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Capitalism in Africa: A Survey

BRUCE R. BARTLETT

Throughout Africa today, capitalism is staging a comeback. After a century of colonialism and 30 years of "African Socialism," the continent is at last returning to its capitalist roots. It is often asserted that Africa has no capitalist tradition, but this is not so. Africans are natural traders with a long history of barter, exchange, and entrepreneurship that was stifled by government control.[1]

Although few African leaders openly favor capitalism, the economic crisis of the continent, declining aid, and an exploding underground economy has turned many away from state control and toward free markets, albeit reluctantly. Yet this points out one of Africa's great strengths: an ability to jettison an unworkable ideology in favor of pragmatism. If Africans continue to call their systems socialist, it does not matter; what counts is performance. Thus some of the most active free market economies can be found in countries led by avowed Marxists.

The following survey, which examines most of the nations of sub-Saharan Africa, documents those cases where pragmatism has led to a rollback of government control. Invariably, such decontrol has led to an outpouring of suppressed entrepreneurship and a sharp increase in growth. It is also clear that those countries which resist free market reforms and continue on a socialist course are the continent's principal basket cases.

Angola

Angola, formerly a Portuguese colony, achieved its independence in 1975. Since then, the nation has been governed as a Marxist state. By all accounts, the Marxists have severely mismanaged the economy.[2] For years Angolan officials blamed their problems on the exodus of 350,000 Portuguese settlers and the ongoing civil war with Jonas Savimbi's Union for the Total Independence of Angola (UNITA). But it is their own mismanagement that bears most of the blame for the economy's dismal condition. As the *Financial Times* recently reported:

> Angola's present economic plight . . . cannot be attributed solely to the war and a lack of managerial skills. Much blame must go to the choice of economic policies adopted by the Marxist-oriented MPLA government. The overwhelming role played by the state has

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Deputy Assistant Secretary of the Treasury for Economic Policy. The views expressed are his own and not necessarily those of the U.S. Treasury Department.

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led to unwieldy centralised planning, a vast, loss-making parastatal sector and pricing policies that subsidise consumption but fail to provide incentives to production.[3]

Indeed, Savimbi bases much of his opposition on economic mismanagement.[4]

Now, even the regime sees its own economic policies as a major part of the problem.[5] Efforts to move toward a free market, however, were initially resisted by Angola's Soviet advisers.[6] As a result, much of the nation's output remained confined to the underground economy, where beer, rather than cash, is the medium of exchange.[7] Nevertheless, the government continues to press toward more open markets. Even the Soviets seem now to concede the necessity of moving away from rigid socialism.[8] Some restrictions have been lifted on foreign investment and other market-opening measures adopted.[9] But observers remain doubtful of the government's ability to act on its decisions. As the *Financial Times* recently observed:

Despite much fanfare, few of these announced changes have materialized, and many observers remain sceptical of the Government's ability or willingness to implement them. Apart from the lack of trained administrators, the political and social consequences of adjustment threaten not only government stability but the entrenched power and privilege of hardline MPLA members.[10]

Benin

Benin is another self-styled "people's republic" organized along Marxist lines. Like Angola, it has been slowly moving away from socialism. In late 1989, for example, the government officially renounced Marxism-Leninism.[11] Such moves, however, have been prompted by economic necessity, rather than any change in view. As a recent U.S. Embassy report notes:

After the proclamation of Benin as a Marxist-Leninist state, the government showed itself hostile to private enterprise and embarked on a program of nationalization of industry and financial institutions. Since 1983, however, driven by the heavy losses suffered by nationalized industries and by the worsening economic situation, the government has shown interest in privatizing many sectors of the economy. . . . Progress in privatization has, however, been slow.[12]

In addition, the underground economy has overwhelmed the stagnant, overregulated formal economy. According to a recent *New York Times* report, "Trade in unreported and untaxed merchandise is now widely believed to exceed virtually every other sector of the nation's economy."[13]

Several state-owned enterprises have been privatized, with others planned. Already underway is the sale of Banque Commerciale du Benin and BBD, the state development bank. A number of other full and partial privatization initiatives are planned.[14] Although the pace of privatization is slow, any privatization at all would have been unthinkable just a few years ago.

Botswana

Botswana is the rare African nation that has never embraced socialism since its independence from Britain in 1966. As a recent report notes:

Botswana's economy has welcomed foreign investment in mining, manufacturing and services, and has not distorted its incentive structure as have so many countries. The severe restrictions on foreign-exchange transactions so visible in the rest of Africa are virtually nonexistent in Botswana. . . . Crop prices are at competitive levels, and the private sector is free to trade in grains alongside a state-owned marketing board.[15]

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As a consequence, Botswana was better able to weather the drought of 1985 than its socialist neighbors.[16] It also benefits from a more tolerant attitude toward South Africa.[17] And it has one of the better fiscal structures in Black Africa. The budget has been in surplus since 1983, and income taxes are light. The top rate is just 50 percent and applies at a high level of income.[18] As a consequence, Botswana has achieved the highest level of economic growth in Africa over the last 16 years—13.8 percent per year on average.[19]

Burkina Faso

Formerly known as Upper Volta, Burkina Faso borders the Sahara Desert. For the most part, it has made all the same mistakes that other African nations have made—severe agricultural price controls, nationalization of industry, harassment of the private sector, and the like. Since a 1987 coup, however, the government has adopted a somewhat more pragmatic attitude, although real reform has yet to occur.[20]

Cameroon

Although not socialist, Cameroon, like much of Africa, has suffered from bloated bureaucracy and petty corruption. This was tolerable during the early 1980s, when rising prices for oil, cocoa, coffee, and cotton fueled an economic boom. In recent years, however, falling prices cut Cameroon's export earnings in half. This led President Paul Biya to attempt to restore some efficiency to the state by pruning the state bureaucracy, which doubled in size during the oil boom. Sharp budget cuts were ordered, phantom employees fired, and restrictions imposed on the use of government facilities. Modest privatization has occurred and the efforts appear to be having some success.[21]

One source of economic resilience is the thriving informal sector. Informal capital markets in Cameroon, for example, are unusually sophisticated. Informal banks, called tontines, were originally established as a kind of forced saving mechanism; each tontine had 12 members, each of whom contributed a fixed amount per month. Once a year each member would then draw a pot equal to one month's total contribution. These primitive savings vehicles, however, have evolved into complex financial institutions that pay interest, make loans, and spread risk. Defaults are rare and success rates are high, to such an extent that commercial banks are unable to compete. Although the government frowns on tontines, they are legal and remain an important example of thriving capitalism based on traditional African culture.[22]

Cape Verde

Cape Verde consists of small islands off the coast of Senegal. Formerly a Portuguese colony, it has followed a moderate economic policy. Unlike most African countries, Cape Verde imposes no price controls at the producer level. However, parastatals account for some 25 percent of GNP. There has been limited movement toward a freer economy in recent years.[23]

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Central African Republic

For many years the Central African Republic was ruled by one of the world's worst tyrants, Jean-Bedel Bokassa, who dubbed himself Emperor Bokassa I in an elaborate ceremony in 1977. He was overthrown in 1979 after committing gross human rights violations. Since 1985 the nation has been led by Andre Kolingba, who has attempted to reform the destitute economy. There has been some liberalization of prices, introduction of a more favorable investment code, curtailed growth in government spending, and reform of parastatals. SICPAD, a food company, has been privatized.[24]

Ciskei

Ciskei was a self-governing homeland for Blacks in South Africa until granted its independence in 1981. Although no other nation except South Africa recognizes Ciskei's independence, the people of Ciskei have made the most of their sovereignty by abolishing many of the taxes and controls imposed by South Africa and moving toward a genuine free-market economy.

Before independence the South African government had attempted to promote industrialization in Ciskei with subsidies and tax concessions for manufacturing firms. This led to widespread abuse and underdevelopment of other sectors of the economy. After independence government officials concluded that there was little to be lost by abolishing the whole system and using the money that was going for subsidies to sharply cut taxes. On 1 March 1985, Ciskei abolished all company taxes and reduced the personal tax rate to a flat 15 percent on all income above 8,000 rand.

The results have been impressive. Foreign investment has jumped, creating jobs and actually increasing the government's tax revenue. By all accounts, Ciskei is a classic example of supply-side economics in action.[25]

Congo

Like Angola and Benin, the People's Republic of the Congo has been forced by economic necessity to scale back state control of the economy despite its avowed Marxist orientation, although it was always fairly capitalist in practice.[26] Between 1986 and 1988 real growth per capita fell at an annual rate of 5.5 percent. The government recognized that mismanaged state-owned enterprises contributed to the decline and that a more positive attitude toward the private sector was necessary. As a U.S. Commerce Department report observed:

> Having officially recognized that public management of these [public] enterprises has both impeded economic growth and compromised its financial solvency, the Congolese government is committed to offering new investment opportunities to foreign enterprises.[27]

Since January 1988, six parastatals have been successfully restructured or transferred to the private sector. Privatized businesses include two wood-processing mills, a cement plant, and manufacturing and commercial fishing operations.[28]

Cote D'Ivoire

Cote D'Ivoire, formerly the Ivory Coast, has long been considered one of Africa's success stories. While other newly independent states cut ties

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with their former rulers, President Felix Houphouet-Boigny maintained close ties with France, including pegging the currency to the French franc and even retaining French administrators in the government.[29] Tax rates remained modest and so did the size of government, as fashionable theories about development seemed to completely bypass the country. Consequently, Cote D'Ivoire has been one of the most prosperous nations in Africa.[30]

In recent years, however, growth has slowed and the nation has run into debt problems.[31] In large part, these problems result from state encroachment into the private sector. President Houphouet-Boigny has even succumbed to "pyramid building" in the form of a massive state-built basilica large enough to accommodate 300,000 worshippers.[32] Nevertheless, government control of the economy remains modest by African standards and considerable privatization has taken place.[33] Although it is unclear whether political stability can be maintained after the death of President Houphouet-Boigny (born 1905), Cote D'Ivoire is likely to remain one of Africa's brighter lights.

Ethiopia

Ethiopia is the oldest independent nation in Africa. In 1974 the monarchy was overthrown and a Marxist government installed under the leadership of Lt. Col. Mengistu Haile-Mariam. The government soon set about collectivizing agriculture, which accounts for the vast bulk of GDP. Although Marxist doctrine provided the rationale for collectivization, the main purpose was political: to help solidify the government's control against rebels opposed to the regime. Indeed, the famine which resulted from the regime's action actually furthered its goal. As *The New Republic* commented:

> Through taxes and below-market official prices, the Ethiopian regime effectively confiscated much of the grain and livestock that peasants in the drought-stricken regions had traditionally used to make it through lean years. These policies were designed partly to supply the regime's 300,000-man army (Africa's largest) and partly to keep potentially restive urban centers fed. But they served another strategic purpose too: to starve into submission ethnic minorities, which, chafing under the rule of the Amhara elite in Addis Ababa, supported rebel groups in provinces such as Tigray and Eritrea.
>
> Beginning in early 1985 Mengistu used the famine as a pretext for moving 1.5 million people from the drought regions in the North to resettlement camps in the South. The ostensible justification was to give famine victims a new start in agriculture. The real reason was to depopulate rebel provinces. . . . This program earned comparisons with the "terror-famine" Stalin used to deal with his own "nationalities problem" in the Ukraine in the 1930s.[34]

The horror of the Ethiopian famine in 1985 led to an international outpouring of food aid. The regime, however, refused to allow its transport into rebel areas, where the famine was centered. Much of the aid was left to rot on the docks.[35]

Yet even this most Marxist of African regimes has begun to bend toward the market. Under international pressure, the government has started to reform the agricultural sector, cutting back on collectivization and allowing farmers to obtain higher prices for their produce. Restrictions on internal trade have been eased and other market-opening measures adopted.[36] Interestingly, Ethiopia runs one of the few genuinely profitable state-owned enterprises in Africa—its airline.[37] It remains to be seen, however, whether these changes will lead to genuine reform.

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Gabon

Gabon is one of the wealthiest nations in Black Africa, with a per capita income of about US$3,200. Although oil is the primary basis of its wealth, Gabon has also benefited from political stability, conservative financial management, and a free-enterprise orientation.[38]

In recent years, however, Gabon has suffered severe economic decline, with real per capita GNP falling over 15 percent in 1986–87. Some economic reform, including privatization, has taken place, with the Societe Nationale des Bois du Gabon, a wood-marketing concern, and Sonaga, an insurance company, having already been sold.[39]

The Gambia

The Gambia is the smallest nation on the African continent. In recent years it has adopted a number of market-oriented reforms. On 20 January 1986, the currency was allowed to float freely, giving The Gambia one of the few free-market exchange rates in Africa. The retail price of rice has been fully decontrolled and other agricultural reforms instituted. Government subsidies have been scaled back and excess government employees laid off. Foreign investment is encouraged and a privatization program is underway. A number of enterprises have already been privatized with many others planned.[40]

Ghana

At independence in 1957, Ghana, formerly known as the Gold Coast, was probably the richest country in Black Africa, with a per capita GDP roughly equal to South Korea's. Under the leadership of Kwame Nkrumah the nation adopted a planned approach to development fully consistent with received wisdom among development economists, many of whom directly advised the country. Government investment was sharply increased, import-substitution strategies adopted, and state-owned enterprises established. "The results," Michael Roemer notes, "were predictably bad."[41] He continues:

> The story of Ghana's debacle is partly the story of discredited theories of development, especially the "big push" and import-substitution approaches that were popular in the 1950s and 1960s. In important ways, Ghana was a model for such development strategies, which include central planning of economic activity and especially strong commitment to industrial development protected by high trade barriers—thus substituting inefficient domestic production for foreign imports, which would otherwise be financed by more efficient production for export.
>
> The misallocations and inefficiencies that resulted were made even worse by an almost complete lack of fiscal management, as Ghana pressed on with a program of domestic investment in publicly owned firms, with little regard for project efficiency. Toward the middle of the 1960s, mounting losses from state-owned firms coincided with explosive public spending to bring the country close to bankruptcy.[42]

By 1969 state-owned enterprises dominated the economy, many of which needed monopoly status and trade protection to avoid running even larger losses than they already had.[43] Meanwhile, state controls, especially in agriculture, gave rise to a vast underground economy, which was estimated at 32.4 percent of the official GDP in 1982, according to a World Bank study.[44] Thus Roemer concludes that Ghana, "in many respects, has turned out to be a model of how *not* to develop."[45]

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Nkrumah was overthrown in 1966. Since 1981 Ghana has been led by Flight Lieutenant Jerry Rawlings, chairman of the Provisional National Defense Council. Although hostile to the West, Rawlings soon adopted an economic strategy based on the free market. He has fully subscribed to World Bank and IMF reform proposals and been rewarded with significant aid.[46] A major privatization program has been launched and serious efforts made to attract foreign investment.[47] The tax system has been reformed, with the top marginal income tax rate being reduced from 60 percent to 55 percent and threshold levels raised dramatically.

Although it is too soon to say for sure, Ghana may yet turn out to be as much an example of correct development policies in the 1980s and 1990s as it was an example of incorrect development policies in the 1960s and 1970s.

Guinea

For many years Guinea was led by Ahmed Sekou Toure, who led the country on a Marxist course, dubbed "Marxism in African clothes." Extensive state intervention was imposed throughout the economy. Price controls were pervasive, unauthorized trading became a crime, foreign investment was discouraged, parastatals dominated the industrial sector, smuggling was punished by death, and currency trafficking was punishable by long prison terms. An estimated one-fourth of the population emigrated to more market-oriented countries in West Africa.

With Toure's death in 1984, Guinea went through several years of political turmoil. The country is now led by Gen. Lansana Conte, who has instituted one of the most radical free market reform efforts in the world. As the *New York Times* recently noted, "With little bloodshed and no outrageous pronouncements, a group of technocrats here are dismantling one of Africa's most socialized economies. In its place, a liberal, free-enterprise economy is springing up."[48]

A far-reaching privatization and reform program has seen virtually all state-owned enterprises either shut down or placed in private hands. A free market exchange rate has been instituted, government payrolls have been sharply cut back, prices decontrolled, and foreign investment encouraged. The results are striking. Coffee and rice production has jumped and previously empty markets are filled with goods.[49] Guinea thus appears to be virtually a textbook case of how the free market can quickly revive even the most moribund socialist economy.

Guinea-Bissau

Formerly a Portuguese colony, Guinea-Bissau achieved independence in 1974 after a 13-year war. Initially, the nation embarked on a Marxist course, but in recent years it has moved toward the free market. Since 1984 Guinea-Bissau has engaged in a broad economic reform and privatization program. Most of the government's retail outlets have already been sold. Since 1986 further reforms have been instituted in agriculture, foreign exchange, and government spending. As a consequence, Guinea-Bissau is now considered one of the most hospitable places for foreign investment in Africa today.[50]

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Kenya

Kenya achieved its independence from Great Britain in 1963 and has enjoyed political stability and steady growth since that time. Although Kenyan leaders referred to their system as African socialism, they nevertheless rejected large-scale nationalization of industry, restrictions on foreign investment, and other elements of what is ordinarily termed socialism in Africa. As a recent study concluded, "In its fundamentals, Kenya's economy is strongly capitalist and market-oriented."[51]

In particular, Kenya has had a more enlightened attitude toward agriculture than most of its neighbors. A strong tradition of property rights in land and relatively free prices for agricultural produce have given Kenya one of the strongest agricultural sectors in Africa.[52]

The resiliency of the Kenyan economy helped it through the drought of the mid-1980s and a sharp decline in the price of its major export, coffee.[53] Nevertheless, government control of much of the economy is pervasive and a major drag on growth. Among the problems recently cited by foreign businessmen are the following: (1) price controls; (2) delays in obtaining import licenses and foreign exchange; (3) difficulties in obtaining work permits for expatriate staff; (4) inability to repatriate dividends overseas; (5) excessive corporate taxes; and (6) difficult access to local borrowing, which is limited by the extent of indigenous participation.[54]

Nevertheless, some privatization has taken place. In 1983 a task force on divestiture was created that drafted a new law to authorize a divestiture process, but the act was never submitted to Parliament. Those few divestitures which have taken place, however, appear to have been quite popular.[55] In 1987 the tax system was reformed, with the top marginal income tax rate on individuals being reduced from 65 percent to 50 percent. In 1989 the import-licensing system was liberalized.[56] In 1990 the top marginal income tax rate on individuals is expected to fall to 45 percent. The rate on corporations would fall to 42.5 percent.[57] It remains to be seen, however, whether the government will follow through with further market-opening measures.

Lesotho

Lesotho, formerly known as Basutoland, is an independent country completely surrounded by South Africa. Unlike Ciskei, however, it was never formally part of South Africa, but was a British protectorate until achieving independence in 1966. The head of state is King Moshoeshoe II, but the nation is ruled by a military council that achieved power in a 1986 coup.

Economically, the nation is heavily agricultural. Unfortunately, production has suffered from a land-tenure system in which farm land is owned collectively and allocated to individuals, with grazing land held in common. The result has been severe overgrazing, soil erosion, deforestation, and other bad agricultural practices that have sharply reduced production, with yields falling in half over the last ten years.[58]

In recent years, however, Lesotho has managed to attract foreign investment owing to a very open investment climate combined with government incentives, such as tax holidays. As a result, a number of textile

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firms have located in Lesotho, and textile exports have become a major area of growth.[59]

Liberia

Liberia was founded in the early 1800s by former American slaves and has been independent since 1847. It has had a close relationship with the United States throughout its history and been a major recipient of U.S. foreign aid. In recent years, however, there have been strained relations resulting from widespread mismanagement of foreign-aid funds and reports of human-rights abuses under President Samuel K. Doe.[60] A team of U.S. financial advisers was sent to Liberia in 1987 to help clean up the mess, but their efforts apparently met with failure.[61]

Although the government announced ambitious plans for privatization of state-owned enterprises in 1986, it has actually done very little to realize them. President Doe appears to be committed to privatization, but is moving with excessive caution.[62]

Madagascar

Madagascar is a large island off the east coast of Africa. Since 1975 it has been governed by a Marxist military dictatorship that has severely mismanaged the economy. A recent IMF report discusses Madagascar's economy in the 1970s:

> All sectors were constrained by administrative controls, while banking and much of the manufacturing and export sectors were nationalized. Toward the end of the decade, a large-scale but poorly coordinated investment program was implemented, which had little medium-term impact on the country's productive capacity and led to the quadrupling of its external debt. This investment program was accompanied by expansionary financial policies and intensified quantitative restrictions on both domestic and external trade. Combined with unfavorable terms of trade, these policies brought about substantial external and domestic disequilibria, pronounced distortions in relative prices, and an accumulation of external payments arrears.[63]

Since 1983, however, the government has adopted some economic reforms. It decontrolled prices for rice at both the producer and consumer levels, deregulated transportation, and sharply reduced the budget deficit, thereby reducing the inflation rate. A recent study of the rice market concludes that decontrol led to a sharp increase in production.[64] Since 1988 additional reforms have reduced tariffs, privatized some parastatals, and largely decontrolled the financial sector. Growth is now increasing, and the IMF expects further growth in coming years as Madagascar moves toward a more outward-oriented economy.[65]

Malawi

Malawi is a nation similar in many ways to Cote D'Ivoire. It has been governed since independence by a strong leader, Dr. Hastings Banda, who rejected fashionable development theories and held to conservative economic policies. As a recent U.S. Embassy report observes, "The policy of the Malawi Government is to encourage private enterprise and support market-oriented capitalism."[66]

For 15 years the country achieved impressive growth of better than 6 percent per year. In the 1980s growth has slowed, resulting in growing criticism of President Banda for allegedly neglecting human services.[67]

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Critics, however, tend to overlook the enormous influx into Malawi of refugees fleeing the war in neighboring Mozambique. They also tend to downplay Malawi's success in dealing with the drought and declining commodity prices, which led to crises in other African states. The fact is that since Malawi started from such a low base, it remains a very poor nation despite significant growth, but it has managed to do well with what it has.[68]

This is not to say that measures could not be taken to improve economic conditions. Like most African states, Malawi has its share of inefficient parastatals in need of privatization. Most run deficits and drain the country of needed capital.[69] Privatization of the agricultural marketing board, ADMARC, appears to have been successful.[70] The government is now beginning to extend privatization to other parastatals, including Press Holdings and the Malawi Development Corporation, with some early success.[71] Efforts to encourage private sector entrepreneurship also appear to be having some success.[72]

Mauritius

Mauritius is a small island about the size of Washington, DC, off the coast of Madagascar. In the 1960s it suffered from slow growth and rising unemployment and the economy was almost entirely dependent on sugar exports. In an effort to improve economic conditions, the government sent a mission to study ways that other nations in similar circumstances had achieved success. The mission studied Hong Kong, Jamaica, Puerto Rico, Singapore, and Taiwan—each a small nation lacking in raw materials. Based on the mission's report, the government established an export-processing zone (EPZ) on the island in 1970.[73] A wide array of incentives were offered to firms located in the EPZ, including tariff and tax exemptions, free repatriation of capital and profits, exemption from various fees, loans at favorable rates, and many others.[74]

The EPZ was immediately successful, with the number of enterprises operating in the zone rising from 10 in 1971 to 591 at the end of 1988.[75] Most of the enterprises are engaged in textiles, taking advantage of low wage rates in Mauritius, but there are also a growing number of operations engaged in plastics, electronics, and other activities. The zone had a net increase in employment of 67,687 between 1975 and 1987—more than 15 percent of the entire labor force.[76] By 1988, it was estimated that the EPZ accounted for over 14 percent of Mauritius's GDP and over 60 percent of exports.[77] Indeed, the island is in the midst of a boom and now suffers from a labor shortage, in sharp contrast to the rest of Africa.[78]

Critics imply that Mauritius's success stems more from good luck than the magic of the marketplace.[79] Nevertheless, it does offer hope in a place that desperately needs all it can get.

Mozambique

Mozambique is another former Portuguese colony that became a Marxist state at independence in 1975. The Marxists quickly made a complete shambles of the economy. A visitor in 1986 filed this report:

> Money is useless. Offered a dollar tip, a helpful man sadly handed it back and asked for two cigarettes instead. . . . The few shops that remain open have nothing to sell at all.

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> Even soft drinks, the universal small luxury of the tropics, are unavailable. There are no matches, no candles for when the power fails, no petrol. . . . On the central strip of Beira's boulevards, people are trying to grow cassava between the palm trees.[80]

Although many of the nation's woes result from a long-running civil war between the Marxist government and antigovernment rebels, the basic problem is that socialist economic policies do not work. As a result, what little economic activity takes place does so in the underground economy. Although the government suppresses it, government policies ensure its growth. As a recent report observed:

> The government's increasingly desperate attempts to combat the black market have more than a touch of irony . . . because it was government policies that helped create it.
>
> Strict price controls on food and an emphasis on collectivism led many peasant farmers to stop producing for the marketplace. The same thing happened to most private industries. . . . All of which has meant that too much worthless money chases too few goods in a rigidly controlled marketplace—ideal conditions for a black market.[81]

Despite continuing Soviet influence in the government, however, the magnitude of its economic problems has led it to adopt some market-opening measures. Prices have been liberalized and a few factories privatized. Foreign investment is encouraged, and collective farms are being broken up. Marxist rhetoric has been toned down, and government officials now extol the virtues of the market.[82] While the economy remains in desperate shape, improvement is now evident.[83] It remains to be seen, however, whether Mozambique's rightward movement will be sufficient to pacify anti-Marxist rebels and allow reforms to continue.

Niger

For many years Niger prospered from its large deposits of uranium. The drop in demand for uranium in the 1980s, however, was a severe blow to the economy. By 1982 the drop in uranium prices and exports caused debt payments to rise to 30 percent of export earnings and 50 percent of the government's budget.

The crisis led to adoption of a private-sector-oriented program of economic recovery, the Programme Significatif de Relance (PSR). As the U.S. Embassy reports, the PSR "acknowledges the importance of the private sector in Niger's economic recovery and the diminishing role of the state."[84] This has led to a reduction of price controls, tariff cuts, and a major privatization effort. The government plans full privatization or liquidation of almost half of its state-owned enterprises and thorough reform of those remaining to introduce more market discipline to their operations.[85]

Nigeria

Nigeria is the largest nation in Africa, with a population of more than 100 million. And, before the recent fall in the price of oil, it also had the largest GNP, exceeding even that of South Africa.

Oil is the underpinning for the economy. As an oil exporter and a member of OPEC, Nigeria benefited greatly from the runup in the price of oil in the 1970s. By 1980 the nation was earning more than US$25 billion per year from oil. Unfortunately, Nigeria and its bankers all thought the rising price of oil would continue indefinitely. The nation went on an incredible spending and borrowing binge. Billions of dollars were poured into uneconomic steel factories, petrochemical plants, and other

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white elephants. Nigeria even embarked on the building of a new capital city, Abuja. Subsidies were rampant and government employment skyrocketed. Virtually the entire $100 billion Nigeria has earned from oil was completely wasted or stolen.[86]

By 1987, with the falling price of oil and a mounting debt burden, the economy collapsed. At this point, Nigeria embarked upon an ambitious reform program. It devalued the severely overvalued currency, abolished import licenses and the nation's agricultural marketing boards, slashed the budget, and launched a major privatization program.[87] The top marginal income tax rate was cut from 70 percent to 55 percent.

Although there has been some backsliding on economic reforms and excessive caution in putting forward the privatization program—as of early 1989 only one parastatal, a flour mill, had actually been sold—there seems to be no change in the government's commitment to ultimately reforming the economy along free-market lines.[88] The Nigerian government has the only active debt-equity swap program in Africa, which, by June 1989, had eliminated some US$160 million of Nigeria's foreign debt.[89] That same month the government also sold another 20 percent of the state-owned oil company, increasing the private share to 40 percent.[90] If Nigeria can resist the temptation to return to its old ways as the price of oil rises, it could soon return to a position of strength.

Sao Tome and Principe

Sao Tome and Principe, small islands off the coast of Gabon on the west coast of Africa, gained their independence from Portugal in 1975. Like Portugal's other African colonies, Sao Tome and Principe became a Marxist state. One of the first acts of President Manuel Pinto da Costa, who studied economics in Cuba and East Germany, was to nationalize the cocoa industry—the nation's principal industry. Under state management, production fell from 11,586 tons in 1973 to just 3,000 tons in 1987.

In recent years, Sao Tome and Principe has toned down its Marxist rhetoric, eased ties to the Communist bloc, and improved relations with its non-Marxist neighbors. President da Costa announced plans to privatize the cocoa plantations and, in general, has adopted a more moderate approach in both domestic and foreign policy. Although the nation has yet to fully embrace reform, economic conditions seem to be pushing it slowly in that direction.[91]

Senegal

Senegal is a former French colony that followed a conventional socialist approach to development after independence. This approach has been entirely unsuccessful, making Senegal one of the poorest states in Africa. Since 1985, however, the nation has been engaged in an economic reform program, including: (1) removal of the price controls; (2) lifting of import barriers; (3) tariff reduction; (4) tax reform; and (5) privatization and reform of state-owned enterprises.[92]

Several parastatals have already been sold, including textile, farm

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implement, and shipping enterprises. A number of other sales are underway and a long list of enterprises are slated for full privatization in the future.[93]

Sudan

For years Sudan has had one of the sickest economies in the world—its economy has been called "profoundly fouled-up." A Western economist in Sudan recently said the nation's short- and medium-term prospects were grim. "The long-term prospects are also grim," he added.[94]

While Sudan's problems relate partially to the effects of a long-running civil war and declining prices for its principal export, cotton, the major source of difficulty is government mismanagement. Government spending is financed largely by printing money, resulting in inflation. Price controls in agriculture combined with an overvalued exchange rate discourage farmers from producing for export—some farmers make more money by burning their acacia trees, which produce valuable gum arabic used in chewing gum, than by harvesting them because the charcoal can be sold on the black market. State-owned enterprises operate at less than 30 percent of capacity and devour scarce foreign exchange, while subsidies drain the government's budget. Yet Sudan continues to resist the trend toward freer markets evident elsewhere in Africa.[95] Sudan did, however, recently reduce its top marginal income tax rate from 70 percent to 40 percent. Since 1985 it has been ineligible for IMF assistance, owing to nonpayment of its debts.[96] Unless this situation changes, Sudan is likely to remain a basket case for the foreseeable future.

Tanzania

Under the leadership of its longtime president, Julius Nyerere, Tanzania has long been a prototype for African socialism. Beginning in 1967 with the Arusha Declaration, Tanzania embarked on a comprehensive socialist development strategy. It nationalized virtually all private enterprises, established state-owned manufacturing enterprises to reduce dependency on imports, and forcibly collectivized agriculture, a measure culminating in a "villagization" program that sought to organize the nation's 12 million farmers into 8,000 village collectives, known as Ujamaa villages. Agricultural prices have been controlled at levels well under world market prices.[97]

The result, predictably, was a fall in agricultural production. Although price controls and collectivization share most of the blame, the performance of the agricultural parastatals was also at fault. As a recent report comments:

> Mr. Nyerere moved many farmers into villages so far from their fields that they simply abandoned them. Other farmers, dismayed by government-set prices, stopped growing export crops, or smuggled them into Kenya.
>
> The parastatals formed to replace the farmers' cooperatives were too ill-organized to get seeds to the ground during planting season or to bring crops to market after harvest. The pyrethrum board spent more to run its office last year than it paid farmers for their pyrethrum (a fertilizer ingredient); the sisal board's overhead was more than Tanzania earned exporting sisal.[98]

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By 1985 President Nyerere admitted that nationalization of the sisal plantations was an error. "We made a big mistake to nationalize these sisal estates," he said, "then boasted that our people would manage them better than their former owners. . . . If I called back the British today to look at their former sisal estates, I am sure they will laugh at us because we ruined their estates."[99]

Under pressure from a growing underground economy and the IMF, Tanzania finally adopted some economic reforms beginning in 1985, after the retirement of President Nyerere. It brought the overvalued currency down to a more realistic level, lifted price controls and increased agricultural produce prices, and gave the private sector a larger role in the economy.[100] The tax system was reformed dramatically, with the top marginal income tax rate reduced from 95 percent to 55 percent. Although Tanzania still has far to go, the results of actions taken thus far have been enough to convince the government to press forward with further reforms, despite criticism from former President Nyerere.

Togo

Togo received its independence from France in 1960. In 1975, after a quadrupling of the price of its major export, phosphate, the government launched a major expansion of state-owned enterprises as part of an ambitious strategy for growth and industrialization. Unfortunately, these enterprises suffered from problems common to state-owned enterprises everywhere: political interference and mismanagement led to operating losses that had to be covered by government deficits and foreign borrowing.[101]

By 1984 the government had reversed course and begun a program of privatization. At least 11 state-owned enterprises have been privatized, including steel plants, oil refineries, and textile operations. It is, by all accounts, one of the most ambitious privatization programs in Africa, and one which has been highly successful thus far.[102] Although more needs to be done, Togo seems well on the way toward economic liberalization and should reap the benefits in coming years.

Uganda

For many years Uganda was misruled by a series of brutal dictators, including the infamous Idi Amin. Since 1986 the nation has been led by Yoweri Museveni, chairman of the National Resistance Army (NRA). Although restoring a measure of peace and stability to Uganda, the NRA unfortunately adopted a number of ill-considered economic measures which have hampered the nation's ability to develop. As *The Economist* reports:

> The NRA's socialist leaders detested smugglers, and found even legitimate commerce morally repugnant. They had spent five years freedom-fighting among the self-sufficient peasantry. Money, they thought, was what dictators stole; fair shares and peaceable farming could be run without cash. Instead of foreign trade, they sought to do deals by barter (exchanging beans which they do not grow for hides they do not want). Instead of domestic commerce, they wanted an equitable, state-controlled distribution of necessities. But there was nobody to do the distributing. The public administration had collapsed.[103]

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Among the government's worst mistakes was revaluing the currency upward when the existing official rate was already far above the black-market (free-market) rate. This only caused the currency to depreciate further. By mid-1987, the black-market rate for the Uganda shilling had risen to 12,000 per US$1, compared to the official rate of 1,400 per $1 and a black-market rate of 5,000 per $1 before the revaluation. Commerce in the formal economy virtually came to a halt. Yet rather than admit their own mistakes, Uganda's rulers insisted that corruption was the cause of the problem.[104]

Finally, the government adopted some reforms. Prices were adjusted and the currency devalued a bit. Although it was not much, it did not represent the very first evidence of economic realism on the part of the ruling NRA. This led to some increase in aid from the IMF.[105] Further reform, including some privatization, has improved Uganda's situation somewhat.[106] However, much more needs to be done.

Zaire

Zaire, formerly known as the Belgian Congo, has been led since 1965 by one of Africa's best-known leaders, Mobutu Sese Seko. In 1973, under a misguided program of "Zairianization," most of the nation's foreign-owned enterprises were confiscated and given to the Zairian elite. In a typical case, a flour mill which had been producing 23,000 tons of flour per year saw its production fall to just 176 tons after the takeover.[107] Eventually, most of the assets had to be returned to their former owners to prevent total economic collapse.

Government controls are pervasive and corruption is rampant. Mobutu himself is reputed to have become one of the world's richest men, with a personal fortune of some US$3 billion.[108] Corruption is so widespread that postal workers have been known to refuse to deliver one's mail without receiving a bribe. Smuggling is extensive and virtually everyone must participate in the underground economy just to survive.[109] The ruins of ill-advised state projects, such as the $250 million Maluku steel mill, abound—soon after completion it was discovered that steel could be imported for half the cost and the plant was closed.[110]

There have been some modest reforms, but thus far Zaire has resisted pressure for major reform and the economy continues to suffer.[111] Nevertheless, Mobutu remains popular and he retains strong support from the United States for his strongly pro-Western foreign policy.

Zambia

Zambia has been led since independence by Kenneth Kaunda, who steered the nation on a conventional socialist path. Most private companies were nationalized in 1964, and parastatals now account for 60 percent of Zambia's GDP.[112] And, like other African nations that have followed this path, Zambia saw the economic distortions caused by price controls, subsidies, and mismanagement catch up with it.[113]

Like Nigeria, in the 1970s Zambia enjoyed an economic boom based on rising commodity prices. The collapse of copper in the 1980s, however, left Zambia with massive debts and declining export earnings. In desperation, Kaunda turned to the IMF, which urged the elimination of

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subsidies for corn. In December 1986 prices for maize meal were raised 120 percent overnight. Food riots broke out and several people were killed, causing President Kaunda not only to rescind the IMF program but to nationalize all maize-milling companies.[114]

As it turns out, the plan was to mitigate the effects of the price increase by distributing discount coupons to the poor. A shortage of paper, however, delayed their printing and distribution. Unfortunately, Zambia's reinstitution of corn subsidies and renunciation of the IMF's austerity program has not made life easier for the poor. Cornmeal shortages are now commonplace, and shortages of almost everything else, from beer to soap, are also frequent.[115]

A continuing flow of foreign aid and a modest recovery in copper prices have allowed the government to resist further reform efforts.[116] Still, the economy and the people are paying a high price. Shortages of almost everything persist, businesses are closing due to a lack of foreign exchange and raw materials, high taxes discourage work effort, and virtually all economic activity is now confined to the black market.[117] As the U.S. Embassy recently reported: "The near term outlook for Zambia is poor. . . . Improvement in the efficiency for private sector development must be key elements in the economy's future outlook."[118]

Nevertheless, the government has taken some positive steps. It has cut back the subsidy on maize meal from 90 percent to 26 percent, devalued the currency, decontrolled consumer prices, and somewhat reformed the parastatals.[119]

Zimbabwe

Formerly known as Rhodesia, Zimbabwe achieved independence in 1980, after a bloody seven-year war. Led by Robert Mugabe, an avowed Marxist, Zimbabwe nevertheless has followed a moderate economic course.[120] As President Mugabe told Parliament in 1987: "We are more capitalist than socialist at the moment. . . . No one can ever say that today Zimbabwe is a socialist state." White businessmen and farmers have been encouraged to stay in the country and it has enjoyed modest growth, despite the costs of sanctions against South Africa and a three-year civil war.[121]

Although open to foreign investment, Zimbabwe has resisted reforms which would attract such investment. As a recent report explains:

> Domestic investors are being deterred by a barrage of government policies ranging from tight price controls, high corporate taxes, punitive personal tax rates, to constraints on foreign exchange and no dismissal laws that prevent employers from firing workers without ministerial approval.[122]

And, like most other African nations, Zimbabwe has a bloated public sector and a variety of parastatals cluttering up the economy. Yet political stability, a relative lack of corruption, and reasonable agricultural policies have allowed Zimbabwe to prosper despite such burdens.[123]

In May 1989, Finance Minister Bernard Chidzero announced a new program of economic liberalization, including a new investment code and plans to relax controls on trade, foreign exchange, wages, and prices. When asked how this squares with the government's socialist policies, he said, "There is no inherent contradiction between socialism and market forces."[124] In this respect, Zimbabwe may be following the lead of

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other socialist nations that rationalized reform by simply defining socialism to mean capitalism. Such pragmatism may yet allow Africa to achieve its promise.

Conclusion

Virtually every nation in Africa embarked on a socialist course at independence, largely because capitalism was identified with colonialism rather than entrepreneurship and free enterprise. The imposition of state controls on the economy was especially harmful in agriculture, leading to an almost continuous downward trend in food production. As the colonial period fades from memory, however, new generations of leaders in Africa feel less of a need to follow a socialist course and are more open to whatever economic system will help them grow and prosper. Increasingly, they are turning toward capitalism. Whatever faults it may have, there is no longer any doubt that free-market capitalism has the greatest capacity to produce goods and services of any economic system ever devised. Hence, despite reservations, it is increasingly common to see African leaders embrace market-oriented reforms.

Unfortunately, lacking experience with capitalism and fearing the inevitable political turmoil that results from the adoption of market-opening measures, such as the cutback of subsidies and layoffs of redundant government workers, African leaders often move too timidly in instituting reforms. Those leaders who move quickly and decisively seem to be better able to cope with the transition. Nevertheless, the magnitude of reforms that have been adopted in just the last few years is enormous. Virtually every African nation has adopted some market-oriented reforms, with some turning around almost 180 degrees.

While there are many success stories, Africa has yet to produce the kind of definitive case, such as Japan was in the Far East, that would finally convince the rest of Africa to abandon socialism once and for all. Thus far, the greatest successes have been in very small countries like Mauritius that are not sufficiently well known to provide a definitive example for others to follow. In other cases, nations started their reforms from such a low base that it may take decades of rapid growth to begin to show meaningful results. Still, there has been progress, and there is little prospect for a return to 1960s-style socialism. In time we may yet see Japans, Hong Kongs, and Koreas emerge in Africa.

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