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The Political Economy of Economic Decline and Reform in Africa:

The Role of the State, Markets, and Civil Institutions

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CORNELL FOOD AND NUTRITION POLICY PROGRAM

THE POLITICAL ECONOMY OF ECONOMIC DECLINE AND REFORM IN AFRICA: THE ROLE OF THE STATE, MARKETS, AND CIVIL INSTITUTIONS

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CONTENTS

	LIST OF TABLES	iv
	ABBREVIATIONS	v
	FOREWORD	vi
1.	INTRODUCTION	1
2.	RURAL INSTITUTIONS AND THE STATE IN PRE-INDEPENDENCE AFRICA	4
3.	THE STATE AND RURAL INSTITUTIONS AFTER INDEPENDENCE	7
4.	THE FAILURE OF THE STATE AND THE REEMERGENCE OF INDIGENOUS RURAL INSTITUTIONS	12
5.	STATE DISENGAGEMENT: ECONOMIES UNDER ADJUSTMENT	18
6.	CONCLUSIONS	29
	REFERENCES	32

LIST OF TABLES

1 — Public Current and Development Expenditures as Share of GDP 19

ABBREVIATIONS

CFA	Communauté Financière Africaine
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
NMC	National Milling Corporation
ODA	Official Development Assistance
SAL	Structural Adjustment Loan

FOREWORD

The historical view of Africa's political economy indicates an evolution of theory and practice regarding the role of the state in promoting economic development. In particular, the postindependence period in African economies was marked by a paradigm of development economics that emphasized the government's prominent role in fostering economic growth and raising living standards. Markets were viewed with suspicion, while civil organizations were relegated to a minor role in this state-centered paradigm. It was in the 1980s that response to the economic crisis, which was manifested in unsustainable account imbalances and falling living standards, focused on the failure of the developmental state. There was a need to reorient the state's activities in the context of more attention being paid to the contribution of markets and civil organizations.

Within this context of the evolving notions of the appropriate role of the state and its relationship to markets and civil organizations, this Working Paper traces the political economy of four African countries. The study reveals large swings in the balance between the perceived and actual roles of the state, markets, and civil organizations, and degree of power and authority they each exerted. Interestingly, however, during the periods of the 1960s and 1970s when the state was so dominant, and the 1980s when the neo-liberal response argued for elevating the market to a preeminent position in response to the failure of government, the importance of civil organizations and authorities has been given too little emphasis and recognition. Thus, the authors stress the crucial complementary role of civil organizations relative to the state and market, especially in the context of countries undergoing structural adjustment programs.

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Washington, DC
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1. INTRODUCTION

Postindependence economic development in most sub-Saharan African countries has retrogressed from an early period of rising expectations and optimism, to growing difficulties in the 1970s and early 1980s, culminating in an economic crisis of stagnating growth and untenable internal and external account imbalances. This crisis in turn gave rise to the era of stabilization and structural adjustment from the mid-1980s to the present. A large part of the blame for these unfavorable developments, and especially the debt crisis, can be attributed to the nature of the African states.

The role of the state in African economies has undergone a series of dramatic changes from independence to the present. Expectations about the role that the state should assume in the economy, the perceived and actual ability of the state to influence the economy, and of course the image of the state that results from its interventions have evolved over the years. Telling the story and drawing lessons from the evolving notions of the state's developmental role for a continent as large and diverse as Africa are difficult tasks. Nonetheless, there are certain themes with respect to state intervention in the economy that emerge from Africa's postindependence history, and which are applicable to a large number of countries.

The first theme concerns the contradiction between indigenous rural institutions, which had evolved in rural areas in response to underlying technological, social, and economic conditions, and the institutions espoused and promoted by postindependence African states. It is our hypothesis that this contradiction was one of the root causes of the African crisis.

The second theme concerns the nature of the economic and political power balance in Africa. While in most western countries political power and the nature of the state emanated from the accumulation of private wealth, which was in turn based on changing technologies and the conditions of production arising therefrom, in postindependence Africa, it is the state that has been the principal mechanism of creating and maintaining both political power and wealth. It is our hypothesis that another of the main causes of the crisis is that the predatory activity of the state reached and surpassed its limits in extracting surplus from the rest of the economy.

The third theme concerns the role of western donors. It is our hypothesis that the nature of western development aid has also been partly responsible for the persistence of inefficient state institutions and the ensuing economic crises. It is also our hypothesis that the current nature of donor technical

assistance and finance, in the form of stabilization and structural adjustment, is slowing down the emergence of new civil institutions in many instances.

A fourth theme concerns the nature of adjustment-induced reforms. We will argue that the reforms that have been implemented have not led to drastic institutional changes. Moreover, the reforms have led to significant commercial, but not as much productive, response.

Our final theme is a normative one. The experience of state involvement in postindependence Africa suggests that the new balance between the state and the economy in Africa must be found through better understanding and support of indigenous institutions, and not through blind transfer of western technology and ideas. This has implications concerning the nature of western aid, the pace of African development, and for future research.

The purpose of this paper is to elucidate these themes by drawing on the experience of four countries: Guinea, Malawi, Mozambique, and Tanzania.[1] On most counts, the differences between these countries outweigh the similarities. Geographically, Guinea is in West Africa, although not part of the Communauté Financière Africaine (CFA) zone. Guinea has an extremely rich natural resource base, with its mineral wealth responsible for a GNP per capita far exceeding that of the other three countries.[2] This higher national product should not, however, be taken to imply a higher living standard for the population. Poverty in Guinea is on the same order of magnitude as in the other three countries we will discuss. While Malawi, Mozambique, and Tanzania have common borders, they share little in common other than their acute poverty (Mozambique is ranked as the poorest country in the world, Tanzania fourth from the bottom, and Malawi seventh). The divergences among them range from the behavior of their colonial predecessors to the land-scarcity in Malawi as juxtaposed with Mozambique's and Tanzania's land-abundance; from the political stability and absence of internal agitation that characterize Malawi's authoritarian, conservative regime and Tanzania's one-party state to the Soviet-style Marxist government in Mozambique, which has been engaged in a civil war to establish its legitimacy since independence. Tanzania, undoubtedly the best known and most studied of the countries, stands out in terms of its purported commitment to the socialist ideal, which made it an object of admiration for a large number of donors and scholars. Tanzania too, however, has failed to live up to even the most modest expectations for social and economic development, despite the espoused ideology of its leadership.

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[1] The data and specifics that follow in the remainder of this paper are based on the authors' previous research, as discussed in the following sources: Alderman, Sahn, and Arulpragasam (1991); Arulpragasam and Sahn (1991); Sahn and Arulpragasam (1991a, 1991b); and Sarris and van den Brink (forthcoming a).

[2] Guinea's GNP per capita of US$ 430 in 1989 is nearly two-and-one-half times that of Malawi, which has a GNP per capita of US$ 180. The per capita GNP figures for Tanzania and Mozambique are US$ 130 and US$ 80, respectively.

Space does not permit recounting detailed histories of the countries to be discussed. Instead we will address three phases of their political economy, focusing on the role of the state relative to civil institutions. The first phase is the emergence of the state from the struggle for independence — with high ideals and with great hopes and expectations. Nationalism, the search for rapid economic transformation, and faith in centralized decisionmaking and control over assets, production, and marketing were characteristic of all four countries during this phase. In the cases of Guinea, Mozambique, and Tanzania, there was also a faith in the command economy as the means to promote growth with equity. The corollary of this posture was a suspicion of markets forces and rejection of neoclassical prescriptions, such as reliance on international trade to promote growth.

The second phase that will be discussed in the paper may best be characterized as the corruption and decline of *dirigiste* governance. Simply, state intervention in the economy failed to achieve stated objectives. Instead, rent seeking, waste, bureaucratic inefficiency, corruption, and stagnation, coupled with disincentives to production, led to economic and social decline.

The third phase of the political-economic history to be discussed we may call the process of state disengagement. This process has proceeded with varying degrees of speed, commitment, and thus, success. It is this process of state disengagement, a key component of structural adjustment, that is perhaps least well understood and most relevant to the future of Africa. In particular, a number of salient issues emerge: Has adjustment removed opportunities for rent seeking or simply changed the beneficiaries? What institutions, if any, have emerged or will do so to replace the role played by the state? How can policy be formulated not only to reduce the state's role, but to redefine a more constructive role that will foster growth and equity?

Our exposition is complemented by a brief theoretical discussion of the evolution of rural civil institutions in Africa, based on the induced institutional innovation approach, and a discussion of the interaction between the state and agricultural policies. It is the blend of the theory with the historical experience that will provide the support for the themes outlined above.

2. RURAL INSTITUTIONS AND THE STATE IN PRE-INDEPENDENCE AFRICA

The term "institution" has numerous connotations (Uphoff 1991). It remains difficult to define and plagued by ambiguity in its use. Here we take the broad view of the concept of institutions that was adopted by Ruttan (1978) and elaborated more recently by Bardhan (1989). According to this view, an institution is either (1) a set of rules that governs a particular set of actions and relationships, or (2) a decisionmaking organizational unit (firm, family, bureau) that exercises control over resources.

What are the rural institutions that are expected to prevail in the setting of African agriculture, and how are they affected by population pressure or other forces? Binswanger, McIntire, and Udry (1989) have outlined a theory of institutional relations in semiarid Africa that is firmly based on the new concepts of market failure, transaction and information cost, and risk. According to the theory, in a context of environmental risk, a dispersed, low-density population, semiarid climate, large transport costs, and simple technology, land will be abundant and have no sales price, rural labor markets will be undeveloped, cultivated area per working household member will be invariant to wealth or household size, livestock production will occur mainly through transhumance by specialized units, and capital accumulation — mainly in the form of livestock — will form the main insurance mechanism. In this system, commercialization will be very low, and hence, rural credit markets will be absent. The above setting we deem to provide a reasonable description of rural institutions and production relations in Africa in the absence of colonial interference.

The main exogenous forces of change in such a system, in the absence of colonialism, are population growth and the opening up of external trade opportunities. These lead to production specialization, the creation of labor and credit markets, and the creation of opportunities for organized exchange. Product markets emerge and with them specialized intermediaries, the traders, many of whom combine the trade with the credit function.

Colonialism opened up African agriculture to external trade opportunities and, hence, induced commercialization. However, it also interfered (often brutally) with the orderly pattern of induced institutional change outlined above.

The fact that the colonial period played a powerful role in defining the economies in Africa, and in particular their relations with the outside world, is well documented. Most pronounced, of course, was the exploitation of mineral and human resources that was characteristic throughout Africa. In Mozambique, it was gold and ivory that were of primary importance, although in the nineteenth

century the slave trade became the most important activity in terms of the international economy. The twentieth century saw tourism and transportation links providing a large share of Mozambique's foreign exchange, further evidence of the transformation of the economy that would be inherited after independence.

The colonial era in Malawi introduced a system of individualized tenure parallel to the traditional, customary tenure. Customary land was appropriated under treaties with local chiefs, and the colonial governor was given the right to issue certificates to European settlers to legitimize their claim on freehold land. As land became scarce, with Europeans gaining access to large tracts, there was an increasing imperative for smallholders to enter into tenancy relationships. The settlers gained access to cheap African labor through *thangata*, an arrangement that required villagers to pay for the use of land with their labor. The result was that tenants had little time to cultivate their own land for subsistence, and export-oriented, large-scale agriculture became firmly entrenched, in keeping with British colonial objectives.

A similar story of colonial influence can be told for Tanzania, where, as in Malawi, Tanganyika was maintained as a cheap-labor, plantation economy, without a large settler population. The early imposition of taxes payable in cash forced many peasants to commercialize by selling foods or to become laborers on estates. As in Malawi, there was at independence virtually no industrial sector, and other than the good road and rail network, little other infrastructure was built. Plantation agriculture was also the core of the French exploitation of Guinea, although mineral resources, especially bauxite, quickly became the most important export of that resource-rich, prize colonial possession.

All of the countries thus share two common threads. First, to various degrees, the exploitation of Africa's resources during the colonial period diminished the role and delayed or changed the development of indigenous institutions. For example, in Mozambique, policies forced many Africans to work as contract laborers rather than tend their farms, and those who remained on their own land were often forced to produce cotton and rice intended for Portugal. Hence the labor market developed not through population growth and external trade, as outlined in the theory of Binswanger and his co-authors, but through coercion. The same thing happened in Tanzania. In Malawi, the legalities of land rights of settlers from Britain eroded the traditional roles of indigenous institutions, including the family, the community, and the chief, as land became scarce and tenancy on European estates became prevalent.

Second, as the indigenous institutions that defined such things as land tenure rules and community relations began to weaken, there emerged in their place centralized rule by the colonial authorities. Authorities outside the community, tribe, and household organized the structure and location of production, defined the rules of exchange, and in general limited the choices of what to produce, where to produce it, and the terms under which it could be sold or consumed at home. The foundations thus were laid for the state to assert control over civil institutions that previously were essential in defining economic relations in rural Africa.

However, while the colonial influence affected the evolution of indigenous institutions, it never managed to supplant them. In intracountry regions with little or no cash crop production or other raw materials for export, indigenous institutions evolved more along the induced-change route predicted by Binswanger, McIntire, and Udry (1989). Even in regions that were most affected by colonial power, one can notice a dual set of production and market institutions. Indeed, there were some native farmers (though mostly settlers) who adapted to the new technologies and land tenure systems and developed some wealth. For the most part, however, traditional peasants, even when producing commercial crops, kept their production and exchange relations along traditional lines. We will argue later that this preservation of traditional institutions is what sustained the African economies during the crises.

It must be emphasized that the production and marketing systems promoted by the colonial powers, although efficient from the material and institutional perspective of the north, were quite alien to indigenous cultures and conditions. Thus the notion of a centrally run bureaucracy, such as that needed to administer a marketing board, can be regarded as a descendant of the centralized feudal conditions of Europe; but it was quite inconsistent with the much less authoritarian, chief-based tribal governance systems of Africa. Similarly, the idea of a centrally managed estate with hired labor was alien to the traditional, family-based, self-sufficient farming system of Africa.

3. THE STATE AND RURAL INSTITUTIONS AFTER INDEPENDENCE

The political and economic philosophies of the independence movements in Africa were divergent and are perhaps best understood in the context of a desire to respond to the perceived inequities of the colonial system. They were also often rooted in the socialist paradigm that was in good currency at the time. The leaders of the postindependence period also had to come to terms with the legacy of the colonial period that left the new nations dependent on international trade. That the system of international trade was, in fact, often perceived to be unfair and a source of vulnerability led in some cases to rejection of trade as a path to growth. The new governments also needed to create resources for running a state apparatus and to establish political bases of support.

A related matter that conditioned the policies of the emergent state were the terms of separation from the colonial powers. At one end of the spectrum, the departure of the colonial regimes in Guinea and Mozambique was abrupt and represented a complete cessation of cordial relations. In contrast, the separations of Malawi and Tanzania from their colonial rulers, the British, were considerably more amiable.

To amplify, when Guinea turned down General de Gaulle's proposed French Community, and instead became the first country in the region to gain independence, the French felt compelled to teach their other colonies a lesson. All expatriates were withdrawn within 24 hours. That action not only stripped the country of all technical and administrative capacity, but all equipment, medication, and even lightbulbs were taken — punishment for leaders who dared defy de Gaulle. The objectives of the French, in fact, were largely achieved, as most of the infrastructure left behind could not be used.

Likewise in Mozambique, the drive for independence was fervently resisted by the Portuguese. They built the country's infrastructure with the objective of having a large settlement there. The violence of the fight for independence, however, contributed to the departure of 90 percent of the Europeans. Like the French in Guinea, the Portuguese endeavored to disrupt the economy to the maximum extent, once again going to the extreme of sabotage and destruction of facilities that were left behind.

One would expect that the disruption to the economy caused by violent separation would lead governments to adopt inward-looking, self-sufficient policies. This indeed appears to be what happened, although the policies were to be carried out through a centralized, state-controlled power base. In Guinea, Sekou Touré's response to the abuses of the colonial rulers was his own perverse version of African socialism. It dictated that "every citizen had to be a party

member, and every village, neighborhood, factory, and office had its party committee" (Azarya and Chazan 1987). Furthermore, the size of the Party grew to such proportions that ultimately there was one elected official for every eleven citizens (Yansané 1990).

The Guinea case exemplified the extreme of state *dirigisme*. The postindependence government endeavored to organize virtually all production in the form of state-owned enterprises. The state took over banks, trading companies, the supply of inputs and marketing of output, and so forth. Both manufacturing and agriculture equally were to be targeted for state control.

Land rights in postindependence Guinea were redefined by the state, as was the structure of production. All land traditionally held by the village chief or elder became the charge of the Party's village-level council. Government control not only redefined land rights, based on the Party's exerting political leverage over the villagers, but large tracts of land were reorganized into state-owned farms that were to be the technical vanguard of Guinean agriculture. These state-operated farms — many of which were on land appropriated from colonial plantations and others of which were appropriated through party control of land tenure rights — were given access to subsidized inputs and were heavily capital-intensive, including the extensive use of mechanization. Workers, by and large, were civil servants, and the government was obliged to employ all agricultural graduates in these enterprises.

In addition to the state farms, postindependence agricultural policy set up agricultural cooperatives. Communal land within the village was set aside, and the Party once again assigned mandatory labor to work the land. But perhaps the most devastating aspect of the state's attempt to control the agricultural sector was that an array of rules and regulations was set up that impeded smallholders, who always remained the backbone of the rural economy, from producing and marketing their crops. The central government gave regional Party authorities production and marketing targets for food, export crops, and livestock. In turn, each active rural household member was required to provide the state with a determined amount of agricultural output at official prices, a policy that implied a high rate of taxation. But even worse was the fact that private trade was considered antisocial behavior, and in fact was prohibited by the state until 1981. Attempts at enforcement, such as setting up roadblocks to prevent private shipping between regions or simply through the local party apparatus keeping a watchful eye on local farmers, were strenuous, albeit not completely effective.

Mozambique also adopted a state farm focus after independence in 1975. In 1977 alone, 1,200 tractors and more than 500 combines were purchased. Prior to 1983, 90 percent of centrally planned agricultural investment went to the state sector. In addition to the state farms, the government also attempted to organize "communal villages." Nearly 20 percent of the farm population lived in these villages by 1982. As in Guinea, however, the response of the resettled farmers was to concentrate their efforts on family plots instead of on communal land (Kyle forthcoming).

The heavy handed intervention of the state unfortunately did not stop with organizing production. Marxist ideology, coupled with the departure of much of the rural trading network following Mozambique's independence, contributed to the adoption of a system wherein the state took exclusive responsibility for marketing all food and export crops. Prices were set centrally, and the concept of pan-territorial prices was considered sacrosanct, supposedly to ensure equity for all. Oddly, concern over equity did not seem to compel the state to raise producer prices in accordance with inflation, as the terms of trade turned against agriculture. Prices offered by the state for the three major smallholder export crops — cashew, copra, and cottonseed — for example, fell by between one- and two-thirds between 1980 and 1986. In fact, the only discernible role left for the private sector in rural trade was at the retail level; but even that was extremely limited, as shops were sanctioned by the state, and the margin between the state-determined wholesale price and the retail price was decreed (Kyle forthcoming).

In contrast, relatively peaceful independence movements and cordial postindependence relations between Malawi and Tanzania and England started both countries on a path of economic policy that was not appreciably different than during the colonial period. Both countries initially adhered to a mixed-economy approach to development. In the case of Tanzania, the First Five-Year Plan (1964-1969) was based on analyses done before independence and focused on commercialization of agriculture and the creation of import-substituting industry. Likewise, Malawi adopted an agro-based, export-oriented development strategy, although placing much less emphasis on import-substituting industrialization than Tanzania.

Unlike Malawi, which stayed the course, Tanzania soon abandoned its original postindependence development strategy. The Arusha declaration of 1967 called for a revolutionary transformation of society, and its fundamental tenets, as in Guinea and Mozambique, involved attacking virtually all aspects of the private sector. "Tanzanian socialism" also emphasized dramatic institutional change orchestrated by the Party, using the government as the means to nationalize the economy. Once again, nothing escaped the Party's grasp — the private estates and trading companies, the village retail shops, or private property. This zeal often took on ugly proportions, as in the targeting of Asian and Arab commercial classes and the outlawing of simple rural wage labor.

As with Guinea and Mozambique, the most damaging intervention by the state was in agriculture. Private marketing was prohibited, private estates were taken over by the state, and communal farms were established. The marketing system, which relied on village-based cooperatives, was replaced by an inefficient system of centrally managed crop authorities. Pan-territorial pricing was adopted, and efforts to reorient the structure of production were emphasized. This program took the form of the much-discussed villagization program (von Freyhold 1979). Socialist villages and consolidated communal farms were set up and populated by peasants forcibly moved off their former homesteads and plots. Once again, while the declared purpose was different, in practice this effort amounted to a revival and expansion of the ideas of the British colonial powers.

Malawi did not follow the model of collectivization and mechanization of the other three countries and did not employ such extreme methods to try to control the peasantry. As in Mozambique, however, the government nevertheless managed to perpetuate the exploitative and ineffectual structures that were in place at the time of independence.

To amplify, postcolonial Malawi reinforced the strategy of estate-sector-led growth that ossified the dualistic structure in agriculture. In conforming to a pattern that Noronha (1985) suggests was prevalent in sub-Saharan Africa in general, the state in postcolonial Malawi in fact exerted greater control over the land. For example, the Land Act of 1967 somewhat ambiguously both reaffirmed the existence of customary land and also declared that all customary land was "vested in perpetuity in the President...." This gave the state the right to control communal lands, including alienating such holdings for conversion to private lands.

The previous narrative illustrates the fact that in all four (and in most other) African countries analyzed, the state, rather than building on indigenous rural institutions, tried to build and adapt the colonial institutions of centralized control inherited from the West or borrowed authoritarian socialist models from Eastern Europe. It is interesting to question this mode of institutional development. The socialist, centrally planned model and the capital-intensive, labor-dependent capitalist production model were both borrowed from very different social and economic contexts and were quite alien to the underlying conditions of Africa.

Why was there such uniform neglect of indigenous institutions? The answer seems to lie, first, in the need to create centrally controlled financial resources, and second, in the imperative of maintaining a content political base, which was defined as resting in the urban elite rather than the peasantry that was actually the backbone of the economy. Consequently, colonial institutions such as the export marketing boards, which were quite efficient at extracting surpluses from the peasants, were adopted and adapted by the newly independent governments. However, while there are many direct and indirect ways to tax agriculture (Newbery 1987), it is interesting to observe that in all countries, governments targeted traditional agricultural production and marketing for direct interventions rather than indirectly taxing exports, or sales of food in markets, or transport of produce, which could conceivably generate as much state revenue as a monopolistic market authority.

This observation raises the related issue of why all four countries (and other African states) opted for such direct interventions. In our opinion the answer lies in the power of direct interventions to create invisible transfers and rents that could be used by the state to build a political base. It is this influence that was the most powerful determinant of postindependence, rural institutional development in Africa (and which has been explored by Bates [1981, 1988]). This political base, in the form of party functionaries, civil servants, and largely urban-based parastatal employees, became the new elite in postindependence Africa.

Another reason for the rather uniform adoption of "wrong" institutional models seems to have been the influence of donors, who were instrumental in, for example, setting up parastatal grain marketing agencies throughout Africa. This in turn was heavily influenced first, by a complete lack of appreciation for the strengths and potentialities of indigenous institutions, and second, by the adherence of donor agencies at the time of independence to import-substitution industrialization and rural surplus labor models that dictated heavy taxation of agriculture and inward-looking, protective policies. While from a theoretical, noninstitutional perspective such models were not necessarily wrong, it is interesting to note the complete absence at the time in development circles of discussion concerning the problems of institutional implementation of the espoused policies. This, coupled with the general distaste for local, indigenous institutions on the part of western-educated elites, who instead admired "western civilized" organizational models, seems to have influenced what modes of control were adopted.

4. THE FAILURE OF THE STATE AND THE REEMERGENCE OF INDIGENOUS RURAL INSTITUTIONS

The emerging power of the state in the rural economy proved devastating in all four countries, in terms both of economic growth and equity. State-mandated and state-sponsored systems of production, which ironically built upon the exploitative colonial legacy, failed dismally. Production and yields plummeted in some cases and stagnated in others.

In Guinea, the state farms were an unmitigated failure. By 1982 only one-quarter of the machinery was operational, and yields of paddy were generally half those of smallholders with no fertilizer, credit, improved seeds, or any other inputs other than a hoe and occasional plow. As the level of taxation soared to 50 percent or greater and the power and corruption of state-owned export monopolies increased, officially recorded exports plummeted. Between 1970 and 1985 pineapple exports fell by 94 percent, coffee exports by 98 percent, palm kernel exports by 99 percent, and banana exports by 100 percent, as agriculture's share of total official exports fell by 71 percent between 1970 and 1981. But the bad news was not confined to export markets. Farmers even stopped producing food crops for the official markets. It was only through coercing farmers to make available obligatory marketing quotas that any food was provided to the state trading companies. As the state's ability to exert authority waned, sales to the state fell rapidly. By 1980, for example, sales of paddy to the state were only 1.8 percent of total production, and in volume terms they were 57 percent lower than three years earlier.

The decline in marketed output in Mozambique was equally severe. It is impossible, however, to sort out to what extent state controls, rather than war, were responsible. Nonetheless, there is little question that the concentration of productive capital on low-productivity state farms and the active discrimination against the smallholder sector, through the enforcement of low producer prices and related policies that discouraged traders from providing rural households with consumer goods and agricultural implements, contributed to the dismal state of Mozambique's rural economy.

The state-sponsored and state-controlled villagization effort, as well as the publicly run estates in Tanzania, also failed on numerous counts. For example, the assumptions that state-run farms would promote the adoption of improved agricultural technology, that economies of scale would be achieved, or even that the process of villagization would facilitate the delivery of social services all proved to be fallacious. Instead, declining yields, ecological degradation, eroding quality of social services, and so forth, were the results at the community level. For instance in 1980 the volume of sisal exports was 23 percent of its level in 1967, cashewnuts export volume was 49 percent, and coffee

and cotton were at roughly the same levels. It is interesting that many of the rural policies of Tanzania were supported extensively by external donors, the Nordic countries prominent among them. In fact, many projects involving publicly run estates were financed by foreign aid, and the villagization program was designed by a western consulting firm and financed by donor aid.

In Malawi, as intimated above, the nature of state control was much more subtle, perhaps more harmful. Ironically, the World Bank and other donors heaped praise upon Malawi for its market-oriented, export-oriented agriculture sector. This led to the inaccurate characterization of Malawi's political economy as a "free-market," when in fact its description by Harrigan and Mosley (1990) as a "centralized, efficient, personal dictatorship" is much more accurate. The reality was that the investments in, and growth of, the estates were part of a complex of parastatals "intertwined through interlocking directorates" largely designed to benefit the elite. And while the admirers of Malawi's free market were extolling the benefits of export agriculture, which allowed estate owners to receive remunerative world market prices, such analysts failed to address the fact that the short-term success of the estates was the result of explicit land and wage-and-incomes policies designed by the Party and the state apparatus controlled by Banda to facilitate the expansion of the estate sector at the expense of the peasants.

In particular, state policy promoted the expansion of the estate sector by encouraging appropriation of customary land. This was achieved by, first, setting the rent associated with leaseholds at a negligible level. Second, the estate sector was favored in terms of marketing and pricing arrangements. While the state decreed that estates would receive f.o.b. auction prices for their crops, smallholder export crops were being heavily taxed. At the same time, the state actually made it illegal for smallholders even to produce the most lucrative crops, such as burley and flue-cured tobacco, tea, and sugar. The result was that estate producers not only had monopolies on the high-return export crops, but the active discrimination against smallholders ensured a plentiful supply of cheap labor. The state thus succeeded in enforcing rules that further marginalized the peasantry, with the benefits accruing to leasehold estate owners and operators, many of whom were highly placed Party members and civil servants.

Important responses to state control over the rural economy in Africa included the development of parallel markets, reliance on barter, and inward-looking strategies as revealed in high subsistence ratios. It was the emergence of these parallel markets and related coping mechanisms that sustained the producers and consumers during the years of disintegration and decline. And in fact, evidence would suggest that the more pervasive were state controls, the more vital and pervasive was the role played by such indigenous institutions. In the absence of the ingenuity that households and producers showed in their reliance on the informal economy, there would have been far worse dislocation than was actually experienced.

At one end of the spectrum is Guinea, where the oppressive hand of the state decreased the monetization of the rural economy. Fewer goods were available for

farmers to purchase, and the state-run financial system was a travesty. Barter trade became the order of the day, rather than the handling of money. This was true of both internal and external transactions. For example, salt in Guinée Maritime was traded for cola and palm oil in Guinée Forestière, which was traded with the Fouta Djallon for consumer goods imported from Senegal and The Gambia (Filippi-Wilhelm 1987). Furthermore, a parallel currency developed in the form of coffee, especially for the burgeoning, unrecorded, cross-border trade (Chemonics 1987).

Perhaps the most visible aspect of the state's loss of control in the rural economy, and the commensurate ascendancy of indigenous institutions, was in the urban food supply. The government set up a ration system whereby subsidized official prices were to protect the urban elite from policy-induced distortions and scarcity prices. While access of the poorest households to the low-price shops was limited, in practice even the urban elite in the capital were soon forced to purchase upwards of 75 percent of their cereals from official sources. The breakdown of the ration system and its replacement by indigenous marketing institutions was due to the inability of the government to enforce the *normes de commercialisation* that required farmers to sell to the state, along with the fact that "officially" purchased rice was leaked by government officials to parallel markets at a goodly profit (Chemonics 1986).

In Mozambique, there is less clear-cut evidence of illegal cross-border trade to circumvent such state oppression. This is partly because of the lack of security and the decay of physical infrastructure associated with war. By all appearances it seems that peasants turned inward, with subsistence production the means of survival, along with the arduous and often lethal trek to refugee centers. The ramifications for net food consumers of the repression of the rural farm economy by the state, coupled with war, especially in urban areas, are in one sense an equally interesting story. Food aid came to represent the majority of the food supply, and rural and urban markets were hardly integrated at all. At the same time, as will be discussed further below, as a complement to food aid, illegal, private-sector imports flourished. Food was transported and sold at high risk by those who dared to drive their small trucks back and forth from Swaziland. This activity, along with diversion of food aid, became the source of an expansive parallel market, which once again sustained consumers in the face of shortages in ration shops. In its early years, such parallel markets actually were the object of considerable punitive effort by the government. Markets were regularly burned and destroyed. However, when it became apparent that the illegal parallel markets were in fact feeding the poor and rich alike, their acceptance was assured in the name of political expediency.

In Tanzania, despite the state-controlled official marketing system for staple foods and the prohibition against private trade, parallel markets in food also developed, where prices were at times as high as nine times official ones. Parallel markets for export crops, such as coffee, are also acknowledged by farmers and traders to have existed on a large scale during the late 1970s and early 1980s, especially with countries such as Kenya. The parallel export markets came about not only to secure higher prices, but also because of the acute lack of officially supplied consumer goods, which induced barter trade.

It has been hypothesized and supported empirically that farmers withheld their supplies of cash crops from official entities in response to the shortages (Bevan et al. 1989). Farmers also withdrew from the cash economy and into barter. This is evidenced by the fact that the amount of real per capita currency holdings declined by 45 percent between 1979 and 1985, the period of most acute crisis.

Reflecting a combination of less direct interference by the state in the economy and the fact that the pervasive power of the president limited the need for patronage to maintain the legitimacy and control of the state, rent seeking was not as widespread, and parallel markets were therefore relatively less developed in Malawi. Wherever controls were prominent, however, indigenous institutions did arise to compensate. For example, poor smallholder and other net consumers did resort to parallel markets, along with a focus on subsistence agriculture, to meet their food needs. As was the case elsewhere in Africa, the growth of parallel retail food markets was a clear manifestation of the state's inability to administer its ill-conceived policies of pan-territorial, pan-seasonal pricing of agricultural products. Consequently, a parallel retail system emerged along with the official sales through the marketing board where normal seasonal price increases were observed. The share of marketed maize passing through official channels was, in fact, small and raises the question of why the government even endeavored to interfere in the consumer market. Given that most of the maize was distributed in relatively large-sized bags, and mostly in urban areas, one cannot help but conclude that the implied subsidy was politically motivated, by and large directed to civil servants and urban elite.

A more interesting story is how indigenous institutions endeavored to subvert the state's attempt to heavily tax the traditional, customary sector and constrain it in terms of what it could produce — policies designed to help the favored leasehold estate sector prosper. First, a large number of smallholders illegally produce burley and sell it to estate managers, who serve as collectors and marketers of the tobacco under the pretense that it was grown on their estates (Duncan 1990). Second, increasingly, the larger smallholders or smallholder extended families on customary land make deals with local village chiefs and government officials to have their land converted to leaseholds. This is in response to the desire to grow burley, but also in recognition of the fact that the appropriation of land by large-scale estates, civil servants, and others outside the community is increasing land pressures and land insecurity. Third, owing to these increasing land pressures on customary landholders and the considerable underutilization of leasehold land, especially on estates owned by those from outside the community, smallholder encroachment onto estates is very common for fetching firewood and thatch, and for actual cultivation. Overall, around five percent of estate land was reportedly cultivated by encroachers (Mkandawire, Jaffee, and Bertoli 1990). All of this suggests that the policy-induced cleavages aimed at precluding the best use of land and labor resources are giving way to secondary markets and other means of circumventing the intent of state controls.

The evidence of the informal sector and other indigenous institutions' developing to circumvent state controls is clear in all four countries. The costs borne by producers, consumers, and the economy as a whole were nevertheless

great. The costs arise from a combination of simple losses of efficiency, the failure to innovate in an environment lacking in incentives, and the high transaction costs of parallel markets. For example, it is true that local traders figured out a way of providing plentiful food supplies to consumers through parallel markets in Mozambique. But the transaction costs of illegally importing food in small lots from retail shops in Swaziland, over poorly maintained roads guarded by rent-seeking security police and bandits, were high. Likewise, the diversion of food aid to the parallel market by rent-seeking officials had enormous opportunity costs to the treasury, which did not receive countervalue for the food sold.

Similarly, the fact that the financial interests of the president of Malawi were the driving force behind the enforced rural dualism extracted a high price from both sectors. The growth of the estate sector was solely a consequence of the expansion of land under export crop cultivation, which was achieved through the appropriation of customary land. No improvements in productivity have occurred since independence. All indications are that much of the leasehold land was grossly underutilized and that farm and land management was inept, leading to a deteriorating resource base. The ineptitude of estate administration led to a situation wherein fewer and fewer estates were profitable, even with cheap labor and negligible land rents. As expected, the toll in terms of human resources is even worse, with levels of chronic malnutrition among land-scarce and resource-deprived smallholders virtually unparalleled anywhere in Africa. The limits of the ability of indigenous institutions and coping mechanisms to compensate for the excesses of the state are obvious for all to witness. And given that land scarcity is getting worse and agricultural innovation is virtually absent, the future holds little promise without major structural reorganization of rural institutions in Malawi.

The evidence from the four countries is consistent with the view that the state tried to tax the agricultural sector directly through monopolistic marketing. Although taxation of the agricultural sector was something the colonial rulers had done, the evidence suggests that the postindependence states tried to impose greater rates of taxation in order to finance a growing and increasingly inefficient bureaucracy — one which provided the political base of the government. Parallel markets, which were always present in the form of "informal institutions," grew in response to this increasing rate of taxation. In essence, the tax base shrank as the tax rate increased. In a classic "Laffer curve" consequence, control of the economy gradually slipped through the states' hands — not, however, without the transference of huge invisible rents to the states' political bases, which explains the domestic urban acquiescence in the extreme controls.

We have made some very rough estimates of the value of the rents transferred through the period of consumer good import rationing in Tanzania. Bevan and his colleagues (1989) have presented numbers which suggest that during the 1980-1984 crisis, only a small share of officially produced or imported goods (less than 30 percent) reached their destinations through official channels, the rest being diverted to unofficial markets. Using a conservative estimate — that half the rationed imports of consumer goods were diverted to parallel markets — we can

compute the rents by multiplying the dollar value of this portion of imports by the difference between parallel and official rates. The results suggest that from this source only the rents could have been as high as 5.9 percent of official total gross domestic products (GDP), or 11 percent of nonagricultural GDP. Under the assumption that these rents were distributed uniformly over all state employees, and given that they accounted for about 5 percent of all employment, it can be seen that these rents could have amounted to a substantial income transfer to the new elite. In fact, if it is assumed that the visible per capita income of formal public-sector workers was the same as that for the rest of the economy, the above calculation suggests a doubling of per capita incomes for the favored class. Given the restrictions on domestic marketing of foods, the state monopoly of domestic consumer goods production, and so forth, the rents might have amounted to much more than that.

An interesting question concerns the nature of the parallel institutions that emerged as a consequence of state controls. Are these institutions the same as would have emerged in the absence of controls, or not? The answer seems to be that some of them were indeed there before the state and were just strengthened. In that category would be, for instance, local markets and small-scale, nonagricultural producers of basic consumer and manufactured goods. Some institutions, however, were killed by the state and were not replaced. In Tanzania, for example, such was the case with the farmer-owned-and-managed marketing cooperatives, which sprang up much before independence but were summarily dissolved in the 1960s. Finally, some of the institutions that emerged would not have been there were it not for the state. Principal among these, in the cases of Guinea, Mozambique, and Tanzania, are the black marketeers and members of the bureaucratic elite who emerged as intermediaries in the interaction of the other, private sector and the state apparatus. Of major concern is the potential irreversibility of this phenomenon and the potential consequences.

While the details of the institutional failures of the state and the limitations of indigenous responses can be expounded upon in great detail, in recognition of space limitations let it suffice to say that all four countries exemplify to different degrees the overt failure of state interference and policies. The need for economic reform became apparent. Often at the urging of donors, and in the context of the IMF- and World Bank-financed adjustment programs, all four countries have begun the process of state disengagement, the results of which we examine next.

5. STATE DISENGAGEMENT: ECONOMIES UNDER ADJUSTMENT

Economic adjustment has involved redefining the role of the state. In the case of Guinea, Mozambique, and Tanzania, reform was undertaken in response to the virtually total collapse of the formal economy. Despite the obvious need for economic adjustment, in the event it was only the growing internal, and especially external, imbalances that precipitated action, either on the part of the government or external donors, including multilateral financial institutions. The call for reform in Malawi, in contrast, came in the context of a country plagued by economic stagnation after the initial postindependence period of relatively good growth. In the Malawi case, this relatively better economic performance early on was achieved because state control in the export sector was limited, although discrimination against the smallholder sector, through measures such as taxation and repressing wages, was overt. This bias against smallholders contributed both to the faltering economy and to great inequity and poverty.

Although it was macro disequilibrium that was the compelling factor when action was finally taken, it comes as little surprise that the first focus of donor-financed adjustment was on reducing imbalances in the internal, and especially external, accounts via expenditure-reducing and expenditure-switching policies.

With respect to expenditure-reducing adjustment policies, fiscal restraint and credit-reducing tight money are often elements of the package of basic policy prescriptions that are integral to adjustment programs. Among relatively straightforward indicators that can be examined are the level of government spending and the related issue of financing those expenditures.

The contention that adjustment will lead to government's assuming a smaller share of the economy has, in general, not been substantiated for Africa (Sahn forthcoming). In the cases of Guinea, Malawi, and Tanzania, there is no evidence of a decline in the size of government subsequent to adjustment (see Table 1), and no reliable statistics are available for Mozambique. In Tanzania, the ratio of current public expenditures to GDP has grown significantly after 1986, and development expenditures have shown signs of recovery back to their levels before the crisis. In the case of Guinea, the contraction in development expenditures that began prior to adjustment also shows sign of reversing, although recurrent expenditures have stabilized at a more moderate level than that which predated and precipitated the economic crisis. In Malawi, recurrent expenditures have remained high relative to GDP since the beginning of adjustment, although the volume of development spending has retreated from its temporary and unsustainable level in the years just before and after the beginning of adjustment.

Table 1 — Public Current and Development Expenditures as Share of GDP

	Guinea		Malawi		Tanzania[a]	
	CE/GDP	DE/GDP	CE/GDP	DE/GDP	CE/GDP	DE/GDP
	Percentage					
1976	—	—	12.4	7.0	18.3	11.3
1977	—	—	12.2	5.5	18.4	11.4
1978	—	—	16.1	9.1	19.9	12.6
1979	—	—	18.0	11.2	20.2	13.7
1980	21.4	11.0	17.5*	13.3*	20.1	11.8
1981	19.2	15.6	19.6	13.8	23.0	10.1
1982	40.0	10.0	16.7	9.3	23.3	8.2
1983	28.1	6.3	20.4	9.0	20.8	6.5
1984	23.3	4.4	19.4	8.1	20.6	6.0
1985	3.9	2.7	18.8	7.9	19.8	4.9
1986	12.7*	7.6*	20.1	6.0	21.4*	5.5*
1987	12.7	10.0	22.5	6.9	22.6	6.4
1988	13.7	11.4	14.6	4.6	25.4	6.2
1989	12.1	11.0	19.8	5.9	28.1	8.8

Sources: Arulpragasam and Sahn (1991) for Guinea; Sahn, Arulpragasam, and Merid (1990) for Malawi; and World Bank (1989, 1990) for Tanzania.

[a] For Tanzania, a year such as 1980 refers to fiscal year 1979/80.

Notes: CE denotes current expenditures. DE denotes development expenditures. An asterisk indicates the year of the first externally supported stabilization and adjustment program.

Ironically, the size of the state has been maintained in many sub-Saharan African countries (in sharp contrast to Latin America) because of the financial support of the World Bank, IMF, and other donors. As adjustment lending, and consequently official development assistance (ODA) have increased, it is the state that is bolstered. In 1980, ODA comprised 3 percent of GDP and 17.4 percent of gross domestic investment (GDI). The figures increased to 8 percent of GDP and 53.4 percent of GDI by 1987. Donor support, especially from the World Bank and IMF, thus often sustained the same government structures that those bodies have identified as the source of Africa's economic woes. This is, first, a reflection of the lack of experience of donors and the international financial institutions in working directly with the private sector and the difficulty of doing so. Second, it is recognition of dependence on the state apparatus both to guide the process of reform and to ensure access to vital public services and goods above and beyond those that would be provided by private-sector initiatives (Sahn and Arulpragasam 1991b).

Of greater interest to this paper than the size of the government in terms of its share of GDP is the extent to which indirect and direct government control of the economy have been reduced through institutional reform. More specifically, how have markets in general, and producers and consumers in particular, been affected by the process of state disengagement?

Once again, among the four countries examined in this paper, the experience of state disengagement from rural markets is quite different. The state has been the most serious about disengagement in Guinea. The dismantling of the extensive state controls took a number of forms. First, there was reform of commercial policies in general and the exchange rate devaluation. Second, all existing quotas for forced marketing to the state were eliminated. Third, police barricades on roads were removed. Fourth, the monopolies of parastatals on fertilizer and on exporting fruit and coffee were eliminated. Fifth, markets for consumer goods were liberalized, allowing food imports by private traders and removing the urban food ration system that had favored the privileged. Sixth, a new agricultural research center was established, with a focus on adaptive agronomic research for smallholders.

In combination, these measures have dramatically increased prices that farmers receive for their crops. Production has improved, and exports have increased, although agricultural commodities still compose only 5 percent of total exports compared to 30 percent before the ruinous policies of the state during the First Republic. At the same time, an abundance of consumer goods has reappeared in the market, and open-market prices for staple foods have moderated as a consequence of increased imports and the increased efficiency of food markets. The latter is attributable to reduced transaction costs for private-sector marketing agents, along with the reduction of shortages and the opportunities for rent seeking that were so pervasive during the period of state control.

Despite these improvements, the absence of a greater response by producers raises the issue of the role of nonprice and related institutional factors. For example, only 2 to 3 percent of the farmers in Guinea Maritime and Upper Guinea

use fertilizers, and only a small proportion use improved seed varieties. These problems illustrate the limitations of the process of liberalization, such as the lack of extension, the shortage of improved technology packages, and the weak physical infrastructure for transporting and marketing inputs. The implications of the reluctance of the new commercial banks to extend credit in rural areas are not clearly understood, as indigenous savings and lending institutions, such as the *tontines*, have been shown to function quite well in extending credit in small amounts. It thus seems that state disengagement has brought about a short-term improvement in the lot of smallholders, although the limited marketed-supply response suggests that improved price incentives were of limited effectiveness. Likewise, reforms have had tangible benefits for many urban consumers, the exception being those whose ability to seek rents was diminished. It is less clear that eliminating the state's role will be sufficient to promote sustained development. This of course, raises the issue, which will be addressed in further detail below, of defining a new role for the state in providing important public goods, recognizing the perils of doing so based on past abuses.

While Mozambique's reforms have been much less dramatic than those in Guinea, some similarities are noteworthy. First, the failure of the state farms was acknowledged, and the family farm sector has become the new focus for promoting agricultural development. Gradual, albeit substantial, progress has also been made in restoring agricultural incentives and reforming markets, as the state has given up a considerable amount of prereform administrative control. For example, at the end of 1986, 44 agricultural products had fixed prices. The number had dropped to 28 by mid-1988 and to less than 20 a year later. The consequence has been a shift of incentives, especially toward the production of export crops. This has resulted in a sharp rise in recorded exports, especially for the smallholder crops, cashew and cotton. No improvement is seen in the sale of tea and sisal, as these crops are still grown on the inefficient, high-security-risk, state farms (Kyle forthcoming).

Despite some progress in improving incentives for rural producers, the pace of disengagement has been slowed by a number of factors. Some of these are justifiable. First and most important is the security situation. Government and donors continue to play a key role in terms of coping with the ruinous consequences of war, which dislocates large numbers of people, decimates large tracts of crops, and destroys infrastructure and markets. The reality of war makes necessary such measures as continued public-sector involvement in trading, which at the extreme even involves supply by air to avoid famine.

A second factor that slows the pace of reform is the difficulty that bureaucrats, traders, and farmers have in grasping the concept that state controls are giving way to market-clearing prices. To illustrate, in mid-1990, the government liberalized maize marketing. This included abandoning an administered procurement price for maize in favor of a price determined by the market. A floor price was set, although realistically there was no way for it to be defended or enforced. The change was announced in the Government Gazette. During a visit to Beira, the largest provincial capital, however, we found in discussions with government officials and farmers in rural areas an inability to comprehend the policy change. All those we talked with asserted that there was

only one price for maize — the floor price. No farmer we talked with had been, or expected to be, offered a higher price; and government officials in the province all suggested that it was inconceivable that a trader would offer a higher price, given that the state had approved a lower one.[3]

In a similar vein, the liberalization of marketing for most other goods implied in theory that the state-controlled system of allocating district-specific monopsonist power to traders was eliminated. In practice, however, the system of one trader to one district seems firmly entrenched. This was likely a reflection of a constellation of factors, including the power of old ideas and the plethora of difficulties of entering new markets, including the issues of access to working capital, the limitations of market infrastructure, the shortage of knowledge, the thinness of markets that may not support true competition, and so forth. The end result, regardless of its cause, is that market reforms have not dramatically changed the structure of markets in rural areas. Those institutions that in the past were sponsored by the state still remain in control of rural markets, even if now by default rather than design.

While the circumstances that retard the pace of market development in Mozambique are arguably somewhat beyond government control, there is little question that policymakers' lingering suspicion of markets and the reluctance to forego access to privileges have slowed the pace of state disengagement, often to the detriment of the poor and the economy alike. The most overt example concerns the state's continuing to operate a food rationing system in the two major urban areas, Maputo and Beira. (The good news is that the state no longer engages in burning open markets and harassing those entrepreneurs who in fact provide access to food for a large segment of the population.) The continuation of the food subsidy, even when parallel markets are pervasive and the food shortages that provided the original rationale for some sort of ration system no longer exist, illustrates some of the reasons for the slow pace of state disengagement. To amplify, the ration system provides a direct income transfer to recipients, if one measures that transfer as the difference between the ration price and the open market price. Yet a number of factors suggest that the continuance of state control over urban food markets is not justifiable. First, the poor are already heavily reliant on the parallel, free market for their food purchases, where marginal purchases (purchases of food beyond the ration amount) are almost universally made. Second, owing to the gross inefficiency of the government food distribution system, the official prices are far above import parity when denominated at the official exchange rate (which is the rate used for government imports and for assessing counter value for food aid consigned to the government).

A policy that would allow commercial imports by private traders, using the official foreign exchange window, would certainly result in prices dramatically lower than those at the official rate. However, given the overvalued currency, such a policy would represent a clear disincentive for domestic producers, and

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[3] This experience was based on David Sahn's trip to Mozambique in October 1990.

is therefore not advised. A better policy would be to allow commercial imports by private traders using the parallel exchange rate, thereby eliminating the implicit subsidy that would result from importing using an overvalued currency. Under such a regime, market prices of some commodities would still actually be lower than, and other prices would be comparable to, existing official prices. Indeed, prices would also be considerably lower than existing parallel market prices, since these include a high-risk premium and high transaction costs associated with overvalued imports from Swaziland.

In Tanzania, where agricultural markets were monopolized by the official crop authorities, reforms started very timidly in 1984, when the limits for privately traded quantities of foodgrains, as well as the roadblocks, were removed. However, pan-territorial purchasing prices remained, despite enormous differences in transport costs between rural regions and urban centers. Trade liberalization, in the form of allowing exporters (since 1984) to use their foreign exchange for imports, rather than surrendering it to the Central Bank, and devaluation, permitted the importation of much-needed trucks, spare parts, and consumer goods and led to declines in marketing costs as well as greater incentives for farmers. In 1986, with the signing of the first agreement with the IMF, substantial, further devaluation took place. The response was considerable, and by 1987/88 Tanzania became a net exporter of maize, after having been a foodgrain importer since the mid-1970s. It was not until 1988 that the National Milling Corporation (NMC), the official food marketing parastatal, lost its formal monopoly of the grain trade, although private traders had been implicitly allowed since 1984. The government kept the NMC, despite overdrafts so large that between 1985 and 1988 they accounted for almost 40 percent of total bank lending to the private sector and hence contributed significantly to domestic money creation and inflation. Maize marketing was not liberalized until September 1989, when private traders were allowed to buy directly from primary village cooperatives, and September 1990, when traders were officially allowed to buy directly from farmers.

The result of food-trade liberalization is most apparent in the relation between open-market and official prices. During the period 1980-1985, open-market prices exceeded official prices by huge amounts (300-800 percent). By 1986-1987, price premiums had been substantially reduced, and in some cases they have even turned negative.

The government has kept control of the export parastatals. Their inefficiency results in very high marketing costs, which are passed to the farmers since they receive residual prices. In fact, since the early 1980s the price received by coffee farmers, as a share of the f.o.b. world price, has declined (Sarris and van den Brink forthcoming b). Given that explicit taxation of exports is minimal, implicit taxation in the form of higher parastatal marketing costs has thus increased.

Despite the reluctance of the Tanzanian government to make institutional reforms, the underlying economy has evolved through old and new indigenous institutions. In agricultural production, despite the disruptive impact of villagization, farmers had started moving back to their old, land-extensive, and

spread-out production systems before the onset of the crisis and reforms. The process appears to have accelerated after 1986. New marketing institutions have emerged. For instance, during the height of the crisis, in 1983, a new form of marketing intermediary, the *madalalis*, appeared in Dar es Salaam. They finance incoming traders with short-term, interest-free loans. Their number has increased sixfold since liberalization, indicating increased competition. Private credit, which is totally monopolized by the state banks, which in turn serve largely the parastatals, seems to have expanded through an increase in small-scale, rotating savings and credit associations. It therefore appears that indigenous institutions developed irrespective of the crisis and that their evolution has been speeded up under the general spirit of liberalization.

In contrast to the other three countries, the state in Malawi was much less ambitious in trying to directly control the rural economy. The state continues, however, to maintain extensive control over factor and product markets, to the detriment of the poor and at a cost to aggregate economic growth. This is true despite the fact that Malawi is generally regarded by the World Bank as a strong reformer and has received a series of adjustment credits beginning in 1980. The major agricultural reforms called for during the 1980s in Malawi were the removal of the fertilizer subsidy — the benefits from which accrued to the estate sector and the larger of the smallholders — and reducing taxation of smallholders. In fact, the terms of the subsidy removal program were ignored, and smallholders remained heavily taxed.

More troubling, the fundamental control by the state of the rural sector, through the enforced bias in favor of estate leaseholds at the expense of smallholders cultivating customary land, was totally neglected. It was not until the discussions of structural adjustment loan (SAL) III in 1990 that the issue of eliminating the structural impediments to growth and equity — the production and marketing restrictions that have perpetuated what is one of the highest rates of chronic poverty in Africa — was even put on the table by the World Bank. The power of the state and the Party to dole out favors associated with the issuance of leaseholds and licenses for the production of tobacco was so entrenched in Malawi's political economy that to address the issue would have brought into question the legitimacy of the country's leadership. Consequently, a decade of adjustment failed to address the fundamental issues.

We thus have a case where the lack of political pluralism, in a repressive political context, and a posture of successful accommodation of the international financial institutions on issues such as meeting budget deficit targets and other macro-reforms, have left the fundamentals of the political economy unchanged. Marginal reforms have been made in Malawi's economy, even in agriculture. Many such changes, however, such as sanctioning the private trade in maize, or the isolated and not-very-meaningful efforts at land registration, have been halfhearted. More specifically, consider the issue of liberalization of grain marketing: the government's rules that private traders apply for licenses and that the activities of private traders be limited to specific market sites, days of the week, and even hours of the day have clearly reduced the meaningfulness of reforms. These constraints are made worse by the lack of private storage

facilities, transportation, and access to credit, which act as barriers to entry and efficient operation of traders.

As the process of reform of agricultural marketing continues, a number of important issues arise. For example, the marketing parastatal was supposedly charged with retaining a role as the buyer and seller of last resort. It is difficult to see how these functions could have been served without some sort of state subsidy, especially because meeting localized maize shortages, especially in more remote areas, would inevitably have high costs. But perhaps more challenging were simply the technicalities of operating the type of price stabilization system envisaged. All of this suggests that there is a need to reconcile the differences between ideal and realistic expectations when defining the new role of government in a market-oriented economy.

The brief recounting of the process of disengagement of the state in the four countries shows considerable variation, in terms of both commitment and consequences. Guinea, with its rapid pace of reform, contrasts with Tanzania, where change has been much slower. In Malawi, where distortions were less, and the state less overt in its actions, meaningful change has been strongly resisted. All of this suggests a number of propositions that, though tentative, are worth further consideration. For example, there is some indication that the more dominant the state was formerly in controlling markets, the greater the need for the appearance of parallel markets and other mechanisms to cope with the state's repression. In such a case, disengagement is in one sense more easily managed and accepted, since it is simply an acknowledgment and legitimization of informal institutions that already exist.

The fact that parallel markets and related coping mechanisms emerged in Africa to compensate for the ineffectiveness of the state in rural areas had a few further implications. As the disengagement of the state proceeded, formerly illegal transactions not only came into the open but seem to have flourished. One need only have visited many African capitals prior and subsequent to reform to witness the astonishing growth of commercial activity and the fact that markets once empty were now filled with every type of consumer good imaginable. The same is true, although less dramatically so, in rural areas. At least in terms of commercial activities, the private sector has responded swiftly to the new freedoms it enjoys.

This of course implies greater incomes for traders and entrepreneurs engaging more freely in commercial activities. The greater availability of consumer goods also encourages rural producers to generate a surplus. The lack of such goods in both Tanzania (Bevan et al. 1989) and Mozambique, it had been argued, was a serious constraint on increasing output.

At the same time, removing state-imposed impediments to trade, and thus legalizing parallel markets, will lower transaction costs. This will generally benefit both consumers and producers, although not always equally. As for consumers, lower prices for open-market grain, for example, were observed in Guinea and Tanzania, commensurate with reforms. This benefits the urban poor, as well as a large number of rural poor, who tend to be net consumers of staple

foodgrains. The same is expected in Mozambique, if the government continues to increase access to foreign exchange and loosen controls on imports and domestic food marketing.

As for producers, not only will lower transaction costs tend to benefit rural incomes, but it is reasonable to expect that the incomes of rural households will increase as adjustment shifts the terms of trade in their favor. For example, as the overt taxation of farmers in Guinea and Mozambique has been reduced, the farmers benefit. On the other hand, the slow pace of change in Tanzania has impeded the rate of increase in rural incomes, and the case of Malawi is a perfect example of how continued state interference in land and product markets is further marginalizing the chronically poor smallholders.

The strong indication that the elimination of state controls and rationing has brought about the flourishing of commerce is indeed encouraging. So, too, are early indications of increased production and exports in countries such as Guinea and Mozambique, which have taken important steps to restore producer incentives. But two questions remain. First, who are the losers from state disengagement in Africa? The answer is once again context-specific. The impact of state disengagement on various income groups is often not what it first appears. A great deal of concern was voiced, for example, over the market reform that reduced the smallholder fertilizer subsidy in Malawi. In practice, however, a large portion (estimated to be between 24 and 50 percent) of the subsidized fertilizer is in fact leaked to estates, with the remainder virtually all concentrated in the hand of the farmers with larger holdings. Likewise, the concern raised over the impact on the very poor of removing the official price of rice in Guinea or maize in Tanzania failed to recognize the rationing and consequent rent seeking that accompanied those subsidies. The fact is that if consumer subsidies were actually universal — benefiting the poor less in absolute terms but in real terms more than the rich — their continuation would merit some support. But the cases reviewed in this paper suggest that such universality did not apply for most subsidized products and services: the rich benefited more in proportion to their incomes as well as in an absolute sense. Thus it is the rent seekers, who so successfully perverted and exploited the state's interventionist role in the economy, who are the biggest losers as a result of reform.

The second and more pressing question is whether simple disengagement by the state will suffice to foster rapid and sustainable rates of growth. While there is strong evidence that absence of the state would be better in several areas of economic activity, there nevertheless remain appropriate areas for state involvement in promoting economic growth. Those areas have heretofore been either neglected or not well understood. For example, legitimate roles in agricultural research, market information collection and dissemination, extension, targeted transfers to the poor, infrastructure development and maintenance, and so forth, need to be assumed by the government. The challenge, therefore, is to transform the state so that it performs these types of appropriate tasks, efficiently, and with limited corruption.

This redefinition of the role of the state perhaps faces no greater challenge than that of identifying and financing "crowding-in" investments that

encourage complementary investment by private-sector agents. This is especially crucial because economic reform in Africa has met with little discernible success in fostering any form of large-scale capital investment by the private sector. While part of the reason might be the general tightening of credit, another, equally significant reason may be the pervasive distrust of the state and uncertainty about its future actions. Political instability is certainly a major problem in countries such as Guinea, Malawi, and Mozambique, where radical short-term changes in government — and consequently in policy — are quite possible. But perhaps more problematic is that there is uncertainty about the future path of reform in countries such as Tanzania and Malawi, or its sustainability in countries such as Guinea and Mozambique. This suggests that sustainability and clarity as to the pace and direction of state disengagement are extremely important, although in practice, the process of reform has proved to be extremely unpredictable throughout Africa.

Many of the appropriate tasks and roles for the state in fostering growth that are outlined above do not involve direct regulation of production and hence do not inherently generate rents. In fact, reorienting the role of the state to such activities would mean that rents would be greatly reduced. Such an outcome is nowhere more apparent than in the case of the state and parastatal employees who will lose their jobs and attendant privileges. In the context of adjustment, however, along with the need for retrenching unproductive and redundant workers and eliminating access to special subsidies there has been the recognition in countries such as Guinea and Mozambique of the need to raise public-sector wages for those who remain, despite the importance of fiscal restraint. Higher wages for state workers who remain, however, will not compensate those who lose from the abolition of rents that will occur with the fundamental institutional change. Reforms leading to the reduction of rents have therefore been strongly resisted. This is especially so because it is inevitable that lower living standards will result for a segment of the urban population that has provided support for the regimes in power.

A related issue is whether the legitimization of many parallel, indigenous institutions can alter the balance of economic power so as to induce further institutional change and alter the behavior of the state to coincide with the appropriate roles outlined above. Roe (1991) has suggested that changes in the distribution of income can lead to institutional reforms by changing underlying political alliances. It is difficult, however, to paint a clear picture of the pattern of such distribution changes in Africa following adjustment. For instance, before adjustment, large producer-consumer margins implied significant transfers to both black marketeers and civil servants. While these margins have now declined, total commercial activity has increased, benefiting traders. Many of the traders are likely those previously engaged in extracting rents by diverting goods from official to parallel markets. Likewise, and ironically, external support in the form of adjustment loans and other donor assistance may help maintain the status quo; such support is relieving the pressure for more rapid institutional reforms. It is thus not obvious how, and to what extent, adjustment is leading to a new distribution of income that will accelerate the breakdown of the former political alliances. Nonetheless, it does seem fair to conclude that adjustment is helping to legitimize and presumably raise the

incomes of those engaged in "informal" activities, as well as the rural smallholders; both groups have traditionally been underprivileged and disenfranchised. It may not be too long, therefore, before this change is translated into increased incomes and greater political power, as the undermining of government legitimacy, which is derived from the urban elite, may create political change. As a matter of fact, calls for multiparty systems have become much stronger since the onset of adjustment in many countries, and Guinea, Mozambique, and Tanzania are among those that are making tangible progress in that direction. It might be that political change is in fact a prerequisite for real institutional reforms, and Malawi is a good case in point.

6. CONCLUSIONS

In this paper we have looked at the emergence and decline of the state in four countries in sub-Saharan Africa. The countries chosen are diverse in their natural resource endowment, their location, the role that exogenous factors played in their economic performance, and most important, their policymaking processes. Nonetheless, a number of common threads emerged which serve as the basis for making some tentative generalizations.

The harmful effects of state intervention are difficult to contest. In the cases of Guinea, Mozambique, and Tanzania, the state assumed an active role in organizing and distributing production. Whatever market structures were in place at independence were not perceived by the emergent states as an adequate basis on which to build a strong economy and achieve espoused objectives of growth with equity.

This led to the involvement of the state in all aspects of production and marketing, and the state's involvement contributed to a virtual collapse of the formal sector of the economy. One could reasonably argue that the greater the state involvement in the economy, the worse the legacy. Malawi, the only country where the socialist ideal was not espoused and, consequently, the only one that did not undertake the complete reorganization of the rural sector, was the most successful economically. But even there, government rules and regulations of production and marketing were counterproductive to growth and equity.

The state's failure does not come as a surprise to those equipped with the wisdom of hindsight. However, we must put the interventionist policies in the context of the nationalist movements, with their socialist ideals and rhetoric, and the belief of development economists at the time that the state had the ability to intervene effectively and actively in the economy. The repression of the market and of indigenous institutions and structures, and the state's assumption of responsibility for everything from where people live, to who gets access to what land, to the provision of inputs and the marketing of output were in reaction to frustration at the exploitation of colonial powers. At the same time such policies were viewed as valid means to rapidly transform and modernize the economy.

In practice, rent seeking and corruption became the rules of the game. The state, in essence, existed to perpetuate itself, even if the price be economic efficiency. The path chosen by the political elite was difficult to change radically, but easy to pervert, especially when bureaucrats became the powerful interest group that redefined state roles in order to generate rental incomes. These self-serving interests also blocked efficiency-improving and redistributive institutional changes through their attempts to control the surplus and gain

access to rents. This resulted in economic inefficiencies and technological stagnation, which conditions on balance were also detrimental to the elite who were the beneficiaries of the rationing systems, untargeted subsidies, privileged access to foreign exchange, and so forth, than to the poor, especially in rural areas, who paid the highest price for state intervention.

In response to the failures of the state, the neoclassical critique of the experience in Africa (and elsewhere) during the 1960s and 1970s assumed the posture that the less government intervention in the economy the better, that all would be well if market forces were left unencumbered. This viewpoint is generally overstated, albeit much less so in Africa than elsewhere. Indeed, it is likely that economic performance and welfare in Africa would have been better if government had simply assumed a lesser role. We would argue this point even if market failures had occurred in the absence of government intervention. We would also agree with Bauer (1984) that the bureaucratic failure observed was worse than any market failure that would have occurred with a hands-off policy.

However valid that assertion, it ignores some basic truths in terms of what it will take in the future to generate sustained and rapid economic growth in Africa. First and foremost is that government has an important role in guiding economic growth and fostering institutions that promote increased productivity. Similarly, it would be facile to suggest that that role ends with assuring that prices are right. Prices alone cannot induce the types of innovation required for technological progress. The need for costly investments in agricultural research, infrastructure, human resources, and related areas goes beyond what markets alone can signal. Likewise, markets cannot be relied upon to protect the environment, at least not without considerable creative legislation that shapes the structure of incentives to private-sector users and abusers of natural resources. The case for government intervention is especially strong in rural Africa, where large investment projects need to be financed and new markets (i.e., for nontraditional exports) need to be identified and developed.

Even if market failure had not been a serious problem in the period prior to the rise in state control, or after relaxation of these controls, markets themselves inevitably engender their own sort of rent seeking, which would likely continue to redistribute incomes to those already in positions of power. Thus, as we examine with horror the predatory state in Africa, we should not rush to suggest that the unfettered free market contains all the solutions to Africa's developmental disasters. Rather, we must move synchronously to enhance the capacity of the state, recognizing, for example, how private and public investment complement one another. The purpose of state intervention must be to facilitate the efficient functioning of private markets and guard against their exploitation by rent seekers and interest groups. In practice, however, this transformation may involve an increase in the size of government in many areas, particularly in agriculture and human resource development. In agriculture, the small amount of resources previously dedicated to achieving distorted, prereform objectives, which proved not to be achievable, will likely need to be increased to help producers move closer to the production-possibility frontier by promoting technological advances and increased technical efficiency. Likewise, building the social and physical infrastructure that is prerequisite to the development

of human capital will not come cheaply; it will require that the public sector make that area a priority.

The most difficult challenge facing both governments and donors in Africa is how to foster and build on the indigenous institutions that have evolved mostly in response to local market failures and conditions. There seems to be a vast technological distance between indigenous and western institutions, and it is not clear whether institutional development should or could jump-start such indigenous institutions. Considering credit, for instance, it is clear that the rotating savings and credit association is very different from a western-style bank. A sequence of credit institutions must evolve in moving from the former to the latter. The challenge will be to build slowly upon the small, indigenous systems (as has been done successfully by, for example, the Korean migrants to the U.S.), rather than moving rapidly to the more complex and technologically demanding systems found in the West.

Structural adjustment has made only tentative steps in legitimizing and supporting the traditional institutions alongside the formal ones. By and large, such progress as has been made has been in response to the recognition that the preadjustment era of economic crisis was basically a consequence of forced institutional change, which is now widely recognized to be wrong. It also demonstrated that top-down development cannot succeed. Given the disastrous experience of the past, creating the conditions for speedier evolution of indigenous institutions needs to be paramount on the agendas both of a newly framed government mandate and of the international institutions that legitimize and support the action of both the state and the indigenous institutions.

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