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A DEVELOPMENT STRATEGY FOR ZIMBABWE*

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ZIMBABWE'S NEWLY INDEPENDENT Government has inherited a paradox: Zimbabwe enjoys one of the highest average per capita incomes in Sub-Saharan Africa, but the majority of its population remains among the most impoverished in the world. Indeed almost a century of colonial capitalist rule has left Zimbabwe with several contradictory characteristics.¹

First, over the decades, the colonial governments have helped shape a prosperous commercial farming sector, financing essential infrastructure, providing direct and indirect subsidies, and helping to create supportive marketing and credit systems. At the time of independence, some 6,000 farms produced 14 per cent of the Gross Domestic Product, 95 per cent of all marketed agricultural produce, and about 33 per cent of the nation's exports. Yet in 1980, only 25 per cent of these farms paid any income tax,² yielding less than 6 per cent of all income tax revenue received by the Government. Some view this commercial farming sector as the key to the production of foodstuffs to enable Zimbabwe to assume the role of a regional breadbasket; but it is important to realize that almost 50 per cent of the output in fact came from a mere 10 per cent of the farms, predominant among them a few transnational corporate affiliates like those of the Anglo American Group. By way of contrast, many, if not most, of the 320,000 farm-workers, almost a third of the nation's wage-labour force, subsist in conditions hardly better than those nineteenth-century slaves on American plantations, their families housed in tiny thatched shanties without running water or electricity. Even now, after the two increases in the minimum wage, farm-workers earn little more than Z\$2 a day—and the newspapers report that some commercial farmers refuse to pay even that.³

Secondly, a prosperous mining sector has emerged, dominated by transnational corporations, again led by the Anglo American Group. Despite this

*An inaugural lecture delivered before the University of Zimbabwe on 13 May 1982.

¹Data relating to Zimbabwe, unless otherwise stated, is drawn from the following sources: Zimbabwe, *Monthly Digest of Statistics: February: 1982* (Salisbury, Central Statistical Office, 1982); Zimbabwe, *Income Tax Statistics, Fiscal Year 1979/80* (Salisbury, Central Statistical Office, 1981); Reserve Bank of Zimbabwe: *Quarterly Economic and Statistical Review* (1982), III, iv. Conditions of workers and peasants are described in Zimbabwe, *Report of the Commission of Enquiry into Incomes, Prices and Conditions of Service* [Chairman: R.C. Riddell] (Salisbury, Gov. Printer, 1981). The structure of ownership of mines, commercial farms, and manufacturing industries is analysed in D.C. Clarke, *Foreign Companies and International Investment in Zimbabwe* (Gwelo, Mambo Press, 1980), and A. Seidman and N.S. Makgetla, *Outposts of Monopoly Capitalism: Southern Africa in the Changing Global Economy* (Westport CT, Lawrence Hill, 1980), up-dated by annual reports of companies and by other information from the Registrar of Companies, Harare.

²A third of these were corporate farmers.

³*The Herald*, 16 Apr. 1982.

sector's importance in exports, it claims to produce less than a tenth of the national product.⁴ Government financed the roads, water and electricity—essentials to this sector's prosperity—but in 1980 mining companies paid less than Z\$4 million in taxes, roughly 2 per cent of revenue from income tax. Again by way of contrast, over 60,000 Black mine-workers earn wages below those of miners in South Africa. Even after the Government raised the minimum wage, it remained less than 25 per cent of the wage that transnational mining companies must pay their workers in the United States.

Thirdly, the output of the manufacturing sector, the pride of the previous regime, more than tripled in dollar terms during the period of U.D.I., rising to 25 per cent of the national product. By independence, Zimbabwe boasted the second largest industrial sector on Sub-Saharan Africa, substantially larger in terms of output and employment than that of its independent neighbours. The Smith regime, collaborating closely with transnational corporations and local minority-owned firms, intervened extensively to foster the growth of import substitution industries. This rapid expansion of manufacturing, however, further aggravated the distorted nature and external independence of the economy, for:

- (a) The sector became increasingly geared to producing military hardware, and the luxury and semi-luxury requirements of the high-income minority;
- (b) Transnational corporate affiliates, evading U.N. sanctions by operating through their South African regional headquarters, provided machinery, equipment and intermediate goods, fostering growing concentration and external dependence;
- (c) Almost three-quarters of the expanding manufacturing employment centred in Salisbury (47 per cent) and Bulawayo (22 per cent); and,
- (d) Manufacturing industry grew relatively more capital-intensive rather than labour-intensive. By 1980 it employed 159,000 workers, 15 per cent of all paid workers, but only 4 per cent of the adult labour force—only one and a half times as many as were employed in domestic service.

Growth in the manufacturing sector led the post-independence boom. Yet much of this growth constituted a once-only expansion, utilizing existing idle capacity in response to the rising post-war demand spurred by increased minimum wages. Factory managers today argue that U.N. sanctions and government controls introduced during U.D.I. led to much of their machinery and equipment becoming obsolete. They now call for relaxed foreign exchange in the world market. Some

⁴ This seems to be circumstantial evidence that the mining firms engage extensively in understating their output and in under-invoicing their exports to transfer profits out of the country untaxed, despite exchange controls.

add that rising wages make it essential to replace labour.⁵ Meanwhile, most Zimbabweans cannot yet afford to buy the goods manufactured by the modern manufacturing sector, small African entrepreneurs, some in the very heart of the city of Harare, recycle cast-off clothing, shoes and furniture for sale to the still-impooverished majority.

These contradictory features of Zimbabwe's inheritance stand out in far greater contrast when one stands back to view the whole national economy—a classical case of 'growth without development'.⁶ A handful of commercial farms spreads over the best half of the the national land area; transnational mines dig up and export the nation's mineral wealth; a narrowly circumscribed manufacturing sector produces luxury and semi-luxury goods for the high-income minority. These have emerged out of a century of colonial rule as prosperous enclaves in a sea of poverty. Some 850,000 peasant families, about three-quarters of the population, still live crowded on rocky or sandy, infertile, overgrazed lands. These Communal Lands still lack tarred roads, adequate water supplies and electricity. Few peasant families have access to enough land to produce a surplus for sale. Here live most of the under-employed women, children and old folk. From these labour reserves have come, over the years, the hundreds of thousands of low-paid wage earners—mostly men—who work on the commercial farms, mines and factories to produce the nation's wealth.

For the purposes of this lecture, I should like to summarize the main theories purporting to explain this paradox. I hope, then, to suggest which seems more consistent with the evidence that we in the Economics Department have been gathering. Finally, I will then consider the implications of this 'test' for the formulation of a development strategy for Zimbabwe.

CATEGORIES OF THEORIES

For convenience, it can be said that these theories can be put into two categories, the 'liberal neoclassical' and the 'transforming institutionalist'. Each category, of course, includes widely diverse groups, but there are such fundamental differences between the two, in their underlying methodologies, as well as in their resulting explanations and prescriptions, that the distinction proposed is justified. Economists in both camps agree that increased specialization and exchange and continually advancing techniques of production underlie the rising productivity and living standards potentially available in the twentieth century. They generally agree, too, that the nation must invest about 25 per cent of its national income in

⁵ B. Mswaka, C.K. Mukwashi, J. Mukwashi and A. Sibanda, 'Research Project on Industrial Strategy in Zimbabwe: Report on the Formal Sector' (Salisbury, Univ. of Zimbabwe, Dep. of Economics, Pilot Research Project, mimeo, 1981).

⁶ R.S. Clower, G. Dalton, M. Harwitz, and A.A. Walters, *Growth without Development: An Economic Survey of Liberia* (Evanston IL, Northwestern Univ. Press, 1966).

productive sectors if the rate of growth of the national product is to outpace population expansion and to provide more goods and services to every citizen.⁷ As Figure 1 (a) illustrates, consumption by individuals or government, whether in the form of social services or military expenditures, cannot exceed about three-quarters of the national product, leaving a quarter for investment in expanding productive capacity.

Figure 1 (b) illustrates that, if the nation fails to invest roughly this much every year in expanding production, the national income will decline. Government will inevitably find itself forced either to slash its expenditures or to borrow. By slashing social expenditure, it may lose legitimacy. By borrowing, it may aggravate inflationary pressures and increase future balance of payment problems.

Both camps, in other words, agree on the necessity to expand investment annually to ensure continually increased productivity and a growing national product in order to steadily raise the population's living standards. Their fundamental disagreement centres on the root causes of the fact that, although expanding investments have fuelled an on-going technological revolution, the gap between the 'have' and the 'have not' nations and groups within nations has continued to widen. This disagreement breeds still sharper debate about what to do to overcome that growing gap. To understand why their policy prescriptions disagree, we must first examine their explanations of the paradox, for proposals for solution must address the causes that the explanations reveal.

Liberal neo-classical explanations. These embrace such widely diverse theories as those of the monetarists, including Friedmanites and advisors of the International Monetary Fund, and of Keynesians.⁸ This simply underscores my point that sharp debates persist within these categories. Nevertheless, liberal neo-classicists agree on basics: private enterprise, competing in the market to maximize profits, is most likely to foster the best allocation possible of resources. Put another way, under competitive conditions, the market forces of supply and demand tend towards an equilibrium in which marginal costs equal marginal revenues, and all factors of production receive returns determined by their marginal productivity. This category of 'grand theory' generally holds that the state should create the infrastructural framework within which the market forces may operate freely. Few would altogether exclude government intervention. All agree that governments should tax to finance essential infrastructure and regulate money supplies through central banks. They differ, often bitterly, over the kinds of tax and monetary policies to be introduced as well as the extent of government investment in social infrastructure and participation in parastatals.

⁷ World Bank, *World Development Report 1980* (Washington DC, World Bank, [1981]).

⁸ S. Griffith-Jones and D. Seers, 'Monetarism and the Third World', *IDS Bulletin* (1981-2), XIII, i, 27, 60.

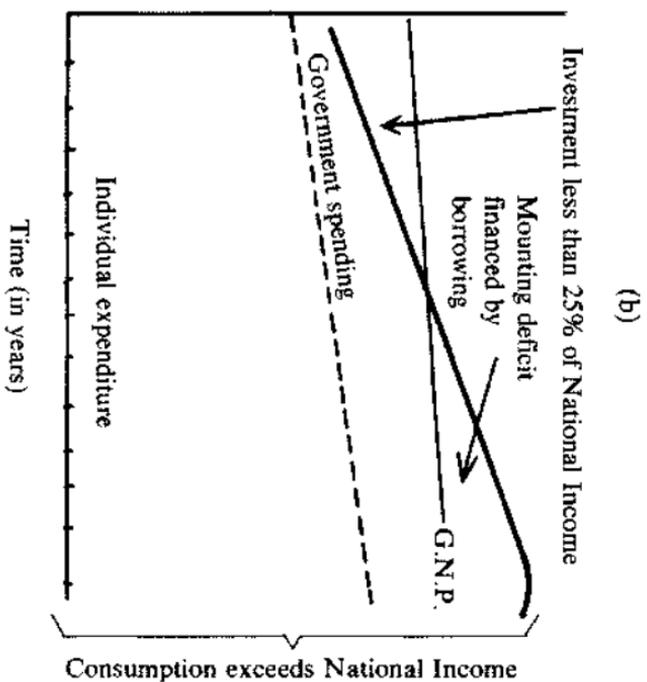
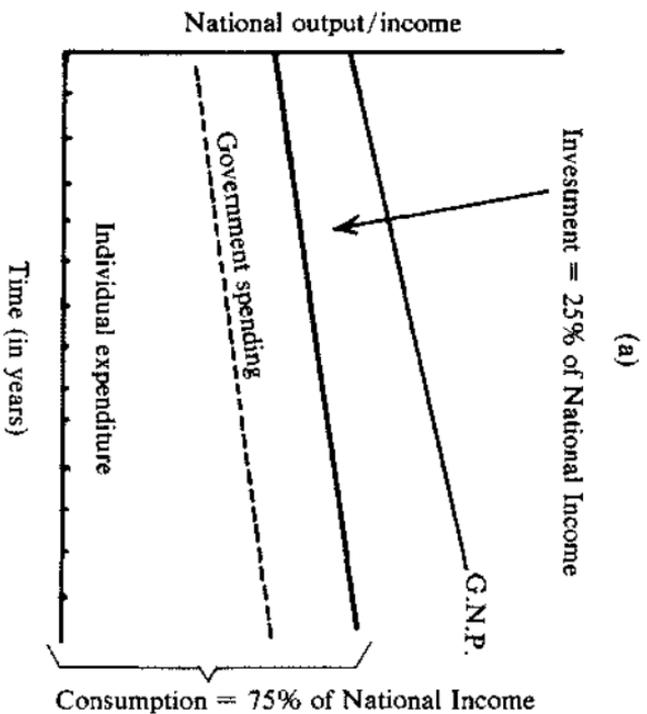


Figure 1: RELATIONSHIP OF INVESTMENT, CONSUMPTION AND G.N.P.

Neo-classicists would generally hold, I think, that foreign capital and settler ingenuity led, in Zimbabwe, to economic growth and technical advance, creating here the most industrialized state in Southern Africa outside South Africa itself. With varying degrees of vigour they would explain as a major cause of Zimbabwe's inherited paradox, the former government's imposition of racist restrictions which barred African participation in the anticipated multiplier-spread effects. I characterize these particular views as 'liberal' to distinguish them from those of other neo-classicists who maintain, as do some in South Africa to this day, that the former regime's racist economic policies pursued the most appropriate neo-classical path.

Liberal neo-classicists would urge the elimination of racist laws and policies at all levels and in all sectors of the Zimbabwean economy. The present ownership (including directorship and shareholdings) of the efficiently-operating commercial farms, mines and manufacturing enterprises, however, should remain intact. Expanded non-discriminatory educational institutions should provide Africans with essential skills, and managers and supervisors should employ them in both the private and public sectors as quickly as they acquire the necessary qualifications. Some liberal neo-classicists maintain that traditional institutions and attitudes among Africans in the past combined with racist policies to inhibit African participation in national growth. They frequently cite rapid population growth and large families as hampering would-be African entrepreneurs from making the savings necessary to accumulate and re-invest capital.

Others hold that communal-land tenures and Africans' lack of title to land explain why banks failed to lend them needed funds. Such African institutions and attitudes, these economists suggest, help to explain why Zimbabweans, in common with Africans in countries not characterized by racist policies, failed to amass capital to enter effective competition with foreign settlers and firms. The alleged inability of Africans to accumulate and re-invest capital appears to underpin the widely held assumption that the domestic economy cannot generate the capital necessary to finance the import of new machinery and equipment to enable Zimbabwe to compete in the world market. The logical conclusion follows that Zimbabwe's new Government should pursue policies designed to attract additional foreign capital.

Transforming institutionalists. These include widely diverse political economists, Marxist and non-Marxist, from Gunnar Myrdal to Andre Gunder Frank and Samir Amin. These fundamentally reject neo-classical models and analytical tools as static, incapable of capturing the reality of the institutionalized features of the modern world economy. They focus on the historical evolution of institutional structures that introduce exploitation and monopolistic elements leading to distorted national and international development. Unlike neo-classicists, they view the state and law as always and everywhere intervening in the economy despite

myths and ideologies to the contrary. In general, they endorse a transition to some sort of socialism. Like some neo-classicists, however, they disagree among themselves on critical issues, including the role of class forces and the state in particular historical circumstances, the essential features of the transition process, and even fundamental characteristics of socialism itself. I lump them together as 'transforming institutionalists' because, whatever their differences as to the transition and the ultimate goal, they agree on the present necessity of transforming the inherited state and institutional structures governing the political economy to fulfill the legitimate aspirations of the mass of the population.

The transforming institutionalists' explanation for Zimbabwe's paradox focuses on the historical role of the colonial state, collaborating closely with settlers and the interests of foreign companies, in shaping Zimbabwe's institutions to foster monopolistic minority ownership of the major means of production: the commercial farms, mines and manufacturing sectors. The state employed racist legislation to coerce the African population into a low-cost labour reserve. Land legislation pushed Africans off the best agricultural land into overcrowded Tribal Trust Lands. Discriminatory marketing authorities favoured settler-owned commercial farms. Taxes forced male Africans to migrate in search of wage employment. By the time that the liberation forces won independence, the mere elimination of racist laws could change only the form, not the content, of the institutionalized exploitative capitalist system which had impoverished the mass of the Africans. No individual Africans could ever hope to compete with the powerful settler and transnational corporate capitalist groups which had, over the last century, achieved domination of the nation's major productive assets.

In sharp contrast with liberal neo-classicists, the transforming institutionalists assert that the Zimbabwean economy could, and did, generate growing amounts of investible surpluses. They emphasize that the racist state shaped the institutional framework to ensure that the settler-corporate groups, working in close concert with banking and financial interests, accumulated and re-invested domestically generated capital to strengthen their monopolistic control. In the U.D.I. period, the Smith regime successfully introduced exchange and import controls, tariffs, and joint state-private ventures to help mobilize and direct those surpluses to expand and diversify the manufacturing sector. Transnational corporate capital, operating through its regional headquarters in South Africa, collaborated in this process because:

- (a) the repressive regime kept wages and taxes extremely low, ensuring record profit rates;
- (b) the Rhodesian economy provided a valuable high-priced market for surplus manufactured goods and a useful source of low-cost raw materials for their South African factories; and,
- (c) until the liberation forces emerged as a serious threat in the late 1970s, the transnational corporate managers believed that the Smith regime

would successfully continue to provide a buffer against the 'winds of change' blowing south across the continent.

This 'growth without development' during the U.D.I. period, fostered by extensive state capitalist intervention, provides ample proof, according to the transforming institutionalists, that Zimbabwe's economy did and still can generate significant investible surpluses. This, they conclude, leads logically to a very different conclusion from that of the neo-classicists.

The critical differences between the theories. One fundamental difference between liberal neo-classicists and transforming institutionalists, which affects their proposals for immediate state action, lies in their respective conclusions as to Zimbabwe's ability to generate, accumulate and re-invest capital. Their disagreement over this issue leads them to propose different policies in the immediate future which lead to qualitatively different development strategies.

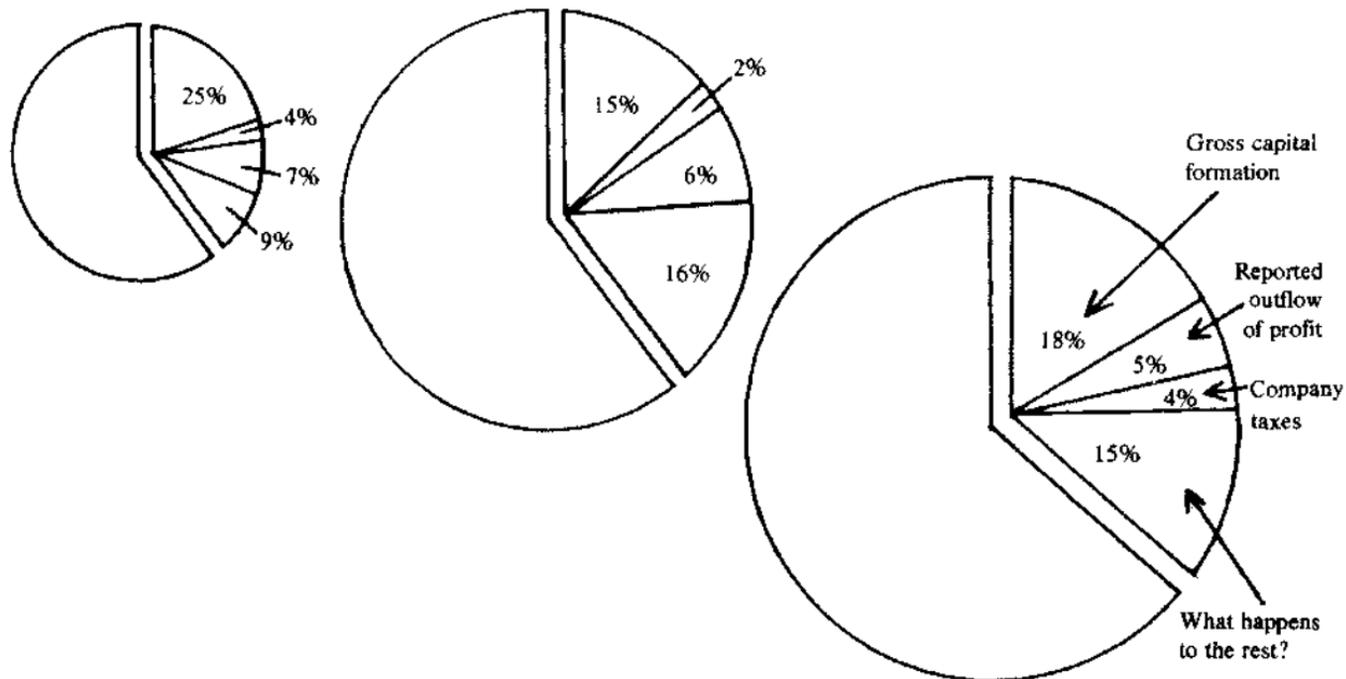
Convinced that Zimbabwe cannot itself generate adequate investible surpluses, neo-classicists urge the creation of conditions necessary to attract transnational firms to invest: a go-slow on land reform, the elimination of foreign exchange and import controls, and the imposition of ceilings on wages and taxes.

Transforming institutionalists claim that the economy can and does generate sufficient investible surpluses. The state, representing the people, must take steps now to implement a major land reform to provide the 850,000 peasant families now crowded into the Communal Lands with adequate land to begin to increase productivity and raise their standards through their efforts. Simultaneously, the Government should assert control over the commanding heights of the national economy and redirect the sizeable locally generated surpluses to finance planned projects to spread increasingly productive employment opportunities to all sectors. In time, it should engage the mass of the people in carrying through a transition to increasingly socialized ownership of the nation's productive assets.

These arguments involve disagreements over innumerable factors too complex to examine in detail here. I propose to limit my examination of the evidence to two questions: Can Zimbabwe generate sufficient capital to finance a more balanced, integrated, self-reliant pattern of development? If so, what happens to that capital? From my answers to these two crucial questions, I will try, briefly, to suggest their implications for the formulation and implementation of an appropriate development strategy for Zimbabwe.

CAPITAL ACCUMULATION AND OUTFLOW

Gathering evidence on these issues is something of a detective job. Banks and financial institutions traditionally shroud their activities in secrecy, claiming confidentiality to protect their clients' interests. During U.D.I. they deepened and extended this secrecy to conceal how the transnational corporate community



1975
 G.D.P. = 100%
 = Z\$1 917 million
 Gross Operating Profit = 45%
 = Z\$833 million

1978
 G.D.P. = 100%
 = Z\$2 231 million
 Gross Operating Profit = 39%
 = Z\$867 million

1980
 G.D.P. = 100%
 = Z\$3 312 million
 Gross Operating Profit = 42%
 = Z\$1 386 million

Figure 2: WHAT HAPPENS TO INVESTIBLE SURPLUSES PRODUCED IN ZIMBABWE?

collaborated with the Government to mobilize funds in Zimbabwe despite U.N. sanctions. The task, then, is to piece together bits and pieces of evidence from widespread sources in an effort to create a coherent picture.

The National Accounts reveal that gross operating profits over the last decade reached between 40 and 45 per cent of the national product, or G.D.P. (Gross Domestic Product) at factor cost. These gross operating profits indicate a rough order of magnitude of the real surpluses produced within the economy and, in principle, available for investment (see Figure 2).⁹ In 1975, the last good year under the old regime, about 25 per cent of the G.D.P. was invested. This represented the minimum that economists in both camps generally consider necessary to initiate self-sustaining growth. By 1978, under the double impact of the international recession and the mounting liberation struggle, investment declined to 15 per cent of the G.D.P., although gross operating profits still accounted for almost 40 per cent. The Smith regime borrowed increasingly heavily to finance its growing military expenses. In the first post-independence year, 1980, investment jumped 80 per cent to reach a somewhat higher share (18 per cent) of a much larger national product. The new Government, however, began to borrow even more to pay for its rapidly multiplying expenditures on social services.

Most locally generated surpluses accrued to transnational corporate affiliates, estimated to control 70 per cent of the assets in the modern sector.¹⁰ During U.D.I., the government exerted considerable pressure on these firms to invest in manufacturing to reduce dependence on imports and augment export earnings. Analysis suggests first that the foreign firms, along with local state and private enterprises, invested in ways which aggravated the dualism plaguing the Zimbabwean economy, and second, that a major portion of the investible surplus was never invested in the economy at all. Stringent foreign exchange controls introduced during U.D.I. restricted the officially permitted net outflow of capital to less than 5 per cent of gross operating profits in 1975.

The former regime set relatively low taxes on companies. Yet, although the companies and their shareholders retained over three-quarters of their reported profits in the country, they actually invested only half of them. Every year, they retained investible surpluses equal to about a tenth of the G.D.P.,¹¹ instead of investing them to expand productive activity. The investment of this additional

⁹ These figures, based on a series of heroic estimates, can be nothing more than indicators of surpluses generated locally. One could argue, however, that they are conservative indicators for they exclude the very high salaries enjoyed by about 8 per cent of all employees. These salaries total about half the nation's wage and salary bill, representing median incomes of Z\$8,000 to Z\$10,000. The salaries exceeding this median, one could conservatively claim, represent the share of investible surplus, perhaps as much as Z\$400 million, paid out to the highest paid salariat.

¹⁰ For discussion on the role of foreign capital in Zimbabwe in global terms, see C. Stoneman, 'Foreign capital and the reconstruction of Zimbabwe', *Review of African Political Economy* (1978), XI, 62-83.

¹¹ These retained surpluses equalled 9 per cent in 1975, rising to 16 per cent in 1978 and 1980.

Table I

THE AVAILABILITY OF UNUSED INVESTIBLE SURPLUSES
IN ZIMBABWE, 1975-1980

	1975		1978		1980	
	Z\$ million	%	Z\$ million	%	Z\$ million	%
Gross Domestic Product (a)	1 917	100	2 231	100	3 312	100
Gross Operating Profits (b)	833	44	867	39	1 386	42
Capital formation (c)	467	25	330	15	596	18
Remittances abroad (d)	79	4	35	2	140	5
Direct taxes levied on companies (e)	138	7	125	6	133	4
Remainder: unused investible surplus produced (f)	187	9	377	16	517	16

Notes:

^aG.D.P. at factor cost paid by resident producers to resident and non-resident factors of production for all goods and services within national boundaries.

^bGross Operating Profit is factor income (after payment of wages and salaries) attributable to factors of production employed but not necessarily owned by the establishment. Part of it is distributed to owners of the factors of production in the forms of investment income (interest, dividends, distributed profits) and to other final recipients in the form of transfer income (direct taxes, pensions, bursaries, etc.). Estimates of the depreciation of capital goods are not currently prepared in Zimbabwe, so the accounts do not give net operating profits. One could argue that the significant investible surpluses returned to the less than 10 per cent of all wage and salary earners who earn about half the nation's wage bill, constitute additional surpluses — perhaps as much as Z\$400 million.

^cGross fixed capital formation is made up of all purchases, lease-hire acquisitions and own-account production of fixed assets, less sales of similar fixed assets, whether for new capital formation or to replace depreciated capital (net capital formation figures are not available). About a tenth of gross fixed capital formation reported in 1975 and 1978 represented residential housing, most of it for the high-income minority; in 1980 investment in residential housing rose 110 per cent over 1979 to 13 per cent of total capital formation. In a society geared to meet the needs of the population, this share could be sharply reduced, permitting redirection of these funds to more productive employment activities.

^dNet investment income paid abroad, as officially reported (profits, dividends, interest, etc.).

^eCompanies, public and private, pay about 60 per cent of Zimbabwe's direct taxes. Of individuals' income taxes, salaries constitute about 80 per cent. Taxes on the investible surpluses returned to self-employed individuals constitute a negligible additional per cent of the G.D.P. (about 1 per cent in 1980).

^fUnused investible surpluses remaining in Zimbabwe are funds remaining after taxes, depreciation and outflow of investment income, either in the hands of companies or individuals. In a Keynesian sense, these may be said to be hoarded, as they are not used for new capital formation.

Source: Calculated from Zimbabwe, *National Accounts of Zimbabwe Rhodesia 1978* (Salisbury, Central Statistical Office, 1980); *Monthly Digest of Statistics: February: 1982: Income Tax Statistics: Fiscal Year 1979-1980* (Salisbury, Gov. Printer, 1981).

investible surplus in 1980—some Z\$517 million—would have almost doubled total capital formation that year. To the extent that companies used these funds to finance internally their working requirements for working capital, rather than drawing on banks, the banks' loanable funds lay idle. The persistent high liquidity of the commercial banks, in other words, reflected in large part the failure of the companies to use available surpluses for new capital formation.

Some economists argue that rising wages significantly reduced the investible surpluses in post-independence years. In 1980, however, the total wage bill grew at a somewhat slower rate than that of Gross Operating Profit. Perhaps more importantly increased minimum wages contributed substantially to the 1981 economic boom, particularly in consumer-goods industries.¹²

Several critical questions remain: What happens to the expanding investible surplus generated annually within Zimbabwe? Why is so much invested in ways which aggravate the inherited dualism of the national economy? Where go those surpluses not invested? The answers to these questions lie, at least in part, in the close links between the banks and the financial institutions which help mobilize and invest the nation's savings, and the transnational corporate interests which, over the years, have drawn on them to finance their growing domination of the modern-sector mines, commercial farms and factories. Let us look briefly at these links.

The inherited financial institutional structure. Dr D.C. Krogh, Governor of the Reserve Bank of Zimbabwe, declared after independence:

Zimbabwe has a financial structure that is more sophisticated than normally found in an economy of this size, which is due to Salisbury previously having served as the financial centre for the former Federation of Rhodesia and Nyasaland. This has been promoted by strict exchange controls over a long period and also the fact that between 1966 and 1980, the country had restricted access to international money and capital markets. A relatively advanced payments system exists and the spread of institutions is such that a very effective mobilization of savings is possible. This has been of significance, not only in facilitating the overall development of the economy, but also in enabling Government to finance its large budget deficits mainly from domestic borrowing.¹³

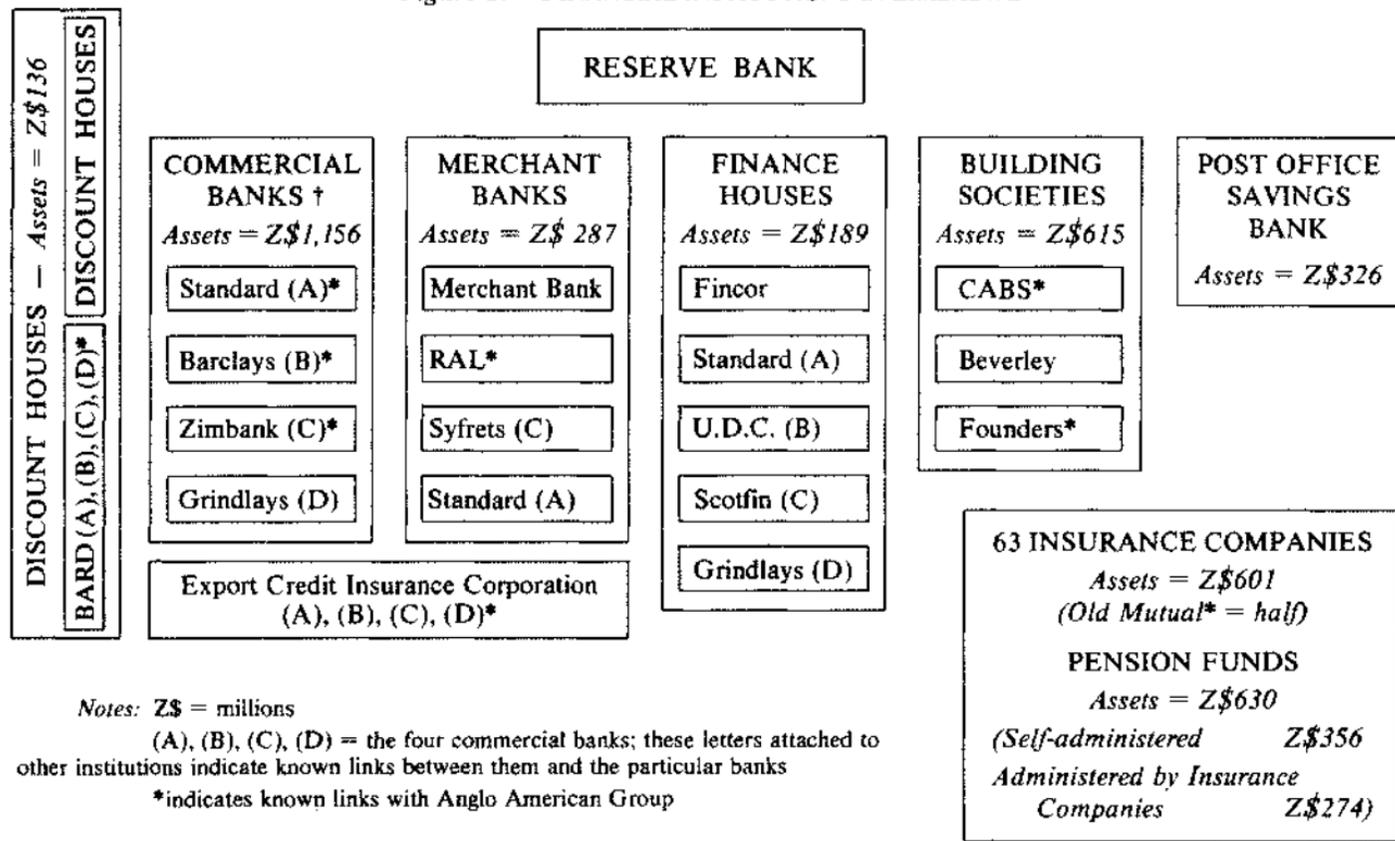
Figure 3 illustrates the bare-bones structure of Zimbabwe's financial institutions. Their assets a year after independence totalled roughly Z\$4,000,000,000, a large sum for a developing country with a population of only eight million.

The Reserve Bank of Zimbabwe remains the government's bank and primary instrument of state intervention in banking and finance. In line with neo-classical prescriptions, it exercises powers typical of most central banks in developing

¹² e.g., *Reserve Bank of Zimbabwe: Quarterly Economic and Statistical Review* (1980), I, ii, 7.

¹³ *Ibid.* (1980), I, i, 8.

Figure 3: FINANCIAL INSTITUTIONS IN ZIMBABWE



Sources: Reserve Bank of Zimbabwe: *Quarterly Economic and Statistical Review* (1982), III, iv; Zimbabwe, *Report of the Registrar of Insurance for the Year Ended December 31, 1982* (Cmd. R.Z. 10, 1983), 5; Zimbabwe, *Report of the Registrar of Pension and Provident Funds for the Year Ended the 31st December, 1982* (Cmd. R.Z. 10, 1983), 3-4.

capitalist economies. During U.D.I., it retained close ties with the South African Reserve Bank, especially after U.N. sanctions cut it off from other internal links. It relied heavily, particularly in the area of foreign exchange control, on the commercial banks.

The Commercial Banks have over Z\$1,000,000,000 in assets, play a central role in mobilizing and re-investing domestic savings. Over the years, especially during U.D.I., they became closely interwoven with transnational corporate affiliates, particularly those of the Anglo American Group,¹⁴ as well as with other financial institutions.¹⁵ At independence, four foreign-owned banks controlled commercial banking in Zimbabwe. The largest, owning over two-thirds of Zimbabwe's bank assets, are Standard and Barclays, both subsidiaries of British banks. During U.D.I. they functioned through their South African affiliates, which in turn own almost two-thirds of South Africa's bank assets; and the Anglo American Group is represented on both their boards of directors in Zimbabwe.¹⁶ The third largest bank in Zimbabwe was Rhobank which owns 16 per cent of the nation's bank assets; the Rhobank shares owned by the South African Nedbank were purchased by the new Zimbabwe Government in 1981 and the bank's name was changed to Zimbank,¹⁷ although its management and policies were to remain unaltered for two years. The fourth bank is Grindlays, which holds only about 12 per cent of Zimbabwe's bank assets; this is owned by National Grindlays Bank, a British bank in which 49 per cent of the shares are held by Citibank, the second largest in the United States.¹⁸

Merchant banks and discount houses, mostly created in the days of Federation, grew rapidly during U.D.I. to help mobilize domestic finance and provide international linkages to foster the continued growth of transnational corporate affiliates, despite U.N. sanctions. They retained and developed close ties with the commercial banks and associated transnational corporate interests with regional headquarters in South Africa.¹⁹

Credit policies of the commercial banks tended over the years to foster transnational corporate and settler domination of the so-called 'modern' enclaves

¹⁴T. Chimombe, 'Commercial Banks in Zimbabwe' (Harare, Univ. of Zimbabwe, Dep. of Economics, Research Project, mimeo, 1982).

¹⁵*Reserve Bank of Zimbabwe: Quarterly Economic and Statistical Review* (1980), I, i, 9.

¹⁶The Anglo American Corporation, the biggest mining finance house in South Africa, actually owns about a third of Barclays South Africa; and Anglo's International Group Chairman sits on the Board of Barclays International.

¹⁷Zimbank's largest shareholders, after Nedbank, had included an affiliate of the Old Mutual, a South African insurance company, as well as Anglo American group affiliates, RAL Nominees, and several pension funds.

¹⁸Zimbabwe, *Monthly Digest of Statistics: March: 1981* (Salisbury, Central Statistical Office, 1981), 33.

¹⁹Anglo American itself established the largest merchant bank, RAL, in 1956. RAL's chairman sits on the boards of about 80 financial and producing companies. Anglo American also owns a third of Bard Discount House Ltd, in which Barclays, Standard, Grindlays and Zimbank all hold shares.

and so contributed to dualism. The Reserve Bank, operating along typical and neo-classical lines, gave them free rein to decide who would receive credit and how much. The commercial banks loaned most of their funds to the private sector. Government's share grew rapidly only in the late 1970s as recession slowed private investment and the Smith regime borrowed heavily to finance its expanding intervention in the economy; it peaked at 29 per cent in 1978 and fell back to only 11 per cent of a much larger share of the total in the post-independence boom. Throughout the 1970s the banks had excess liquidity, that is, the Reserve Bank would have permitted them to lend out far more funds than they did. This reflects the failure of the private sector to invest all the domestically generated capital in productive investment. In 1979, the Reserve Bank raised the required minimum of liquid assets that the banks must hold, but this merely masked their inability to contribute positively to investment.

Table II

PUBLIC AND PRIVATE SECTOR LOANS MADE BY COMMERCIAL
BANKS IN ZIMBABWE, 1968-1981
(AS PERCENTAGES OF TOTAL LOANS)

	<i>Private Sector Corporate and Unincorporated Enterprise</i>	<i>Private Persons</i>	<i>Non- Resi- dents</i>	<i>Public Sector</i>	<i>Unallowed and Timing Adjust- ments*</i>	<i>Total (Z\$ millions)</i>
1968	82	13	1	16	4	109.0
1978	67	7	3	29	-6	255.8
1981	73	22	4	11	-8	453.0

* The total private and public sector loans exceeded 100 per cent in 1978 and 1981 because of a growing unexplained *minus* figure under 'unallocated and timing adjustments', which rose to Z\$16 million in 1978 and Z\$40 million in 1981.

Source: Calculated from Central Statistical Office, *Monthly Digest of Statistics: February: 1982*, 59 (Table 19.2); Clarke, *Foreign Companies and Investment in Zimbabwe*.

After independence, the national economy began to experience significant inflationary pressures. The Reserve Bank raised the interest rate twice in 1981, apparently accepting the I.M.F.'s conventional explanation that the commercial banks, by expanding credit too rapidly, fostered the growth of the money supply at a pace exceeding that of the production of goods. But the causes of the inflation lay, primarily, in the rising cost of imported goods, and in the government's increased domestic borrowing necessary for financing expanded social services, unless it were to resort to higher taxes. The Reserve Bank had no powers to deal directly

with these underlying causes of inflation. Instead the interest rate was raised but this in turn raised the cost of financing government's growing internal debt, and reduced the ability of smaller would-be entrepreneurs, many of them African, to borrow funds.

Allocation of credit by the commercial banks acting in collaboration with their corporate clients tended to aggravate the economy's dualism. They loaned funds primarily to clients in Salisbury and Bulawayo (60 per cent of all loans and 14 per cent of all advances were made in these two centres), re-inforcing factors fostering location of almost three-quarters of manufacturing industries in those two cities. Their sectoral loans (see Table III) likewise fostered the distorted growth pattern. They went mostly to commercial farms, manufacturing, finance and insurance, and distribution, all dominated by transnational corporate investments. The transnational mining firms relied heavily on re-investing and their own internally generated surpluses, rather than bank borrowing.

Table III

COMMERCIAL BANK LOANS TO THE PRIVATE SECTORS
IN ZIMBABWE

	1968	1979	1981
	%	%	%
Agriculture	25	10	20
Mining	4	5	9
Manufacturing	19	20	35
Construction	2	3	1
Finance and insurance	9	18	19
Distribution	20	24	11
Others	16	22	5

Several factors may explain the changes in the sectoral pattern of the commercial banks' allocation of credit over the past decade. Agricultural loans, almost entirely to commercial farms, declined during U.D.I. as the government stepped in to help that ailing sector by subsidizing particular crops most affected by sanctions, providing some Z\$136 million, from 1968 to 1977, to tobacco farms alone. The state-owned Agricultural Finance Corporation roughly tripled its loans to commercial farms, from Z\$43.6 million in 1968 to Z\$121 million in 1979. In 1980-1, as the commercial farms recovered, the banks also extended credit to them. The mining sector apparently depended heavily on self-financing. A senior

official of Anglo American explained²⁰ that the Group affiliates always sought to use funds accumulated in Zimbabwe, rather than bring finance from South Africa. The Group transfers funds from well-established prosperous projects to others just getting started or suffering losses. It uses its extensive ties with the banking structure only when necessary. It sometimes actually makes short-term loans to the banks. Manufacturing, though dominated by foreign capital, drew heavily on locally generated investible surpluses through the banks to finance its rapid growth throughout U.D.I. The banks also used their international ties to help industry to finance the import of machinery, equipment and intermediate goods despite U.N. sanctions. In the post-independence boom, manufacturing borrowed even more heavily to finance its expanding needs for working capital.

Commercial banks' loans to the finance and insurance sector grew relatively, as well as absolutely. This reflects the role of the commercial banks in the profitable business of other financial institutions especially merchant banks and discount houses, which engage in activities that they cannot undertake themselves.

Other financial institutions, such as insurance companies, pension funds and building societies, work in close contact with the transnational banks in mobilizing and re-investing domestically generated capital. During U.D.I. the insurance companies, prohibited by the Smith regime from shipping their profits home or investing outside Zimbabwe, made their vast accumulated funds, over Z\$600 million by 1979, available primarily to large transnational corporate affiliates and to the government.²¹ Two-thirds of the 63 direct insurers in the country have their headquarters in either Britain (19) or South Africa (20). The largest, The Old Mutual, based in South Africa, handles roughly half the nation's insurance business. Re-insurance is a major device by which insurance firms may transfer domestically generated funds to their parent companies.²² Zimbabwean re-insurance premiums on non-life insurance alone, totalled Z\$25 million in 1979, before the post-independence boom—a potentially significant drain of domestic savings out of the country. Zimbabwe insurance companies also paid almost Z\$12 million from 1977 to 1979 as 'management expenses' to their parent companies abroad.

Pension Funds, made up of employers' monthly deductions from employees' salaries along with their own (tax deductible) contributions, expanded rapidly

²⁰ R. Lander, interview with N.S. Makgetla, May 1981. This apparently differs from the case in Botswana, where the mining sector relied heavily on bank finance for working capital. See N.S. Makgetla, 'Finance and development: The case of Botswana', *The Journal of Modern African Studies* (1982), XX, 69–86.

²¹ The information on insurance companies is derived from T. Chimombe *et al.*, 'Insurance Companies in Zimbabwe' (Harare, Univ. of Zimbabwe, Dep. of Economics, Pilot Research Project, mimeo, 1982); figures later than 1979 have not yet been published.

²² R. Murray (ed.), *Multinationals beyond the Market: Intrafirm Trade and the Control of Transfer Pricing* (Brighton, Harvester Press for Univ. of Sussex, Inst. of Development Studies, 1981), 92.

during U.D.I., adding workers' savings to the capital available to transnational corporate affiliates.²³ By 1980, pension fund assets totalled Z\$630 million. Again, managers of these funds, in liaison with insurance companies, which handle nearly 45 per cent of the assets of Funds, and with banks, make all policy decisions relating to the distribution of benefits and investments. These pension funds tend to benefit higher-paid and long-serving employees which is often to the disadvantage of African employees.

Managers of pension funds have within broad guidelines loaned the required minimum to government. They invested over half the funds in shares, loans or acquisition of properties for firms in the modern sector—often transnational corporate affiliates. By 1980, they had also invested almost Z\$30 million outside Zimbabwe; the Railway Pension Fund, alone, for example, had invested Z\$24 million of the railway-workers' savings abroad!

The three building societies, created through a series of mergers during U.D.I., channel would-be home-owners' savings into investments in commercial and residential housing.²⁴ By 1981, they had accumulated Z\$615 million in assets. They lend about a fifth to government. Most of the rest constitute mortgages in major urban centres, primarily for high-income home-owners and commercial enterprises. Shareholders and directorships tie all three societies to the major foreign-owned insurance firms: CABS to the Old Mutual, Beverley to Pearl Assurance, and Founders to Guardian Royal Exchange Insurance and Commercial Union Fire Marine and General Insurance. The societies typically require their mortgage-holders to insure with these firms, a major source of insurance and re-insurance premiums which may, as I have mentioned, drain capital out of the country.

The outflow of nationally generated investible surpluses. As former colonies have achieved independence, transnational corporations, with the assistance of associated financial institutions, have devised many methods to evade government-imposed exchange controls and so to drain domestically generated surplus out of the economy. Zimbabwe's National Accounts suggest that this has occurred here, too, and increasingly so, both relatively and absolutely, since independence!

Table IV shows that the outflow of funds, in the form of business and holiday allowances, investment income, salaries, pensions, migrants' funds and property incomes paid abroad, almost doubled, in absolute terms, from 1978 to 1980. If one adds half that amount to the Z\$150 million possibly siphoned out through over- and

²³ The information on pension funds is derived from T. Chimombe *et al.*, 'Pension Funds and the Accumulation of Capital in Zimbabwe' (Harare, Dep. of Economics, Pilot Research Project, mimeo, 1982).

²⁴ The information on building societies is derived from T. Chimombe *et al.*, 'Building Societies in Zimbabwe' (Harare, Dep. of Economics, Univ. of Zimbabwe, Pilot Research Project, mimeo, 1982).

Table IV
**INCREASED INVISIBLE OUTFLOWS ON ZIMBABWE'S
 NATIONAL ACCOUNTS, 1976-1980**

	1976	1978 (Z\$ millions)	1980
Business and holiday allowances	44.3	51.4	92.2
Investment income	61.2	47.7	82.9
Labour income	12.8	13.3	22.8
Pensions	5.3	7.7	29.7
Migrants' funds	16.8	15.0	23.9
Property income	3.7	4.9	8.8
Other private transfers	10.7	10.3	17.4
TOTAL:	154.8	150.3	276.9
As % of exports	27.7	24.7	30.4
As % of investible surplus	17.5	17.5	19.9

Source: Calculated from the Central Statistical Office, *Monthly Digest of Statistics: February: 1981*, 13 (Table 9.1).

under-invoicing,²⁵ then, in 1980 alone almost Z\$300 million, almost a fifth of the domestically generated investible surpluses, may have been drained out of the country. Zimbabwe, since independence, is estimated to have attracted less than Z\$25 million in new foreign capital investments.²⁶ In contrast, the funds drained out of the economy might easily have financed the Government's deficit of \$253 million in 1980, leaving more than \$100 million over to invest in building some dozen new factories in rural areas.

The conclusion from the above evidence must be that Zimbabwe does generate sufficient amounts of investible surpluses, amounting by 1980 to over Z\$1,300,000,000. Invested in a planned way in balanced agricultural and industrial development in the past, these funds over the years could have provided significant increases in productive employment opportunities and higher living standards for the impoverished Zimbabwean majority. Instead, transnational banks and financial institutions mobilize these domestic savings primarily to enable transnational corporate affiliates to finance the more profitable growth of the 'modern' enclaves. Government borrowed some of the remainder which it

²⁵ Estimates based on studies done elsewhere show that sums equivalent to 10 per cent of imports and 15 per cent of exports are transferred out of the typical Third World country in this way; see Murray, *Multinationals beyond the Market*, 305-6.

²⁶ A.M. Hawkins, 'New African Markets: Zimbabwean Business Opportunities' (London, International Conference on the Investment Opportunities in Zimbabwe, 1981).

would ultimately have to repay with interest. Insofar as they could evade exchange controls, the transnationals shipped a significant share of the rest out of the country to their regional headquarters in South Africa and beyond.

THE IMPLICATIONS FOR ZIMBABWE'S DEVELOPMENT STRATEGY

Based on their different explanations, liberal neo-classicists and transforming institutionalists propose immediate measures leading to qualitatively different long-term development strategies.

Neo-classicists conclude that, if Zimbabwe cannot generate enough capital, it must create an 'attractive investment climate'. Only that, they say, will bring in necessary foreign capital with its modern technologies, management and international markets. Thus they recommend low wages and low taxes on profits, and the elimination of exchange and import controls. The government should build infrastructure, and, if necessary, it may participate in joint ventures to get projects started. Some neo-classicists hold that tariff protection will attract foreign investment in manufacturing. Others, asserting that tariffs permit foreign monopolies to maximize profits by raising domestic prices, urge tariff reduction. Basically, however, all these prescriptions assume that transnational corporate institutions must continue to make essential investment decisions.

Transforming institutionalists claim that two decades of experience in independent African states, not to speak of Zimbabwe's own circumstances, teach a different lesson. The neo-classicists simply advise Zimbabwe to join almost fifty other independent African states in competing for foreign capital. Over the last two decades, none of them has won that competition; in the first year of independence, Zimbabwe 'attracted' less than Z\$25 million in foreign investment. But South Africa, where apartheid oppression still ensures minimal wages and taxes, has 'attracted' over half the continent's transnational corporate manufacturing investment. Furthermore, a development strategy that would dismantle the exchange and import controls imposed after U.D.I. would merely facilitate the more rapid outflow of domestic savings. Most African governments, adopting this neo-classicist recommendation, today confront mounting balance of payments deficits aggravated by the drain abroad of profits, interest and dividends. Like Zimbabwe, committed to financing improved social services while keeping taxes down, they have had to borrow heavily, both internally and externally. Inflationary pressures have multiplied, sharply reducing the living standards of the mass of their populations. They have sunk deeper into a quagmire of external dependence, weighed down by international debt repayments accompanied by soaring interest rates.²⁷

²⁷ S. Griffith-Jones and D. Seers, 'Monetarism and the Third World', 6-13, describe a series of Latin American cases to illustrate these consequences of the I.M.F.'s typical neo-classical recommendations.

The transforming institutionalists, therefore, argue that Zimbabwe does not need to attract foreign capital. Instead the government should take control of the commanding heights of the national economy: the basic industries, foreign trade, and financial institutions. This would enable it to capture and redirect its own locally generated funds to a more balanced, integrated pattern of development to meet the people's needs. Transforming institutionalists do not, of course, pretend to possess ready-made blueprints for this kind of strategy. As an old friend of mine, a Polish economist, who headed the Economics Department of the University of Ghana when we were there back in the days of President Nkrumah, once said to me:

Implementing capitalist-orientated development strategies is relatively easy. You just leave the institutions and market forces to go on functioning as they have in the past. Building socialism is much more difficult. You must plan the details of proposed agricultural and industrial projects to restructure the national economy. At the same time, you must fundamentally alter the inherited state and institutional structures to ensure the plans are carried out.

The formulation of a long-term development strategy for Zimbabwe, and the design of the institutional changes required to implement it, necessitates extensive interdisciplinary research. That research must concern not only the kind of changes to be made but, once they have been implemented, their consequences. My observation as to the implications of this discussion for Zimbabwe's development strategy, therefore, might be viewed as no more than a tentative agenda for research. That research could fruitfully engage all the faculties of this university for years to come. Let me briefly make some observations concerning, first, the critical areas of institutional change identified by transforming institutionalists as essential to the carrying out of their alternative development strategy; and, second, some ingredients which they suggest could be incorporated over the next twenty years into that strategy, once those changes have been made.

First, as to the institutional changes required to lay the foundations for restructuring the national economy. The state, representing the wage-earners, peasants and the unemployed — the mass of the population — must quickly take control of the commanding heights of the national economy. I will not attempt, here, to evaluate the steps that have, or might have, to be taken to ensure that the state represents, and responds to, the concerns of the majority. I leave that task to our colleagues in Political Science. Self-evidently, however, the whole transformation process will involve an on-going clash between the interests of the disinherited majority and those enjoying the status quo: commercial farmers, civil servants, transnational corporate managers and directors, all those who live in the Mount Pleasants of the nation. A 'silent class struggle'²⁸ will emerge over every

²⁸A term coined by I. Shivji, *The Silent Class Struggle* (Dar es Salaam, Tanzania Publishing House, 1976).

proposed new change. Government control over basic industries, foreign and internal wholesale trade, and banks and financial institutions may favour one side or the other in the silent class struggle. Transforming institutionalists caution that unless government builds two-way channels to hear from and respond to the needs of the masses, its decisions may favour not the disinherited, but the old and the newly emerging ruling classes.

Under the exigencies of U.D.I. the previous regime intervened extensively in basic industries through its participation in parastatals like the Industrial Development Corporation and the Rhodesian Iron and Steel Company (now ZISCO). It did so in the interests of the ruling minority. Transforming institutionalists suggest careful analysis of these forms. Government should now extend and redirect its intervention to reduce transnational corporate control over investment decisions and reshape basic industry to help restructure the national economy.

In the area of foreign trade, transforming institutionalists urge the strengthening of the inherited foreign exchange and import controls to retain domestically generated capital and redirect it to investment in more appropriate planned projects. The state also needs to create new institutions to intervene more — not less — directly in foreign and internal wholesale trade, first to reduce dependence on South Africa and the transnationals based there, and secondly, to develop new trade links to facilitate the proposed national transformation. The new Minerals Marketing Authority constitutes one such innovative approach. Government intervention should strengthen the nation's ability to bargain with transnational corporate buyers and suppliers of technology and other imports. It may seek alternative trading partners among socialist, Third World and competing capitalist countries. Government could also direct new institutions to augment foreign exchange earnings by processing the nation's hitherto crude exports.

The transforming institutionalists maintain that the key role of the intertwined foreign-controlled banking and financial complex in mobilizing nationally generated surpluses necessitates direct state intervention. Only state participation can ensure the re-direction of these surpluses to planned projects. Direct government participation in banks would provide an instrument for checking on the accumulation of capital by productive enterprises and monitoring the extent to which their expenditure contributes to the fulfilment of national plans. Nationalization of insurance firms, pension funds, and building societies, as in other African states, would enable the state to broaden the services that they perform in order to meet the needs of the entire Zimbabwean population. It would also ensure the investment of their accumulated domestic savings to meet national needs.

Transforming institutionalists underscore the necessity of accompanying these institutional changes with an effective tax programme, supplemented by an effective incomes policy and a leadership code. On the one hand, the inherited pattern of distributed profits, high salaries and 'perks' still enriches a narrow minority in the civil service, parastatals and the private sector. On the other, the 12

per cent sales tax throws much of the burden of government spending on the lowest-income earners. A carefully designed tax programme, in the context of a policy designed to reduce these income differentials could:

- (a) provide government with increased revenues to finance its current budget for expanded social and infrastructural services;
- (b) contribute to a minimum 'development budget' to enable government itself to participate in financing key industrial and agricultural projects; and,
- (c) give government the instruments to guide effectively additional private sector investment in projects planned in the context of its overall development perspectives.²⁹

My second set of observations concern the resource-allocation aspects of the kind of long-term strategy that transforming institutionalists might recommend. All the proposals for institutional change presuppose that the national planners will, in fact, formulate such a strategy — initially say, for twenty years — to transform the national economy to spread employment opportunities and raise the living standards of all Zimbabweans.³⁰

In the short term such a strategy might provide inputs, markets and credit facilities to stimulate the expansion of small-scale African-owned rural and informal-sector industries, such as tailoring, carpentry, brickmaking and shoe-making, for example. These could provide jobs while producing consumer necessities for the low income population.³¹ Government intervention should prevent modern factories from competing with these smaller projects, and, indeed, re-shape the manufacturing sector to produce appropriate tools and other inputs, wherever possible by using local resources, to help these smaller industries to increase their productivity. At the same time modern factories could continue to produce more complex inputs for, and increasingly process the outputs of, the mining and large-scale farm sectors for domestic use as well as for exports.

Over a longer time-span, Zimbabwe's embryonic steel, engineering and chemical industries might expand as the nucleus of an intermediate and capital goods sector in order to reduce the economy's dependence on imported machinery,

²⁹ Private investors could choose to pay fairly heavy tax rates or invest in planned projects, such as increased production of specialized crops on unutilized commercial farm lands, the location of industrial projects in rural areas to produce appropriate inputs for the manufacture of consumer necessities and tools and equipment in order to raise rural productivity, or the processing of mineral and agricultural raw materials for domestic use and for export in order to augment foreign exchange earnings in the context of S.A.D.C.C.'s regional development strategy.

³⁰ For more detailed suggestions, see A. Seidman, 'Zimbabwe Needs an Industrial Strategy' (Salisbury, Univ. of Zimbabwe, Dep. of Economics, mimeo, 1980); see also A. Seidman, *Planning for Development in Sub-Saharan Africa* (New York, Praeger, 1974).

³¹ Univ. of Zimbabwe, Dep. of Economics, 'Rural Industries in Zimbabwe', and 'A Survey of Small Scale Industries in the Informal Sector' (Salisbury, Univ. of Zimbabwe, Dep. of Economics Pilot Research Projects, mimeos, 1981).

equipment and basic materials. Here, transforming institutionalists agree with neo-classicists. Zimbabwe by itself lacks an adequate market for efficient capital goods industries fully utilizing modern economies of scale. Zimbabwe's population, though inhabiting an area twice that of England, is smaller than that of London. The low incomes of most Zimbabweans limit potential domestic sales. To build basic manufacturing industries, therefore, Zimbabwe requires some form of export.

Transforming institutionalists fundamentally disagree, however, with neo-classicists, who, like transnational corporate managers, urge relaxed foreign exchange controls, low wages and low taxes so that Zimbabwean factories can compete on the world market. Relaxed foreign exchange controls, they point out, would foster the import of machinery and equipment to expand the existing distorted industrial sector, aggravating their capital-intensive features and diminishing their employment potential. Holding down the wages of the lower-paid workers would not only run counter to efforts to improve the workers' living standards, but also thwart the growth of the domestic market for new industries more appropriate to the people's needs. Elimination of tariffs and import controls altogether, as some neo-classicists urge, would enable transnational corporate mass-production industries, based in developed economies elsewhere, to squeeze domestic industries out of business altogether. In the case of Zimbabwe, furthermore, unplanned expansion of manufactured exports to compete in the international market is doomed to failure because:

- (a) the developed countries impose protective barriers against imported manufactured goods;
- (b) South Africa, which has been buying a major share of Zimbabwe's manufactured exports, has threatened to end Zimbabwe's preferential status. In any event, the new Zimbabwe Government seeks to lessen the national economy's dependence on South Africa; and,
- (c) Zimbabwe's neighbours, operating under similar conditions, manufacture similar products. They will resist competitive penetration of their national markets, justifiably complaining that Zimbabwe seeks to achieve industrial growth at their expense.³²

Thus, by pursuing this path, Zimbabwe alone could never succeed in building the capital-goods industries required to achieve self-reliant development. It would inevitably remain externally dependent on transnational corporate exports from their factories in South Africa or elsewhere.

³² In the same way, Kenya's refusal to agree to planned regional expansion led to the imposition of transfer taxes, essentially internal tariffs, which constituted a major step towards the ultimate breakup of the East African Common Market; see A. Seidman, 'Towards Integrated Regional Development in Southern Africa' (Salisbury, Univ. of Zimbabwe, Dep. of Economics, mimeo, 1980); for discussion of how a common market aggravates uneven regional development, and of the East African Common Market experience with details of factors leading to its breakup, see A. Seidman, *Comparative Development Strategies in East Africa* (Nairobi, East African Publishing House, 1971).

These arguments underpin the proposition endorsed early by the new Zimbabwe Government, that this country should co-operate with its S.A.D.C.C. neighbours to build intermediate and capital-goods industries. The S.A.D.C.C. countries, joined together, enjoy far greater capacity than does any one of them, alone, to build essential basic industries.³³ They can and do produce many of the required inputs: iron, copper, lead, nickel, chrome, and other ores; agricultural crops, from sugar and cotton to vegetable oils; and all forms of energy, including coal, hydro-electric power, oil and even uranium. Combined, they enjoy a joint market of 50 to 60 million people with spending power of Z\$20,000,000,000 or more. They annually generate, between them, over Z\$5,000,000,000 in investible surpluses. United, they could bargain far more effectively with transnational corporations and socialist and other Third World sources, for additional capital, technologies, markets and, if necessary, managerial personnel.

In short by the first half of the twenty-first century, S.A.D.C.C. members collectively could build the basic capital-goods industries needed to transform their separate economies into a united, self-reliant industrialized region. In time, each member country could build pole-of-growth industries based on its comparative resource advantages, and utilizing the full range of available economies of scale. S.A.D.C.C. member states, drawing on engineering and other faculties of member universities, could build a regional body of technical experts, supplemented if necessary by contracted personnel, to undertake the necessary feasibility studies. Without these, of course, one can only conjecture as to the industries appropriate for each country: for example, Zimbabwe might expand its iron and steel output along with associated fabricating and engineering industries; Zambia might develop its copper smelting, refining and ultimate fabrication of copper and brass products; Angola could build a petrochemical complex; Botswana might establish a tannery and produce leather products; Moçambique could build ship-yards and construction industries. More 'footloose' industries, like transport equipment and machinery and plants for further processing of petrochemical outputs might be located complementarily throughout the region. The use of standardized parts and equipment in all projects wherever possible would facilitate their eventual local production at later stages. The key point would be avoid duplication and competition. National planners could then maximize internal linkages to stimulate the growth and productivity of agriculture and smaller domestic industries. The critical issue is not which project might ultimately prove suitable for each state. Rather it is how to co-ordinate the planning and mobilization of national and regional surpluses to finance such planned projects in every country, guaranteeing the essential regional market for their output at prices adequate to assure their viability.

³³ S.A.D.C.C., 'Industrial Co-operation' (Blantyre, S.A.D.C.C. Conference, presented by the Tanzanian Government, 1981). See also Seidman, 'Towards Integrated Regional Development in Southern Africa'.

Zimbabwe and the neighbouring member states of S.A.D.C.C. can achieve such goals, of course, only if they can reach the necessary minimum threshold of inter-state co-operation required to formulate and implement a long-term regional development strategy. They have already agreed in principle to build joint infrastructural projects, co-ordinate their national plans, and create a regional development bank. Our preliminary research in the Economics Department suggests, in addition, that pairs of neighbouring member states of S.A.D.C.C. may be able to accelerate progress towards attainment of the necessary minimum threshold of co-operation by setting up permanent negotiating committees that meet regularly to reach bilateral and multilateral trade-and-payments agreements to expand regional trade without using hard currencies. Zimbabwe, for example, might reach a contractual arrangement with Mozambique to sell manufactured consumer necessities, tools and equipment in exchange for the shipping cost it incurs as it shifts trade from South African ports to Beira and Maputo. Numerous other examples might be suggested. For example, Zimbabwe might also negotiate a long-term contract with Botswana to buy processed Magadi salt and sulphur (now burned off at Selebi-Pikwe) for its chemical industry, in exchange for manufactured goods that Botswana now imports from South Africa; it is estimated that Zimbabwe already produces some 80 per cent of the manufactured goods that Botswana currently buys from South Africa. Botswana already freights Selebi-Pikwe copper-nickel matte to Bulawayo for processing, instead, as previously, of shipping it through South African ports to AMAX's Louisiana refinery. Zimbabwe might also arrange with Zambia to exchange steel, produced by the parastatal, ZISCO, for copper bars and rods manufactured by Zambia's parastatal, SAMEFA, as well as other items.

Bilateral agreements of this kind might create greater mutual trust and co-operation needed to extend, for example, the Zimbabwe-Zambian electricity authority to include Mozambique, with its vast Cabora Bassa hydro project, on one side, and Botswana, with its Marapule coal plant, on the other. The construction of a regional electricity grid could facilitate expanded industrial production while reducing dependence on South African and transnationals based there. Such a regional power grid might enable Zimbabwe, at least for the present, to forgo construction of the second stage of the Wankie thermal plant, avoiding the currently proposed heavy external borrowing of Z\$1,000,000,000 or more. Instead, Zimbabwe could draw on contractually guaranteed power generated by two of its neighbours. Botswana, likewise, could import power from its S.A.D.C.C. neighbours for its new Jwaneng Diamond Mine rather than, as now planned, renewing its dependence on South Africa for power imports. Botswana constructed the Marapule coal plant at great expense to end imports from South Africa; but the Marapule plant could not be expanded without further heavy expenditures which Botswana does not consider justified at this time. The recollection that Zambia and the then Rhodesian regime continued, despite diametrically opposed political

perspectives, to exchange contractually agreed power supplies throughout the period of U.D.I. should help allay fears that Zimbabwe might become too reliant on Mozambique or Zambia for imported power. Over time, bilateral and multilateral arrangements could help to build up a body of co-operative experience and mutual trust, contributing to the creation of the more permanent regional institutions required to implement a long-term regional strategy.

SUMMARY AND CONCLUSIONS

Zimbabwe, today, confronts an inherited paradox characterized by enclaves of great wealth in a sea of poverty. Liberal neo-classicists tend to locate the cause in the racist policies of the previous regime, combined with traditional African attitudes and institutions which, they allege, hamper domestic capital formation. They, therefore, propose elimination of racist policies and new government measures to open the economy to international market forces in order to attract foreign capital.

The evidence, however, seems more consistent with the explanation offered by the transforming institutionalists. The previous colonial capitalist state shaped racist institutions to coerce Africans into a low-cost labour force to work the farms and factories owned by settlers and the transnational corporations. These annually produce huge surpluses. Transnational corporate affiliates, collaborating closely with foreign-dominated banks and financial institutions, mobilized and channelled part of these domestically generated surpluses into investments in profitable enclaves, aggravating the dualism inherent in the whole system. Especially as independence neared, they have devised a variety of means, despite foreign exchange regulations, to ship as much as possible abroad.

The transforming institutionalists' explanation, substantiated by a considerable body of evidence, logically leads to a very different approach to development. Acting on behalf of the working people, the state should restructure the inherited sets of institutions, especially those controlling the commanding heights: basic industries, foreign and internal wholesale trade, and banks and financial institutions. The state could then utilize these to capture and redirect the domestically generated surpluses to finance a long-term industrial strategy designed to spread productive employment and raise living standards. A landlocked, economically small country like Zimbabwe, however, cannot support the capital-goods industries ultimately required to build a self-reliant economy. Therefore, in the context of S.A.D.C.C., the national government and its neighbours should move to achieve a minimum threshold of co-operation. By the first half of the twenty-first century, their united efforts, backed by their plentiful combined resources, capital and markets, could transform the regional economy into a modern balanced, integrated, industrialized area capable of providing high living standards for all its inhabitants.