AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523
BIBLIOGRAPHIC INPUT SHEET

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BATCH 79 ARDA

1. SUBJECT CLASSIFICATION	A. PRIMARY: Development and economics	DA00-0000-G176
	B. SECONDARY: General--Rhodesia	

2. TITLE AND SUBTITLE
Zimbabwe, anticipation of economic and humanitarian needs: Growth structure and prospects of the Zimbabwe ecnonomy

3. AUTHOR(S)
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4. DOCUMENT DATE	5. NUMBER OF PAGES	6. ARC NUMBER
1977	35p.	ARC RH330.96891.A217 v.1

7. REFERENCE ORGANIZATION NAME AND ADDRESS
AASC

8. SUPPLEMENTARY NOTES (Sponsoring Organization, Publishers, Availability)
(In Transition Problems in a Developing Nation; consultant [occasional] paper no.6)

9. ABSTRACT Section I of this occasional paper discusses the three major political events which dominate the economic history of the past 20 years in Rhodesia. These events were the formation of the Central African Federation, the weakening and final dissolution of the Federation, and the last, the Unilateral Declaration of Independence in November 1965. Other factors affecting the economy after 1965 were the weather, which was worse than normal, and the eruption of guerilla warfare. Despite these unfavorable obstacles the Rhodesian economy managed to perform well. The reasons for this perfomrnace are also explored.. Section II describes the structural characteristics of the economy. The Zimbabwe economy is relatively developed by African standards. Industrial development is extensive. A large proportion of the adult male population is absorbed into the modern wage sector. The economy is highly diversified. The rapid growth in the recent past has not changed relative earnings of white and blacks though it has led to a significant increase in African real wages. The economy has a bigger private component than is common in LDCs. There is extraordinary flexibility in the Rhodesian economy, most dramatically in agriculture. Section III discusses the prospects for the economy in Zimbabwe beginning with the economic heritage. Some of the country's advantages are a natural endowment with a diversity of minerals, a favorable pattern of exports, a well developed physical infrastructure, a relatively large industrial sector, and great potential in the undeveloped areas. Observations from other transition situations are included, and speculation is given on the nature of the transition.

10. CONTROL NUMBER
PN-AAF-243

11. PRICE OF DOCUMENT

12. DESCRIPTORS
Agricultural economics
Economic development
Growth
Land settlement
Nationalization
Political aspects
Rhodesia
Sanctions
Southern Africa

13. PROJECT NUMBER

14. CONTRACT NUMBER
AID/afr-C-1254 GTS

15. TYPE OF DOCUMENT

AID 590-1 (4-74)

AID/afr-C-1254 GTS
AASC
PN-AAF-243

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OCCASIONAL PAPER NO. 6

FINAL REPORT

GROWTH STRUCTURE AND PROSPECTS OF THE ZIMBABWE ECONOMY

by

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January 20, 1977
Subcontract AID/afr-C-1254 for African-American Scholars Council, Inc.
and the Agency for International Development

I. Recent Growth of the Zimbabwe Economy

Three major political events dominate the economic history of the past twenty years in Rhodesia. The first is the formation of the Central African Federation in 1953, the second the weakening and final dissolution of the Federation from the late 1950's to 1963, and the last the Unilateral Declaration of Independence in November 1965.

The formation of the Federation was extremely favorable to Rhodesian economic growth. It induced a massive foreign investment boom, both private and public. In the period 1954-1959 almost US $700 mn. -- over a third of average GDP -- flowed into Rhodesia, some US $400 mn. of it private. The public investment financed a broad range of new overhead facilities, notably the Kariba power project which brought in US $125 mn. in external financing, the railroad to Laurenco Marques, the University of Rhodesia. Federation also stimulated a new wave of white immigration, which rose from an average of 9,000 a year (net) to a peak of 11,000 in 1956. Federation opened wider the markets of Northern Rhodesia (Zambia) and Nyasaland (Malawi) thereby stimulating the export sector. And the main fiscal consequence of Federation was a massive redistribution of resources from Northern Rhodesia to Southern Rhodesia. It is no surprise that real output during the immediate past-Federation period grew very rapidly -- about 8 percent per annum between 1954 and 1958.

The Federation stimulus, however, didn't last long; it wore off as soon as it became evident, in the second half of the 1950's, that black rule was imminent in Nyasaland (Malawi) and Northern Rhodesia (Zambia), and that this would mean break up of the Federation. Investment plummeted to an average of under 20 percent of GDP in the latter part of the fifties and early sixties. Immigration also fell sharply from a 1956 peak of 19,000 (gross) to 9,000 in 1959. The external environment also became less favorable; Rhodesian's terms of trade worsened appreciably after 1957. The result of these forces was a sharp drop in income growth -- to a little over 2.5 percent a year in real terms between 1957 and 1963.

For the observer in 1965, there were plenty of reasons to be pessimistic about the economic future of Rhodesia. The disappearance of the Central African Federation and UDI threatened to remove neighboring markets for Rhodesian exports. Sanctions would almost surely hit tobacco exports severely, since it is hard to mask the origin of tobacco, and tobacco accounted for about one-third of the total value of exports. Transport links with the coastal ports would be disturbed by sanctions, raising the general level of costs and prices, and eliminating Rhodesia's sizeable earnings on transit railway services. The transformed political situation would surely make Rhodesia less attractive to potential immigrants, so no economic stimulus could be expected from high net immigration. Such growth as might be provided by tourism would also have been discounted heavily, given the political uncertainty in the country. To the extent that sanctions could be made effective, critical input scarcities might cripple the economy. Certainly Rhodesia's attractiveness to foreign investors (or domestic capitalists for that matter) could not be otherwise than sharply reduced, because of internal political uncertainty. So the traditional sources of growth -- export sector expansion; immigration; foreign and local capital investment -- were menaced by the political changes of 1963-65.

These were the common sources of pessimism about the future, viewed from 1965. During the decade after 1965 there in fact took place certain objective events with negative economic impact for the Rhodesian economy. The decade's weather was worse than normal; there were several years of bad drought. Guerilla warfare erupted, with all its implications -- not least a substantially increased allocation of resources to defense, and a diversion of the work force. The terms of trade turned unfavorable. Comparison of unit values of exports and imports shows prices of exports lower by 15-20 percent between 1966 and 1974, in relation to 1964/65 prices.

Despite all the anticipated obstacles and the factors unfavorable to growth, the Rhodesian economy managed to perform well beyond expectations in the decade after 1965.

The economy did falter at first: the period 1963-1968 was one of regression or stagnation; aggregate output grew at about 2.8 percent annually, less than estimated population growth. Exports fell from $R 164 mn. in 1965 to $R 104 in 1966, and remained around $R 100 mn. through 1968. Tobacco was the main victim; exports fell from $R 49 mn. in 1965 to a presumed $R 15 mn. in 1968. The transport sector output declined by some 12% between 1965 and 1967, reflecting the loss of the Zambian transit trade.[1]

[1] United Kingdom Assessment of the Effects of Sanction on the Rhodesian Economy up to Mid-1968, in United Nations Security Council, Official Records, 23rd Session, 1970. See also Working Paper # 4 by R. Porter.

But the economic expansion was renewed after 1968, and at an extraordinary rate. Real output grew at a rate of 8.3 percent a year between 1968 and the end of 1974. Real income per person increased by 4.6% a year, more than any year since the early 1950's. Manufacturing output doubled between 1964 and 1974, mining output almost doubled in volume and tripled in value. In agriculture, cattle and milk production doubled, maize output rose 600%; production of all agriculture except tobacco rose strongly.

How can this unexpected economic boom be explained? The question is important; many of the economic problems of the transition to black rule will be conditioned by the nature of the economic inheritance. Also, decisions on many policy matters may depend on judgements about what happened to the economy after 1965.

This may be made clearer by briefly looking at one hypothesis which has been put forward to explain the post-sanctions spurt of economic development. This is the argument that sanctions caused a rapid rate of development in Zimbabwe by isolating the country from the world economy. This argument, set out in a 1973 paper,[2] sees the Zimbabwe experience as confirmation of the general proposition that true development in any less developed country can only take place by reduction and presumably ultimate severance of economic ties between "center" and "periphery." In this specific case, the argument is that sanctions cut off Zimbabwe, and stimulated a broad range of import-substituting activity, which powered the 1965-74 expansion.

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[2] A.M.M. Hoogvelt and David Child, Rhodesia-Economic Blockade and Long-Term Development Strategy, Institute of Social Studies Occasional Papers, (The Hague, 1973).

It is certainly true that import substitution in industry and agriculture were important features of the Zimbabwe experience in 1965-74. The production of wheat, maize, groundnuts and other commodities in place of tobacco is well known. But the growth and diversification of industrial output is even more to the point.

For several reasons, however, this hypothesis must be questioned. Rhodesia's ties with the "center," with the outside world economy, were not severed by sanctions. Except for its impact on tobacco exports, the consensus of most observers is that sanctions had relatively temporary and slight economic effects. They raised the general level of costs to the economy and in specific instances involved dramatic one-time losses (e.g., R$ 50 mn. of rolling stock confiscated by the Mozambique government). The reason is obvious: links with South Africa were never cut and the connection to Mozambique also remained open until very recently. South Africa could provide a source of imports, a market for exports, a conduit for exports to the rest of the world, a source of capital, and in general a network of interconnections with world trade and finance.

This is evident from some of the sources of growth since UDI. Thus mining was a leading sector and mining output is mainly for export (though minerals are exported in more processed form). The source of capital for mining, as for manufacturing, remained largely external; larger firms (those with more than 100 employees) produce over 80% of Rhodesia's manufactures, and most of these are probably multinationals, integral parts of the world economy. Moreover, at least some of the expansion of manufacturing was for export, not for import substitution alone. Complaints from South African firms are not uncommon during this period, complaints about loss of markets to Rhodesian producers.

Finally, import substitution in manufacturing induced by sanctions does not appear to have contributed more to Rhodesia's rate of growth during the period 1964-74 than it did at other periods in Rhodesia's economic history. (See Porter and Sherman paper.)

The primary reasons, then, for the much better than expected performance of the Zimbabwe economy after UDI seems to be the fact that sanctions were only marginally effective, hurting tobacco exports in particular, at least for a few years,[3] but leaving the rest of the economy relatively untouched. The underlying factor of course was the support of Mozambique (until 1975) and South Africa. Also, other vital external connections remained relatively intact. Malawi, for example, which before UDI was a major market for Zimbabwe manufactured exports, continued to import after UDI.

Other factors seem to have been at work. Capital movement appears to have been relatively effectively controlled, so that much investment capital which might otherwise have fled has been deflected inward. Capital formation rose from an average of 13% of GDP in 1964-66 to 20% in 1972-74. Government price, credit, import control, and fiscal/monetary policies were generally aggressive. For producers moving into new lines, there were subsidies and price supports. Tobacco growers, the hardest hit group, received assistance through price supports which amounted to over R$ 120 million by 1975.

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[3] Tobacco production in 1965 was about 260 million lbs. The official target was reduced to 132 million lbs. by 1968, and remained at this level until 1971. Quota controls were gradually relaxed and were abolished (along with price supports) for the 1975/6 crop year. In 1973/4 the crop target was 200 million lbs. (Hawkins, p. 20, in Leistner, editor).

The quick and effective response of the European agricultural sector is another obvious element. This in turn seems best explained by the peculiar nature of this sector - some 7,000 farmers, many of them highly professional, plus a few company farms, an adaptable physical endowment; better weather; a relatively dense network of public sector agencies eager to help, and endowed with skills, budgets, organizational capacities well above those common in LDCS.

Another possibly important element in the explanation of Zimbabwe's post-1968 growth is the existence of excess capacity throughout the economy. Expectations based on Federation created excess manufacturing capacity, an overbuilt transport system, abundant infrastructure (the Kariba dam, for example). Slow growth between 1963 and 1968, and deep recession in some key sectors (e.g. the construction industry) allowed rapid expansion after 1968.

Finally, import controls and policies favoring import substitution surely played a role.

Whatever the underlying reasons, there is no doubt that the economy performed impressively during the past decade. Hawkins summarizes agricultural performance as follows:

> Between 1965 and 1974 Rhodesia achieved near self-sufficiency in wheat production (imports exceeded $5 million prior to 1965), while cattle and milk production doubled, maize output increased sixfold, wheat 26 times, groundnuts four times, tea three times, soya beans sixty times, cotton ten times, sugar production doubled while tobacco output fell by a quarter.

Manufacturing was a rapidly growing sector, output doubling between 1964 and 1974. According to one estimate the number of identifiable locally manufactured commodities rose from a little over 1,000 in 1966/67 to 3,800 in 1970; 1600 approvals for foreign exchange for industrial projects were granted between 1966 and 1975. Manufacturing as a share of total GDP grew from 20 to 25% and within the manufacturing sector, the share of intermediate and capital goods grew to 64% of the total. Employment in manufacturing grew from 85,000 in 1965 to 153,000 in 1974.

Mining expansion was a third mainspring of post-UDI economic growth; after 1972 in fact, mining output and employment grew faster than manufacturing: in volume terms, output in 1973 and 1974 was almost twice as high as in 1966, and the value of output nearly tripled between 1966 and 1974. Employment rose from 49,000 to 62,000 between those years. The industry has also grown more diversified since 1965, with copper and nickel production taking new importance.

The benefits of post-UDI growth seem to have been widely shared, although this is not apparent from the national income aggregates.[4] Overall, the GNP per capita rose by more than one-third in real terms between 1965 and 1974. The number of Africans employed in the higher-income wage sector grew markedly from some 610,000 in the middle 1960's to 955,000 in 1974. Average African earnings in wage employment grew by some 28% in real terms between 1964 and 1974 - from $238 to $304 (1964 Rhodesian dollars). Moreover Rhodesian Africans have benefitted more than Africans as a whole working in Rhodesia; the proportion of foreign workers

[4] The wage share of GDP was 52% in 1974, which is the lowest it has been since 1954. The share of profits was at its 20 year high in 1974 - 30%. The share of output going to the subsistence sector (the biggest part of the category "unincorporated categories" in the accounts) fell by a third these years - from 21 to 14% of GDP.

in the wage labor force fell from 32% to 25% between 1969 and 1974. Also, the sector where wages grew least was agriculture; real wages were stagnant in that sector. But almost 40% of the paid agricultural labor force is of foreign origin.

II. Some Structural Characteristics of the Economy

A. Relatively Advanced Stage of Development

The Zimbabwe economy is relatively "developed" by many standards. It is certainly more advanced than most African countries, or indeed others - such as Indonesia - which made rapid transitions out of colonial rule.

(1) Industrial development is unusually extensive. Manufacturing generates a quarter of total GDP, a much higher proportion than any African country other than South Africa. In terms of what is "normal" for early-stage countries, Zimbabwe has an uncommonly large industrial base. (See paper by Porter and Sherman.)

(2) Zimbabwe has absorbed into its modern or wage sector a large proportion of the adult male population. The economy can still be characterized as "dual" but in a peculiar sense: relatively few adult men remain in the traditional areas, though the major part of the total population still lives there.

The adult male population (15-65) in LDCs generally amounts to one-quarter of the total population. In Zimbabwe, the African population in 1975 was estimated to be 5.9 million, the adult male population about 1.5 million. Total wage employment in 1975 was 955,000. Not all of these wage workers are males, nor are all Zimbabweans; some 10% are women and 25% are foreign migrants (mainly from Malawi and Mozambique[5]). This still leaves about 650,000 Zimbabwean males employed for wages in Zimbabwe,[6] or about 45% of the adult male population - a far higher proportion than is found in other LDCs.

The dramatic impact of wage earning on the traditional rural economy is confirmed in the demographic data. According to the 1969 Census, 2.9 million Africans lived in the Tribal Trust Lands in that year - about 50% of the total. Of this 2.9 million, 1.6 million (55%) were women. Of the 1.3 million men, over 900,000 were children (under 20), and another 100,000 were men over 50 years old. There were thus only 300,000 men between the ages of 20 and 49 in those areas. The subsistence or "traditional" sector has thus shrunken to a small portion of the overall economy. Except perhaps for that portion of the work force employed seasonally on European farms (about half of which is foreign) the bulk of men in prime working ages has become integrated into the money economy via paid employment.

(3) The Zimbabwe economy is highly diversified. Its agriculture produces commodities typical of temperate, sub-tropical and (to a lesser extent) tropical zones: tobacco, sugar, wheat, peanuts, soya beans, maize, cotton, beef, tea, coffee. About 15% of its total cultivated acreage has controlled water supply. Its list of mineral outputs is similarly long: gold, chrome, nickel, copper, tin, asbestos, coal, iron ore, and a host

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[5]The estimate in 1969 was that 28.5% of the wage labor force was foreign born. But in-migration rates have fallen very sharply since 1969.

[6]A small number (perhaps 30,000) may also work for wages outside of Zimbabwe.

of minor metals. Its manufacturing far exceeds the "easy import substitution" lines of production typical in LDCs; as already noted, two thirds of manufacturing output is believed to consist of intermediate and capital goods.

B. Racial Discrimination and Inequality

Zimbabwe under white rule is and has always been a racist society, with a well-known array of discriminatory policies and traditions. Equal access to education, equal access to skills, worker rights to bargain collectively - all have been denied to Africans. Public services provided for African consumers and producers have always been far inferior to those provided for Europeans. Public policies have not been designed for stimulation of African agriculture. In fact, the 10% tax on African marketed output, other price policies, and agricultural extension policies have discouraged African production for sale. All of this has encouraged the flow of wage labor from the traditional sector. Furthermore, the predominant view in Rhodesian public policy has always been that African wage earners are transients, so the public overheads required for a stable urban population have never been forthcoming.

The result of this pattern of development has been to make Zimbabwe one of the most unequal societies in the world, with a high-income white population well remunerated and abundantly provided for, and an African population with much lower income and few social services. Thus average African wage income (in current Rhodesian dollars) was R$ 360 in 1974, while average European wage income that year was R$ 3,900. The rapid growth of the recent past has not changed relative earnings of white and blacks, though it has led to a significant increase in African real wages. The pattern of unequal access to services is symbolized by the enormous differentials in school attendance: 25,000 whites attend secondary schools and 36,000 blacks, while there are more than 20 blacks for every white in the population as a whole.

C. Large Private Sector

By all the usual measures, Zimbabwe's economy has a bigger private component than is common in LDCs, though the public sector role has been greater than the dominant Rhodesian ideology would have it. Thus of a total of about 1.1 million in wage employment in 1974, direct government employment was only 41,000, with another 47,000 in teaching and medical services, and an unknown but probably small number in public enterprises in other sectors. The proportion of public to total employment therefore is probably less than 20%, a very low figure by African standards; in the Ivory Coast and Kenya, the two countries often thought of as most clearly representing "capitalist" models of development, the proportion of wage earners in the public sector is 30-40%.

Looked at from the investment side, the public sector role is more sizeable; in recent years some 40% of gross fixed capital formation has originated in the public sector. This is still rather low compared to most LDCs.

While a relatively large share of economic activity is thus privately organized, the modern private sector is highly concentrated. In manufacturing over 80% of total output is produced by some 320 large firms (those employing over 100 workers). Marketed agricultural output is produced mainly by the 7,000 European farmers; of marketed agricultural output valued at R$ 269 million in 1973, only $12 million was African in origin - less than 5%. Mineral production, which formerly was characterized by many "smallworker" operations, has become increasingly the domain of large mining companies, most of them multinationals.

D. Export-Orientation

The growth of exports was a major factor in the past decade's development. Between 1966/7 and 1972 exports grew from about R$ 170 million to R$ 322. But as a share of GDP exports have fallen significantly--from 47% in the mid-sixties to 27% in 1972. This shows the impact of import substitution in the past decade, though it can also be interpreted to show the continuing outward orientation of the economy; an export GDP ratio of 27% is hardly indicative of isolation from world markets; nor is the 1973 import GDP ratio of 23% indicative of self-sufficiency.

E. Flexibility

The record of the past decade gives evidence of extraordinary flexibility in the Rhodesian economy. The most dramatic examples are in agriculture. Tobacco, the major crop, was unmarketable for several years after UDI. Very quickly there occurred a shift out of tobacco into maize, wheat, groundnuts, cotton and other substitute crops. Not only did there take place by 1974 large increases in output of these new crops, but tobacco production was on the rise again as well. New cash crops were adopted by African farmers also - at least in the case of cotton. The burst of import-substituting activity in manufacturing is well known. New mining activity has come on stream rapidly, so rapidly as to transform the industry - with a much reduced relative weight for chrome, and a growing importance for asbestos, nickel, copper and tin.

All of this has led to structural changes rarely occurring in so short a period of time: a reduction in the "openness" of the economy (the export/GDP ratio falling by over 40%), a shift in manufacturing to intermediate inputs and capital goods, a substantial change in the composition of exports - tobacco sharply declining in importance, replaced mainly by mineral exports - nickel, penochrome, asbestos, copper and by manufactures.

III. Prospects

A. Zimbabwe's Economic Heritage

Zimbabwe begins majority rule with some substantial economic advantages.

(1) It has been generously endowed by nature, particularly by an extraordinary diversity of minerals, much of it in early stages of exploitation. While only 20% of its land area is high-quality soil and well-watered,[7] much of the rest is suitable for extensive agriculture and grazing, and there is a great diversity in climatic characteristics, ranging from tropical to temperate. There has been accumulated, furthermore, a great deal of knowledge and experience in exploring the country's agricultural potential, experience with a multitude of crops, a variety of land use patterns, research at the field trial level with respect to new seeds, new rotations, utilization of fertilizers and irrigation.

(2)The pattern of exports is relatively favorable; the country is specialized in 'good' exports, those for which future demand looks promising and which have relatively high income elasticities of demand: the metals (asbestos, nickel, copper, ferrochrome, for example), and even tobacco. There is a large potential for energy exports--coal, as well as power from Kariba. The tourism potential is also substantial.

(3) Zimbabwe is endowed with a well-developed physical infrastructure. Its rail network reaches to most parts of the country, providing a ready means for expansion of the heavy traffic that mining expansion would involve,

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[7] V. Vincent and R.G. Thomas, An Agricultural Survey of Southern Rhodesia: Part I, Agro-Ecological Survey, Salisbury Govt. Printer, 1960. See also G. Kay, "Physical Environment Resources: in Leistner, G. (ed.) Rhodesia, Economic Structure and Change, 1976.

thereby promising high marginal yields per dollar of investment in direct production or exploration. The road system is excellent: over 5,000 km. of full-width tarred road (in 1973), and 35,000 km. of secondary roads, in a relatively small country.

(4) There is substantial potential in the traditional sector, despite the fact that about three fourths of the land cultivated by Africans benefits from little effective rainfall and has soils of poor quality, and the fact that productive-age men are few in number in the Tribal Trust Lands which make up the 'traditional' sector. This sector suffered from designed neglect during the period of white rule. It was weighed down with anti-growth policies--such as the 10% tax on marketed agricultural produce originating on African farms. So there is a backlog of unexploited opportunities waiting to be tapped. Some indication of this potential can be seen in the rapidity with which African farmers have taken to cotton production since UDI, under the stimulus of favorable prices and a little policy encouragement. African production rose from almost zero in 1966 to R$8 mn. in 1973, R$5.5 mn. of it from Tribal Trust Lands.

(5) Zimbabwe inherits an industrial sector which is relatively large for a country of its size and stage of development, diversified, well into domestic production of intermediate and capital goods, and--most important of all--apparently efficient, in the sense that its outputs appear competitive with imports in terms of price and quality. Zimbabwe thus appears to have avoided the usual consequences of industrialization policies based on import-substitution--the existence of many high-cost enterprises whose survival requires continuing protection and/or subsidization. Whether this is in fact so is something that will require intensive study after majority rule

comes. There is much casual talk in Rhodesia of industrial inefficiency. But the main hint that manufacturing is relatively efficient and competitive comes from South African manufacturers, who in several lines (shoes, textiles) have prevailed on their government to limit imports from Zimbabwe.

(6) Zimbabwe has a number of economic 'cushions' which should reduce the social impact of the ruder economic shocks which might arise during transition to majority rule. Two are particularly important. First, the traditional sector is underdeveloped and underpopulated, as noted earlier; its productive potential, and hence its population absorptive capacity, should be very substantial, with even small changes in policy, and with new programs for TTL agricultural development. Secondly, the impact of negative economic developments can to some degree be shifted to non-Zimbabweans-i.e. by restricting immigration of other African workers-a process which has already begun. This is so since a quarter of the wage labor force is still composed of foreign Africans. While hardly a desirable course of action from the point of view of overall African welfare, this sort of shifting of the incidence of unemployment to non-residents is of course common everywhere, and there is little reason to believe that any slowdown in Rhodesian growth would not result in a 'nationalization' of jobs there, as economic recession tends to do everywhere.

Finally, Zimbabwe has a physical infrastructure (roads, schools, hospitals, communications network, public buildings, private residences, etc.) which will require expansion only should majority rule usher in another period of extremely high growth, and even then should not require much. Should growth slow down, or even proceed at slower rates than in the past decade, the existing overhead facilities will be more than adequate, and will only require maintenance.

(7) Given the special circumstance surrounding Zimbabwe's transition to majority rule, and its critical role in Southern African and international politics, it is highly likely that sizeable flows of international economic assistance will be made available. It is also likely that substantial flows of foreign private investment will be forthcoming, particularly in mining, unless deterred by extreme political uncertainty or turbulence, and assuming of course that the government in power wants it.

Zimbabwe thus begins its existence as a relatively advanced, diversified economy which has a good physical resource base, good climate, considerable accumulated knowledge and experience in dealing with its economic environment. It is an economy which has given evidence of great flexibility in the recent past and this despite a variety of output-constraining policies, such as racial discrimination in agricultural policy and in the labor market, and despite obstacles (such as sanctions) flowing from its political posture. All of these are hopeful aspects of the transition.

The transition situation, however, has certain features of a less hopeful kind. First, to a considerable extent what has been erected in Rhodesia is a house of straw, built on racism, on the presence and dominance of the European minority. African participation has been largely restricted to the provision of unskilled labor--though it is true that a small group of educated Africans did begin to appear in the 1960's, and some African workers overcame the obstacles to skill acquisition. There has probably never been a situation in which political power passes to a majority so lightly represented in positions of wealth, economic power, technical and managerial responsibility. In 'typical' transitions from colonial rule the main economic sector is peasant agriculture, which in most colonial experiences remains immune to direct control by the colonial power. In Zimbabwe traditional agriculture retains few productive men and generates only about 10% of total output. The enormous economic disparity between whites and blacks has thus evolved in a more brutal and obvious fashion.

There are related factors, derived from the history of the Rhodesian colonial experience. First, the colonial impact was probably more shattering in Rhodesia than in most African countries. In part this came from the intensity of the colonial presence, the fact that the density of Euroepean population and the extent of absorption into paid employment was greater in Rhodesia than elsewhere (other than South Africa). It may also have to do with the nature of colonial implantation, the conquest of the 1890's, the strong role of Western religion. Whatever the reason, the result is an apparently weakened hold of traditional social organization, which matches the diminished size and economic role of the traditional sector.

Similarly, Rhodesians probably suffered more sustained and intensive humiliations and social indignities than most other colonized peoples, because of the nature of the European presence.

All of this creates a more delicate, a potentially more inflammatory environment than was typical in most other transition situations.

B. Some Observations from Other Transition Situations

It may be useful to set out some common tendencies which seem to appear in many transition situations. Since there are many differences in the material circumstances and historical conditions under which colonial or foreign domination disappears, it is risky to draw simple 'lessons'. But there do seem to be certain central tendencies, undoubtedly generated by common forces. The less happy tendencies are sketched here, for these are most demanding of concern.

(1) The propensity to overload the state administrative apparatus is very marked. The colonized have political power while the colonizers or other foreigners retain, in the transition, ownership and control over private sector enterprises, as well as dominance in technical and managerial jobs, and--very often--dominance in the trading sector. These circumstances encourage nationalization tendencies, and particularly attempts at state control over the trading system. These propensities are nurtured by a host of other forces: ideological inclinations (a more or less strong identification of colonialism with capitalism); the heavy state control often inherited from the colonial power; the desire to 'indigenize' trade. In mining and manufacturing, managing agency arrangements are usually worked out, and in some cases these provide a satisfactory substitute; in Zaire, for example, the Union Minière operations seem to have been relatively effectively managed for over a decade. In much of the world, however, the more typical case is for the nationalized enterprises to yield to political pressures--for excessive hiring, and for low pricing of consumed outputs; more damaging effects tend to follow from nationalization of trade. In most LDCs and particularly in Africa, state take over of the trading sector leads to grave difficulties, particularly with respect to marketing of food crops.

2) Related to the tendency to overload the public sector is a common fiscal and monetary policy propensity--i.e., to deficit finance public

expenditures and expand the supply of money in the economy. There are many reasons. One common set of factors is that the transition state is politically weak and divided, unable to resist pressures from diverse sectional interests. After majority rule, demands arise for more services, (schools, dispensaries, electricity supplies, roads, etc.) and for higher wages and benefits for public employees. Transition governments also tend to undertake higher rates of investment or development expenditure. These expanded activities tend to generate budget demands greater than can be matched by revenue increases. The result in all small, open LDCs (which is to say the great majority of countries) is to unleash inflationary pressures which find their most acute expression in balance of payments crises. Pressure on the external accounts creates the need for exchange controls and other forms of trade regulation. LDCs invariably find this extraordinarily difficult, and do it badly. Import quotas, exchange licensing and the whole apparatus of controls set up grave distortions in the price system, encourages corruption, induce smuggling and dishonest practices by exporters, and proves exceedingly difficult to abandon even when its inefficiencies and disadvantages are apparent to everyone. This is particularly true of open, landlocked economies of the type common in Africa.[8]

(3) Failure to create adequate economic management machinery in several key areas: project preparation and relations with aid donors; central screening

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[8] Such economies are "open" not only in that they do lots of exporting and importing, but also in the sense that there is a long history of private trade with neighbors in adjacent countries; yet, governments seeking to institute exchange controls find it difficult to police transactions due to the length of the land frontier.

and central institutions (budgeting, planning, control over external obligations); economic analysis of policies and programs. One common characteristic of transition situations is a condition of perfectly elastic supplies of foreign economic assistance, which require only proper domestic organization to be effectively tapped. The new country must learn the donors' rules. This means it must quickly organize an apparatus of project preparation, formal macro-planning, foreign aid coordination.

At the same time, every new country is faced with many dubious offers of outside help, many of them in the form of suppliers' credits, special arrangements with contractors and similar deals. The administration of the new country must organize a set of screening procedures which permit some economic evaluation of these offers. They need economic staff units which will spell out their implications in terms of budget obligations and otherwise. Somewhere in government it is necessary to keep a record of all the obligations being undertaken; it's hard to believe how frequently this is unknown in poor countries.

Finally, and obviously related to the above, is the need for ongoing economic analysis of policies and programs. It is extraordinary how little analysis goes on in many countries. Planners and other economists are commonly busy making plans. People in the Budget agency are busy putting out their document. The Finance Ministry people are paying bills and collecting revenues. And the spending agencies are trying to expand their programs. In very few LDCs, particularly in transition situations where economic analytic skills are especially rare, are there institutions within which the economic implications of various policies and programs can be soberly appraised; almost nowhere is there any systematic attention given to policy analysis.

(4) Agriculture almost always creates special problems in the transition. Frequently this is because massive institutional changes in ownership patterns or productive organization follow majority rule--e.g., as in Algeria and Tunisia, and to a lesser extent, Indonesia. Often it is because price and marketing policies discourage production--e.g., as in Burma, Mali, Zaire, among many others. Sometimes transport connections fall apart, as in Zaire.

(5) Another consistently troublesome area is maintenance of physical infrastructure--roads, public buildings, even private residences. It is easy to see why this should be so: maintenance expenditure is the first item removed by budget cutters, effective maintenance requires a highly articulated and skill-demanding network of institutions and procedures which tends to be diminished or destroyed in the post-transition changes. The result all too often is destruction of the national capital stock in a physical sense.

C. The Nature of the Transition: Some Speculation

A variety of factors will determine the degree of 'smoothness' of the transition, its impact on short-run income and welfare of black and white Rhodesians. Some of these are external: the political posture of the neighboring states, the evolution of Zimbabwe's export and import prices, the restructuring of transportation arrangements with Zambia and Mozambique, the nature and magnitude of the international aid flew. But by far the more important factors are internal: the domestic political and ideological environment and the nature of the economic policies which will be pursued. These are the factors that will determine how big and how fast the white departure will be, how capitalists will respond, what outside aid donors will do. The question of political stability is not considered here, though the degree of political instability and uncertainty probably will be the most important determinant of the nature and rate of the exodus of European skill and capital. The issue to be taken up is rather what policy and ideological orientation is most likely to predominate in the early stages of transition.

It is easy to anticipate strong propensities toward an aggressive state role. The role of the state has been substantially increased since UDI. The state, as mentioned earlier, will be controlled by economically powerless groups, who will be disposed to extend state power in the economic realm, a disposition reinforced by ideological inclinations in circulation in the Third World and summarized in the ubiquitous demands for a New International Economic Order. These inclinations will be further reinforced by pressures emanating from beyond the frontiers; most of Zimbabwe's neighbors, after all, are intensely dirigiste or forcefully socialist -- e.g., Angola, Mozambique, Tanzania, Zambia.

These forces favoring an aggressively interventionist policy orientation are counterbalanced in a number of ways. First, Zimbabwe is different -- more advanced industrially, more diverse, more complex, richer than most LDCs. For Tanzania to nationalize the industrial sector was not without complications, but was not really very demanding in terms of organizational demands, management replacement, etc. The comparable task in Zimbabwe would be mind-boggling in its enormity.

Secondly, the coming of majority rule opens up vast new opportunity for individual improvement and gain -- so long as the system is sustained.

Thus Africans will for the first time have full access to the social services of the community, there will be educational openings at the secondary and university levels for all who can enter, there will be countless openings at the top, since a whole new administrative and political elite must be created. There arise, moreover, unparalleled opportunities for redistribution of assets from rich to poor, from white to black -- the European reserved farming lands, for example, will be opened to African cultivation; and residential segregation will disappear and rents of European-type houses probably will decline. All of this creates the possibility of improvements in living standards for sizeable numbers of Africans, and on a scale not found in many transition situations. This can be called 'embourgeoisement', and condemned, or it can be seen as upward social mobility, and applauded. It is in any event a likely outcome of transition, and one which can have widespread political ramifications.

It is impossible to know how these forces and counter-forces will work out and this is obviously inconvenient, since appraisal of the consequences of transition depends more on their outcome than on anything else. In the following analysis no specific assumptions are made about either the political stability or the policy orientation of the new government. We try simply to identify and qualitatively consider some likely major consequences of black rule.

A. Output - Reducing Consequences

Majority rule will almost surely lead to some reduction in white population, and may lead to capital flight. The decline in white population will tend to reduce output, income and rates of growth, from two directions. First, it will reduce effective demand. This could be a substantial reduction. European income recipients (including Asians and Coloureds, who are grouped with them in the national accounts, but are not quantitatively important) account for about 60 percent of gross national income in 1974 - R$ 515 mn. in wages and salaries and R$ 571 mn. in profits (including payments for management to unincorporated enterprises)[9] out of total 1974 gross national income of $1.8 billion.

It would be possible to derive an estimate of the demand-induced decline in national income likely to follow the departure of one white Rhodesian.[10] This is not done here for several reasons. The results would give only very gross indicators of what might happen to incomes with European departure. They would, moreover, be of uncertain significance since account would have to be taken of the fact that much of national income in Rhodesia (and similar societies) involves Europeans taking in other Europeans' washing; the economies are extremely dualized in this sense. So white emigration mainly involves amputation of part of the European economy within Rhodesia, with limited effects -- from the demand side -- on African income and expenditure.[11]

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[9]This assumes that all corporate enterprises are European, Coloured or Asian in ownership, which is not true. But the error is probably not large.

[10]We would need: (1) some estimate of propensities to save and import; (2) an estimate of the impact of the initial decline in domestic consumption expenditure on ensuing rounds of income and expenditures--i.e., a multiplier; (3) an estimate of the impact of the fully worked out decline in consumption expenditure on investment expenditure.

[11]It is, or course, also possible to estimate the demand-induced decline in African income likely to follow the departure of one European. An estimate of the racial factor content of European domestic expenditure would have to be derived--i.e., how much of a dollar spent by a white Rhodesian goes to African wages, European wages, African and European profits, African and European rents. etc.

The most substantial reason for not now pursuing this line of analysis, however, is that the demand-induced decline in income is incomparably less important than what will happen on the side of the supply of output, as European people and capital emmigrate. On this critical matter only some general observation will be made, most of them well-worn.

(a) Certain sectors of the economy are particularly vulnerable to European flight. The European agricultural sector produces virtually all marketed foodstuff. It is a sector that is highly dependent on European skill and capital. Disruption of this segment of the European economy will therefore require the import of relatively large amounts of food. And transition will require -- disruption or not -- establishment of new production systems -- on European lands, on Native Purchase Areas, and on Tribal Trust Lands. If the wage economy shrinks, those in paid employment will be forced back to the land. There will be strong pressures to allocate newly-available (formerly white-held) lands to disemployed Africans from the wage sector. While land reallocation will have many social benefits, it will be difficult to avoid problems common in land reform efforts generally i.e., failure to meet the need for expanded rural services, price policy disincentives, ineffective marketing institutions, etc. The problem in Zimbabwe will be that the existing modern sector rural institutions are highly skill-intensive and focused on the 7,000 European farmers who produce most of the marketed output. The creation of an alternative set of institutions, and new programs, suitable for the transformed conditions of the agricultural sector, will present an enormous challenge. It will require especially intensive utilization of the accumulated skill and the experience of those most knowledgeable about Rhodesian agriculture --

research and extension workers, agricultural marketing specialists, the European farmers themselves -- people especially vulnerable to flight.

(b) Public management in Rhodesia has been organized mainly to serve the European economy and the needs of a relatively large European population. It is a transplanted European system different than that found in other colonial situations. It was designed to run European affairs. In other countries the administrative system was imported to organize the modern affairs of the indigenous society. The differences are real. Nigeria, 10 times as large as Rhodesia in people, and many times its size, never had many more than a thousand British administrators and technicians during the colonial period. In Rhodesia now there are 13,000 European administrators -- in general administration alone. Administrative adaptations of great magnitude will thus be required in Zimbabwe, greater than was demanded in other transitions. A skill-intensive, high-cost, highly-structured administrative system designed for a modern economy and servicing a high income community, will need to become truly indigenous in focus, newly responsive to the needs of Zimbabwe's majority. It will have to do this under special handicaps: an environment generating immense new demands; failure of Rhodesia's minority rulers to systematically prepare Africans for administrative responsibility.

(c) The intensive, relatively advanced infrastructure of Zimbabwe is especially vulnerable in several respects. It is a highly articulated set of physical facilities organized around a complex set of procedures, institutions and -- in particular -- skills. Rhodesia has, for example, a highly organized budget process, making regular allocations for maintenance, a highly structured capacity for force account (in-house) maintenance work, a system of public contract-letting and evaluation, a relatively large apparently competitive group of private entrepreneurs and engineering firms -- the combination of which makes the maintenance system work. Every one of the elements mentioned, however, is vulnerable to transition stresses. Maintenance of the physical capital of Zimbabwe will thus require enormous effort, both internal and external.

There is another sense in which the physical assets of Zimbabwe are peculiarly vulnerable. They are exposed to simple yet costly acts of sabotage -- a real threat should the transition be characterized by on-going violence, or should there be widespread disaffection on any side. As the paper on power notes: 'The dominance of a single major hydro-electric installation and the long high-voltage transmission lines linking major load centers make the system exceptionally vulnerable to acts of sabotage....' The authors of the paper mention that potential disruption can come from many directions; in Biafra, after the Nigerian Civil War, for example, the replacement of simple ceramic insulators for transmission lines hindered the resumption of service for many months.

Because the Rhodesian economic management institutions and public administration are so demanding of skill and organizational capacity, rapid skill depletion through emigration is a greater threat to income and growth than is flight of capital. The Afrikaner origin of a significant percentage of the white population, the relatively recent arrival of an even larger proportion, the physical proximity of South Africa, the deep-rooted racism bred by the colonial situation, racist white ideology and Rhodesian social structure -- all of these factors suggest a potentially high degree of volatility of the white population.

On the other hand, at least three strategic elements in the white economy appear more stable: (1) The European farmers, who cannot remove their capital in any case; (2) the foreign capitalists, who dominate in mining and manufacturing, and who are normally endowed with substantial sang-froid in transition situations, and often take a long view; (3) small European entrepreneurs who probably do not have alternative opportunities as attractive as they enjoy in Rhodesia.

B. Output - Augmenting Consequencess

The transition to majority rule will bring a number of important positive forces into play. Rhodesia has achieved its considerable growth despite anti-growth economic policies, and despite obstacles created by its pariah status in the world community. A majority-ruled Zimbabwe will no longer be a racially-constrained economy, and will be a welcome member of the Southern African and world economies.

These constraint-releasing factors are fairly obvious, and need only be outlined briefly.

1. Removal of Sanctions. The dropping of sanctions will have several major effects. It will generally lower the cost of inputs and outputs in the Zimbabwe economy. It will remove artificial constraints on the country's pursuit of its comparative advantage, as in the possible case of tobacco production and export. It will open up more fully a range of export markets now either closed or restricted - for example, in Zambia and other neighboring African countries. It will remove, finally, the acute constraints which have emerged in the transport sector. Specifically, it will reduce dependence on the South Africa route, allow more economic

considerations to come into play in choice of export shipments, and perhaps permit Rhodesian Railways to resume at least some of its role in transit trade, with positive employment and balance of payments effects.

2. The abolition of racial discrimination in the labor market. Freeing the labor market of its present racial constraints will allow a fuller utilization of African skills, encourage massive African participation in skill-creating institutions hitherto restricted to Europeans, allow a broad and relatively quick increase in the general level of education and training of the African majority.

3. Exploitation of the backlog of African agricultural opportunities. The transformed political situation, possible increases in manpower availability in the Tribal Trust Lands, and new policy attitudes toward African participation in agricultural development, should permit relatively rapid increases in output from African farmers. The application of known packages, adapted to the special circumstances of the African farming areas, may allow rapid African agricultural transformation.

4. Foreign private investment. Assuming Zimbabwe willingness to accept foreign investment, the potential inflow should be considerable. New mineral discoveries have been made in the past decade. While the mining multinationals have not been unwilling to exploit some of these discoveries, the political uncertainty existing in Rhodesia constrained their willingness to undertake large commitments. Under majority rule, some political uncertainty is of course sure to remain, but is should be less pervasive. The manufacturing sector too will not be without attraction for foreign investors, though the likely deflation of the internal market will probably make this less appealing than mining.

5. Foreign Public Aid. Aid donors are waiting in the wings. Their offerings will be substantial in volume and variety. Without the institutional capacity to sort out how much and what kind of aid Zimbabwe should be accepted there are considerable risks, as suggested earlier. But there will be no shortage of capital, or of development expenditure, at least in the early stages of the transition. Whether outside donors can meet potential demands for technical assistance which may be critically needed, is an open question. But even that should not be beyond possibility, given the availability of external financial resources. And on the capital assistance side, it is safe to say that almost any project proposal now on the shelf or drafted between now and majority rule, will surely find a financier.

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