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Toward Structural Transformation with a Human Focus:
The Economic Programmes and Policies of Zambia in the 1980s

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b/ Department of Business and Economic Studies, the University of Zambia. The views expressed in this paper are those of the author and do not necessarily represent the views of the Organization. The editors wish to thank Robert Zimmermann, UNICEF International Child Development Centre, for the editing and preparation of the text.
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I. THE ECONOMIC CRISIS

Zambia entered the 1980s in economic crisis. The origins of the crisis have often been traced back to 1975 because, in terms of several economic indicators, the face of the Zambian economy changed drastically that year. Relative to 1974, Zambia’s terms of trade in 1975 fell to 54 percent; a balance of payments that had been comfortable in 1974 went into a deficit on the current account amounting to 30 percent of GDP; government revenues from minerals fell to less than one-fifth of the previous level, and the budget, which had been in surplus in 1974, moved to a deficit equivalent to 24 percent of GDP.

This drastic economic decline was the result of the dual external shock to which the economy had been subjected: the oil shock of 1973 and the copper price shock of 1974. However, these events cannot be considered the genesis of the decline. The real decline had set in much earlier, as early as 1970 (Valentine 1985). While it is true that the rate of decline accelerated after 1974, the price and output of copper, the life-blood of Zambia’s economy, had already begun to fall significantly in 1970. From 755,000 tonnes in 1969, copper output dropped to 585,000 tonnes in 1970 and still further thereafter. The 1969 copper production level remains the highest to date.

As a result of the fall in copper prices and copper output that had led to a significant reduction in export earnings, Zambia was prompted for the first time to use the International Monetary Fund’s Compensatory Financial Facility in 1971 and received Special Drawing Rights of SDR 19 million. Another SDR 19 million was received in 1972. In 1973, to stem the deterioration in its budgetary position, Zambia approached the Fund with a request for a stand-by arrangement on a first credit tranche, equivalent to yet another SDR 19 million, to cover the May 1973-April 1974 period. The sum had been fully drawn by September 1973. The country’s approach to the IMF for credit demonstrates that perceptible problems had begun to surface well before 1975.

In 1970, Zambia had the highest per capita GDP in Africa excluding South Africa. Real earnings within Zambia itself peaked around that year. The ratio of imports and exports to GDP in 1970 was much higher in Zambia than in any other African country. In this sense, Zambia was the most "open" country in Africa at the time. This openness - in fact, a "weak openness" - made the country potentially very vulnerable to the external shocks when they struck in 1973 and 1974.

Thus, rather than to external forces, the roots of the decline should be traced to the weak structure which Zambia had had since independence and
which had become conspicuously vulnerable by 1970. The forces resulting in the catastrophic decline in 1975 only served to bring out in bold relief the inherent fragility of this rigid and distorted structure, which has still not undergone significant change.

The Symptoms in the Early 1980s

The economic crisis in Zambia in the early 1980s can be described as the conglomerate effect of adverse changes in a number of macroeconomic variables. In the years following the 1975 catastrophe, government revenues and foreign exchange reserves fell, while budget and balance-of-payments deficits and domestic and international debt levels rose rapidly. As a result, there were decreases in investment, output and real incomes.

The decline in copper prices accompanied by the downward trend in copper production and exports led to a drastic tightening in the country's foreign exchange earnings. This affected government revenues in two ways.

- There was a severe drop in the contribution to revenues of mineral taxes, which formed the basis of tax income.
- There was an erosion in revenues from import duties since imports fell owing to foreign exchange shortages, and, with the growing importance of quantitative controls on imports, the import structure shifted in favour of essential commodities, which attracted only very low import duties.

Because of the weakened revenue base, the government’s budget deficits began to grow. By 1980, the deficit had reached 29 percent of GDP. This had other repercussions.

First, a large part of the budget deficit was financed through short-term borrowing from the Bank of Zambia.

Second, in consequence, the money supply grew from 698.7 million Kwacha in 1977 to K902.1 million in 1980 and K1,309.2 million in 1982 (i.e. a 29 percent jump and an 87 percent jump, respectively, over the 1977 figure). Owing to this tremendous expansion in the money supply and despite price controls, there was visible inflation, and real expenditures declined from K855 million in 1975 to K527 million in 1981.

Third, the mounting budget deficits also led to public borrowing. This increased long-term public debt, a significant portion of which was external: 70 percent in 1980 and 82 percent in 1983. Foreign exchange reserves had dwindled to less than the value of a month’s imports by 1977 and were
virtually wiped out in the early 1980s (they had represented the value of the imports over 11 months in 1970). As a result, there was a severe strain in the balance-of-payments position.

Fourth, Zambia was falling into a debt trap. Debt servicing, which had represented only 7.3 percent of export earnings in 1974, rose to 18.7 percent in 1977 and 47.6 percent in 1982. The country was forced to seek a debt rescheduling with the Paris Club and other creditors. However, although it provided temporary relief, this rescheduling also aggravated the debt burden since interest had now to be paid on the unpaid interest which had been capitalized.

The drop in foreign exchange earnings severely curtailed the import capacity of the economy. Yet, by virtue of the nature of its operations, the mining industry was highly import-dependent in terms of both technology and manpower, and the manufacturing sector, which had grown rapidly during the first decade following independence, had also become dependent on imports. By 1980, imported inputs were contributing 64 percent to manufacturing GDP. Thus, the reduction in import capacity led to a decline in production levels and a fall in GDP. By 1980, real per capita income had fallen to just half the 1974 level, and, by 1984, to less than a third of that same level.

Another factor in the decline in GDP was the drop in investment capital caused by the diminishing surplus in mineral revenues and the need to devote a good portion of the reduced government revenues to pay wages and salaries and to maintain consumption.

The decline in per capita income, coupled with an income distribution which was highly skewed, led to alarming poverty levels. A study by the International Labour Office (ILO and JASPA 1981) estimated that 80 percent of rural households, 26 percent of urban households and 60 percent of all households in Zambia were below the poverty line in 1980. Translated into population equivalents, these estimates suggest that 82.5 percent of the rural population, 24.3 percent of the urban population and 59.5 percent of the total population were living in poverty in that year.

Thus, a large majority of the country's population was poor. To alleviate this poverty, it was necessary to revive growth in the economy. The only way to do so was to diversify away from the failing copper industry and seek other potential avenues of foreign exchange. Agriculture, which had long been suffering from gross neglect, had to be promoted. The manufacturing sector had to become less dependent on imports, its use of locally accessible inputs enhanced and its level of capacity utilization raised. The transportation sector and other sectors which had been badly hit by declining
government revenues and expenditures had to be rehabilitated, and the fundamental macroeconomic disequilibrium (balance-of-payments and fiscal imbalances) had to be corrected.

The Factors Leading to the Crisis

The fundamental cause of Zambia's economic problems has been the static and inflexible economic structure inherited at independence and the lack of any serious attempts since then to render that structure more dynamic and resilient. Even after the 1975 debacle, the fond hope lingered that the decline in copper prices would be transient and that, once these prices picked up, the economy would again become buoyant. The perception that the decline was an established, long-term trend only dawned in the 1980s. By that time, however, the country's economic problems had already assumed the proportions of a crisis.

The dual shock of the mid-1970s caused Zambia's terms of trade to go into a downward spiral. The terms of trade in copper in the first years of the 1980s were less than half what they had been a decade earlier. One major reason for this was the drop in the world demand for copper owing to the recession in the developed countries. However, more important than this external factor was the increasing rigidity of the country's distorted economic structure under the effect of the macroeconomic policies which had been pursued since independence.

An examination follows of the way in which the five main instruments of macroeconomic policy, namely, monetary, fiscal, exchange-rate, trade and pricing policies, have been used in Zambia.

Monetary Policy. Monetary policy was not assigned an active or significant role until the mid-1980s. Little attempt was made to restrain the growth in the money supply that had been prompted by government borrowing to finance the burgeoning budget deficits. Thus, given the virtually unchanged nature of the rate on Treasury notes and other nominal interest rates, the inflation accompanying the growth in the money supply caused real interest rates, which had been either negative or only barely positive in the early 1970s, to become increasingly negative in the early 1980s. These negative rates were hardly conducive to savings. On the other hand, the cheap money policy encouraged the extension of credit for consumption activities and, most significantly, the application of capital-intensive production methods. Meanwhile, capital-intensive technology had to be largely imported, and this
was facilitated by an overvalued exchange rate. Thus, the low interest rates and overvalued exchange rates over a long period were mainly responsible for the establishment of the highly capital-intensive and import-dependent industrial sector, which subsequently suffered as foreign exchange became scarce.

Other instruments of monetary policy, such as the minimum reserve ratio, the liquidity ratio and the discount rate, were also little used as active tools to regulate credit, the money supply and inflation.

Fiscal Policy. From 1975 to 1982, fiscal policy fluctuated depending on whether the government had a programme with the IMF or not. For instance, when there was an IMF stand-by programme in 1978-1979, government expenditures were restrained, and, since government revenues remained unchanged, the budget deficit fell. However, in 1980, expenditures rose sharply as government salaries and maize and fertilizer subsidies increased. In 1981, owing to a new IMF programme, expenditures again fell, as did the size of the budget deficit. In 1982, expenditures and the budget deficit rose again. On the whole, the deterioration of the budget has become a trend over the years. This has led to the adverse chain reactions described above.

Exchange Rate Policy. Until the early 1980s, Zambia set the exchange rate at a fixed peg, although it kept changing the pegs. The Kwacha was first fixed on the pound sterling. Then, in December 1971, it was fixed on the dollar. In July 1976, it was pegged to the Special Drawing Rights (SDR). The exchange rate was then altered twice, each time as part of IMF stand-by agreements: the Kwacha was devalued by 20 percent in July 1976 and again by 10 percent in March 1978.

The relatively fixed external value of the Kwacha over a long period in the face of mounting excess demand for foreign exchange led to overvaluation of the currency in the official market and much higher black market rates. The overvaluation made imports cheaper, thereby encouraging import intensity. Meanwhile, Zambian exports were rendered noncompetitive in the world market. Clearly, there was very little incentive to diversify into exports other than copper.

Allocations of foreign exchange were strictly controlled. An importer had first to obtain a licence from the Ministry of Commerce and Industry and then obtain foreign exchange ("forex") from the Bank of Zambia. However, not all those who received licences were able to procure forex promptly. Delays and the scope for corruption in the processing of forex applications were considerable. Furthermore, the actual allocations were largely biased in favour of importers of consumer goods.
Trade Policy. As reflected in the tariff structure, trade policy provided disparate effective rates of protection (ERP). Nominal tariffs ranged from zero percent on priority items like agricultural goods and essential consumer goods, through 5-20 percent on intermediate and capital goods to 50-150 percent on nonessential durable consumer goods. A very large number of goods attracted no duty at all. The resulting ERPs provided maximum incentives for import-substituting final goods, moderate incentives for heavy intermediate and capital goods (thereby encouraging capital intensity) and minimal incentives (or even disincentives through negative ERP) for agricultural and industrial machinery and some export goods. This may be one of the factors accounting for the negligible growth in industrial exports until the early 1980s.

Pricing Policy. Wholesale and retail prices were controlled by the government with a view to protecting low-income groups and curbing excess monopoly profits. In practice, however, the fixed prices established on a "cost-plus" basis led to inefficient allocation of resources. Price controls provided little surplus to production units for reinvestment and expansion, increased government expenditure on subsidies to cover the losses of several parastatals, created shortages of goods and black markets, and made trading activities more "quick-buck yielding" and, hence, more attractive than production.

In sum, Zambia's policy regime was not conducive to economic restructuring and the restoration of internal and external macroeconomic balances. Economic growth was becoming increasingly dependent on forex, which was becoming increasingly scarce and increasingly difficult to earn. Most of the small amount of foreign exchange that was being earned had to be spent to repay debt, leaving very little for domestic needs. On the other hand, the import-dependent and capital-intensive technology which now pervaded the production structure made it difficult to turn to resources and labour that were locally available in plenty. This led to considerable excess capacity in industry and little growth in employment. The country was thus faced with a paradox: it could not grow by using what it had, and it could not have enough of what it wanted to use in order to grow.

For the economy to rely effectively on its own means, it had to be restructured. The requisites for this restructuring were, in the words of President Kaunda (Zambia 1984: page iv), "continued diversion of an increasing share of resources from non-productive uses; the increasing utilisation of local raw materials; the increased efficiency and competitiveness of the mining sector; the development of a wide range of exports and import-
II. THE SHIFTING POLICY RESPONSE

The 1980s were characterized in Zambia by a series of alternating policy regimes, each designed with the conscious objective to restructure the economy and enable it to recover from the crisis.

From the point of view of the phases of policy reform, the decade can be broadly divided into the following periods:

Before December 1982 - Controlled regime
December 1982-October 1985 - Process of decontrol and deregulation
October 1985-April 1987 - Highly liberalized regime
May 1987-November 1988 - Controlled regime
November 1988-June 1989 - Controlled flexibility and partial decontrol
Since July 1989 - Highly flexible regime with moves toward greater liberalization in the 1990s

The nature of the controlled regime which prevailed until the end of 1982 and the main consequences emerging from overvalued exchange rates, negative real interest rates and controlled commodity prices have already been explained.

In view of these consequences and encouraged by the IMF and the World Bank, the government embarked on a series of reforms aimed at transforming the economy from one based primarily on administrative controls to one which would rely more on free market forces and the price mechanism. The first step in this transformation was taken in December 1982 when the government decontrolled most wholesale and retail prices. Apart from agricultural producer prices, only maize prices remained controlled by the government, while electricity and hotel rates were directly regulated by the parastatals. All other prices were to be set by enterprises on the basis of the "full economic pricing" concept. In due course, it was made clear to parastatals that they had to operate on predominantly commercial lines and be financially self-sufficient. The government would not support loss-making units.
The price of money (interest rates) was deregulated in September 1985. This was accomplished in anticipation of the requirements for a two-year IMF stand-by facility which the country was to sign in early 1986. The policy change almost immediately led to a 33 percent increase in the lending rates of commercial banks.

Next in line was the price of forex. The idea was to correct for the overvaluation of the domestic currency and make it possible for the official exchange rate to attain a level at which the excess demand for forex would be significantly reduced and even eliminated. The government had two options to achieve this: a massive one-shot devaluation, or the introduction of a forex auction.

In January 1983, the Kwacha was officially devalued by 20 percent. In July, it was delinked from the SDR and put on a "crawling" peg. As a result, in September 1985, the US dollar exchange rate was altered from K1.25 to K2.22. Nevertheless, whether these depreciations proved adequate in stepping up significantly the volume and diversification of exports is questionable.

The auction system was favoured over devaluation for two reasons. First, while there was a consensus that the Kwacha was overvalued, there seemed to be no agreement regarding the dosage of devaluation required to correct the situation; the auction system, based largely on the free market, could determine the appropriate value of the Kwacha. Second, the auction system could eliminate the scope for subjectivity and corruption in the administrative allocation of forex. Thus, on October 4, 1985, the government introduced the weekly forex auction, and the liberalization of the foreign exchange rate became comprehensive.

This liberalized price regime was in effect until May 1, 1987. When the structural adjustment programme based on economic liberalization and supported by the IMF and the World Bank was discontinued, the government announced the "home-grown" New Economic Recovery Programme (NERP). From the measures which were adopted, it is obvious that the country had decided to move back to a regime of controls: controlled prices, controlled interest rates and controlled exchange rates.

Cardinal to NERP was the decision to restrict debt servicing to the drastic ceiling of 10 percent of net forex earnings. This meant that, after the requirements for Zambia Consolidated Copper Mines, Zimoil (the Zambian state oil company), Zambia Airways and fertilizer imports were fulfilled, only 10 percent of what was left of the available forex would be used for debt repayment.

Following the end of the Third National Development Plan in 1984, the
country had had a respite from development plans. Now, under NERP, an Interim National Development Plan (INDP) was drawn up for the 18-month period from July 1987 to December 1988. In keeping with the NERP theme of "Growth from our own Resources", INDP was to give expression to an indigenously formulated economic recovery and adjustment programme. Forex was to be managed as a "strategic" resource.

However, during the final months of 1988, it became apparent that the government was again heading toward a major policy shift. The prices of several commodities were decontrolled; the Kwacha was re-pegged to the SDR and devalued by 25 percent, and there was an upward revision of interest rates. In a major budget speech, the Minister of Finance committed the government to a periodic review of exchange and interest rates. These commitments were echoed in the Fourth National Development Plan, which was released in January 1989.

On June 30, 1989, another era of economic liberalization was ushered in when the President announced comprehensive decontrol measures aimed once more at readjusting prices through reliance on the forces of supply and demand. In August, the Economic and Financial Policy Framework Paper prepared by the government along with the IMF and the World Bank was released. These steps represented a move toward a "shadow agreement" between the IMF and Zambia. Should the agreement continue, new policy measures for the period up to the end of 1993 are expected to be put in place.

What has been the impact of the different adjustment programmes and policy regimes on the economy and the people of Zambia? Why has the country been shifting between market controls and the free-market approach? In the following section, these and other questions will be examined, first, for the period of increasingly active cooperation with the IMF and the World Bank (from the end of 1982 to April 1987), then, for Phase 1 of NERP (from May 1987 to June 1989) and, finally, for the period since June 1989.

III. THE IMPACT OF THE VARIOUS POLICY REGIMES

By way of summarizing the overall impact of Structural Adjustment Programmes (SAPs) based on predominantly market-oriented policies, Stewart (1987) has stated that "after undergoing tough programmes, many countries found themselves with reduced real incomes, increased poverty, deteriorating social conditions, reduced growth potential and often with no significant
improvement in their external accounts."

Zambia's market-based SAP was in operation in its most comprehensive form during 1986 and the first four months of 1987. By May 1987, the country had experienced most of the consequences described by Stewart. Foremost among these consequences was a drastic decline in per capita income. Based on the per capita income in 1985, the World Development Report of the World Bank had already reclassified Zambia from a low middle-income country to a low-income country. From 39th in a list of 120 countries in ascending order of per capita GNP, Zambia had moved to the 31st position. By 1987, the GNP per capita had fallen to $250, and Zambia was moved to 15th on the list. In fact, the country had the eighth lowest national per capita income in the world.

Along with the fall in per capita income also came an increase in absolute poverty. Although no formal studies on poverty in Zambia have appeared covering the period since 1980, it can be fairly inferred from many indicators (see below) that further impoverishment of the population occurred after that year.

In order to clarify some of the major impacts of the SAP that aggravated the human dimension of the adjustment process between 1982 and 1986, the causes of the food riots which occurred in the country at the end of 1986 will now be examined.

**Adjustment Without a Human Face: The Food Riots in Zambia**

Extensive rioting in the urban centres of the country's copper region took place in December 1986 following the government decision to remove subsidies on maize and the consequent announcement by the Millers Association of Zambia that retail prices for breakfast meal would be doubled. When the rioting and looting threatened to spread throughout Lusaka, the government reversed itself, and the original prices and subsidies for maize were restored. Apart from causing much damage to property and leaving 16 people dead, the food riots were unprecedented in a country which had been noted in Africa for its political and social stability.

Two important features of Zambian society help explain the riots. The first relates to income distribution and poverty.

Since the mid-1970s, income distribution in Zambia had been among the most highly skewed in the world. In 1976, the poorest two-fifths of the households in the country received only about 11 percent of the income, while the richest one-fifth received 61 percent. The change in income distribution
in urban areas between 1975 and 1985 was particularly striking, as is apparent from the findings of a government survey (see Table I).

Of itself, a skewed income distribution need not be a matter of special concern. Singapore, for instance, experienced growing income inequalities in the 1980s, but by then it had virtually eradicated absolute poverty. Absolute poverty in Zambia, however, had already grown to significant levels by 1980.

Market-based SAPs may be distributionally neutral, but, as Helleiner (1987) rightly points out, "one cannot accept, in a case like Zambia, an adjustment programme that purports to be distributionally neutral, much less a programme that adversely affects distribution even if only in the short run". A worsening income distribution tends to increase the percentage of the population that is absolutely poor and intensify the suffering of those who are already below the poverty line. As Helleiner also explains (ibidem):

"The correlation between the incidence of absolute poverty and per capita income is not perfect but is close. When equivalent external blows impact upon very low income countries, there must be a presumption that, other things being equal, the proportion of households and people pushed over the line into 'absolute poverty' will be greater than in the middle income or better off countries."

The validity of this statement is enhanced in the case of Zambia, where per capita income was suffering a serious decline and income distribution was worsening.

The second notable feature of Zambian society relevant to the food riots is the degree of urbanization. With well over 50 percent of its population living in urban areas, Zambia is one of the most urbanized countries in black Africa, and "since colonial times the government has considered the supply and price of food to urban dwellers of paramount importance. Of course, all

| TABLE I: INCOME DISTRIBUTION IN URBAN AREAS |  
| (Percentages, 1975 and 1985) |  
| Households | 1975 | 1985 |
| Poorest 25% | 7.1 | 3.5 |
| Second Poorest 25% | 12.8 | 18.1 |
| Second Richest 25% | 19.1 | 18.5 |
| Richest 25% | 61.0 | 60.0 |

Source: Zambia (1986a).
poverty is undesirable, but the concentration of urban poverty makes it more socially and politically threatening than rural poverty" (Levi and Mwanza 1987). In Zambia, absolute poverty levels have been greater in rural areas than in urban areas. Government policy has always been to keep the urban population content through low food prices and through high wages in jobs in government and parastatals. The introduction of the economic liberalization reforms, however, accelerated the decline in urban incomes and the escalation in urban prices, especially food prices. It is therefore no accident that the food riots began in the urban centres of the copper region.

Incomes had declined due to a reduction in employment. Formal employment, which represents only a small fraction of the total labour force in any case, had declined significantly by 1986 (see Table II). The reduction in the formal employment level was due especially to the "pruning" undertaken by the government and industry. In fact, this pruning was one of the principal features of the SAP; it had been introduced in order to cut budget deficits and streamline expenditures in government and reduce costs and raise efficiency in industry.

The falling level of formal employment, coupled with the expanding labour force, caused more people to become unemployed or seek jobs in the informal sector. According to the 1986 Labour Force Survey (Zambia 1987b), out of a total 2,364,253 individuals who were employed, 1,826,326, or 77.2 percent, were working in the informal sector. Many unemployed young people had begun roaming the streets of urban centres.

The real incomes of those who had retained their jobs or had found work in the formal sector were eroded by the rapid increase in prices after January 1983. The combined effect of the decontrol of both foreign exchange and prices, including commodity prices, was to unleash unprecedented inflation, the impact of which was borne especially by those with low incomes. This is apparent from the trends in the consumer price index for low- and high-income groups (see Table II). The restriction imposed on wage and salary increases in 1983 as part of the SAP caused money wages to lag seriously behind inflation rates. The decline in formal employment and incomes certainly also affected adversely the incomes of those working in the informal sector since these people depend on the buying power of formal-sector employees.

Most urban dwellers do not grow more than 10 percent of their own food consumption requirements; hence, food prices have a significant effect on their well-being. Especially after the introduction of the auction system, the inflationary spiral impinged particularly on the prices of food and other essentials (see Table III).
### TABLE II: ECONOMIC INDICATORS OF THE WELL-BEING OF THE POPULATION

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<td>Per Capita GNP ($)</td>
<td>640</td>
<td>580</td>
<td>470</td>
<td>390</td>
<td>300</td>
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<td>Labour Force (000s)</td>
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<td>3376</td>
<td>3486</td>
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<td>000s</td>
<td>367.5</td>
<td>363.3</td>
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<td>361.5</td>
<td>360.5</td>
<td>356.6</td>
<td>361.0</td>
<td>400.0</td>
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<td>As % of Labour Force</td>
<td>11.7</td>
<td>11.1</td>
<td>10.7</td>
<td>10.7</td>
<td>10.2</td>
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<td>Consumer Price Index &lt;sup&gt;b&lt;/sup&gt;</td>
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<td>High-income Group</td>
<td>236.6</td>
<td>278.6</td>
<td>336.4</td>
<td>446.6</td>
<td>707.2</td>
<td>1092.6</td>
<td>1585.0</td>
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<td>Low-income Group</td>
<td>266.6</td>
<td>311.2</td>
<td>373.5</td>
<td>513.3</td>
<td>778.4</td>
<td>1113.1</td>
<td>1731.7</td>
<td></td>
</tr>
<tr>
<td>Composite</td>
<td>262.6</td>
<td>309.9</td>
<td>368.6</td>
<td>504.7</td>
<td>769.1</td>
<td>1110.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Rate</td>
<td>13.0</td>
<td>19.4</td>
<td>20.0</td>
<td>37.0</td>
<td>53.0</td>
<td>45.0</td>
<td>54.3</td>
<td>20.0</td>
</tr>
<tr>
<td>Growth in Services &lt;sup&gt;c&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Care</td>
<td>0.7</td>
<td>1.6</td>
<td>-0.7</td>
<td>2.8</td>
<td>-2.7</td>
<td>3.8</td>
<td>.68</td>
<td>2.2</td>
</tr>
<tr>
<td>Education</td>
<td>3.6</td>
<td>-5.0</td>
<td>2.9</td>
<td>-2.9</td>
<td>3.7</td>
<td>.58</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td>-1.7</td>
<td>-1.2</td>
<td>2.6</td>
<td>4.1</td>
<td>1.3</td>
<td>4.2</td>
<td>.31</td>
<td>1.9</td>
</tr>
<tr>
<td>Population</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>000,000s</td>
<td>6.03</td>
<td>6.24</td>
<td>6.45</td>
<td>6.67</td>
<td>6.95</td>
<td>7.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>3.4</td>
<td>3.5</td>
<td>3.4</td>
<td>3.4</td>
<td>4.2</td>
<td>3.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


<sup>a</sup> The figures for 1989-1993 represent the targets of the Fourth National Development Plan.

<sup>b</sup> 1975 = 100.

<sup>c</sup> Growth is calculated from data on the contributions of education, health care and other services (i.e. other community, social and personal services) to GDP at constant (1977) prices.

### TABLE III: COMMODITY PRICES AND PRICE MOVEMENTS

#### (In Kwacha, End 1985 to End 1986)

<table>
<thead>
<tr>
<th>October 1985</th>
<th>June 1986</th>
<th>November 1986</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakfast Meal (25 kg)</td>
<td>19.78</td>
<td>19.45</td>
<td>19.15</td>
</tr>
<tr>
<td>Roller Meal (25 kg)</td>
<td>15.32</td>
<td>15.59</td>
<td>14.85</td>
</tr>
<tr>
<td>Bread (800 gr)</td>
<td>0.90</td>
<td>1.87</td>
<td>2.58</td>
</tr>
<tr>
<td>Chicken (1 kg)</td>
<td>6.79</td>
<td>9.74</td>
<td>11.66</td>
</tr>
<tr>
<td>Dry Kapenta (1 kg)</td>
<td>8.92</td>
<td>16.71</td>
<td>15.35</td>
</tr>
<tr>
<td>Fresh Milk (750 ml)</td>
<td>0.62</td>
<td>0.81</td>
<td>1.37</td>
</tr>
</tbody>
</table>

Only the price of maize meal remained stable. Consequently, its importance in the food consumption of the average Zambian household grew beyond that of a normal staple. According to a survey in Lusaka, for instance, the majority of low-income households had significantly changed the composition of their diets by 1986, the year following the beginning of the forex auction. As a UNDP report (1986) put it, "the quantity of more expensive, high quality foods... fell and was often substituted by mealie meal." This change in consumption patterns led to the increased incidence of malnutrition, hunger, disease and death.

Outlining Oxfam's experience with two groups in Zambia, the urban poor in the shantytowns and the rural poor comprised mostly of female-headed households, farmers with small land holdings and the disabled, John Clark (1986) stated, "In our view, the adjustment measures have brought immense hardship and have yielded almost no benefits to the two categories of people we work with". He added that "urban malnutrition has increased as food prices rose steeply.... Food prices have risen much faster than wages" and that "cuts in government social spending, especially in health, have been an added blow to the poor."

The impact of the cuts in social spending is evident from the statistics (see Tables II and IV). Although the population was growing more than 3.5 percent a year, real GDP expenditures in health care, education and other social sectors were either declining, or were rising only very moderately. This took a toll on the quantity and quality of the services available. The fact that children were particularly affected can be inferred from the significant increase in the percentage of underweight children and the sharp rise in the cases of malnutrition, including death from malnutrition, among children.

When he announced the discontinuation of the SAP advocated by the IMF and the World Bank, President Kaunda (1987) stated:

"Cases of malnutrition are on the increase everyday. There has been a sharp rise in the mortality rate, especially among the infant population, because hospitals cannot afford to import the essential drugs and other requisites necessary to support life. We are witnessing a situation where our social fabric is slowly disintegrating, thereby sowing seeds of unrest and undermining the peace and unity of the nation."

The decline in incomes rendered the purchase of even the usual quantities of maize meal increasingly difficult for most households. According to the 1985 Household Budget Survey, low-income households were spending 20 to 30 Kwacha per month on maize meal. However, the average monthly income of
<table>
<thead>
<tr>
<th>TABLE IV: SOCIAL INDICATORS OF THE WELL-BEING OF THE POPULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>------</td>
</tr>
<tr>
<td>Life Expectancy (years)</td>
</tr>
<tr>
<td>Death Rate (per 000s)</td>
</tr>
<tr>
<td>Infant Mortality Rate</td>
</tr>
<tr>
<td>Under-5 Mortality Rate</td>
</tr>
<tr>
<td>Underweight Children (%)a/</td>
</tr>
<tr>
<td>Child Malnutrition b/</td>
</tr>
<tr>
<td>Hospital Admissions</td>
</tr>
<tr>
<td>Hospital Deaths</td>
</tr>
<tr>
<td>Deaths/Admissions (%)</td>
</tr>
<tr>
<td>Calorie Intake (As % of Daily Requirement)</td>
</tr>
<tr>
<td>School Enrolments (%) c/</td>
</tr>
<tr>
<td>Primary</td>
</tr>
<tr>
<td>Secondary</td>
</tr>
</tbody>
</table>


a/ Children 0-59 months old.
b/ Children 0-14 years old.
c/ As percent of relevant age groups.

the poorest 25 percent of all urban households (roughly 750,000 people) was only 46 Kwacha.

It was in this difficult situation that the government began to consider the removal of subsidies and to introduce cost recovery prices for maize meal. The government had probably been encouraged in this by its experience in 1985 with the introduction of boarding fees for primary and secondary education. Although there had been a general feeling of dissatisfaction among the public in that earlier instance, no concerted opposition to the fees had been manifest.

In December 1986, the government announced the decision to remove all subsidies on the superior-quality breakfast meal and to decontrol its price, while maintaining the subsidies and the price on the coarser-variety roller meal. On December 5, the Millers Association of Zambia published the new prices (Table V).

Consequently, demand surged suddenly for roller meal (probably owing partly to panic buying), and stocks quickly become exhausted. In a very short
<table>
<thead>
<tr>
<th>Breakfast Meal (25 kg)</th>
<th>18.25</th>
<th>19.15</th>
<th>41.70</th>
<th>42.70</th>
<th>120+</th>
</tr>
</thead>
<tbody>
<tr>
<td>(50 kg)</td>
<td>36.50</td>
<td>37.32</td>
<td>81.00</td>
<td>82.00</td>
<td>120+</td>
</tr>
<tr>
<td>Roller Meal (25 kg)</td>
<td>14.50</td>
<td>14.85</td>
<td>14.50</td>
<td>14.85</td>
<td>None</td>
</tr>
<tr>
<td>(50 kg)</td>
<td>N/A</td>
<td>28.77</td>
<td>N/A</td>
<td>28.77</td>
<td>None</td>
</tr>
</tbody>
</table>

Source: Times of Zambia, December 5, 1986.

time, roller meal had become unaffordable and breakfast meal either unaffordable or unavailable. For the vast majority of the poor, who had already been groaning under the burden of the economic adjustment programme, this was the last straw. A social upheaval had become inevitable.

The Forex Auction: Villain of the Piece?

Not only in terms of the deterioration in the living standards of the general population, notably of vulnerable groups and the ultra-poor, but even in terms of the overall performance of the economy, the period of economic liberalization seems to have yielded few benefits. The following trends are revealed by the statistics (see Tables II and VI).

- Positive economic growth was very limited.
- The utilization rates of industrial capacity were little improved.
- Most notably in the industrial and mining sectors, output was falling.
- Although agriculture had been accorded the highest priority, positive results were few. In fact, the sector suffered because of the very high commercial lending rates and the lack of sufficient liquidity to acquire more foreign exchange. While the World Bank had allocated a sizeable portion of auction funds specifically for agriculture, the funds were little used, and the cost of production went up due to the removal of agricultural subsidies. Finally, because of the tremendous depreciation of the Kwacha under the auction regime, imported farm machinery became prohibitively expensive. For example, the price of a tractor went from K28,000 to K150,000.
- Export diversification was limited. The share of copper in total exports remained high. During 1986, the value of industrial exports stayed
<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Index of Production b/</td>
<td>108.9</td>
<td>105.6</td>
<td>90.0</td>
<td>100.0</td>
<td>95.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>120.8</td>
<td>118.5</td>
<td>108.1</td>
<td>100.0</td>
<td>96.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In INDECO group (%) c/</td>
<td>48</td>
<td>50</td>
<td>42</td>
<td>38</td>
<td>43</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In millions ($) d/</td>
<td>1004</td>
<td>711</td>
<td>612</td>
<td>571</td>
<td>518</td>
<td>585</td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>-29.2</td>
<td>-13.9</td>
<td>-6.7</td>
<td>-9.3</td>
<td>12.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>942</td>
<td>923</td>
<td>893</td>
<td>797</td>
<td>692</td>
<td>847</td>
<td></td>
</tr>
<tr>
<td>Copper Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(As % of Total Exports)</td>
<td>90.0</td>
<td>88.3</td>
<td>87.1</td>
<td>80.0</td>
<td>97.4</td>
<td>87.1</td>
<td></td>
</tr>
<tr>
<td>B-of-P Deficit ($M) e/</td>
<td>-566</td>
<td>-271</td>
<td>-153</td>
<td>-398</td>
<td>-300</td>
<td>-141</td>
<td></td>
</tr>
<tr>
<td>Debt Burden f/</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In billions ($)</td>
<td>3.64</td>
<td>3.78</td>
<td>3.86</td>
<td>4.42</td>
<td>5.23</td>
<td>6.4</td>
<td></td>
</tr>
<tr>
<td>As % of Exports</td>
<td>337.8</td>
<td>369.0</td>
<td>396.9</td>
<td>527.1</td>
<td>326.1</td>
<td>755.6</td>
<td></td>
</tr>
<tr>
<td>As % of GNP</td>
<td>100.2</td>
<td>120.2</td>
<td>152.0</td>
<td>185.9</td>
<td>356.5</td>
<td>355.6</td>
<td></td>
</tr>
</tbody>
</table>

Notes/Sources:
- Based on Industrial Development Corporation (INDECO) corporate budgets. The INDECO group includes 75 percent of the registered manufacturing enterprises in Zambia.

stagnant at 2 percent of total exports.
- Small enterprises, generally noted for labour intensity and a capacity to generate jobs, reportedly suffered. Employment in the formal sector fell.
- Inflation accelerated.
- Current balance-of-payment account deficits remained high.
- The debt burden increased rapidly.

A significant portion of these negative impacts was felt after the introduction of the forex auction. For instance, the rise in the consumer price index was triggered by the price decontrol of December 1982. The annual rate of inflation rose from 13.0 percent in 1982 to 19.4 percent in 1983 and then jumped from 37 percent in 1985 to 53 percent in 1986. Nevertheless, for
the most part, the rise in the inflation rate in 1983 can be considered a translation of the latent inflation which had existed during the price control regime in the form of shortages and queues.

This raises questions: Was the foreign exchange auction the principal cause of the overall failure of the SAP? Could the SAP have succeeded if other liberalization measures had been combined with a realignment of exchange rates through devaluation or floatation rather than through the auction?

Detailed research would be necessary to answer these questions. In the mean time, Zambian analysts are divided on the issue. Chivu no (1987), the governor of the Central Bank during the auction regime, has suggested that auctioning is not an appropriate mechanism for determining the exchange rate in a country like Zambia. On the other hand, Sanderson (1987), the noted industrialist, has claimed that the auction system achieved seven of its eight objectives in Zambia and only failed because it did not bring about a stable exchange rate.

As in most controversial economic issues, much can be said on both sides. For instance, while the tremendous depreciation of the Kwacha that the auction brought about undubtedly led to cost-push inflation, can the auction be held solely responsible for the inflation which occurred between October 1985 and April 1987? Both economic theory and ample empirical evidence confirm a close nexus between inflation and the growth of money supply, and the country witnessed an enormous growth of more than 93 percent in the money supply during 1986. Sanderson (ibidem: page 19) aptly compares the attempt to control prices, whether of goods or of currency, while increasing the money supply and putting a brick on the lid of a pot to hold it down while placing a fire under the pot. To attribute the inflation to the auction instead of to the increase in the money supply is like blaming the pot instead of the fire when the lid flies off.

What caused the unprecedented growth in the money supply? During 1986, the government budget deficit rose to an all-time high of 17.1 percent of GDP (see Table VII), and a breakdown of the sources of deficit financing shows that 79 percent of the deficit (K1.753 billion out of K2.216 billion) was financed through borrowing. Thus, the failure of the government to control the budget deficit (fiscal discipline was one of the requirements of the SAP) led to growth in the money supply.

Yet, to what extent can the expansion of the budget deficit be considered independently of the depreciation of the Kwacha? Can a country's budget deficit be controlled regardless of the internal and external purchasing power of its domestic currency? Every depreciation of the Kwacha
TABLE VII: TRENDS IN KEY MONETARY CONTROL VARIABLES

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Supply a/</td>
<td>1,102</td>
<td>1,444</td>
<td>1,703</td>
<td>2,104</td>
<td>4,062</td>
<td>6,266</td>
<td></td>
</tr>
<tr>
<td>In millions (Kwacha)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth (%)</td>
<td>17.9</td>
<td>11.1</td>
<td>17.1</td>
<td>23.5</td>
<td>93.1</td>
<td>54.3</td>
<td></td>
</tr>
<tr>
<td>Budget Deficit b/</td>
<td>510</td>
<td>346</td>
<td>364</td>
<td>1,018</td>
<td>2,216</td>
<td>1,456</td>
<td>2,616</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>14.2</td>
<td>8.3</td>
<td>7.4</td>
<td>14.4</td>
<td>17.1</td>
<td>7.4</td>
<td>11.6</td>
</tr>
<tr>
<td>Discount Rate (%) c/</td>
<td>7.5</td>
<td>10.0</td>
<td>14.5</td>
<td>25.0</td>
<td>30.0</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>Treasury Bill Rate (%) c/</td>
<td>6.0</td>
<td>7.5</td>
<td>7.7</td>
<td>13.2</td>
<td>24.2</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>Deposit Rate (%) c/</td>
<td>6.0</td>
<td>7.0</td>
<td>7.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lending Rate (%) c/</td>
<td>9.5</td>
<td>13.0</td>
<td>14.5</td>
<td>18.6</td>
<td>27.4</td>
<td>21.2</td>
<td></td>
</tr>
</tbody>
</table>

Notes/Sources:

a/ Republic of Zambia, "Report and Statement of Accounts", Bank of Zambia (various years).
b/ Institute for African Studies, "Analysis of the 1989 Budget of Zambia": Table 2.2, page 5.
c/ Some figures are rounded. IMF (1989).

was bound to tell directly on the liability of the Kwacha in terms of external debt servicing. Indirectly, too, depreciation told on the budget deficit through its cost-push effect on prices that, in turn, increased tax revenue through the nominal increase in income and increased the nominal cost of government expenditure. While the impact on government expenditure was immediate and certain, that on revenue was lagged and less certain. Therefore, that the budget deficit would increase as a result of currency depreciation was a high probability. Under the auction regime, the dollar-exchange rate of the Kwacha fell from K2.43 to K21.05. With such massive depreciation, there was no way to restrain the budget deficit.

Furthermore, during the auction period, markets were flooded with consumer goods, including luxury goods. Many of these goods were already being produced domestically for export, e.g. coffee and canned fruits and vegetables. It was felt that such goods were bound to generate unhealthy competition for indigenous firms involved in import substitution and export promotion. Was the forex auction responsible for this? No. Most of these imports were covered by "no fund" import licences, which were liberally available at the time and which required no foreign exchange outlays. In fact, during the first year of the auction, only 6 percent of the auction funds were applied to consumer goods, most of which (e.g. paper, paper products and
pharmaceuticals) were not luxury items.

The auction system was finally abandoned because, after 18 months of operation, it had shown no promise of converging toward a stable and realistic exchange rate. In the beginning, however, it had seemed to offer a great deal of potential for healthy restructuring. By providing wider and more rapid access to foreign exchange, it had initially led to significant improvements in the capacity utilization rates of many firms and enabled managers to devote to their plants the time they had hitherto spent on matters of finance and foreign exchange. By fostering competition, it had encouraged many parastatals to be more imaginative in devising survival strategies. For instance, firms like AFE Limited shifted their import strategies from high-cost capital items, such as tractors, to more importation of spare parts, thereby relieving some crucial bottlenecks. By exposing large firms like Zambia Steel and Building Supplies to healthy competition, the auction system had served to rouse them from the lethargy and complacency induced by monopoly and make them more efficient and dynamic.

In its subsequent phase, however, the system had increasingly favoured cash-rich firms (most of them multinational), and healthy competition had tended to become cut-throat and oligopolistic. The initial benefits had not been sustained. Ultimately, the system had seemed to support mainly foreign firms (on the consumption side), foreign investors (in production and investment) and exporters (on the trade side), many of whom were foreigners (Seshamani 1988a). Thus, the system had not appeared to be conducive to the indigenous development of the country, and, on this score at least, to have continued the forex auction would not have been politically pragmatic.

The New Economic Recovery Programme: Old Wine in a New Bottle?

In mid-1987, the New Economic Recovery Programme (NERP) replaced the IMF Structural Adjustment Programme. NERP was essentially a return to the old policy regime of controls, although it was promulgated with a new spirit of self-determination and conviction. As President Kaunda (1987: page 6) stated at the time:

"Comrades, what I am saying is that we shall determine our own destiny. To do this we must determine for ourselves the direction of our national development and pursue it with conviction, discipline and total commitment. While appreciating the assistance rendered to us by the international community, we must nevertheless discard the 'dependency syndrome' which has over the years led us to believe that external financial institutions and donor agencies can solve our problems for us."
In keeping with the professed theme of NERP, namely, "Growth from our own Resources", it was decided to make available for growth as many of the country's most strategic resources as possible. To this end, only 10 percent of net export earnings were to be devoted to the repayment of existing debt, although new loans were to be serviced according to the agreed terms.

A progress report on the Interim National Development Plan (INDP), formulated under the auspices of NERP, was released by the government in mid-1988. The report, covering the nine-month period from July 1987 to March 1988, claimed a fair amount of success for NERP. Notable achievements had been:

- A reversal of the previously negative GDP growth rate and an estimated 2.7 percent real growth as against the INDP target of 2.2 percent.
- Significant improvements in production in most sectors, including agriculture, mining and manufacturing; some INDP production targets had been surpassed, especially in agriculture, due to better allocations of foreign exchange (through FEMAC, the Foreign Exchange Management Committee, which had been established after the discontinuion of the forex auction), the provision of attractive incentives and the carrying out of rehabilitation programmes.
- Some improvements in primary health care, the supply of drugs and the production and distribution of educational materials.

On the other hand, there had also been some notable failures:

- The inflation rate had increased due to an inability to keep the budget deficit and the money supply at targeted levels. During the period under review in the report, the inflation rate had stood at 35.6 percent, an increase of 64 percent over the 21.7 percent rate during the same period a year earlier. (During the 1988 calendar year, inflation averaged over 54 percent).
- Employment in the formal sector had declined.

Since NERP was perceived to have marked a reversal of economic liberalization policies, the country lost its "seal of approval" among Western donors, who drastically cut their aid.

President Kaunda had rationalized the decision to restrict Zambia's debt servicing to 10 percent of net export earnings by asking the creditor nations: "Which is a better partner for you in the long run, a nation which devotes all of its resources to paying the debt and therefore grounds to an economic and political halt, or a stable nation capable of sustaining the repayment of its
entire debt?"

However, what seems to have rankled many donor countries was not so much the restriction of debt servicing as the apparent backsliding on macroeconomic policies. Even Sweden, a traditional well-wisher of Zambia, cut off some of its programmes, saying it was opposed to price controls.

Yet, the potentially serious consequences of the drop in external assistance were more than offset by unexpected improvements in Zambia's terms of trade, which rose by 10 percent during 1987 and, although official figures are not yet available, probably increased further during 1988. The factors which brought about this improvement were twofold:

- An unexpectedly steep increase in the price of copper in the international market: While the price assumed by the INDP had been £900 per tonne, the actual price averaged more than £1,200 in 1987 and reached an unprecedented peak of £2,000 in 1988, averaging more than £1,400 for the year. Thus, despite a severe decline in output during 1987 and 1988, the copper industry furnished a substantial increase in foreign exchange earnings.

- The INDP had assumed that the prices for major imports would remain stable during the INDP period, but the price of oil fell from $18 per barrel to $16 per barrel during the last quarter of 1987 and fluctuated around $15 per barrel during the first quarter of 1988. Since oil represents 10-to-15 percent of the country's imports, this provided substantial savings of foreign exchange. Moreover, the price of oil-based products like chemicals and fertilizers also went down, leading to further savings. In addition, the restriction on debt-service payments released some foreign exchange for development imports.

Meanwhile, good weather conditions, coupled with higher producer prices, led to a 6.4 percent growth in the agricultural sector. In particular, the marketed output of maize during the 1987-1988 season was nearly 15 million 90-kilogramme bags, a 97 percent increase over the 7.3 million bags of the previous season.

In light of these considerations, the achievements of NERP during the INDP period raise some key questions. Was NERP indeed different and new, or was it simply the old policy regime reintroduced under a new name, the same old wine in a new bottle? Was there anything new in NERP except the radical decision to limit debt servicing and the rhetorical posture concerning independence and sovereignty?

Were the achievements of the INDP due mainly to NERP policies, or to the
benign behaviour of external factors? Could these achievements have been sustained through the same policies if external factors had deteriorated? For example, it is predicted that high copper prices will be only a temporary phenomenon, that the price may fall to 79 cents per pound by 1991 and that, if this happens, the result will be a 37 percent fall in Zambia's export earnings (Zambia 1989c: page 9).

On the other hand, would not performance under the INDP have been even better had external development assistance been sustained? More importantly, would NERP have performed well even with continued external assistance if external factors had remained unfavourable? It should be noted that Zambia's terms of trade were at the lowest point of the entire decade in 1986, when the IMF SAP was at its peak (Table VIII).

<table>
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<tr>
<th>TABLE VIII: TRENDS IN KEY EXTERNAL FACTORS</th>
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<tr>
<td></td>
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<tr>
<td>-------------------------------------------</td>
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<tr>
<td>Copper Prices ($/lb.)</td>
</tr>
<tr>
<td>Terms of Trade a/</td>
</tr>
<tr>
<td>Development Aid ($M) b/</td>
</tr>
</tbody>
</table>

Sources: IMF (1989); World Bank (various years), World Development Report.  

a/ 1980 = 100.  
b/ The net inflow of official development assistance.

To determine whether an IMF-World Bank SAP or a NERP-type regime is better suited for achieving Zambia's development goals, the impacts of eight possible alternative scenarios should be examined (see Table IX).

While scenarios 1, 3, 7 and 8 are not likely to emerge since external assistance is closely linked to liberalization, these are the very scenarios which should be studied on a comparative basis to identify the most appropriate adjustment policies for a country such as Zambia. For instance, would the economy perform better in scenario 1 or scenario 5? In which scenario would the economy best be able to sustain itself in the face of adverse external blows, scenario 4 or scenario 8?

Unfortunately, only two scenarios have actually occurred and so are available for comparison: scenario 6 (from 1985 to 1986) and scenario 2 (from 1987 to 1988). Even here, however, a valid comparison is not really possible.
<table>
<thead>
<tr>
<th>Scenario</th>
<th>Policy Regime</th>
<th>Development Assistance</th>
<th>Terms of Trade</th>
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<tbody>
<tr>
<td>1</td>
<td>Controls</td>
<td>Adequate</td>
<td>Favourable</td>
</tr>
<tr>
<td>2</td>
<td>Controls</td>
<td>Inadequate</td>
<td>Favourable</td>
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<tr>
<td>3</td>
<td>Controls</td>
<td>Adequate</td>
<td>Unfavourable</td>
</tr>
<tr>
<td>4</td>
<td>Controls</td>
<td>Inadequate</td>
<td>Unfavourable</td>
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<tr>
<td>5</td>
<td>Liberalization</td>
<td>Adequate</td>
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<tr>
<td>6</td>
<td>Liberalization</td>
<td>Adequate</td>
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<td>7</td>
<td>Liberalization</td>
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<td>Favourable</td>
</tr>
<tr>
<td>8</td>
<td>Liberalization</td>
<td>Inadequate</td>
<td>Unfavourable</td>
</tr>
</tbody>
</table>

Yet, it is this very type of comparison that is implicit in many World Bank studies. The Bank classifies countries into those with "strong reform" (full-scale liberalization), "weak reform" (only partial liberalization) and "no reform" (predominating controls) and argues that success has been the greatest in the first category of countries and the least in the third category. Even without questioning the definition of "success" the Bank employs, it is noteworthy that countries in the first category have also received the maximum aid inflows, while countries in the last category have received the most inadequate inflows. Therefore, whether the success of countries in the first category is largely a result of increased aid or of policy reforms cannot be known with any certainty. By the same token, if Zambia were to fall under the kind of policy regime initiated in May 1987, it would not be possible to determine whether the "failure" should be attributed to the NERP policies or to the fact that the country was being starved of external aid.

Of course, the scenarios presented in Table IX are somewhat oversimplified. Adjustment programmes differ not only in kind ("controls" or "liberalization"), but also in degree (the extent of the controls or of the liberalization). More importantly, adjustment programmes do not differ merely with respect to macroeconomic policy regimes; programme definition must also include a host of other elements, such as microeconomic and sectoral policies, implementation systems and, in general, the socio-political and economic environments in which the programmes operate.

It is precisely here that NERP displayed some novel features during the INDP period.

When the discontinuation of the IMF programme and the initiation of NERP were announced, the whole country was charged with an invigorating spirit of
confidence and enthusiasm, and there was nationwide jubilation. Numerous public processions hailed President Kaunda's decision. Editorials, statements by businessmen and letters from ordinary citizens filled the newspapers for days assuring public support for NERP. In this atmosphere, the seriousness of the commitment to NERP could only have been genuine.

Then, there was the spurt in agricultural output. In a country in which practically all agriculture is rain-fed, good weather conditions do make a difference in crop yields, but there were other factors of equal weight that also contributed to the phenomenon, as pointed out by the Finance Minister in his 1988 Budget Address:

- The timely provision of inputs.
- Timely payment to farmers.
- Good producer prices, particularly for maize.
- The importation of agricultural implements was duty free.
- There was a preferential 15 percent tax rate on agricultural income.
- The provision of extension services was adequate.
- The quality and range of the available seed had been improved, particularly for maize.

Another example will illustrate the seriousness with which the theme "Growth from our own Resources" was accepted. Denied foreign exchange to import its concentrates, The Coca-Cola Company had to stop production. This gave a boost to local soft-drink producers, who, in a short time, brought out substitutes manufactured using local fruits. The quality of these substitutes no doubt left much to be desired, but the drinks had real potential. For instance, one of the main products had been the result of work carried out at the National Council for Scientific Research, and there was further room for improvements.

Two clear benefits emerged from this particular situation. First, valuable foreign exchange was saved. Second, an impetus was provided for Zambian fruit growers since a major soft-drink company began advertising to buy pineapples, guavas, oranges and lemons and a self-reliant agro-industrial linkage was being developed.

Alas, the opportunity was short-lived. Vested interests thirsting for Coca-Cola and the seal of approval of international financiers and Western governments ensured the return of the company less than two years after it had stopped production. The government's decision to bring back Coca-Cola was "akin to clipping the wings of a fledgling dove even before it has learnt to
fly and exposing it to the hawks" (Seshamani 1989a). Moreover, how important was it to ensure quality soft drinks in a country in which only 41 percent of the rural population has access to safe drinking water?

More Economic Liberalization: A Shadow Agreement for a Bright Future?

Economic phraseology became "curiouser and curiouser" in Zambia. The INDP was Phase 1 of NERP, Phase 2 was the Fourth National Development Plan (FNDP), for the period 1989-1993. On June 30, 1989, six months after the inauguration of the Plan, extensive liberalization was officially announced as part of NERP. Zambia was on the threshold of the 1990s, yet lip-service was still being paid to the implementation of the FNDP and NERP, although the actual macroeconomic policy framework bore less and less resemblance to the initial policy content of NERP, and the wholesome spirit of Phase 1 had been fast evaporating.

In introducing the comprehensive liberalization measures with a view to developing a rapprochement with the IMF and the World Bank and formalizing at least a "shadow agreement" with the former, the government was probably responding to its own fears for the future of the country. While the decision to restrict debt payment had been making more foreign exchange available, it had also been leading to a rapid accumulation of debt, a significant proportion of which was owed to the IMF and the World Bank since the country had completely stopped payment to them, and debt to these multilateral institutions can neither be rescheduled, nor cancelled. By 1989, the total debt of Zambia stood at $6.9 billion.

In not paying the IMF and the World Bank, Zambia not only became ineligible for any further loans from these institutions, but also was deprived of most bilateral assistance from the donor community. Fortunately for the country, the price of copper was rising steeply at this time. Yet, copper prices could suddenly fall just as steeply. Moreover, it was difficult to benefit fully from the favourable price because copper output was being held down by production constraints and declining ore reserves. Indeed, output fell to a record low of just under 420,000 tonnes in 1988, and the FNPD annual target of 540,000 tonnes of copper for export in 1989-1990 may be very overoptimistic (Zambia 1989c).

If the country's foreign exchange receipts from copper were to fall significantly, there was no way that nontraditional exports could pick up the slack, and aid would become even more crucial. Yet, there could be no aid without an agreement with the IMF, and there could be no agreement with the
IMF without full-scale liberalization and the resumption of repayments on outstanding debt. Thus, by going back to the IMF, the country could hope to relieve the debt burden through favourable debt rescheduling, the outright forgiveness of bilateral debt and assistance from Western countries to repay arrears to the IMF and the World Bank and provide new monies for development.

The measures announced on June 30, 1989, the monetary control measures subsequently introduced by the Central Bank and the revenue-expenditure proposals of the 1990 budget are only the hors d'oeuvres in an elaborate menu of reforms laid out for the period up to 1993. This menu is contained in the Policy Framework Paper which was prepared by the government of Zambia, together with IMF and World Bank officials, and then released in August 1989.

It is too early to assess the impact of the measures which have already been implemented during this medium-term process. However, the principal aim of the process is to move as quickly as is feasible toward definitive targets, such as a market-clearing exchange rate, positive real-interest rates, economic pricing for goods and services through the introduction of cost-recovery user fees and the reduction of subsidies to the barest level necessary to protect vulnerable groups, an enhanced competitive environment through an increased role for foreign investment and the private sector, the liberalization of trade through a minimal ban on imports and minimal protection, and to become current on debt, especially in terms of the multilateral organizations.

The most worrisome legacy of 1988 was high and seemingly unbridled inflation. The annual budgets of both 1987 and 1988 had set a target of 30-35 percent for the inflation rate. These targets had not been reached. The inflation rate was 54.3 percent in 1988 and an alarming 120 percent in 1989. More pragmatic, the 1990 budget does not set any quantitative target for inflation, but merely states the objective of reducing inflation to manageable levels. Nonetheless, if this single objective is not attained, any positive economic achievement is likely to be nullified and the attainment of other objectives, such as keeping the fiscal deficit in check, rendered difficult. Meanwhile, the real GDP growth rate for 1989 has been estimated at only 0.1 percent.

It is in this light that the effect of the comprehensive measures instituted in 1989 must be viewed. The high inflation rate that year was due in large part to the immediate and collective impact of these measures. In the wake of decontrol, the price of many commodities rose steeply. Even the controlled price of mealie meal was not spared: from K56 per 25-kilogramme bag, it rose to K70 in July 1989 and K114 in September. This, together with
the fact that the maize-meal coupons which had been introduced in January 1989 were now restricted to six dependents per family and only to those whose annual income was below K20,500, would alone have added to the hardships of many people. The "Economic Report, 1989" (Zambia 1989c: page 114) stated that "malnutrition levels particularly amongst children and mothers have continued to increase."

Other factors contributing to the increase in prices were:

- The sharp initial devaluation of the Kwacha followed by constant depreciations raised the Kwacha cost of inputs for most firms because of their dependence on imports.
  - The c.i.f.-based duty which had to be paid on the higher Kwacha value of imported inputs went up markedly.
  - Because of price decontrol, locally available inputs also cost more.
  - The increase in lending rates raised the cost of borrowing.
  - The 30 percent wage increase also had to be added to the other costs.

However, two important policy approaches are now being tried on a sustained basis in order to bring inflation under control: progressive reduction of the budget deficit and tight control on the money supply.

The 1988 budget deficit was 11.6 percent of GDP; in 1989, it has been estimated at 7.8 percent, and the target for 1990 is 5 percent.

A long list of credit control measures, the wholesale demonetization of the Kwacha and the introduction of the one-year nondiscountable government bond in the latter half of 1989 are all aimed at draining the excessive liquidity in the economy and keeping effective aggregate demand in check. Commendable as these measures and the intentions behind them may be, several contradictory and mutually exclusive impulses can nevertheless be envisaged that might lead to few net positive results.

While the comprehensive measures of the Central Bank are designed to reduce credit and the money supply, the windfall gains accruing to Zambia Consolidated Copper Mines as a result of the currency depreciation are adding to the money supply (see the Annex, page 59).

Again, the government has been seeking for some time to relieve pipeline arrears and bilateral debt through debt-equity swaps. However, unless the counterpart Kwacha funds released through such swaps are used exclusively for production purposes, this could tremendously boost both prices and the money supply.

Consumption has been taking an increasing share of resources. The share
of consumption in GDP reached a new high of 83 percent in 1988 and then rose even further, to 89 percent, the following year. This is bound to increase prices, aggregate demand and the money supply. Therefore, if the government contemplates an enhancement of the credit-squeezing measures already in place with a view to curbing consumption, it should first examine whether these measures can be further stretched without adversely affecting productive investment as well, for inflation depends not on aggregate demand per se, but on aggregate demand relative to aggregate supply. If the latter were also reduced, stagflation would occur.

Furthermore, a great deal of consumption is financed in Zambia not by the formal banking sector, but by informal financial institutions which operate independently. Consumption borrowing is handled through money lenders, who take as much as 50 percent to 100 percent in interest per month. According to Mrak (1989: pages 77 and 80), "it could be said that the demand for money lenders' credit is highly inelastic on interest rate charges" and "it could be estimated that about 80-to-90 percent of the Zambian urban population permanently or at least occasionally borrow from money lenders." One of the main inferences of the Mrak study is that the "strong activity of money lenders (and also of other informal financial institutions) means that a lot of liquidity exists outside the banking sector and this has negative implications on the efficiency of credit and monetary policy measures."

This insight should suggest to decision makers in the government and the Central Bank that abundant caution needs to be exercised in further raising the levels of traditional credit control instruments. When a large amount of consumption is already being informally financed at exhorbitant interest rates which the formal banking sector cannot match, how much higher can nominal interest rates be made and with how much impact on consumption? On the other hand, would not additional increases in nominal interest rates lead to further cost-push inflation, or stagflation? Trying to curb consumption by increasing nominal interest rates might be like shooting a cannon at the flies in a house, thus destroying the house while the flies escape.

What about savings? Savings in Zambia have been negative throughout the recent period (see Table X). Has this performance been due to the negative interest rates? Yet, interest rates provide only an incentive to save. Savings also depend on the ability to save. When a large majority of the population lives below the poverty line, the capacity to save is definitely limited. Nonetheless, low income levels need not imply that there is no savings potential. Here again, the Mrak study (ibidem: pages 69-70) provides some interesting evidence. It shows that, in fact, the level of savings in Zambia
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<tbody>
<tr>
<td>Savings in Zambia, 1985-1989 (In Millions of Kwacha)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>-637.5</td>
<td>-1,804.3</td>
<td>-2,027.4</td>
<td>-2,045.3</td>
<td>-5,562.4</td>
</tr>
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is high, but that these savings are not reflected in the country's national accounts because of the "habit of hoarding, caused by a lack of investment opportunities; lack of banking facilities; fear of taxation; high rate of illiteracy and low level of education; need of secrecy; lack of confidence in formal financial institutions; lack of price stability and fear of inflation; lack of physically accessible banking facilities; very limited spectrum of formal savings facilities and instruments; persistence of traditional investment habits, etc."

In a situation of high inflationary expectations, it is natural that people would want to insure against inflation by keeping their savings in nonmonetary forms which are not likely to depreciate in value. Again Mrak states (ibidem: page 70):

"Reserves of agricultural products are kept as a safety precaution for a possible bad crop next year. In Western and Southern Provinces of Zambia which are cattle breeding provinces of the country, cattle has traditionally been an important non-monetary form of peasants’ savings. In some places of the country, cattle is still used as a measure of value. Valuables like gold, silver, ivory and jewellery are often hoarded for personal prestige, ceremonial purposes and due to persistence of traditional investment habits. While agricultural products and livestock savings are kept primarily in rural areas, the other two forms of non-monetary savings (valuables and construction material) are kept by people in rural as well as in urban areas. All the above mentioned real assets form part of the country’s real household savings, but they are beyond the mobilizing opportunities of the formal financial institutions and therefore are not counted in the country's savings national accounts.

"The second group of reasons for discrepancy between real household savings in Zambia in rural areas and savings covered in the national accounts is that a considerable part of money savings remain out of reach of formal financial institutions.... There is a substantial amount of cash held in villages which do not appear in the ordinary visible economy of the country. However, it is seen in times of special needs, such as dowries, settlements of litigation cases or family emergencies."

How far can government expenditures be limited to annual budgetary
targets in the aftermath of the cost-push inflation resulting from the comprehensive measures? According to a study by the Independent Group of Economists (1989), if the stylized data of 1987 are assumed, a 50 percent depreciation would lead to a 40 percent increase in government expenditure, but only a 25 percent increase in government revenue. Government expenditure as a percentage of GDP would increase by 14.8 percent, while the corresponding rise for government revenues would be only 11.2 percent. Thus, the budget deficit as a percentage of GDP would increase by 3.6 percent.

For 1990, the expenditure limit is K24,503.3 million. Even at this level, the resulting budget deficit is expected to be financed to the tune of 67 percent through the banking system. However, this assumes that 31 percent of the deficit will be covered through external sources. If this does not happen, a still greater proportion of the deficit will have to be financed through the banking system, and prices and the money supply will be effected. Thus, the budget deficit and inflation are linked in a vicious circle.

Yet, if the government is to fulfil some of its stated commitments, expenditures will likely have to rise above targeted levels. For instance, in his 1990 Budget Address (Zambia 1990: page 17), the Finance Minister has committed the government to improving the provision of social services. In his words: "the cumulative deterioration in our economic situation has impaired our ability to meet, in both quantitative and qualitative terms, the ever growing demand for health, education and other community services. ...the Party and its Government is determined to reverse the decline in the quality and access to health and education services by increasing expenditure and improving the planning and budgeting in the two areas."

However, to achieve these particular objectives in the face of price escalation, nominal expenditures for social services will have to be much higher than the allocations for them in the budget. Adequate finances can come from only two sources: domestic borrowing and external donors or lenders. If financing is provided through the first source, it will directly effect the budget deficit, especially if bank borrowing is used. Access to the second source will very much depend on the country's debt policy. The government could expect new external inflows only if it were to formalize a "shadow agreement" with the IMF. One major precondition such an agreement would be repayment of outstanding debt, at least to the World Bank, to which Zambia owes nearly $200 million. However, because of the rapidly depreciating Kwacha, such debt repayment would produce an enormous impact on recurrent expenditures, and the government might have little choice but to turn to the Central Bank to bail it out.
Thus, the government's effort to contain inflation by checking aggregate demand through limitations on the money supply and the use of traditional monetary policy instruments appears to be like trying to mop up a floor while the tub is still overflowing. Unless the apparent contradictions among monetary, fiscal, exchange-rate, and debt policies are resolved, inflation, far from being contained, could run amock. Without price stability, there can be no guarantee of social stability in a democratic political environment.

IV. VIABLE STRATEGIES TO PROMOTE THE SOCIAL WELFARE FUNCTION

Prolegomenon

The Zambian economic wagon has been turned in its policy course too often: the destination - self-reliant indigenous development - still seems very far away, and the wagon is having more and more accidents (e.g. the food riots in December 1986). Have the frequent changes in policy regime been required because of the failure of each new regime, or has policy "ad-hocism" resulting from lack of persistence with a given policy regime led to the failure? In the case of Zambia, perhaps the answer is "both".

The official humanistic guiding philosophy of the country holds that Man is the be-all and end-all of human activity. When translated into the terms of economic development, this means that the country's social welfare function must be promoted. Therefore, if the aim of any Structural Adjustment Programme is economic development, then this development must include the social welfare function. However, the SAPs in Zambia have been seriously deficient in this regard.

The main themes of the social welfare function in a country like Zambia are, among others, the alleviation of poverty, economic efficiency, distributional equity and economic growth. While there may be a significant degree of collinearity among these themes, each is distinct in its importance. Furthermore, to the extent that these themes make competing claims on policy and that policies promoting one theme may tend to have a deleterious impact on another, tradeoffs become important and the effect on the overall social function ambiguous.

The principal aim of standard SAPs is to "get the prices right" in order to ensure efficient growth, but, as Jamal (1988) has pointed out, before getting the prices right, one must get the crisis right. Getting the prices right in Zambia is at best only a small step toward resolving the crisis.
Unless equity and efficiency are accorded the same importance and unless poverty is alleviated at the same time as growth is achieved, there is little likelihood that both genuine economic development and social stability can be ensured in Zambia.

Moreover, the price-correcting prescriptions of standard SAPs purport to improve efficiency specifically in the Pareto sense. However, the concept of Pareto efficiency is based on given distribution patterns. Therefore, if a Pareto improvement is not distributionally neutral, its desirability cannot be confirmed. Thus, policies which improve efficiency in the Pareto sense without being distributionally neutral need not improve social welfare. On the other hand, in a situation of severe maldistribution as in Zambia, policies which improve distribution need not diminish social welfare even if they lead to a reduction in efficiency. Nevertheless, in a country like Zambia, where distribution is tremendously skewed and inefficiency prevails, great caution is required in choosing tradeoffs.

In the Zambian context, these ideas can be illustrated through a modified analysis of a diagram in Nath (1988).

For the sake of simplicity, suppose society is divided into two groups, the poverty group (PG) and the nonpoverty group (NPG), and that FF is the "utility possibility curve" (see Figure). Further suppose that, due to price distortions, the economy is operating inside the frontier of this curve, say Point A, which is not a Pareto-optimal point.

With liberalization, if the economy moves from A to any point within the BC segment of the curve, then there would be a Pareto improvement because

**FIGURE: THE UTILITY-POSSIBILITY CURVE**
either both groups gain or one group gains and the other group does not lose. However, that the economy will shift to a point in the BC segment is not guaranteed. It could shift to another point, such as D. Indeed, this was the situation which the forex auction, for instance, brought about. Allocative "efficiency" improved, but a few rich foreign firms gained more from the auction than did the numerous local firms. While D may be a Pareto-optimal point, the shift from A to D does not signify a Pareto improvement since one group gains at the expense of the other.

Furthermore, a policy which moves the economy from a point such as D to a point such as A leads to a loss in Pareto efficiency, but not necessarily to a loss in aggregate social welfare because such a movement yields significant distributional gains in favour of the poverty group. The net impact on social welfare will depend on the tradeoff between losses in efficiency and distributional gains.

It can be argued that even a shift from A to B need not improve social welfare although Pareto welfare is improved. In a situation of glaring inequality between the rich and the poor, a movement from A to B caused by a further widening of the gap between the rich and the poor can lead to social discontent and, hence, a loss of social welfare.

Economic-development policies must therefore take a holistic approach to social welfare rather than concentrate on a few variables in the welfare function. It is equally important to understand the multipronged and asymmetrical impacts of policy instruments when they are used in an indiscriminate blanket fashion as has been the case in Zambia. Devaluation may be intended to promote nontraditional exports, but it also has adverse effects on import-dependent firms. High lending rates may be intended to discourage consumption, but they can also have a cost-push inflationary impact. The removal of subsidies on mealie meal may be intended to reduce government expenditure and meet budget deficit targets, but the resulting increase in the cost of food and, hence, the cost of living - coupons for low-income groups notwithstanding - will build up irresistible pressure for wage increases and thus discourage the promotion of labour-intensive production methods. Therefore, policies should be used in a manner which will enable the realization of objectives while minimizing, if not eliminating, the adverse effects.

The impacts of policy changes are often asymmetrical. For instance, it is acknowledged that, in Zambia, overvalued exchange rates over a long period have led to the importation of technology, plant and machinery that also require imported raw materials and spare parts. However, now that this import-
dependent technological structure is firmly entrenched, a mere adjustment of the chronically overvalued exchange rate through massive currency devaluation cannot be expected to eliminate it. In fact, such a policy has only added to the problem by creating excess capacity and raising commodity prices. Thus, while overvaluation may have brought about import dependence, this dependence can be reduced only by technological transformation. Those who advocate orthodox policy prescriptions for Zambia must understand these implications.

Lewanika (1988: page 51) states that "we must bear in mind that though in economics there may be a short run and a long run, in politics there is only a long chain of short runs. A policy that cannot be seen to survive the short run will not be there in the long run." Yet, economic transformation for development requires that the long run be viewed not as a disjointed series of short runs, but as a single continuing temporal sequence and that, no matter what policies are adopted in the short run, they must not negate or contradict long-term goals. Hence, long-term transformation should be brought about through policies that can politically and socially survive the short run and endure over the long run.

It is not clear whether Zambia has followed such an approach. For instance, in the attempt to reduce annual budget deficits, social service expenditures have been cut drastically, leading to declines in the stock of human capital, which is a key determinant of long-term development. The focus on the implementation of short-term SAP policies weakened the Third National Development Plan, the objectives of which were longer-term. If stretched further, the comprehensive measures for economic liberalization currently in force could become unacceptable among the people and, to continue to be implemented, might require the use of repressive political controls.

Social instability is too great a price to pay for macroeconomic stability. If a programme of action based predominantly on economic controls cannot work in Zambia, neither can a programme requiring repressive measures. Fortunately, the country has not yet come to such a pass. Nonetheless, the empirically observed linkage between a more vigorous implementation of IMF-type SAPs ("strong reform" in World Bank parlance) and the suppression of democratic freedoms in many a developing country should serve as a signal for abundant caution.

While the role of the government in the political sphere should be to maintain a healthy balance between effective administration and the rights and the freedom of the people, the role of the government in the sphere of the economy should also be seen from the proper perspective.

Advocates of SAPs based on full-scale liberalization suggest that, if
these programmes are to succeed, then there should be free interaction among
the various economic agents that is propelled purely by market forces. Any
manipulation of these forces would be unwanted interference with the invisible
hand of the market, a hand which guides the economy toward efficient growth.

They are right that government should not, octopus-like, reach out its
tentacles everywhere merely to make its power felt, as often happens in a
regime of extensive economic controls. However, it is equally important to
recognize that, in a modern-day developing country like Zambia, market forces
cannot be allowed to operate in the absolute freedom of 19th-century laissee-
faire capitalism. As the promoter and jealous guardian of the country's social
welfare, the government must take a Janus-eyed view of the economy and be
ready to intervene whenever and wherever it detects any activity which
detracts from social welfare. It would be wrong to brand such "meaningful
intervention" as "unwanted interference".

An incident during the period of the foreign exchange auction
illustrates the difference in perspective. During the auctioning, it was found
that several firms were trying to switch from manufacturing to trading. These
firms, producers of quick-selling items like shoes and tires, bid for forex
to import not manufacturing inputs, but finished goods. Such behaviour tended
to damage even the small amount of development in internal linkages that had
occurred. Because the very purpose of the auction was to discourage trading
while ensuring firms more ready access to forex so that they could import the
raw materials and other inputs they needed for production, Central Bank
authorities rightly rejected the bids. Subsequently, these authorities were
reportedly admonished by the IMF for needlessly interfering in the operation
of the auction system.

Now that Zambia has once again embarked on economic liberalization and
market-based policies, should the government be merely an uncompromising and
strict enforcer of current SAP measures in order to ensure their "success",
or should it draw the line on actions which are deemed to be unhealthy for
indigenous development and welfare? For the multilateral financial
institutions and the donor community at large to insist on the former role for
the government would be tantamount to the financial blackmail of a nation in
dire economic straits.

Against this backdrop, following is a list of the features of adjustment
programmes in Zambia that have caused these programmes either to fail, or to
achieve only limited success:

- A mechanistic approach to the use of orthodox policy instruments.
- A lack of public confidence in most of the programmes, but especially those of the liberal variety.
- Changes which are too rapid: sudden jumps from one policy regime to the next and a lack of pragmatic gradualism in the implementation of specific policies.
- An inadequate focus on the long-term impact of the programmes: conflict between the objectives of SAPs and those of National Development Plans which have constituted the major instrument of development all along.
- A lack of fiscal and monetary discipline.
- A lack of adequate protection for vulnerable groups: any further adverse impact on poverty and income inequality could convert the economic crisis in Zambia into a social catastrophe.

Most important of all, these programmes have offered only limited scope for the human dimension in structural transformation. In order to establish viable strategic alternatives and policy options that might hold greater potential for the human element, perhaps some of the stylized views on adjustment and transformation ought to be changed at the outset.

The increasing concern being expressed by donor agencies regarding the social dimension of adjustment programmes (SDA) implies the question, How can we bring about long-run economic benefits while cushioning vulnerable groups from the adverse effects of adjustment, especially in the short run? However, the real question should be, How can we prevent further deterioration in welfare and bring about rapid improvements in the plight of vulnerable groups without impairing the long-term potential for development?

Contrary to the general view that the aim of standard SAPs is to bring about improvement in the long run, although they may have adverse short-term impacts which need to be mitigated, the true aim of such SAPs has been to achieve some "improvements" in the short run, while neither enhancing nor impairing the long-term potential for genuine self-reliant development.

A major issue addressed by SAPs in Zambia has been, What can be done to boost nontraditional exports to replace copper as the main source of foreign exchange? In the main, the answer has been devaluation so that realistic exchange rates can be achieved, thereby making the country's exports internationally competitive. However, the more fundamental issue for Zambia is, What can be done to reduce dependence on imports and thereby reduce the need for foreign exchange? The answer cannot be devaluation. Zambia's import dependence cannot be reduced simply by making imports dearer. It can only be reduced by altering the character of the production process which causes the
imports to be essential, or by the local production of the imported inputs. Unless domestic backward linkages in the production structure are significantly enhanced, dearer imports will not induce speedy switchovers to local inputs. For example, producers of cooking oil in Zambia are currently importing crude oil simply because oil seeds are not sufficiently available on the domestic market to meet the local demand.

What is the motive behind policies which aim at strengthening the openness of the economy through export diversification? If the motive is to ensure the adequate inflow of the foreign exchange which the country inevitably requires in the short-to-medium run, then it cannot be faulted. On the other hand, if the motive is to enhance the capacity of the country to repay debt, especially to the multilateral institutions, then any talk about external assistance to support SDA is tinged with hypocrisy. That would be tantamount to offering financial crumbs to the country in order to increase the loot to be extracted from it in return. A sounder long-term strategy for Zambia would be one which not merely strengthens the openness of the economy, but also alters the nature and scope of that openness.

The main ingredients of a viable programme of action to promote the social welfare function in Zambia will now be set out.

**Getting the Prices and the Quantities Right**

**The Exchange Rate.** Highly import dependent and caught in a downward spiral of inflation and devaluation, Zambia cannot establish a "realistic" exchange rate which would put it on a parity with its trading partners by depreciating the domestic currency. Nevertheless, over the short term, an attractive exchange rate maintained on a continuous basis is needed to boost nontraditional exports. A single exchange rate which is intermittently corrected by floating the currency or by blanket devaluation will not achieve this.

Firms in Zambia are of five main types:

- Non-import-exporters,
- Importers only,
- Net importers,
- Import-exporters which are net earners of foreign exchange,
- Exporters almost exclusively (usually found in horticulture).
The principal usefulness of the exchange rate in Zambia is to offer an incentive to those firms which bring in foreign exchange. The exchange rate as an incentive tool should therefore be applied only to the last two categories. An export-retention scheme, if properly administered, would provide some incentive to the net importers as well. Devaluation may not directly touch the non-import-exporters, but, because of its ripple effect on general price levels, it can touch them indirectly by making local inputs cost more, especially if the latter are produced by firms in the second category. Although it provides some incentive to firms in the last two categories, blanket devaluation has a tremendously adverse impact on the very large number of Zambian firms in this "importers only" category.

A three-tiered exchange rate system could generate the required incentives for nontraditional exporters without adversely affecting real growth in the economy (see Table XI).

The last category of transactions in the third tier could encourage tourism and enable some diversion of foreign exchange from the black market into official channels. However, the black market should not be expected to be eliminated in this way. The existence of the black market is not entirely a reflection of the overvaluation of the Kwacha (Seshamani 1989a); it is also a means of capital flight engendered by the "snatcher" mentality of private business that has resulted from the government's ambivalent attitude toward the private sector (see later).

<table>
<thead>
<tr>
<th>Tier</th>
<th>Exchange Rate</th>
<th>Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lowest</td>
<td>Necessary imports by firms providing basic goods and services.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Debt-equity swaps.</td>
</tr>
<tr>
<td>2</td>
<td>Intermediate</td>
<td>Imports by net importers producing nonbasic goods.</td>
</tr>
<tr>
<td>3</td>
<td>Highest</td>
<td>All imports not covered in tiers 1 and 2. Payments on the net forex earned by net importers and the net earners of foreign exchange among import-exporters. Tourism and transactions with residents who bring in foreign exchange.</td>
</tr>
</tbody>
</table>
Interest Rates. The main objectives of interest-rate policy are to promote savings and discourage unproductive uses which waste financial resources. However, savings can be stimulated only if interest rates are positive in real terms. Given three-digit inflation, there is little chance of achieving such rates, and there is little chance of curbing credit for consumption by raising nominal rates in the official banking system.

Instead of letting high nominal interest rates fuel inflation, interest-rate policy should be used aggressively to influence the levels and patterns of production and supply in order to bring inflation down. This would require a hierarchy of interest rates coupled with quantitative allocations of credit on the basis of sector and activity (see Table XII). The following points should be noted:

- The last category of borrowers should be subject to the highest interest rate because of the high inflation and because of the relatively nonessential nature of their activities.

- The percent of available funds that is allocated for loans to each tier should be based on a more precise classification of sectors. However, in general, a possible breakdown for the three tiers could be 25 percent, 60 percent and 15 percent, respectively. Within the limits of the credit ceilings set for individual commercial banks by the Central Bank, each commercial bank would determine the number and size of the credit allocations within each classification, provided the stipulated percent is not exceeded.

- In the case of both interest and foreign exchange, the rates could be adjusted as circumstances warrant. For instance, if inflation is brought down significantly, lending rates could be reduced.

<table>
<thead>
<tr>
<th>Tier</th>
<th>Interest Rate</th>
<th>Eligible Borrower</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lowest</td>
<td>Small-scale farmers and manufacturers.</td>
</tr>
<tr>
<td>2</td>
<td>Intermediate</td>
<td>Larger-scale farmers. Firms providing basic goods and services (education, health care, transport, etc.).</td>
</tr>
<tr>
<td>3</td>
<td>Highest</td>
<td>All those not covered in tiers 1 and 2.</td>
</tr>
</tbody>
</table>
These tiered foreign-exchange and interest rates would require more complicated and effective administrative mechanisms. However, the gains in economic restructuring and development would be adequate compensation.

**Commodity Prices.** Many consider price decontrol as an important cause of inflation. Indeed, whenever prices have been decontrolled in Zambia, they have invariably shot up. Nonetheless, this is not a valid argument for controlling prices. Price controls have already led to many undesirable effects (see Part I). Furthermore, the rise in prices following decontrol is not all strictly inflationary; some of it represents a conversion from latent inflation to open inflation. When prices are controlled, the disequilibrium brought about in markets by significant excess demand cannot be rectified through spontaneous and needed price adjustments. Latent and suppressed inflationary pressures then become manifest in shortages of goods, backups in normal distribution channels and the appearance of black markets. The delays caused by the blockages in distribution, together with the profits earned by black-marketeers through the excess of their prices over the prices at which their products would have sold on an open market, thus become barometers of the suppressed inflation. Price decontrol merely leads to prices which reflect the true relative scarcity of goods and services in an economy and which, by ensuring the viability of production and trade, act as a spur to the increased production and supply that, in the long run, can stabilize prices.

However, unscrupulous traders must not be allowed to exploit consumers by taking undue advantage of price decontrol. Consumers often end up paying exorbitant prices simply because they are not well informed. Producers, in conjunction with the Prices and Incomes Commission, should therefore advertise suggested retail prices for their goods, inclusive of taxes. They should also be required to print the price on every unit of standardized products. Price commissioners should make periodic checks in retail shops to ensure that this is done, and stiff penalties should be imposed on merchants who violate the established procedures. If a consumer discovers that the price is not displayed on a standardized product, or that a merchant is demanding a price which is higher than the printed one, he should report the matter to the price commissioners.

**Wages and Salaries.** One of the measures announced on June 30, 1989, was an increase in wages and salaries by 30-to-50 percent in order to cushion the blow of other measures in the package. The further implementation of such a wage-hike policy is not advisable in Zambia for the following reasons:
- It would have a negative impact on the government budget and throw a spanner into efforts to control the budget deficit.
- Higher wage costs incurred by firms would tend to push up prices.
- Higher labour costs might dissuade firms from the use of labour-intensive methods.

The substantial reduction in income-tax rates proposed in the 1990 budget is the more appropriate approach to redressing the problem of insufficient salaries.

A worrisome feature of the wage and salary structure in Zambia is the highly inequitable differences which exist among the various sectors of the economy. Economic pragmatism and fairness dictate that public-sector employees should receive payment based on the following criteria:

- Their qualifications and experience.
- Their contribution to national economic and social development.
- Their value as "scarce" resources. (Professors and doctors are few in number; higher salaries are therefore required to attract and retain them.
- Their opportunity. (What is the salary they would receive elsewhere? If a University of Zambia lecturer were to join another university in the region, is he likely to get a much higher salary?)

Wage and salary structures in Zambia do not reflect these criteria. They appear to depend less on the qualifications of the employee and more on the employer. For instance, a teacher at a primary school run by Zambia Consolidated Copper Mines (ZCCM) can earn more than does a lecturer at the University of Zambia, and a low-level accountant in a parastatal enterprise can earn more than does an accountant in a government ministry, or even a consulting doctor at the University Teaching Hospital. Such distorted wage-salary structures not only lead to frustration among public-sector employees, but also fuel the "brain drain" and produce distorted social values. Are accountants more important to Zambia than medical doctors or university professors? Are not the resources of ZCCM, the parastatals and the university system the same public resources?

Furthermore, parastatal enterprises frequently increase salaries and fringe benefits as profits rise, even though these rising profits signify little in real terms since most parastatals are operating at less than 50 percent capacity? In any case, the higher profits are often simply the result of higher prices charged to consumers to recover costs. For example, ZCCM has
been earning additional Kwacha not necessarily through enhanced productivity, but as windfall gains from devaluation. The payment of higher wages and salaries in such circumstances is a reflection of gross financial indiscipline.

The following principles ought to be strictly implemented:

- Wage and salary increases should be justified by proven increases in real output.
- Firms operating at capacity utilization rates of less than 80 percent should not offer bonuses or higher fringe benefits.
- In any firms operating at less than 80 percent capacity, all profits should be ploughed back into efforts to expand capacity utilization.

Alleviating Poverty, Reallocating Assets

In Zambia, poverty and income inequality have reached levels at which the degree of public tolerance may leave little scope for further push. Although no recent statistics are available on income-distribution and absolute-poverty levels, the following suggest that poverty and poor income distribution were aggravated during the 1980s:

- A declining trend in per capita income.
- The inflation rates for low- and high-income groups were different. The cost-of-living index for the low-income group was invariably higher than that for the high-income group (see Table II, page 13).
- The tremendous growth of the informal sector. According to a survey conducted by the Prices and Incomes Commission (1989), 6.4 percent of the 406 formal-sector households and 31.3 percent of the 681 informal-sector households sampled earned a total monthly income of less than K250. The survey also found (page 5) that, "the number of households having an income per month of less than K250 and more than K2500 was generally higher in the Informal Sector than Formal Sector. In other words, the income distribution of the Informal sector is much more unevenly distributed than that of the Formal Sector in the sample." Moreover, while males headed 94.3 percent of the formal-sector households surveyed, only 77.1 percent of the informal-sector households were headed by men. Thus, the expansion of the informal sector was also affecting the vulnerability of women.
- Coupons for maize meal were not available in rural areas.
- The levy of user fees for services affected rural areas more than it
did urban areas.

- The cases of malnutrition and fatal disease reported by health-care centres were much more frequent in the economically backward provinces, such as Luapula and the Northern, Northwestern, Western and Eastern Provinces (see Table XIII).

Considering this human dimension of the economic crisis, to rely on policies which seek to better the condition of the poor largely through the "trickle down" effects of efficient growth is unacceptable. A more direct approach to the improvement of well-being is required. In the first place, measures must be taken to ensure the satisfaction of basic needs.

The recent World Bank (1989b: page 45) long-term perspective study on Sub-Saharan Africa makes the following confession, which has the utmost validity in the context of Zambia (underscoring added):

"In the 1970s increasing attention was paid to the importance of meeting basic needs, not just for welfare reasons but because a workforce that was deprived would not be able to generate growth. The economic crisis of the early 1980s diverted attention from basic needs programmes. This was a mistake; every effort should be made to protect basic needs expenditures in times of recession. The challenge now is to make up for lost time. Also important to long-term equity are measures to improve the access of the poor to assets, especially for women."

The provision of food and social services is of vital importance. Zambia

<table>
<thead>
<tr>
<th>Province</th>
<th>Malnutrition</th>
<th>Fatal Disease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>249</td>
<td>306</td>
</tr>
<tr>
<td>Copperbelt</td>
<td>420</td>
<td>230</td>
</tr>
<tr>
<td>Eastern</td>
<td>854</td>
<td>623</td>
</tr>
<tr>
<td>Luapula</td>
<td>600</td>
<td>700</td>
</tr>
<tr>
<td>Lusaka</td>
<td>23</td>
<td>46</td>
</tr>
<tr>
<td>Northern</td>
<td>973</td>
<td>740</td>
</tr>
<tr>
<td>Northwestern</td>
<td>409</td>
<td>326</td>
</tr>
<tr>
<td>Southern</td>
<td>702</td>
<td>377</td>
</tr>
<tr>
<td>Western</td>
<td>159</td>
<td>342</td>
</tr>
<tr>
<td>Total</td>
<td>4,389</td>
<td>3,690</td>
</tr>
</tbody>
</table>

still has a long way to go to ensure food security for its population (see Table XIV). Lack of food security is a major cause of the extensive malnutrition in the country. Hence, a move toward increased food self-reliance in the short run and toward food self-sufficiency in the long run could go a long way toward resolving the problem of malnutrition.

The government has been taking steps in recent years to boost production by increasing the amount of land under cultivation, improving technologies and creating attractive producer prices. However, the weather is crucial to agriculture in Zambia. Investments in irrigation thus constitute an important element in the attainment of food self-sufficiency in particular and in the development of the agricultural sector in general. If agriculture is the priority sector in development, then irrigation projects must be accorded priority status in agricultural investment. That dependency on the weather could be further reduced is demonstrated by the fact that, of the approximately 42 million hectares (approximately 104 million acres) of potentially arable land in the country, 10 million hectares are estimated to be irrigable, whereas only 10,000 hectares have so far been irrigated (see Chipulu and Rajeswaran 1988: page 4).

One direct poverty-focused approach to consider in the context of food security is Adelman's "redistribution before growth": If inequality in the distribution of productive assets is considerable, the redistribution of these assets (e.g. through land reform) before the implementation of policies designed to enhance productivity may prove highly effective. Adelman (1986) points to two advantages of this approach:

"First, a better distribution of the major asset whose productivity is

<table>
<thead>
<tr>
<th>TABLE XIV: ZAMBIA'S SELF-SUFFICIENCY AND SELF-RELIANCE IN CEREALS a/</th>
<th>In Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Sufficiency</td>
<td>82.6</td>
</tr>
<tr>
<td>Self-Reliance</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Kingsbury et al. (1988).

a/ "Self-sufficiency" is the ability to meet domestic food needs through domestic production. "Self-reliance" is the ability to meet these needs through domestic production and international trade.

b/ Average figures.
about to be improved, together with more equal access to markets and to opportunities for improving the productivity of that major asset, will obviously diminish the adverse effects of unequal asset distribution on income distribution. Second, the redistributed asset is not as valuable before improvements in productivity as it is after. Redistribution with full compensation would, therefore, be possible at least in principle."

Levi and Mwanza (1987) state that no more than 250,000 hectares (about 615,000 acres) would be sufficient to provide enough food for all those in urban areas in Zambia who face the risk of food insecurity. They present their case as follows:

"Given that vastly more than that much land [i.e. more than 250,000 hectares] on large commercial farms... is left fallow, in pasture and not classified, the problem of urban poverty is solvable if even modest amounts of land could be transferred to poor settlers from urban areas. Probably, too, relatively poor and 'emergent' rural households could use land more intensely than it is [used] on large farms. There is at least a case for land reform of some sort, and given the deteriorating urban economy, it is perhaps quite a strong case."

The recent Presidential directive urging the urban unemployed to resettle in rural areas by June 1990 with the assistance of the state, if implemented effectively, could prove to be a major step toward the alleviation of poverty.

A sad phenomenon of the 1980s, the severe decline in real expenditures and investment in social services despite the rapidly growing population has damaged the potential for the development of one of Zambia's most important resources, the human resource. It increased the plight of the poor, encouraged the "brain drain" and eroded the stock of human capital.

The significance of investment in human-capital building in a country like Zambia can be seen from some of the concluding remarks in a paper by Otani and Villaneuva (1989: page 335; underscoring added):

"Expenditures on human capital play a critical role in the development process. In an economy facing a secular decline in export earnings, such expenditures would become a crucial element in the growth process because they would increase labour productivity, reduce the capital-labour ratio, and raise the marginal product of capital. The higher marginal product of capital would permit a higher sustainable rate of foreign borrowing, which would increase the warranted rate of growth to a higher natural rate. The development of human capital is also essential when the external debt burden is already excessive. An improvement in the quality of labour would enhance the profit opportunities of the corporate sector and raise domestic savings and exports. This would have the salutary effect of reducing the foreign borrowing requirement to the level dictated by the improvement in the marginal productivity of capital."
As stated by the recent World Bank study (1989b: pages 44 and 45), "unlike physical capital, human capital grows with use", and "improving human capital is an effective way to promote social mobility and more equal income opportunities".

The rapid growth of the population and rising inflation have caused real per capita expenditures to be cut drastically in such areas as health care, nutrition, education, training, and water and sanitation. In turn, this has led to the deterioration of health care, the educational system and other community services.

It has also led to a decline in the ability of the social-services sector to attract and hold competent individuals, so that now there is a drain of the high-level manpower which has been trained at considerable expense. For instance, the Minister of Health recently disclosed that, of 590 doctors trained by the government since independence, only 177 are still working in the public sector, while the rest have either gone into private practice, or left the country to seek better salaries and conditions of employment (Zambia Daily Mail, January 13, 1990: page 5).

The irony is that Zambians trained at the country's expense are providing a ready-made supply of human capital to other countries in the region and elsewhere, while Zambia must recruit foreigners at further expense to fill the vacancies created by this exodus. Zambian doctors are working in the Middle East and other regions, while Zambian hospitals are manned by expatriate doctors. Botswana recruits Zambian teachers, while Zambia must seek out teachers in India or Europe for local schools. Table XV illustrates this phenomenon at the University of Zambia.

Why have there been such drastic cuts in social service expenditures? The answer is that the importance of the social-services sector as the provider of inputs for the development of the country's human capital has been inadequately understood. While mining, agriculture and manufacturing are considered productive, income-generating sectors which contribute to growth and development, social services are regarded as an "unproductive", income-consuming sector which draws resources away from growth. Although lip-service is paid to the value of the educational system, health care and other services, the words are not matched by the statistics.

While the Fourth National Development Plan has set 3 percent as the target for the average annual growth rate of the economy, the targets for education, health care and other community services are 3.6 percent, 2.2 percent and 1.9 percent, respectively. Of the total investment outlay of K23,000 million for the Plan, K18,716.5 million are to be allocated for the
### TABLE XV: VACANCIES AND STAFF CONFIGURATION: THE UNIVERSITY OF ZAMBIA

<table>
<thead>
<tr>
<th>Post</th>
<th>Positions Filled</th>
<th>Vacancies†/</th>
<th>Number of Zambians</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor</td>
<td>23</td>
<td>47</td>
<td>4</td>
</tr>
<tr>
<td>Associate Professor</td>
<td>14</td>
<td>52</td>
<td>2</td>
</tr>
<tr>
<td>Senior Lecturer</td>
<td>60</td>
<td>52</td>
<td>24</td>
</tr>
<tr>
<td>Lecturer I</td>
<td>84</td>
<td>80</td>
<td>54</td>
</tr>
<tr>
<td>Lecturer II</td>
<td>111</td>
<td>50</td>
<td>94</td>
</tr>
<tr>
<td>Lecturer III</td>
<td>118</td>
<td>111</td>
<td>111</td>
</tr>
<tr>
<td>Research Fellow I</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Research Fellow II</td>
<td>7</td>
<td>-5</td>
<td>7</td>
</tr>
<tr>
<td>Research Fellow III</td>
<td>5</td>
<td>-2</td>
<td>5</td>
</tr>
<tr>
<td>Senior Library Staff</td>
<td>16</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Totals</td>
<td>443</td>
<td>166</td>
<td>320</td>
</tr>
</tbody>
</table>


†/ Negative figures reflect extra hirings in certain posts to help compensate, in part, for the vacancies at higher academic levels.

"productive" economic sectors, but only K2,947.4 million for social services. If these targets and investment projections are followed, social services will deteriorate further during the next four to five years.

To rectify this situation, the targeted growth rate of the social-services sector should exceed the actual population growth rate. To maintain the standard of living of a population growing at 1 percent per year, empirical research suggests that 4 percent of the national income would have to be spent on health care, education, housing, and other social areas. Zambia's population is growing at the rate of 3.6 percent per year; more than 14 percent of the national income would therefore have to be spent on social services just to maintain current standards of living. Improvements in the standard of living would require an even greater level of social spending. Given resource constraints, such targets may be difficult to achieve; nevertheless, they should be kept in sight. The World Bank (1989b: cf. page 87) suggests expenditures of 8-10 percent of GNP from now to 2000 and beyond to achieve universal primary education and acceptable health care, family planning, food security and nutrition. In the immediate future, Zambia could employ a good portion of the windfall gains of the ZCCM, the copper mining company, to meet some of these social spending needs. Over the longer term, local efforts should be supplemented by generous donor assistance.

Strategies for poverty alleviation and equity promotion should also
incorporate measures to integrate women and the informal sector more effectively into national economic development. Although more than 50 percent of the population is female, women constitute only 7.3 percent of the wage-labour force. They also make up 65 percent of the illiterate population, 30 percent of the students in secondary school and less than 20 percent of university and technical college graduates. In Zambia, as in many other developing countries, women suffer from a lack of adequate participation in the development process.

Some research points to gender-based discrimination, including discriminatory labour practices, in Zambia. For instance, the work of Bardouille (1986) indicates that women require higher levels of education than do men to secure the same formal-sector jobs, that they receive less pay for the same work and that some jobs are closed to them. Discrimination appears to be more prevalent against married women, so many career-minded females prefer to remain single. Because of the difficulties women experience finding jobs in the formal sector, most working women are employed in the informal sector. However, even there, women generally fill the lowest-paying jobs. Men dominate the higher-paying (as well as less time- and energy-consuming) jobs in the informal sector. This implies that, unless labour policies specifically target women, women will continue to bear the burden of discrimination.

In rural areas, 60 percent of the population of working age are women, and 30 percent of the households are headed by females. Most subsistence farmers are women, but they have hopelessly inadequate access to credit and good quality land. Tax and inheritance laws also militate against women in formal employment and business. In spite of 10 years of preparation, the Inheritance Bill, which would have given widows a share in the property of their deceased husbands, was rejected in Parliament, where women are inadequately represented.

On the other hand, gender sensitivity is gradually taking hold in Zambia. The official document of the Fourth National Development Plan contains an extensive chapter on "Women in Development", and K239.4 million has been allotted in the Plan for projects aimed at improving the role of women in the development process.

The informal sector is important in Zambia not only because of its size, but also because of the protection it offers to a large part of the population, especially in urban areas, against the harsh consequences of SAPs. Well over 80 percent of the labour force would be unemployed but for the informal sector. Because of this and the concentration of vulnerable groups in the informal sector, government policies should aim at removing some of the
constraints on the sector and integrating it and the formal part of the economy. As the Prices and Incomes Commission (1989) points out, measures should be taken to organize and legalize the sector through registration, the provision of trading plots in low-income residential areas and the delivery of electricity, transport and credit services. This would have a dual benefit: it would constitute an important element of the social dimension of adjustment and it would increase government revenue through the fees which could be charged for plots and licences and through the taxation of informal incomes.

"Door Ajar" Policies for Trade and Technology

Zambia's technological and production structures have been characterized by "weak openness". The near-exclusive dependence on the export of one commodity, copper, coupled with the high degree of import dependence brought about, ironically, by the strategy of import substitution, has been the demonstrable cause of this weak openness.

SAPs based on liberalization require that openness be maintained in trade. The attempt is made to accomplish this through:

- Diversification into nontraditional exports in order to reduce instability in export earnings.
- Fewer restrictions on imports so that local firms will be exposed to competition, thus forcing firms to improve efficiency.

A realistic exchange rate, along with other incentives and facilities for nontraditional exporters, is expected to produce a highly open but strong economy.

This overall strategy is not sustainable in the case of Zambia over the long term, nor can it produce the kind of dramatic results which are often claimed. For instance, beginning this year and for the next few years, the target for annual growth in nontraditional exports has been set at 10 percent. It is unlikely that Zambia will be able to achieve this target.

Development in Zambia requires that the existing production sector be transformed into a genuinely inward-looking, domestically interlinked, self-reliant structure. This does not mean that the country must pursue a "closed door" trade policy. On the contrary, export diversification is vitally important in ensuring a steady stream of forex earnings over the short and medium term. However, a trade policy based predominantly on export promotion is not practical. The export potential undoubtedly exists and needs to be
developed; the country has in fact recently begun to export a number of new items. However, Zambia will not soon be able to replicate the success of the Newly Industrialized Countries (NICs) of East Asia, such as South Korea, Taiwan, Singapore and Hong Kong, or, for that matter, follow in the footsteps of second-generation NICs, such as India, Brazil and Mexico. This is because:

- The ready access to international finance that existed in the 1960s and that gave a tremendous fillip to the NICs as export processing zones does not exist today.
- For many export items, Zambia faces stiff competition from its neighbours.
- Protectionism against the exports of the developing countries has grown in the developed countries. Furthermore, there has been a steady decline in the terms of trade of many African countries, including Zambia. This decline has been due not so much to a rise in import prices as to a pronounced fall in the prices of exports. "Taking 1980 as the base year the prices of many of Africa's export commodities, including phosphates, cocoa, coffee and palm kernels, were valued between 60 and 70 in 1988" (ILO 1989: page 8).

The unfavourable trend in commodity prices is expected to continue in the 1990s. "The World Bank expects that prices of non-fuel primary commodities will increase in real terms by only five percent over the next decade; beverage prices are expected to decline until the late 1990s; for minerals, the risk of replacement by synthetic substitutes remains strong" (ibidem: page 27).

Therefore, it has been suggested that countries like Zambia should try to export processed goods, but protectionism bites the hardest precisely for these goods. The noteworthy phenomenon here is tariff escalation. The ILO (ibidem: page 36) report illustrates this:

"Oilseeds have a negligible tariff into the EEC, Japan and the United States, but the rates for margarine are 25 percent, 32 percent and 12 percent, respectively. Similarly, rates for fresh fruit range from 10 to 13 percent, but those for fruit juices are up to 30 percent. For the EEC, the same picture applies to coffee, tea, tobacco, wood, rubber and jute, and sisal. The result is that processing industries in the industrialized countries receive substantial protection."

This puts a country like Zambia in a dilemma. If it undertakes the relatively easier task of exporting primary goods, its export earnings would be low because of the low commodity prices. If it tries to export processed
goods, its export earnings would still be low and uncertain because its prices would be rendered uncompetitive by the escalated tariff rates.

Srinivasan (1988: page 7) points out that "rising protectionism in industrialised countries against manufactured exports from developing countries reflects their failure to adjust to changes in comparative advantage."

"To the extent rising protectionism and relative stagnation in the industrialized countries all reflect the failure or refusal to adjust on their part," he states later (ibidem: page 39), "they should compensate the developing countries at least to the extent of the avoidable cost that their refusal adds to the burden of adjustment placed on the developing countries."

However, such altruism is unlikely to be forthcoming.

A remarkable historical insight is provided by the following statements in the work of A.G. Frank, cited in Coughlin (1988: pages 288-289):

"Foreseeing the current efforts to push developing countries into premature efforts to liberalize imports, Ulysses S. Grant, President of the USA in the late 1860s, poignantly observed: 'For centuries England has relied on protection, has carried it to extremes, and has obtained satisfactory results from it. There is no doubt that it is to this system that it owes its present strength. After two centuries, England has found it convenient to adopt free trade because it thinks that protection can no longer afford anything. Very well then, gentlemen, my knowledge of my country leads me to believe that within two hundred years, when America has gotten all it can out of protection, it too will adopt free trade'."

The degree of Zambia's export orientation should therefore be determined by neither trade pessimism nor trade optimism, but by trade pragmatism.

The desirability for Zambia of import liberalization is doubtful. The overprotection of domestic industries can breed inefficiency, but overexposure to external competition can also thwart their genuine development. Many Zambian firms have high cost structures, which reflect not only (and, occasionally, not even necessarily) managerial inefficiency, but also reliance on inappropriate, import-dependent and capital-intensive technologies.

The favourable rate suggested earlier for importers of basic goods and services as part of a multiterried exchange-rate policy is not meant to encourage dependence on foreign exchange and imported inputs and technologies. It is meant as an interim measure to allow time for the local development and production of substitutes. To achieve this, a comprehensive directory of locally available raw materials and other intermediate input resources should be prepared and the importation of resources which are adequately available in exploitable form should be banned. If the country has the potential to
develop certain resources, a time horizon should be stipulated beyond which the importation of such resources would either be banned, or permitted only to cover shortages in domestic supply. Based on a realistic assessment of the eventual production potential, this time limit could vary from a few years (as in the case of barley for beer, or oilseeds for cooking oil) to a much longer period (as in the case of rubber and steel). The goal of this strategy is not to lower progressively the number of nonimportable items, as is suggested by the latest Policy Framework Paper, but to widen progressively the list of banned goods in order to encourage the local production of these goods. Once the local production of goods which are internationally competitive in terms of price and quality has been consolidated, then the ban on imports could be completely removed. In the case of locally manufactured items which have a high import content and which seem to hold little promise of comparative advantage even in the long run, it may be necessary to close down the production and redirect the manpower and other resources to more viable areas.

What is being suggested is a genuinely inward-looking strategy of import substitution. This strategy would require a technological transformation to facilitate growth through Zambia's own resources, including locally available material inputs and locally available labour.

The switch over to labour-intensive technologies will depend on the development of small-scale industries. Preferential exchange-rate, interest-rate and credit policies would therefore have to be actively pursued. The recent liberalization of the Bank of Zambia's Credit Guarantee Scheme for small-scale industries is thus most welcome.

With the aid of regional cooperation, the vigorous pursuit of a genuine import substitution strategy would require neither a totally closed-door policy, nor a completely open-door policy on imports. Regional cooperation would offer the possibility of implementing a middle-of-the-road or "door ajar" approach, whereby one could avoid absolute autarchism at one extreme and excessive reliance on extraregional imports, especially of intermediate and capital goods, at the other. In conjunction with regional cooperation, the import substitution strategy would be "open door" from the national point of view, but largely "closed door" from the regional point of view.

Zambia does not seem to have taken proper advantage of its membership in two regional economic groups, the Southern African Development Coordination Conference (SADCC) and the Preferential Trade Area for Eastern and Southern Africa (PTA). Its trade with SADCC countries has fallen since the establishment of the organization in 1980, while its trade with the Republic of South Africa (RSA) has gone up (see Table XVI). The need to reverse these
TABLE XVI: ZAMBIA'S TRADE WITH SADCC AND RSA
($ Millions, 1980 and 1986)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To SADCC</td>
<td>1,298</td>
<td>779</td>
</tr>
<tr>
<td>To RSA</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From SADCC</td>
<td>1,122</td>
<td>1,067</td>
</tr>
<tr>
<td>From RSA</td>
<td>173</td>
<td>198</td>
</tr>
</tbody>
</table>


trends is imperative. With protectionism growing in the industrialized countries, the prices of imports from the West rising and the high probability that the attention of the affluent donor countries will turn more and more toward Eastern Europe, regional cooperation must be seriously considered as an alternative approach to development by Zambia and the rest of Africa south of the Sahara.

If she must seek beyond the region for machinery, equipment and technical expertise while the development of local technology and skilled manpower is under way, Zambia is likely to benefit more from South-South cooperation than from its hitherto exclusive commercial intercourse with the North. Developing countries within its economic hemisphere are better equipped to provide more appropriate technologies and experts who are more experienced with adjustment problems similar to Zambia's.

**Getting the Development Environment Right**

One key aim of standard SAP measures is to promote efficiency, particularly allocative efficiency. However, economic development also requires the promotion of what Leibenstein called "X-efficiency", which depends on both economic and noneconomic factors. In other words, the success of development policies depends not only on the sound economics of those policies, but also on the overall environment as determined by noneconomic parameters. Thus, sound economic policies may promote allocative efficiency, but they do not guarantee X-efficiency. Some significant X-efficiency factors in the Zambian environment are outlined below.
Zambia has been seriously deficient in human capital formation. A malnourished individual cannot concentrate well on work. Women, including those in the informal sector, face constraints which prevent their fuller integration in the productive process.

The government is ambivalent toward the private sector. While it frequently demands the increased participation of the private sector in the country’s development process, its actions seem to suggest that, whenever things go wrong, the private sector is to blame.

The government contained the December 1986 food riots by revoking its earlier decision to remove the subsidies on maize meal and re-establishing the old prices, but it also nationalized the milling companies.

Toward the end of 1987, essential goods became scarce in state-run shops, and black marketeering in those goods became rampant. So, in early 1988, certain private shops dealing in essential commodities, among other things, were taken over on the presumption that the shopkeepers had been conduits to the black market. Later, however, most of these shops were returned to their former owners, suggesting that the owners had actually done nothing wrong. Since this episode, several Asian traders have reportedly left the country.

In February 1989, according to the Times of Zambia (February 21, 1989: page 2), a number of private fishing and tourism enterprises on Lake Tanganyika were taken over by the Ministry of Lands, Water and Natural Resources. The "concern is that the takeovers might have been done without strong evidence of whatever the previous operators are alleged to have done," wrote the Times commentator. "To minimize the impact of random speculation, we urge the Minister to act quickly and explain the reasons for the takeovers."

Following the announcement of price decontrol on 20 June, 1989, practically all commodity prices shot up. The public was urged not to panic, and businessmen were warned that anyone who took undue advantage of the policy would be taken to task. "Behave, or else" was the veiled threat.

The point of the above illustrations is not necessarily that the government has acted in bad faith or without motive in undertaking these actions, but that such actions, unless based on indisputably solid grounds, can, with unpredictable results, erode the confidence of private business and potential investors.

Sir John Hicks classified businessmen as "stickers" or "snatchers". If the government and the private sector co-exist in an environment of mutual suspicion, then certainly many businessmen are likely to become snatchers.
Among other negative features of the economy, the black market in forex will continue to flourish in Zambia until the snatchers are transformed into stickers.

The development environment in Zambia today is charged with a serious lack of confidence:

- The lack of confidence due to the government's now-hot-now-cold attitude toward the private sector.
- The lack of confidence of the general public in economic programmes because of the transitory nature of policy regimes.
- The lack of confidence of top-level civil servants and public-sector managers due to frequent political reshuffling.
- The lack of confidence of professionals due to incompetent appointees.
- The lack of confidence of the general public, but especially of businessmen, in the monetary system due to high inflation, or the fear of imminent inflation and currency changes.
- The lack of confidence in the government's ability to manage the economy due to the frequent implementation of major policy changes without adequate consultation with the public, or its appropriate representatives.

In such an environment, X-efficiency is bound to be significantly well below optimal levels.

The success of economic programmes depends not only on theoretical soundness and consistency, but also on the ability of the economic "agents" formulating and implementing the programmes. Besides professional competence, these agents should possess personal integrity, commitment to development, empathy for the suffering of the disadvantaged and strict financial discipline. Of course, it is impossible completely to eliminate corruption, inefficiency, incompetence and inertia overnight merely through policies. Nevertheless, in terms of economic agents, the government should undertake a concerted effort to create a more enabling environment for growth and development:

- Improved economic decision-making requires that key positions in the Ministry of Finance, the Bank of Zambia, the Cabinet Office, etc., be held by professional economists. The decision-making process could be further enhanced through the involvement of university economists in national economic policy analysis, as is the case in Tanzania (see World Bank 1989b: page 58).
- Political considerations, such as the balanced representation of
tribes in important posts, must not be allowed to take precedence over the
search for competence.

- Appointees should be assured of reasonable tenures. Five years would
be reasonable.

- Incentives should be established to ensure professional integrity and
loyalty.

- There should be ample scope for individuals to express their dissent
without fear.

- Most importantly, all cross-sections of society should be involved in
the formulation of major policy initiatives, and there should be public debate
on all key national issues. For example, while The Fourth National Development
Plan was indeed drafted by committees on which all interested parties were
well represented (government ministries, parastatals, the private sector,
women's organizations, the university, etc.), no significant public
consultations were held on the measures announced on June 30, 1989.

Public participation and a sustained and continual search for consensus
based on extensive public consultation would ensure that economic policies
are well understood and that the implementation of economic programmes would
have more popular support. This would go a long way in guaranteeing success.
As one writer has stated, popular enthusiasm is both the lubricating oil of
planning and the petrol of economic development: a dynamic force that makes
all things possible.

Thus, an enabling environment is a prerequisite for the promotion of
X-efficiency, development and social welfare. As Lewanika (1989: page 10)
rightly warns, "without a major strike against inertia, against fence-sitting,
against cowardice, against inequitable sacrifices and against non-productive
consumption, the economic crisis is bound to continue and to worsen and
ultimately disrupt society, as it regresses toward deeper levels of
underdevelopment."
ANNEX: THE IMPACT OF DEVALUATION AS AN INCENTIVE IN ZAMBIA

It can be argued that to curb inflation the production and supply of goods must be increased. However, this in turn requires enhanced allocations of foreign exchange for the importation of more raw materials, machinery, spare parts, etc., so that industrial capacity utilization can be augmented. Yet, higher allocations of foreign exchange cannot be sustained unless more foreign exchange is earned.

In Zambia, given the volatile nature of the copper industry, to earn more foreign exchange means that nontraditional exports must be boosted. In the past, to achieve this, devaluation has been used as an incentive for nontraditional exporters. However, the effect of devaluation has tended in the opposite direction.

First, devaluation has had a direct cost-push impact on prices. Second, devaluation has contributed to the increase in the money supply, the most direct cause of inflation. Thus, as a result of the devaluation of the Kwacha, huge windfall gains have accrued to Zambia Consolidated Copper Mines (ZCCM). The 1990 budget proposed a mineral resource levy to capture these excess windfall gains. In the meantime, however, it is estimated that about 2.5 billion Kwacha in net ZCCM windfall gains had already entered the banking system, and that, with the further depreciation of the Kwacha, this amount would increase further.

Third and most ironically, devaluation has weakened the Retention Scheme, one of the greatest incentives for nontraditional exporters. Introduced in May 1982, this scheme allowed nontraditional exporters to deposit 50 percent of their foreign exchange earnings with the Bank of Zambia. In 1984, it became possible to deposit these earnings in commercial banks, and, in January 1987, the period of deposit was extended from the initial 21 days to 60 days. In June 1987, these rules were changed once more. All export proceeds had now to be surrendered in full to the Bank of Zambia, and the "retention" would be made available to the exporter upon application. There were reasonable grounds for this modification at the time: because several months might pass before the exporter would require his retention, the Central Bank could use the funds in the meantime. However, while the exchange rate was fixed and stable in 1987, since the massive devaluation of the Kwacha on June 30 of last year, the Kwacha has been crawling downward practically every fortnight, and nontraditional exporters stand to lose a very large part of their retentions. Thus, for example, if an exporter had surrendered $100 of his retention just prior to the massive devaluation, he would have received
a little less than 1,000 Kwacha. Already by last December, if he applied for a retention of $100, the cost to him would have risen to 2,300 Kwacha, or, alternatively, he would have received only $45 for his $100 retention. The exporter would lose in two ways: the depreciation of the Kwacha and the difference (nearly 4.5 percent) between the buy rate and the sale rate.
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