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**ECONOMIC MANAGEMENT AND ADJUSTMENT POLICIES
IN MOZAMBIQUE**

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INTRODUCTION

This paper explores the policy choices and constraints in managing adjustment policies in Mozambique--a country confronted by a deep economic crisis and ravaged by a war of aggression and of economic destabilisation waged by the South African regime. The Economic Recovery Programme (ERP)--initiated in 1987 by the Mozambican authorities after negotiations with the IMF and the World Bank--provided an economic policy framework for adjustment policies to be implemented over the period 1987-89.

Economic reforms aim to restructure the patterns of accumulation and of distribution within an economy, and consequently, such reforms affect the structure of livelihoods of its population. In this sense, macro economic reforms can never be looked upon as merely a set of neutral policy measures aimed at achieving greater efficiency and economy in the allocation and use of resources. The content of economic reforms invariably matters in shaping the process of economic and social development as well as the balance of political forces. Macro economic management sets the scene within which these developments take place. The question of the policy debate which informs such management; of the convergence and conflict of different interests which propel it; and of effective control over and the capacity for state action; is therefore a key issue in the analysis of economic reforms. It is with these issues that this paper is mainly concerned in looking at the experience of adjustment policies in Mozambique.

Hence, this paper is not primarily concerned with providing a factual account of the ERP experience up to date or with the measurement of its economic impact and of its social consequences. In any case, data are extremely scarce and often of doubtful quality. Whenever necessary, references will be given to the few analyses available on these matters (1). Rather, the paper addresses the crucial issue of economic management in the context of adjustment policies. In doing so, it should be noted that the Mozambicans are of course in no way responsible for the interpretations of policy documents and/or arguments presented in this paper. The ERP provides an economic policy framework for macro economic management which reflects a complex platform of different interests. At one level it is the outcome of an internal need for economic reforms: i.e., the

need to reverse the decline in production and to tackle the question of economic rehabilitation in a context of war. At another level it reflects the demand for 'adjustment' from international creditors at a point where the external payments gap reached crisis proportions and credit worthiness had collapsed. IMF and World Bank conditionally played and continues to play an important role in the design and management of adjustment policies. Both views on adjustment do not necessarily coincide, and indeed there is considerable scope for sharp divergences of view on the content of adjustment policies. But neither is it merely a question of a simple opposition between two adversaries in negotiations, each with a relatively homogenous policy stance.

The IMF/World Bank view on adjustment is well known and widely debated and need not be elaborated here. Suffice to stress one point which is of interest to the arguments developed in this paper. The IMF and the World Bank tend to present their policy stance on adjustment as a matter of technical economic necessity: cost and efficiency rather than effectiveness (content) are being highlighted and debated as the crux of the problem. Consequently, adjustment policies are located within the domain of technical economic expertise and hence, planning, decision making, resource allocation and the evaluation of performance must come to be seen in management terms. This conception of adjustment as a set of neutral policies for greater efficiency is instrumental in creating a domain where technical expertise can come to dominate political debate (2,3).

The question of the internal need for economic reforms requires further clarification. In fact, conservative economists in the West tend to see economic reforms which involve the recognition or development of the market as evidence of the inherent superiority of 'market forces', whatever the context in which they are set. The question of developing viable socialist planning methods which recognise the market where it exists, and aim to intervene to influence such markets and to incorporate them within broader strategic objectives, is therefore put aside. However, such planning methods are essential in poor socialist countries with extensive peasant farming sectors, for all such Third World countries contain markets which must be recognised and acted upon, not ignored (Mackintosh and Wuyts, 1988:136).

In the case of Mozambique the pressure for economic reforms gathered momentum as the party Frelimo prepared for its Fourth Congress (held in April 1983). The rapid escalation of the war brought home the need for organising a war economy. But also, and importantly, the war accentuated some real weaknesses and vulnerabilities inherent in the system of central planning and of bureaucratic state finance operative from 1977 onwards (when the Third Congress laid down the strategy of socialist development). The question of economic reforms became a major point on the political agenda as a result of these developing contradictions. In Section 1 of this paper I shall briefly analyse this issue of the internal demand for economic reforms as a background to as well as a prelude to the ERP.

Subsequently I shall discuss three major issues concerning the question of economic management in the context of ERP. These issues highlight the need to evaluate 'adjustment' policies in a broader framework of economic management which reflects specific interests and which needs to respond to the concrete political and economic imperatives.

Firstly, in section 2 I shall address the question as to the relation between the economy and defence and its implications for adjustment policies. Adjustment in a context of war needs to come to terms with the necessity to organise for a war economy. This matters both with respect to the character of adjustment policies as well as to the rate at which recovery can take place. I shall argue that this issue is not properly recognised in IMF or World Bank reports although the Mozambican authorities clearly see it as a prime concern.

Secondly, section 3 addresses the question of public provisioning and of sustaining/rehabilitating livelihoods in a context of adjustment policies in an environment of war. This raises not only the issue of preserving the socialist character of needs provisioning, but also the question of the timing and the scope of state intervention in dealing with the adverse effects of the war.

Finally, section 4 deals with the question as to what extent the ERP and its dependence on foreign funding engender an effective erosion of the state's capacity to manage the economy in general, and the public sector in particular. This entails not merely the restrictions imposed on national economic management by IMF/World Bank conditionality and a bewildering maze

of micro restrictions on the use of foreign aid funds by different agencies-governmental or non-governmental alike. It also involves the pressure to shift control over public expenditures away from the general state administration towards donor-funded and donor-controlled selective interventions.

The year 1983--in which the Fourth Congress of Freilimo was held--marked a critical watershed in the post-independence development of Mozambique. This was the case not only because the Fourth Congress was to make an assessment of the experience to pursue a socialist strategy since 1977--the year in which the Third Congress laid down the task of developing a socialist society (4). The period 1977/81 had witnessed radical changes in the organisation of the economy in an attempt to construct a centrally planned economy rooted (principally, but not exclusively) in the dominance of the state sector within production and exchange (5). This took place against the background of modest growth rates which heralded a marked recovery from the initial post-independence crisis years of 1975-76 (6). From 1981 onwards, however, war combined with drought adversely affected production and people's livelihoods leading to widespread deprivation and famine along with the enormous costs in terms of human suffering and material loss resulting from the immense brutality with which the MNR waged its war (7).

Hence, the Fourth Congress would need to come to terms as well with the question of coping with a severe economic crisis and of organising for a war economy. Linked to this, there was also a growing realisation that the problem was not just that of falling production levels and of widespread collapses in livelihoods as a result of imperialist aggression. There was as well a growing awareness that the event of war coupled with drought had brought to the fore some real weaknesses inherent in the system of economic management developed since 1977. This became the central focus of the debate on economic policy shortly before and during the fourth congress. Two points are specifically of interest in this respect.

Firstly, there was a growing concern that the effective capacity of the state to control the use of the economic surplus and to direct overall economic development had become progressively undermined by uncontrolled patterns of private accumulation within parallel markets which in turn eroded the cohesiveness of state action itself. Hence, while in principle the state through its central planning exerted an all-powerful control over the economy, in practice this control tended to become largely

Furthermore, there was also some recognition of the fact that the occurrences of large-scale monetary imbalances within economic exchanges between the state and the wider economy; of the rampant inflation in the parallel markets; and of the rapid depreciation of the metical (the Mozambican currency) to the point where it provoked a widespread retreat into barter or towards the use of foreign currency, were in part the result of the character of planning itself. More specifically, large-scale public sector deficits financed through money creation were seen to be a major element which destabilised the exchange between the state sector and the wider economy (8). Consequently, there was a strong demand to impose financial discipline on the state sector so as to revalorise the metical and to restore normal exchange relations between the state sector and the wider economy (Machungo, 1987).

Secondly, and closely related to the first point, there was a strong pressure to shift resource allocation back in favour of the peasantry and also of private enterprise so as to correct for the crowding-out effect resulting from the earlier top-sided planning emphasis on state sector expansion. Hence the demand to restore a proper balance in resource allocation across the different sectors of the economy (state sector, private enterprise, household production and cooperatives). This demand was furthermore seen to be more in line with the directives for socialist development as formulated by the Third Congress in 1977 (Freilimo, 1977a; 1977b).

Therefore, the central issue concerning the context of economic reforms concentrated on the question as to how to shift state resources towards the support of the wider economy so as to achieve a more balanced development in the context of a managed economy.

This question matters a great deal in a context of economic reforms in a socialist transition. Any attempt towards the partial decentralisation of the patterns and location of accumulation outside the state sector inevitably poses the question of in whose hands, and within what form of organisation of the social relations of production, accumulation and, hence, development occurs (Mackintosh and Wuyts, 1988:137). The reaffirmation of the importance of the directives of the Third Congress was indeed very relevant in this respect. The Third Congress documents had stressed that a strategy of socialist development would need to come to terms with the

subsequent internal economic reforms--undoubtedly called for a retreat from
A prominent view of the time--which in part, informed the direction of
responses in the economy.

management of market mechanisms influence the direction of production
vague, however, concerned the way in which the character of planning and its
of increasing production on all fronts. The question which was left rather
ing the war. The overriding priority was correctly seen to be the question
The immediate concern was with recuperating production and with financ-
economic crisis provoked by war and drought.

witnessed over the period 1977-83. And this, against a background of
an attempt to correct for the over-emphasis on state sector development
process. The Fourth Congress put this question partly back on the agenda in
a broad front--both within the state sector as well as outside it--in the
of growth), but also that of transforming the character of production along
guarantee their social reproduction (possibly expanding at different rates
in the intersectoral resource flows between invariant sectors so as to
Hence, the question was not merely that of maintaining a proper balance
with transformation (Wuyts, 1989: ch. 3).

sector and the wider economy was located in a conception of reproduction
the question of the balancing intersectoral resource flows between the state
realm of the state sector, but supported by it, on the other hand. Hence,
socialist character (cooperatives and communal villages) located outside the
also entailed the mobilisation of local initiative in institutions of a
planning and the construction of a strong state sector on the one hand, and
realm of the state sector. Socialist development was to be based on central
production relations in this process, and this, both within and outside the
Congress documents also stressed the simultaneous need for transforming
of the different sectors in overall development. However, the Third
was recognised as a necessity in order to guarantee the social reproduction
to maintain a proper balance between the state sector and the wider economy
production as well as leaving room for private enterprise. Hence, the need
productive forces in the economy would require the support of household
available within the emerging state enterprise sector, the need to mobilise
power. Given this fact as well as given the limited managerial capabilities
the predominance of the peasantry as producers and as suppliers of labour
inherited uneven development of colonial capitalism, and particularly, with

planning through partial deregulation, allowing for greater room of manoeuvre for the momentum inherent in parallel markets. In a nutshell, this view sought to effect a shift in resources from the state sector towards the wider economy by imposing greater financial discipline on the state budget and on state enterprises to avoid the negative consequences of the crowding-out effect, and by relying principally on market forces to reallocate resources thus set free within the economy at large. Hence, the concentration of resources on the state sector combined with excessive reliance on state regulation of trade were seen to be the major impediments to increasing production. Enforcing greater efficiency on the state sector and allowing greater room of manoeuvre for market forces were identified as the twin components of economic reforms to deal with the crisis (9).

The question of achieving economy, efficiency and effectiveness in the public sector was undoubtedly of great importance. From 1977 onwards the system of economic management was characterised by its emphasis on state-centered accumulation. That is, economic policy mainly concentrated on an expansion of the state sector through the mobilisation of domestic as well as foreign resources. Central planners were much less concerned with achieving economy in the use of such resources. Three characteristic features underscored this particular practice of planning.

Firstly, to a large extent the main emphasis in planning fell on investment planning. That is, the main concern was with the expansion of fixed capital formation in the state sector (Mackintosh and Wuyts, 1988: 141-146). The state budget was the principal instrument to distribute investment finance and the material resources for investment--which largely had to be imported--to all sectors of the economy. Material investment planning therefore became a major method by which the state intended to plan the economy as a whole, and to develop the balance between the different sectors. In fact, government investment constituted virtually all the recorded investment in the economy in the late 1970s and early 1980s (Mackintosh and Wuyts, 1988: 143). The effects of this investment pattern, as the Fourth Congress was to note in 1983, were particularly dramatic in agriculture. Of agricultural investment 1977-83, 90% went to the state sector, 2% to the cooperatives, and virtually none to small scale 'family' farming. And within the state sector itself, investment in agriculture and

in industry was concentrated on what was known as 'big projects' rather than smaller scale activities (Ibid:144-145).

Secondly, production planning was done by means of material balances. Hence, the production of goods and of services within the state sector was coordinated and regulated though volume planning: the principal concern of state enterprises and of public sector provisioning of social services was with production targets. Volume planning as distinct from cash planning puts the emphasis on meeting targets in the production of goods or the delivery of services, but it also provides less of an incentive to control costs and improve efficiency (10). It concentrates on mobilising resources to meet imperative planning targets, rather than on achieving economy in the use of such resources. Volume planning leaves the planning system very vulnerable to unexpected increases in the cost of production due to price increases or to over-optimistic assumptions concerning planning norms on input use.

Thirdly, and linked with the second point, within the state sector the budget constraint was essentially soft (Kornai, 1979:806-808). The corresponding financial system was characterised by what is often referred to as bureaucratic state finance--a system in which all surpluses of state enterprises are centralised in the budget and all losses financed through the budget (planned subsidies) or through credit creation by the state bank (unplanned losses). Hence, money is essentially passive with respect to financing production and investment in the state sector, and monetary imbalances originating from the public sector--by design or by default--inevitably spill over into the wider economy (Wuyts, 1989: ch. 5).

However, the central problem concerning these monetary imbalances is not merely a question of monetary policy. It is not sufficient to strive for greater financial discipline within the state sector, through introducing the need for cash planning along with volume planning, so as to achieve greater economy and efficiency as well as effectiveness in public sector management. Such measures are indeed important, but they need to be placed within a broader context of planning intersectoral resource flows within the economy in a perspective of socialist construction, based on reproduction with transformation. The latter point was left more vaguely in the economic debate around the Fourth Congress.

The prior practice of state centred accumulation de facto implied that resources from the wider economy behind the accelerated development of the state sector. The central planning issue in this case appears to be to find mechanisms through which the greatest marketed surplus can be obtained from the peasant economy at the least expense to the state sector. The basic logic inherent in this policy will be one which propels the state sector to organise its interventions in the wider economy by building on the best in terms of generating this marketed surplus, and hence, the tendency will be to accentuate existing patterns of differentiation among the peasantry and to favour the better endowed regions. This is the logical outcome of a policy which--by design or default--centers around increasing the quantitative net-intersectoral resource flows between the state sector and the peasant sector at the expense of the latter (11).

Policy makers in Mozambique became increasingly aware that this policy of state centred accumulation might become self-defeating in its own terms, i.e., in terms of rallying resources behind the expansion of the state sector. The fact that the state economy appeared to 'lose its grip' over the wider economy was brought home very vividly through the decline in the official marketing of cash crops; the rampant inflation in parallel markets; and the development of speculative commercial capital which gained strength in the economy. However, the extend to which state centred accumulation effectively implied accentuating social differentiation in the countryside and the mechanisms through which this came about was much less debated or understood.

The fact that private trade occupied an important mediating role in the exchange between the state sector and the peasantry and that this position allowed them to alter the terms of trade within the parallel exchange with the peasantry, as well as to concentrate this exchange on the richer peasantry and within the better endowed agricultural zones (notwithstanding formal state rationing of available supplies across different regions) became a powerful mechanism in propelling differentiation among the peasantry in the midst of an acute goods famine. Private commercial farmers and the better-off peasantry managed to survive and maintain, or even expand, their productive capacity. However, a large sector of the peasantry saw their productive capacity severely eroded for lack of any meaningful

support through market relation and state assistance. Private trade benefited most, rather than production. The state, in contrast, lost control over markets and became itself dependent on the parallel circuits to secure the supply of food (Mackintosh and Wuyts, 1988: 151-55; Wuyts, 1989: ch. 6).

The strong pressures at the Fourth Congress to shift resource allocation back in favour of the peasantry and of private enterprise reflected an objective necessity to confront the contradictions produced by state centred accumulation. However, the momentum inherent in these uncontrolled patterns of private accumulation in the parallel circuits was itself an important element behind a demand for deregulation. Indeed, if such a shift in resource allocation were principally effected through market forces, the private farmers and the richer peasantry would be in a much better position to respond favourably to market signals, and hence, would be more able to consolidate and to build on the advantage already obtained. In contrast, the poorer peasantry would have less to gain from improved producer prices and from increased access to production inputs through the market since they lacked financial resources and furthermore, their production base was run down through neglect of state support or destroyed by the war. So, to integrate these sections of the peasantry within an exchange with the state sector would require a combination of proper market signals and a shift in resources from the state sector, through peasant associations aimed at rehabilitating their productive base and stabilising their livelihoods. This would require a different type of planning which involves managing exchange relations and explicit state support to local producer organisations (Mackintosh, 1986:577-579).

Hence, while the Fourth Congress stressed the importance of shifting resource allocation to meet the needs of the peasantry at large as well as of private farmers, the specific mechanisms through which this was to be done were left extremely vague. More specifically, it was left vague whether economic reforms would require a partial retreat from planning so as to allow production to recover under the impulse of market forces, or whether planning itself needed to be conceptualised differently, including its role in terms of managing market relations. In part, the overriding priority to increasing production on all fronts set aside the concern with the character of the development of production relations through which it

was to be achieved. Consequently, the macro economic context in which such shift in resources was to be effected, was not fully mapped out. Clearly, this also reflected the fact that this pattern of private accumulation within the parallel markets had become a powerful social force to be reckoned with.

The Fourth Congress, therefore, defined a new terrain within which policies of economic reforms needed to be constructed. Various, and often conflicting, social forces rallied behind the demand for shifting resources out of the state sector towards the wider economy. The need to reestablish exchange relations was not itself in question. The critical issue concerned the location of accumulation outside the state sector. In this respect the Congress documents remained rather vague leaving room for various interpretations as to what constitutes a policy of aiding small scale production and of allowing more room for manoeuvre for private enterprise. Hence, for some, the immediate policy necessity consisted of a tactical retreat from socialist transformation, by allowing production to recover under the impulse of private enterprise within the unofficial economy. The paramount importance of recuperating production in the depth of economic crisis gave this view a powerful position within economic policy discussions. Opposed to this, however, was also the recognition that the imperatives of the war and of preserving the socialist character of development required the continued intervention of the state within the economy (Mackintosh and Wuyts, 1988:156).

Both these themes have been evident in economic policy debates and initiatives since 1983. With the initiation of the Economic Recovery Programme, World Bank and IMF conditionalities came to play a prominent role in this policy debate.

The relation between the economy and defence is of central importance for a country at war. This is not merely a question as to how to restrain and ration consumption so as to release resources to finance the war effort: a point which I shall return to in the next section. It also concerns production, and particularly, peasant production. In Mozambique, there has been much public discussion on this issue. In presenting the ERP, the Prime Minister argued that: "No war is won just by soldiers on the battlefield, without production. Every country at war finds ways of combining war with production. We cannot separate one from another." (12) Hence, economic reforms needed to address directly the issue of defense.

As shown in the previous section, the experience with state centred planning had left the majority of the peasantry economically very vulnerable. Subject to the uncontrolled patterns of private accumulation inherent in the parallel economy, social and regional differentiation had become accentuated in a context of economic crisis and goods famine. The war brought home the need to re-establish the alliance with the peasantry. To enlist and consolidate the support of the peasantry within the war effort; to obtain marketed surpluses of export crops and of food; to support peasants' livelihoods and survival through the supply of essential consumer goods and services as well as of basic tools, implements and agricultural inputs; required that the state sector showed itself capable to re-establish an effective exchange with the peasantry in context of a managed economy.

This involved a move towards a model of market intervention, in as-sociation with deregulation and decentralisation of some economic decisions towards the regional level (13). On the one hand, this implied financial measures to ensure greater financial discipline within the state sector and to stabilise and revalorise the currency. It involved price reforms and associated market liberalisation along with the devaluation of the metical. But, it also involved a move towards more decentralised planning and greater use of the state sector in support of small-scale production and trade. And, it furthermore implied the growing recognition of the importance to channel state resources to rehabilitate the productive base of the peasantry.

In fact, "an estimated 5.9 million Mozambicans--about one million families in rural and urban areas--are currently facing food shortages because of drought and terrorist activities. Of these, 3.3 million are severely affected, including 1.1 million displaced inside the country. In addition, about 2.6 million people are affected by food shortages in the commercial networks. A further 700,000 people are displaced in neighbouring countries" (CENE, 1988:5). The enormous scale of the destabilisation caused by the war has led to the formulation of an Emergency Programme by the Mozambican authorities in order to provide a structural response to the social and economic consequences of the war. Indeed, it is argued that "the traditional prescriptions for relief aid are alone insufficient to break out of the emergency situation. The emergency in Mozambique presents unique features: chronic countrywide destabilisation from external forces, large sections of the population displaced, and constant shifting of the areas of natural disasters and aggression. The problems are structural, not transitory" (CENE, 1988:7). Hence, the need to manage the underlying crisis simultaneously with short-term relief interventions, as well as with a more sustained programme to ensure the social and economic rehabilitation of livelihoods, to reconstruct the physical infrastructure destroyed by the South African backed MNR and to reintegrate displaced people back into communities, as well as to assist them to prevent further disruption (Ibid:8). Furthermore, the Mozambican authorities assert that "emergency activities moving in such directions will improve and facilitate integration with the ERP" (Ibid:8).

Hence, in Mozambique there is a government operational strategy emerg- ing which seeks to combine the Economic Recovery Programme, the Emergency Programme and development activities (mainly defined as new investments in economic infrastructure) into a comprehensive strategy. This involves a concept of partial liberalisation as a means to an end, as well as a more structural approach towards conceptualising the use of state intervention and support vis a vis the wide economy. The essence of this comprehensive strategy is to cope with the relation of defence and economy in a context of acute crisis.

However, the economic crisis has also produced a situation where the country became heavily dependent on foreign grants and loans to finance its most essential imports. The question of IMF/World Bank conditionalities, as

well as of various pressures of different donor organisations (governmental or non-governmental alike), is of central importance in assessing the management context in Mozambique. A salient feature which characterises most of the Western donor agencies is the way in which they refuse to, or fail to, address the relation between defense and production.

The World Bank's view on the ERP puts the emphasis squarely on liberalisation and privatisation. These will "establish the conditions for more rapid and more efficient economic growth in the medium and longer term when the security situation and other exogenous constraints have eased" (World Bank, 1987:4). The interesting feature of this statement is the view of the 'security' situation as an exogenous constraint. Clearly, what is meant here is not that it is externally generated as a result of South African aggression, but rather, that it concerns an exogenous shock which slows down the rate at which adjustment can take place. The question of organising the economy for the war is clearly not contained in this view. It is indeed remarkable that the World Bank's prescriptions for Mozambique follow the same standard package of policy measures as those prescribed to such countries as Tanzania or Ghana, notwithstanding the fact that the country is confronted by a devastating war of aggression.

The World Bank stresses repeatedly the importance of shifting resource allocation in favour of rural producers--in particular, of private farmers and the peasantry. This is to be done principally by getting prices right and by relying on market mechanisms. Moreover, it advocates further privatisation of state farm land as well as of equipment (14). Undoubtedly, most state economic relations with small-scale producers must by definition be done through the market and, hence, the reestablishment of exchange relations in a context of a stable currency is an important element of any economic strategy which aims to shift resources towards the peasantry. However, two further conditions are needed here as well.

Firstly, "a planning capacity has to be developed to manage local markets flexibly, further improving market intervention, coordinating state policy towards local markets and managing deregulation in favour of local producers" (Mackintosh, 1986:578). This requires a considerable degree of decentralisation of planning within the state sector itself and the greater use of state economic power to intervene in markets so as to ensure that resource allocation favours production rather than trade, and family

agriculture at large rather than private commercial farmers and a few better-off peasants. Secondly, there is the central issue of mobilising locally based initiative and organisational capacities to enable a broadly based recovery programme in production and to enlist the support of the peasantry in the war effort. This points at the role of peasants associations and cooperatives in managing resource use at the local level. Mackintosh argued that: The Mozambican government has reduced its level of commitment to cooperatives as a method of transforming production, and resources and assistance have been going rather to private farmers. However, just as private farmers can benefit from an organized relation to the state, in terms of exchanges of produce for services and investment goods, so cooperatives and producers' associations can do the same. Cooperatives can also appropriate some of the benefits from both political pressure and trading activity which are at present going to large private operators. There therefore appears to be a very good economic case, in wartime conditions where markets are bound to be thin, for putting state resources into building up organisations of small producers, to operate on their own behalf and assist the distribution of resources. The success of the urban consumer cooperatives provides an example of this potential (Mackintosh, 1986:577-578).

Both these elements--the need for active state planning which is responsive to the needs of rural producers at large and the importance of locally-based initiative and organisational capacity to manage resource use--are largely absent in World Bank reports. Deregulation is projected as an end in itself and state production is mostly seen as crowding out private initiative. The fact that a policy which aims to rehabilitate and support rural production on a broad front, will need to combine the mobilisation of locally-based initiative and organisational capability (and not just the private initiative of some) with active state support, is therefore not considered in any depth. However, this question is undoubtedly of central importance--both economically and politically--in order to articulate the relation between defense and economy. The policy debate in Mozambique on the necessary interlinkage of the Economic Recovery Programme and the Emergency Programme is a clear manifestation of the importance of this concern.

The substantial involvement of various donor agencies--multilateral, governmental and non-governmental alike--in providing funds and material resources for the Emergency Programme does not necessarily imply a better understanding on their part of the relation of economy and defense. In fact, in many cases, the war is virtually equated with a 'natural disaster'--be it man-made--and hence necessitating relief aid. The question of emergency aid, however, is often delinked from any wider structural approach to economic rehabilitation, and, not uncommonly, kept rigidly separated from it. Hanlon (1988) argues this very forcefully as follows:

The Mozambique emergency' is unusual because it is not a natural disaster where it is only necessary to provide food and tents until the flood waters recede and people can rebuild. Instead, Mozambique faces a permanent structural emergency in which South Africa uses state terrorism to try to destroy Mozambique's economic base. This means continued destruction and continued refugee flows, and it means massive rebuilding. Thus Mozambique has tried to link 'emergency' assistance to rebuilding. Donors have proved unable to cope. For example, many donors are paying for a massive airlift of food, seeds, and clothing to dislocated people in district towns; in some cases the air lift is needed because of security problems, while in others roads are damaged (or mined, or bridges are destroyed). Mozambique has asked for road building equipment, which would be cheaper than an airlift in some areas, but donors prefer to pay extra for the airlift because an airlift is 'emergency' and road building is 'development'. In some areas, the airlift is needed because Renamo terrorists attack food lorries. Mozambique has asked for 'protection vehicles'--armor plated lorries to carry troops to guard the food convoys, which would cost less than an airlift. Most donors say no, because this is 'non-lethal military assistance' and not emergency.

In a similar vain donor agencies involved in relief often prefer importing clothing, blankets, tools, etc., rather than aiding local industry to produce them and buying from local firms (Hanlon, 1988).

In summary, while inside Mozambique a policy debate has developed since 1983 concerning the need to develop responsible economic policies to cope with the relation of defense and economy in a context of a deep economic crisis and the collapse of livelihoods, the donor community has done little

to support such process. Rather, its activities have tended to deflect policies away from this critical issue and to fragment the cohesiveness of government action--a point to which I shall return in the last section.

ADJUSTMENT AND BASIC NEEDS

The Mozambican government is faced with pressures and choices, not only in economic management, but also in its social policies. Economic reforms in a context of a war undoubtedly pose sharp questions as to their social implications. This was and is definitely the case in the context of the ERP which has brought about sharp rises in the cost of living as well as cuts in public expenditures on health and education (Hermelle, 1988:17-21; Marshall, 1988).

The issue of preserving basic consumption levels while releasing resources for the war effort in a central priority for a country at war. In quite a different context and in a different time, Keynes--in his 1940 pamphlet How to Pay for the War--brilliantly showed how the resources to finance Britain's war effort were to be released without excessive social hardship by a combination of compulsory savings, a wage freeze, price controls, subsidised basic rations and family allowances (Seers, 1976:205). This requires a strongly managed economy which seeks to preserve basic needs while squeezing luxury consumption to release resources. This also involves a comprehensive rationing system to secure basic consumption levels across the population at large.

In fact, the early planning experience in Mozambique was based on a principle which was not dissimilar from Keynes' basic ideas, be it in a different context and for a different purpose. Socio-economic planning aimed to release resources to finance rapid economic development while securing basic needs. Hence, the supply of consumer goods, which fell short of demand at official prices, was rationed according to a quota system (relative to population size) across districts, while in Maputo a more comprehensive rationing system was set up from 1980 onwards. The provision of social services witnessed radical changes. For example, in health care resources for investment and service provision were shifted in relative, and at some points, in absolute terms, from large to small and from center to periphery: from central city hospitals towards the provinces; from complex medical interventions to simpler procedures; from doctor's work to that of para-medical staff, and from curative to preventive care (15). Furthermore, to extend the reach of basic needs provisioning across the population, social policy sought to combine central planning and state provisioning with

a system of partially self-financed, self-provisioning at community level. Consumer cooperatives proved to be more effective in developing organisational capabilities to ration goods among its members, than state shops. Similarly, in health care, village health workers--- financed by the local community--- provided the lowest tier in a national health service. Local labour was mobilised to build a school, a clinic or a meeting hut. These developments--which were not devoid from problems--did amount to the partial decentralisation of the management of basic needs provisioning, including public goods, outside the realm of the state sector, but supported by it, and involving the participation of local communities. However, there was undoubtedly a problem with it resulting from the non-correspondence between a social policy which aimed to decentralise needs provisioning towards local communities on the one hand, and an economic policy which effectively centralised resources on state sector expansion, on the other (Mackintosh and Wuyts, 1988).

The war has brought about a savage destruction by the MNR terrorists of health posts, schools, shops and other social infrastructure. This, combined with the massive displacement of people and the destruction of their livelihoods, has led to a situation of widespread famine and deprivation. The dimension of needs provisioning in the context of economic reforms coupled with emergency interventions is therefore of prime importance. This requires an approach which integrates distribution with production in managing economic reforms. This process proves to be very contradictory and subject to considerable pressures from the donor community.

The IMF and World Bank exert considerable pressure to restructure needs provisioning in the context of a two-tier economy (16). The upper tier-- propelled by liberalisation, price reforms and the imposition of greater financial discipline--concerns needs provisioning constrained by the ability to pay. Effective demand--i.e., demand backed by income--determines access to consumer goods and services in this case. The lower tier consists of 'safety nets' aimed to protect vulnerable groups in the process of adjustment. Such interventions consist of special programmes of targeted needs-provisioning for the destitute. The philosophy behind this approach is quite distinct from the concept of a generalised system of needs provisioning based on the intensity of need rather than on the ability to

pay--a concept which underscored social planning in Mozambique. This approach is also quite different from Keynes' prescriptions as to how to finance a war while preserving basic needs. The latter view also puts the emphasis on generalised forms of rationing, rather than on safety nets.

In fact, the logic of the IMF/World Bank position is based on two assumptions. Firstly, that the structural adjustment programme effectively establishes the conditions for efficient economic growth in the medium and longer term, and that the benefits of such growth will spread across the population at large. Secondly, that in the short run the adjustment policies may adversely affect certain vulnerable groups as a result of the process of restructuring. More particularly, a policy which aims to get prices right and, through this, shift resource allocation in favour of rural development, may initially hit hard on the poorer strata within urban centers, as well as on workers laid off in the pursuit of efficiency. Hence the need for temporary safety nets to smoothen the period of transition. Stated differently, the upper-tier structures the path towards efficient resource allocation in the medium/longer run, while the lower-tier concerns short term interventions to ease the process of restructuring. The latter is supposed to phase itself out as the benefits of growth trickle down over time. This--in a nutshell--appears to me to be the basic philosophy on adjustment and its social implications underlying World Bank action.

Leaving aside the questionable character of these assumptions in general, when applied to Mozambique they completely ignore the most central issue: namely, that the country is at war. This is plainly clear from the following statement by the IMF concerning the ERP: "[the] economy's response to even these strong policy initiatives will probably not be sufficient to yield a sustainable growth and balance of payments outcome in the programme period (1987-1990). Nevertheless, the reform and adjustment measures provide a framework for more effective utilization of both domestic and external resources in support of structural and institutional changes which, once the security situation improves, can lead the economy to sustainable growth" [IMF (1988); quoted in Hermele, 1988:18, my emphasis]. The point is that the economy itself needs to be organised to support defense so as to improve the 'security situation'. This is the central issue of economic policy in Mozambique today, and it requires a policy package which interlinks defense, production and needs provisioning.

In the previous section, I have argued that the rehabilitation of production, and particularly of rural production, cannot merely rely on improving price signals and on channeling resources to rural producers through market forces alone. It is necessary to reestablish the exchange with the peasantry through market mechanisms, but this needs to be done within a context of a strongly managed economy where state economic power is effectively used to direct resource allocation towards a broad-based programme of rehabilitation. Economic rehabilitation, development and emergency activities need to interlock within a macro management context. Needs provisioning plays an important part in this context. Donor pressures towards establishing a two-tier economy effectively separate relief (emergency) activities from economic rehabilitation and development, rather than integrating them.

A case in point is food aid. Donor agencies often employ the distinction between regular (structural) food aid and emergency or relief aid. Mozambique relies on both for most of its (marketed) food supply. The former is channelled through the normal distribution network (including the rationing/quota system) and sold at a price determined by the counter value of the imports (even if it concerns grants). Successive devaluation brought about a rapid rise in food prices to the point where many urban consumers no longer can afford to buy their rations (Hermel, 1988:19-20; Marshall, 1988). The growing incidence of malnutrition puts pressure on relief aid through various selective programmes of supplementary feeding which often target certain members of a family while excluding others. Donor actions in health care follow the same track. There are strong pressures to switch towards selective programmes of health care such as those for immunisation, Essential Drugs, Diarrheal Disease Control and so on, each with their own separate funding and their own imposed structures (Cliff, et al., 1986:18). The basic issue is that the war necessitates the rehabilitation of livelihoods on a broad scale. This involves tackling both the production side and the needs provisioning aspect at the same time. The notion of a two-tier economy implies a concept of so-called vulnerable groups which need temporary relief until such time that economic growth trickles down to them. Such a notion provides little guidance when the basic task is to reconstruct livelihoods destroyed in a war. Relief needs to be an integral element of

such reconstruction which also tackles the rehabilitation of production at the same time.

Managing economic reforms in socialist development in conditions of a war of aggression requires coherent and cohesive state planning and action. The basic issue is not a retreat from planning, but a different approach to planning. The components of such an approach are: more decentralised, and popularly-based planning and control of accumulation; the close interlinking of rehabilitation, emergency and development activities with respect to production and needs provisioning; and an emphasis on intervention in the markets as a tool of planning (Mackintosh and Wuyts, 1988).

Mozambique's dependence on foreign aid and debt relief to finance its essential imports as well as its public expenditures implies that donor agencies' preferences exert considerable pressures on state planning. IMF and World Bank conditionalities as well as multiple micro-restrictions on the use of donor funds can influence the content of economic and social policies as shown in previous sections. However, donor actions can also seriously impair the capacity for state action in terms of its organisational ability to manage public expenditures in particular, and the public sector at large.

One aspect of this problem that may appear trivial but is far from it, is:

It is the assault of the donor agencies on the professional resources that Mozambique can muster at the crucial central planning and policy level. Clearly no agency is prepared to make funds available without having a say in how these are to be used. Up to a point that is reasonable. But a few moments thought should make it clear that there is a world of difference between establishing a policy and executing it with in-house funds, and having to resell it to a plethora of different agencies with different philosophies, methods and constraints. Time wasted by officials at central level is in fact one of the scarcer resources (Cliff, et al., 1986:13-14).

This problem, already apparent before the ERP, has amplified and assumed a new dimension since the ERP has been initiated. This new dimension concerns the issue of the brain-drain of more professional cadres out of the public sector.

The ERP de facto implied the imposition of cash limits on public sector borrowing, and hence, on public sector expenditures on salaries and wages. The steep devaluations of the metical and the price inflation of consumer goods rapidly eroded public sector incomes. This has led to a brain-drain from the public sector, the extent of which is little documented. This flow of professionals out of the public sector did not involve a move towards private sector employment however. In fact, the market for professional skills, technical or administrative, is relatively limited in the private sector. It concerns mainly bigger private enterprises which normally had sufficient cadres (in the specific circumstances of Mozambique) and whose incomes were also subject to the steep rise in the cost of living in a way similar to public sector employees. The real brain-drain takes place out of both public and private sector employment towards employment with donor agencies. Salaries in the latter sector are often set in dollars and therefore remain insulated against exchange rate devaluations.

Professionals move towards donor agencies employment not only because of better income prospects, but also because they are so much better equipped in terms of transport, documentation, typewriters, computers, etc. It is indeed an educational experience for any visitor to Mozambique to see the sharp contrast between a ministry of health where not uncommonly even paper and pencils are scarce, and the offices of UNICEF with its modern typewriters and computers, documentation center and transport facilities.

The growing market for employment of local professionals by donor agencies reveals an important trend. There is a marked tendency for donor agencies to refrain from supporting the general public administration and developing its managerial capabilities. Instead, donor agencies favour selective support to specific programmes often requiring their own institutional set-up and management. And, not uncommonly, this management is shifted under donor control. For example, in health care the emphasis did not merely shift from supporting a general health service towards selective interventions, but it also implied a shift away from the ministry of health towards UNICEF in terms of management. Hanlon comments on this tendency as follows:

if and when the donors leave, who will train teachers, build roads, run health posts, provide agricultural extension, and so on? In other words, who will help rural development? Who will support the peasants?

The answer, of course, is the government, and the Mozambican government has shown a very high commitment to providing services and assistance to those who need it most. But the effect of donor practices is to reduce the capacity of Mozambique's government to help those in need. Already weak government and private structures are bypassed, undercut, and overloaded so that they cannot cope. In other words, donors are making Mozambique dependent on aid" (1988).

Non-governmental organisations--of which there are more than a hundred working in Mozambique--often amplify this tendency. "Most try to have independent programmes working directly with 'the people' or 'the poorest of the poor'. Many distrust all governments, and make it a matter of honour not to work with governments. A few are openly hostile to the government; some are simply dismissive; both groups refuse to give resources to government and try to bypass government structures. They may help a few individual peasants (and feel better by doing so), but they reduce the ability of the government to help a larger number. When the project has all the cars and the district does not, it will be the project staff, not government people, who are able to visit the villages" (Hanlon, 1988).

Some NGOs--in contrast--realise that expressed needs in Mozambique often prove closer to the people than what NGO's try to do, and therefore, they tend to support government action, rather than bypass it (Ibid).

In summary, although most foreign aid in theory concerns the financing of public expenditures, in practice donor actions often severely erode the cohesiveness and capability for public sector management by the Mozambican authorities. This by itself is a serious impediment on the capacity of Mozambican authorities to manage its economic reforms in a context of war, apart from the fact of donor pressures on the content of such reforms.

NOTES

1. Apart from official documents by the Mozambican authorities, the World Bank or the IMF, few sources are available which discuss the ERP. Two useful references are Hermelle (1988) and Marshall (1988). An excellent background article is to be found in Mackintosh (1986).
2. This issue of shifting emphasis from the political to the 'neutral' technical economic is put forward eloquently by A. Hopwood (1984) in assessing the role of changing conceptions on public sector accounting in response to the changing views on the role of the state in the 1980s.
3. See also Harris (1986:84-88) for a discussion on the IMF's ideological position of political neutrality and technical expertise in the light of its systemic role of constructing a free market economy based on multilateral economic relations.
4. Background documents for both congresses are the following: Third Congress (Freilimo, 1977a; 1977b), Fourth Congress (Freilimo, 1983a; 1983b).
5. Wuyts (1985; 1989: ch. 3). For a discussion of the inherited economic structures, see Wuyts (1989: ch. 1).
6. Wuyts (1989: ch. 3, appendix).
7. Mackintosh (1986:558-562); Hanlon (1984; 1986); Green, et al., (1987); GENE/DPCN (1988:5-8).
8. For a discussion of the question of state planning and parallel markets see Mackintosh (1986:568-9); Mackintosh and Wuyts (1988:151-155); and Wuyts (1989: ch. 6).
9. This summary is based on my field notes from research on money, rural economy, and parallel markets undertaken by the Centre of African Studies (Eduardo Mondlane University, Maputo) in Maputo and in Marracuene district in 1983. See also Wuyts (1989: ch. 6).
10. For an interesting discussion on volume versus cash planning see Likierman, A. (1984:148-152). See also Fitzgerald (1988:52-55) for a similar discussion in the context of socialist planning.
11. Wuyts (1989: ch. 6). See also, Sath (1985:31-39).
12. Quoted in Noticias (Maputo Daily Newspaper) 16.2.87.
13. For a more extensive discussion, see Mackintosh and Wuyts (1988). A similar analysis in the case of Nicaragua can be found in Kaimowitz (1988).
14. Interviews with World Bank mission, November 1987.

15. See, for example, Walt (1983); Walt and Wield (1983).
16. For a discussion of this in the case of health care, see Clift, et al., (1986).

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