced by import duties and (where the goods can be differentiated) indirect taxes which are nominally general. To the extent the objection is social or urban service cost related progressive rates (e.g. 2 and one-half per cent low value houses, 5% lower middle, 7 and one-half per cent upper middle, 12 and one-half per cent luxe) plus volume surcharge (not taper) electricity and water tariffs (to hit air-conditioning and lawn watering or car washing or swimming pools) are practicable partial answers. So is non-favoured tax treatment of luxury rental housing (e.g. no depreciation or maintenance allowances and full personal or corporate income tax rate on gross rents) which should tend to push some entrepreneur's investment into other more GNP positive operations. By the same token the formal financial sector should at the least not be encouraged (by word, deed or tax regime) to finance luxury housing (rental or owner occupied) and perhaps should have ceilings (down to 0?) on such lending to force luxury housing consumption to be financed from occupiers' prior savings and/or the more expensive parallel finance market.
  
3. If there are categorised, selective or discretionary tax credits or infrastructure concessions, then these should be reserved for investment in exports, production inputs (agricultural implements, light engineering, heavy maintenance, construction materials, spares, as well as raw materials and narrowly defined capital goods) and broad market amenity goods. (Whether such concessions can in practice be operated in a way resulting in net increases in



investment and improved sectoral allocation more than offsetting windfalls, mal-allocations and administrative costs is beyond the scope of this paper. In practice such systems are likely to remain common in SSA - as in Europe! Therefore, attention should be focused on improving - or at least neutralising! - them)

## VII. Public Sector Elite/Amenity Consumption

1. There is no place nor justification for public sector elite consumption (or public subsidisation of private elite consumption) in SSA. That is a classical - neo-classical - Marxian - Georgian and neo-liberal economic principle it is rather hard to refute on grounds of economic or social logic, still less on those of human concern. Unfortunately the logic of power and of self-interest in an elite dominated state or even a less elitist one with weak detailed accountability lines from the main bodies of workers, peasants, consumers is very different. ECA - and in fairness the Khartoum Declaration which was endorsed up to OAU Head of State level - accept this assertion against subsidising elites (at least by the logic of what they endorse). Most African states by design, by weakness and/or by inadvertence and weakness are open to persuasion, demonstration and suggestion from or on behalf of elite consumers. Design is changeable only by changing domestic power parameters which inter-governmental organisations can only address in extreme cases (e.g. UNICEF could publish Children On The Front Line; the idea of a Central American analogue died at the numerous brain storming sessions), elliptically (e.g. "good governance", "accountability" without specific objective correlatives) or indirectly (e.g. actually building up local farmer or co-op or women's group or worker capacity without specifying potential long term implications which would be total anathema to the host government today).
2. Excessive government pay/total emolument levels and greed corruption have already been cited. (Need corruption - e.g. the postal clerk who spends her whole salary getting to work and then charges customers for effective posing of mail - can only be cured by paying living wages and, in any event, does not go on elite consumption.) One key element is the saloon car one.
3. Similarly subsidies or tax benefits for elite goods or incomes and elite consumption have also been treated under private elite consumption (and investment).

4. Government elite consumption on itself (as opposed to by its employee via wages-emoluments-benefits-peculations) is not usually huge. Most of it arises from the upkeep/operation of luxury investment, e.g. grand airports, stadia, offices, palaces. Luxury furnishings and supplies are not very widespread and maintenance is far oftener inadequate than excessive (whatever the original quality of the structure). Entertainment and travel (especially foreign travel) are two elite consumption categories where prestige, fringe benefits to employees and habit do result in serious leakage of resources in some states. Beyond pointing to the need to reduce these to 'necessary' levels, it is hard to prescribe because it is the government's outlook which determines a host of individual decisions rather than any rhetorical statement, Standing Order or macro budgetary exercise. (For example, Botswana is - for a state with fairly ample resources - relatively austere while bankrupt Zaire is lavish. Similarly, detailed President's Office control of external missions and their numbers does reduce excesses but also impedes rapid, flexible conduct of business, e.g. Tanzania.)
5. Ending elite service subsidisation as noted creates problems beyond those of power patterns. The basic difficulties are, a.) differentiating elite consumption uses (e.g. air-conditioning from lighting for electricity, saloon cars from taxis for vehicle/fuel taxes); b.) avoiding barring access to expensive, needed services to poor persons (e.g. major surgery) and; c.) resolving the operational difficulty where the high cost service precedes and causes the subsequent high income stream (e.g. tertiary education). These issues can be set out fairly generally. Partial solutions can be illustrated. General, totally satisfactory answers - there are none.
6. "5-b" raises a more general problem. When can desirable, non-luxury (at least in principle) services be justified and when should they be cut out (or not set up) because they cannot be made available to all who need them? This is a very real problem in a desperately resource short public sector. Bodyscanners and dialysis machines do save lives. If they are to be public sector, they cannot be made available on the basis of ability to pay. But - at least in SSA - they cannot be made available in numbers sufficient to treat all who

would gain significant numbers of years of meaningful life from access to them. Worse, in practice they divert resources from uses which would save more lives/meaningful years of life. At this extreme a hard (in all senses), clear answer is possible - do not provide. But a medical service consisting only of vaccination - immunisation - 25 basic drugs - medical aids - mother and child clinics and first aid is both technically impossible to operate, incapable of internal self-development and socially/politically unacceptable. Where, in any given time and place, does one draw the elite (very limited access) cut-out line and how does one allocate between amenity (moderately broad and growing access) and basic (targeted for speedy universalisation of access) services? And in respect to amenity (in access terms) services what criteria apply to rationing (price? Economic value to country, e.g. to Mozambique nationally a university graduate is worth more than an unskilled garbage collection worker or than the graduate's primary school educated wife or infant child? First come, first served?) ???

7. Except for the problem body of cases at Para 6, public sector provision of amenity services is desirable so long as, to the extent that, they do not conflict with providing basic services. One necessary condition for that (except Para 6 cases) is full cost charging (where this is cost efficient and administratively feasible) e.g. for urban garbage collection (presumably in a rates type charge). But that is not a sufficient condition if personnel and decision-taking capacity plus foreign resources and (e.g.) domestic construction capacity are scarce. Further, some amenity services (i.e. not essential, not used by everyone) such as urban parks are primarily used by poor people and cannot very well have admission tickets. In these cases a rough judgement on scarce resource cost (low for parks so long as the land has not yet been built on) and future value (probably rapidly rising in parks case) is about the only applicable test. (The author is eccentrically pro-parks; but so are poor urban Africans vide the uproar over Kenyatta National Park in Nairobi and observe who uses it - or the waterfront park in Dar or the Cecil Square and botanical ones in Harare!)

### VIII. Public Sector Elite/Amenity Investment

1. Elite public sector investment and public sector investment uniquely serving elite consumption (apart from external tourists) should be cut out and full cost charged on public investment producing services mixed among necessities, business services and amenity/elite services, if necessary with elite surpluses subsidising (cross-subsidising) necessity losses.
2. A definitional and a special operational problem arises:
  - a. elite/luxe investment often relates to quality not object: e.g. airports are not inherently elite investment but many SSA airport terminals are.
  - b. government servant housing (excluding uniformed services and those in posts where access to rental housing is unlikely) is an undesirable state activity and subsidising it is an unsatisfactory form of salary supplement. However, especially when rental markets are Rachmanite and/or public service salaries including housing are already far below efficiency levels, cutting out housing provision/subsidy (e.g. provision for 10% of gross salary) is not a sensible initial step to emoluments or consumption pattern reform.
3. Amenity public investment should be subordinated to necessity service producing and to economic infrastructure. It should, when undertaken, be at minimum cost consistent with serviceability. But some cases, e.g. football stadia, which serve broad cross-sections of the population can be justified (especially if fees to users can cover full maintenance plus depreciation). Similarly, water piped to households can be justified in urban areas if it covers full cost and a cross-subsidy to standpipe/neighbourhood tap water. (In practice this condition, which is a perfectly practicable one, is rarely met.)

## IX. Non-War Military Expenditure

1. The basic problem here is convincing governments that security and popularity/longevity would be increased by reduced military spending - especially on imported hardware. The opportunity cost demonstration is a part of this exercise but not the whole of it.
2. Military expenditure does not, in SSA, add to GNP beyond wages/salaries. Exceptions in respect to public works support or direct production are trivial. It can hardly be supposed that a Keynesian multiplier effect justifies it and - even were that case advanced - labour intensive public works and/or primary/adult education teachers and primary health workers would be better choices for demand reflation. Military expenditure has high scarce resource components: skilled and high level personpower, training institutions, construction capacity, imported fuel-vehicles-supplies-military hardware plus spares and ammunition. There is data to show a negative correlation between military share of budget and GDP growth (albeit the author of the study seems to half believe direction is low GDP growth, high discontent, coup, high military not the other direction).
3. For non-military governments, and those long in office military governments which are by now quasi-civilian, presenting:
  - a. the economic logic
  - b. the SSA data
  - c. the "Costa Rica Box" (from high defence expenditure/low growth/coups to no army/better growth and welfare/no coups and ability to stay out of regional fighting)

should carry conviction.
4. Possibly some point on OAU or Regional or bi-national 'standing committee' to mediate tensions would help make 'neo-Costa Ricanism' convincing? (I am not thinking it is our business to go into detail

on peaceful resolution of differences, merely to provide a sketch of 'neo-Costa Rica' approach for SSA.) Frankly, this whole exercise will have little impact where there is a real (or perceived and not palpably unreal) threat e.g. Kenya defence focus on NE Frontier Province/Somali incursions.

5. Whether the approach can have any impact on 'normal' military governments whose power base is basically military I don't know. They aren't really open to argument that police are more cost effective for law and order - internal security - border policing and do not make coups.
6. Actual war/civil war costs are considered and presented in a separate memo for two reasons:
  - a. they are far higher and more complex;
  - b. we cannot credibly run 'neo-Costa Rica' to Ethiopia or Sudan or Somalia or Morocco any more than to Mozambique or Zimbabwe (on RSA front as opposed to the internal ZANU/ZAPU/Dissident Front where Zimbabwe has acted on mediation-demilitarisation). In those contexts (whatever we think of the war's rights and wrongs) no government will see military spending as elite or amenity consumption!

## X. Summary

1. Elite consumption and investment expenditure in the private and public sectors is too high and too external in content.
2. Private elite consumption/expenditure cannot be wiped out without wiping out all high incomes. That would appear to be inconsistent with market incentives.
3. Reducing private elite expenditure is possible by:
  - a. progressive income taxation and high taxes on luxury goods; (including rates and charges for such services as household piped water and electricity which are progressive as to value/quantity used);
  - b. avoiding excess incentives and increasing competition;
  - c. ending public sector funding (by salaries, subsidies, etc.) of private elite consumption/investment.
4. Altering the makeup of elite consumption to make it more indigenous, lower in import content and more of a continuum (elite-amenity-necessity) is possible. Fiscal instruments are relevant, e.g. differential taxes against imports or inherently import intensive 'domestic' products.
5. In some cases ingenuity is needed in juggling several sets of taxes because the same good is elite, amenity, necessity and production input. Fuel (gasoline), electricity and water are major examples.
6. Public elite investment and consumption can and should be wiped out. (This includes its flows to, and subsidies of, private.) Palaces, palatial offices and stadia, very high salaries, greed-related corruption are examples.
7. Private amenity consumption and investment is not inherently undesirable - on the contrary. Reducing absolute poverty is (should



be) a priority goal. Keeping everyone just above the absolute poverty line is not a goal and is likely to hamper incentives and buoyant domestic demand. There is a case for using fiscal instruments to channel amenity consumption to domestic goods or those traded preferentially with other SSA economies.

8. Public amenity consumption and investment should be reduced and should require specific justification. The top priority for public spending is absolute poverty reduction - by enabling poor people to produce more and by providing universal access to basic services (adult/primary education, primary health care, pure water, extension) within a finite time period. But:
  - a. an enabling macroeconomic climate will require and will cause growth in production by less poor and by not poor people;
  - b. infrastructure (whether roads or technical education) relevant to the needs of poor people serves other uses and generates 'amenity' incomes;
  - c. health and education systems cannot be primary or primary/adult only if they are to be part of an enabling climate or even to function well at primary level;
  - d. some services used by poor people are nonetheless not universal access but are eventually extendible and clearly non-elite (e.g. parks, football stadia).
  
9. When practicable, government amenity expenditure should be self-financing. Administrative, collection cost and expenditure now resulting in later income stream (e.g. higher education) considerations may well make this impracticable/undesirable in certain cases.
  
10. Cost and quality control (or their absence) are often the difference between necessity and amenity public expenditure especially in respect to buildings. For example, wide corridors separate from verandahs and multiple large halls for dining and assembly are

amenity expenditure at a secondary school even though the school itself is not an amenity item. These amenity costs do need to be controlled.

11. Amenity consumption (private) should be expected to pay a significant portion of total revenue. One viable instrument is a multiple rate single point (at importation or manufacture) indirect tax which can readily be made progressive in its incidence up to several times average household income. (However, it must be recognised that a tax which is buoyant when per capita income and amenity consumption are rising will, by its nature, be highly negatively sensitive to stagnation and recession.)
  
12. Non-war military spending is (at least largely) a form of public amenity/elite consumer spending. The case against it is that it has a high opportunity cost in respect to GNP growth and is security cost inefficient relative to police (vide Costa Rica). War costs are treated in a separate memo because their order of magnitude is different and no government in a war/civil war position is likely to comprehend its military budget being seen as an optional elite luxury so that so to describe it is likely to weaken the hortatory power of the economic war loss/peace dividend case on policy decisions in respect to reconciliation/mediation.

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## THE PRICE OF WAR: Macroeconomic and Human

By R. H. Green

### Introduction

1. For 1990 only four SSA countries are projected by FAO to have severe food shortages - Sudan, Ethiopia, Mozambique and Angola. These are the four countries with large scale fighting on their soil as a result of civil war and/or external aggression. In these countries in the 1980-87 period GNP per capita fell ranging from over 1.5% annual decline in Ethiopia to over 8% in Mozambique. In 1990 it is possible that GNP per capita will rise modestly in Mozambique and Angola - the two of the four countries in which reduction of the scope, scale and cost of war has been possible. Estimates of life expectancy at birth are lower and of infant and young child mortality higher than in SSA as a whole and even more markedly compared to other Eastern and Southern African countries.
2. Large scale war - especially on a country's home territory but also in the case of solidarity and support operations such as those of Zimbabwe and Tanzania - is both economically and humanly devastating. Even the impact of a nearby war cutting natural transport links can be massive as exemplified by Malawi, Zimbabwe and Zambia. Nor do the costs and consequences of war stop as soon as the fighting does as illustrated by the cases of Zaire, Somalia, Chad and Uganda.

### Costs - A Sketch Typology

3. Direct, readily identifiable war costs include military expenditure, direct war destruction of assets (including crops and livestock) and combat related military and civilian casualties. Even this limited definition can total 15 to 20% of GDP in years of widespread, severe conflict but it is only the tip of the iceberg of total costs.
4. Opportunity costs arise especially in respect to forex, skilled personnel and decision taking/articulating capacity. SSA military

expenditure - especially in a war context which is more fuel, transport, ammunition and weaponry intensive than a peace time or riot control military - is dominated by import content.

Given import/GNP ratios this suggests that if 60% of the war increment to military budgets is imported every \$ extra on the military budget causes at least \$2.5 fall in non-military GNP (i.e.  $.6 \times 4$  to  $5$  multiplier  $\times$  added military). The skilled personnel cost is illustrated by Angola. Its armed forces are regional standard and able to use and maintain sophisticated weaponry and transport. Its civil government services capacity (except in respect to petroleum) is very low even by SSA standards, e.g. markedly lower than Mozambique. The war has eaten up the significant flows of trained personnel achieved since independence. Decision taking opportunity cost is illustrated by Tanzania. The response to 1973/74 import price (food-fertiliser-petroleum) and drought (73/74 and 74/75) was rapid (beginning in January 1973) and led to fairly adequate, coherent policies within 6 months. The mid-1978 coffee price/import over liberalisation/budget laxity crisis was not faced squarely until late 1979 and the first articulated, semi-coherent approach was not reached until the second half of 1980. Why? Primarily because the Amin invasion and Uganda war virtually totally distracted attention from economic strategy (including fiscal and forex balance) until the second half of 1979.

5. The long term opportunity cost cumulates and becomes self-reinforcing because maintenance and investment in both productive capacity and infrastructure are losers, squeezed by war bills on fiscal and forex accounts. Thus utilisable capacity and underlying capacity growth suffer. This effect cannot be reversed at the end of the war - the lower capacity base and investible surplus-taxable capacity-export earnings basis are permanent facts and catching up on deferred maintenance can be a monumental and decade long undertaking.
6. Decision taking and budgetary constraints usually hit food security, health, water, education and real wages disproportionately whatever the government's preferences. The human investment and human condition results can be massive. It is the worsened nutritional

status/weakened medical services (especially preventative) interaction which causes most war related deaths (e.g. in Angola, Mozambique, Ethiopia, Sudan, Chad, Uganda).

7. These factors are in turn exacerbated by chaos and generalised insecurity especially in rural areas. Refugee or displaced persons households find rehabilitating their livelihoods very difficult to impossible until the war ends (and beyond). Food relief transport is hampered by attacks and by considerations relating to not feeding the enemy. Direct drought related deaths in Africa in the 1970s and 1980s have been virtually all in cases of interacting war in the afflicted country and drought, not of drought alone. Tanzania and Zimbabwe probably faced more weather related crop shortfalls in the first half of the 1980s than Mozambique or Angola and Mali than Chad. But Zimbabwe, Tanzania and Mali escaped famine because the chaos/transport barriers of major wars on their territories did not afflict them, whereas they did lay their deadly hand on Chad, Angola and Mozambique.

In Summary - War as Economic Disaster

8. A decade of war can reduce GNP to half of probable non-war levels and raise infant and young child mortality by 100 (per 1000) over what it would probably have been with peace. Even shorter, less sweeping (or less on own soil) hostilities can cost 10% of GNP and thousands of nutrition/health interaction related deaths which would not otherwise have occurred.
9. Because capacity has grown less rapidly, human resources been crippled and serious imbalances accumulated (not least unserviceable external debt) an end to war does not lead to early recovery to non-war growth rates and even then from a lower GNP base.
10. The war - food insecurity - malnutrition - transport disruption - health service interaction is the chief cause of war related deaths. In SSA over the past two decades drought without war has not led to famine deaths; drought with war in the country usually has.

11. War reduces GNP growth. War in a country appears without exception to reduce sustainable growth to 2% or less - i.e. negative per capita. War largely abroad and spillover effects (e.g. Malawi) have the same result on all but very strong (e.g. Botswana, Zimbabwe) economies.

Wars In SSA - Perspectives and Prospects

12. The largest cluster of war conditions in SSA surround RSA and flow from the regional aspects of its total strategy. These are also the cases in which a "peace dividend" is most likely over the next three to five years. RSA has reduced intervention across its borders directly and by proxy and accepted Namibian independence. The logical counterpart of the shift to negotiation domestically would appear to be to halt aggression regionally. The independent states are increasingly aware of the costs of war. Zimbabwe and Namibia have achieved substantial internal reconciliation to avert civil war or high level dissidence replacing external aggression and similar efforts in Mozambique and Angola would be likely to succeed if the externally fuelled dissident armies were not still in receipt of substantial external assistance.
13. The second largest cluster of war conditions is in the Horn - Ethiopia, Somalia, Sudan. Here the wars are now primarily civil rather than inter state. They are locking all three states into declining GNP per capita and increasing inability to provide the minimum resource flows needed for any economic or social policy. How much impact this will have on strategy - war or reconciliation - remains to be seen. The clearer and more detailed explanation of war costs might raise the ability of reconciliation advocates in these states to alter policy parameters.
14. The other major war in (on the border of) SSA is in the former Spanish Sahara. The economic damage to Morocco is clear; its past or future policy impact is not.
15. Uganda, Burundi, Zaire and Chad have multi decade histories of endemic civil wars and/or high levels of dissidence amounting to war.

At the moment these are at low levels and in three cases reconciliation as a route to rehabilitation is being pursued at least partly because of the perceived social and economic consequences of war.

What Is To Be Done?

16. What outsiders (including citizens outside the government decision taking group) can do is less than clear and probably varies from case to case. Simple denunciation of war seems to have limited impact and, at least in the Horn, aid reduction has not notably altered state policy toward reconciliation to date. The most hopeful sub-region - Southern Africa - is sui generis with all states fairly well aware of war costs, seriously committed to internal reconciliation and having no intent to engage in war against RSA except to resist its direct and proxy aggression.
17. Serious setting out of war costs should at least marginally affect government strategies because the GNP growth and mortality consequences are so stark. By itself such information (sensitization) is unlikely to result in rapid outbreaks of peace. What it can do, especially over time, is to increase the self-conviction, numbers and influence of advocates of reconciliation/negotiation.
18. Offers of mediation/independent chairing of negotiations and back up data provision/analysis by the OAU, mutually respected outside governments and institutions and even eminent individuals can be useful. But their use appears to be to create an enabling climate when peace advocates have gained strength internally; not to cause a major shift in balance of forces. Nor have any of the three major mediation exercises (Ethiopia, Mozambique, Angola) with external facilitators achieved a resolution of differences or a cessation of hostilities to date.
19. Imaginative use of promises of rehabilitation support might be useful either in the context of mediation efforts or when these were being weighed seriously but had not yet begun. For example, in the Sudan

presumably rehabilitation of infrastructure and of livelihoods (including livestock) as well as extension of basic services are a sine qua non for peace to be stable. A post-war Sudanese economy cannot provide them for decades - especially to the South and West where they are most needed nor to the 1.5 million Southern refugees in the North (whether to secure livelihoods there or to re-establish themselves in their former home areas). A standard SAP/Consultative Group exercise without an added reconciliation/political stabilisation component backed by additional finance is unlikely to provide an adequate resource augmentation.

20. The principle that pledges for either, a.) initiatives seriously under consideration or b.) desirable measures already begun are more "cost efficient" and lead to more sustained domestic progress than old style conditionality (with "trigger clauses" and their ilk rightly or wrongly perceived as triggers on cocked weapons to enforce externally crafted and to prohibit non-conventional domestically crafted) applies to external initiatives to secure shifts from war to peace. (By the inverse token, radical and coordinated reduction of supply of military and dual purpose hardware in the cases of war, backed by not providing it on soft credit would be of some use. This is easier to argue now that RSA's aggressive thrusts seem to be running down at the same time Cold War tensions/competitions are abating or even going into reverse. However, the tenacity with which bankrupt states pull resources out of collapsing economies to pursue unwinnable civil wars and the amount of chaos, destruction and death low technology wars can cost - as exemplified by Renamo/bandidos armados - warn against expecting massive, general, immediate outbreaks of peace.)
21. Whether the World Bank can play a role beyond analysis of costs is unclear. It seems a slightly unlikely mediator in any formal sense. Whether it could catalyse (with indications of own potential support plus mobilisation of other backers) reconciliation/rehabilitation support packages capable of affecting changes toward "enabling climates" for peace deserves exploration.