

## FOOTNOTES

1. See Kiyoshi Nakamura, *Japan and a New World Economic Order*, Tokyo. Tuttle Co., 1977, pp. 76-88.
2. M.Y. Yoshino, "The Multinational Spread of Japanese Investment since World War II", *Business History Review* XLVIII, No 3, Autumn 1974.
3. Japan External Trade Organisation, *A History of Japan's Post War Economic Policy*, Tokyo, 1983, pp. 1-8.
4. See *Financial Times*, London, 21 July 1980.
5. Jon Halliday and Gavan McCormack, *Japanese Imperialism Today*, New York, *Monthly Review Press*, 1973, p. 217.
6. Halliday and McCormack, op. cit., p. 219.
7. Shim, Sang-June, *Japan and Latin America: A Changing Relationship*. Unpublished Ph.D Thesis, Rutgers, 1978, p. 126.
8. Kiyosh Nakamura, op. cit., pp. 76-88.
9. *Nigeria-Japan Economic Newsletter*, August, 1983, p. 2.
10. Ibid.
11. These problems are analysed in detail in Jide Owoeye, "Africa and Japan's Search for Resource Security", *African Spectrum*, 1984.
12. *West Africa*, London, 28 October 1983, p. 2755.
13. Ibid.
14. Id., pp. 2754-5.
15. Id., pp. 2754-6.
16. Ibid., and *Africa-Japan Economic Newsletter* August, 1983, p. 4.

## African Socialist Ideologies and the IMF Policies for Economic Development: the Case of Zambia\*

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Several times before, I have declared in very clear terms that political independence without matching economic independence is meaningless. It is economic independence that brings in its wake social, cultural and scientific progress of man (sic). No doubt political independence is the key, but only the key to the house we must build.<sup>1</sup>

### Introduction

In the 1960s many African countries struggled to achieve political independence. At independence, the African nationalist leaders were faced with a crucial question of identity for the new independent African societies. They had three alternatives: to structure the new societies following the Western capitalist system bequeathed to them by their colonial masters, to pattern the new-born nations according to the European socialist structures and, lastly, to restructure the modern African nations after African traditional ways of life. Filled with nationalist zeal and the desire to create authentic and non-aligned societies, many African politicians decided to look into African cultures for guidance in shaping modern African societies. Thus in the past 20 years of political independence, some nationalist leaders have attempted to reorganize modern societies after traditional ways of life which they called *African Socialism*.

In establishing African socialism, the new rules had to struggle against capitalist structures of dominance, planted during the 60 years of colonial rule. The underlying structure of dominance was that of economic dependence established by past imperialism and present international capitalism. This economic dependence was legitimized by colonial governments. The colonial rules oriented peasant political economies towards capitalist economies, granting privileges to white settlers, the industrialists and the white workers, thus creating unequal social structures.

By the time political independence, certain capitalist economic structures were fully established. The structures of dominance were characterized by three types of surplus distribution.

1. the export of profits and investment income to industrialized countries;

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2. discretionary consumption by a small local labour force concentrated in modernized enclaves; and
3. productive investment "embodying capital intensive techniques concentrated in sectors other than those producing capital goods."<sup>2</sup>

In addition, where African capital markets were not large enough to finance development projects, industrialized nations had long established such markets from which financial loans could be procured.

The purpose of this paper is to discuss the implications of the capitalist structures of dominance for African socialism, and the implications of the International Monetary Fund (IMF) policies for economic restructuring of African socialist economic developmental policies. The focus of the study is the IMF conditions imposed on Zambian socialism. Does the Zambian government have to dismantle its twenty years old socialist economic policies to earn IMF loans? Can Zambia pursue IMF conditions for economic restructuring to qualify for IMF loans and yet remain a socialist country? The year 1985 will be remembered as the 'watershed' year for Zambia socialism. Several capitalist instruments proposed by the IMF, such as the auctioning system, the decontrol of prices and bank interests rates and control of wages were introduced. Furthermore, government control on the economy was loosened. But the Zambian politicians have maintained that the country will continue to pursue the socialist path. Since the month of October 1985, the auctioning system has become the hub of economic liberalisation. The fundamental question, therefore, is: can the *laissez faire* mechanism introduced in African economies promote African socialism, and in particular, Zambia socialism?

### African Socialism

At independence, radical African leaders sought to build the new African societies after the traditional way of life. They analysed the cultures of various ethnic groups to discover essential cultural elements. Nyerere observed that African ethnic groups were based on the extension of basic family units. Nyerere termed these extended family relations 'Ujamaa' or familyhood. Nyerere wrote: "The foundation, and the objective, of African Socialism is the extended family"<sup>3</sup>. For him, the extended family system did not embrace Tanzanians only but all the peoples of the world. Nyerere's socialist thought was inscribed in the first articles of the Tanganyika African National Union (TANU). The article read: "Binadamu wote ni ndugu zangu, na Africa ni moja", meaning: "I believe in human brotherhood and the unity of Africa". African socialism, according to Nyerere, was opposed to capitalism. For him, capitalism built society on the basis of the exploitation of a human person by another human person, while socialism promoted equal justice among all the people. In addition, he stated that African socialism was opposed to doctrinaire socialism which built society on a philosophy of inevitable conflicts among classes.

Tsiranana of Malagasy observed that African socialism was "based on work, equality, fraternity, and love for our fatherland in the reawakening of our ancestral socialist traditions"<sup>4</sup>. He emphasized that modern African socialism was the same as ancestral socialism.

In Kenya, Mboya pointed out that African socialism consisted of "Those proven codes of conduct in African societies which have, over the ages conferred dignity on our people and offered them security regardless of their station in life"<sup>5</sup>

Kaunda, the architect of the Zambian humanism, stated that the structure of traditional society was characterized by three key factors. The first mark was that it was self-contained, and organized itself to meet the basic needs of all its members. The second factor was that traditional ethnic communities were 'accepting'. Each group welcomed the slow, the inept as a member of the group and assumed the responsibilities of providing them with the necessities of life. For Kaunda, social qualities weighed much heavier than individual achievement. The African societies valued people not because of what they could achieve "but because they were there". The third aspect of traditional society was that it was an inclusive society. Kaunda said that an inclusive society meant a web of relationships which involved "some degree of mutual responsibility spread over all the members of the society. All the children, the old people and the handicapped belonged to a family circle"<sup>6</sup>. Kaunda wrote:

This high valuation of MAN and respect for human dignity which is a legacy of our tradition should not be lost in the new Africa. However 'modern' the nation of Zambia may become, we are fiercely determined that this humanism will not be obscured. African society has always been Man-centred ... We in Zambia intend to do everything in our power to keep our society Man-centred. For it is in this that what might be described as African civilization is embodied. Indeed if modern African has anything to contribute to this troubled world, it is in this direction that it should.<sup>7</sup>

The same 'traits and customs' or 'codes of conduct' in African traditional societies have been observed by other writers, such as Cureau and Campbell, in other parts of the African continent. Campbell, for example discerned socialist traits in the culture of Central Africa. He stated that all Bantu people were "pronounced socialists, and socialism is their fundamental and fixed form of government"<sup>8</sup>.

The new African rulers, therefore, decided to incorporate the economic, political and social traits of ancestral socialism and communalism into modern African societies. Kaunda illustrated the importance of traditional cultures in modern societies thus:

Zambia humanism is something that is evolved from what you might call the normal way of life of a man in a traditional society. At the same time it takes its consideration the changed environment in which he lives. It is a combination of these two that gives us the humanist philosophy ... (Zambian humanism) is really an interpretation of the road to a fuller life in economic and social terms, as well as a way of life itself, which the common man is to live, once the goal is achieved.<sup>9</sup>

The government leaders of Zambia, Tanzania, Ghana and other African countries began to create new socialist structures to replace the capitalist structures. Kaunda, however, recognized the complexity of a modern, industrialized and dependent Zambia society. He asked; "Is there any way that my people can have the blessings of technology without being eaten away by materialism and losing the spiritual dimension from their lives."<sup>10</sup> The fundamental issue was: how would Zambia achieve African socialism when neither the Eastern Socialist and Western Capitalist countries understood it? Furthermore, Kaunda asked: "How does an individual in Zambia today remain mutual aid society-minded and at the same time function in a society that is emerging from a so-called modern economy which have been born out of capitalism?"<sup>11</sup>

## New Socialist Political Economies

Madison stated that it was easy to prescribe policies which might promote equality and growth. "However, most of the theoretical options were foreclosed by pressure of vested interests, even when sanctioned by legislations".<sup>12</sup> But the new African socialist leaders such as Nyerere and Kaunda, resolved to translate traditional socialism into modern socialism. They wanted to break the uneven economic development ushered into their territories by colonialism. To eliminate under development in the rural areas and poverty among the majority of people, the new rules opted for balanced growth. Political leaders promised the African masses that independence would eliminate poverty, hunger, provide employment to job seekers, loans to small scale peasant farmers and private entrepreneurs, and bridge the income distribution gap between the masses and urban dwellers. African leaders thought that equal distribution of the nation's wealth could be achieved through African socialism.

In Tanzania, the policies of socialism were articulated in the Arusha Declaration, and TANU's policy of socialism and self-reliance. These policies were:

1. that all citizens together possess all the natural resources of the country in trust for their descendants;
2. that in order to ensure economic justice the state must have effective control over the principal means of production; and
3. that it is the responsibility of the state to intervene actively in the economic life of the nation so as to ensure the well-being of all citizens, to prevent the exploitation of one person by another or one group by another, and so as to prevent the accumulation of wealth to an extent which is inconsistent with the existence of classless society.<sup>13</sup>

To implement the resolutions of the Arusha Declaration, the Tanzanian government nationalized all financial institutions and major means of production. The Tanzanian leaders thought that nationalization was an instrument for the establishment of African socialism.

In Zambia, the United National Independence Party (UNIP) upheld the principle that the government should intervene actively in the economic life of the nation. The preamble to the Constitution of Zambia read that all men and women have the right freely to determine and build "their own political, economic and social system by ways and means of their own free choice".<sup>14</sup> Furthermore, one of the objectives of the Constitution of UNIP government was to dismantle capitalism and to replace it with socialism. The introduction of the UNIP Constitution read "that the main task of the Party is to accomplish a victorious transition from Capitalism to Humanism through socialism as a means of eradication of imperialism, colonialism, neo-colonialism, fascism and racism on one hand and poverty, hunger, ignorance, disease, crime and exploitation of man by man, on the other".<sup>15</sup>

The Zambian government leaders decided to introduce programmes that would eliminate what Kaunda called "exploitation of man by man". He explained that exploitation can be established by a political ruling clique, a racist group and an economic class. He wanted to prevent the rise of classes and class conflicts in Zambia. To reverse the exploitative policies of the colonial era, the Zambian rulers decided:

1. to build many primary schools in the rural and urban areas, and to construct boarding secondary schools in every district. Moreover, the government ruled that education from primary schools to the university be free ...;
2. to improve medical care and public health services and to abolish hospital and medical fees;
3. to pay subsidies on essential commodities for the benefits of urban as well as the rural populations;
4. to improve and to extend public transport services in urban and the rural areas ... The government further subsidized the cost of public transportation; and
5. to exempt low-income groups from income tax and to abolish bicycle and similar taxes.

These socialist policies were taken "to ensure easier and cheaper life for all without distinction. The provision of better and improved economic and social conditions in urban and rural areas would guarantee the security of any leaders who the nation has called upon to serve together with his children".<sup>16</sup>

These welfare policies were consolidated from 1968, when the Zambian government announced the first economic reforms. These economic reforms were contained in Kaunda's address to the UNIP's National Council at Mulungushi. He stated that the government was satisfied by the activities of private companies. He observed that foreign companies had created in the country the following conditions:

a) gross under-capitalization, b) excessive local borrowing, and c) nearly 100 per cent increase in foreign exchange expenditure on invisibles; it jumped from f16.46 million in 1965 to f31.887 million in 1967, although goods purchased in that year amounted to only f44 million. The difference cannot be accounted for even as payments for personnel." To remedy this situation, Kaunda said; "I have therefore, decided that I shall ask the owners of certain firms to invite the government to join their enterprise."<sup>17</sup> He requested all financial institutions and major companies, except the mining industry, to sell 51 per cent of shares to the government. By buying a majority of shares of foreign major companies, the government was granted effective control of these enterprises.

The second set of economic reforms was announced at Matero in 1969. The main objective of the Matero economic reforms was to declare the partial nationalization of the mining industry. Kaunda titled the Matero speech: "Towards Complete Independence". After the negotiations between the government and the giant mining corporations were completed, Kaunda stated: "This completes economic reforms, now Zambia is ours."<sup>18</sup>

The Zambian government leaders justified the buying of controlling shares in foreign industries by the socialist ideology of humanism. Kaunda argued that, since humanism placed "high valuation of man and respect for human dignity", nationalization would remove exploitation of one human being by another. Kaunda defined state participation as "a means of arresting exploitation in society and of promoting the egalitarianism which was an essential element of humanism by taking measures which strengthen and help the poor and the weak."<sup>19</sup>

The Zambian government pursued vigorously the socialist policies in the early 1970s. For example, as Marcia Burdette observed, the government announced the second phase and cancelled management contracts. The government paid Anglo American Corporation K33 million and AMAX K22 million for cancellations of management contracts. In 1975, Kaunda emphasized in a speech to the National

Council of UNIP the importance of achieving humanism through socialist policies. In this speech to the UNIP National Council, known as the 'Watershed Speech', Kaunda told the councillors: "Capitalism is not our political line. Any work deliberately calculated to support the line of capitalism is against our political line."<sup>20</sup> He pointed out that the political line of the ruling party derived all its principles from the national philosophy of humanism. He added that, since independence, Zambia was working for the elimination of imperialism, colonialism, racism and fascism. He further announced the nationalization of the mass media. He charged the journalists with the responsibility of reflecting the official thinking of the party and the government.

The government of the Republic of Zambia pursued consistently the socialist economic, political and social policies from 1964–1985. These policies were aimed at abolishing the capitalist system. To achieve socialism, the government introduced free education and free medical services, and subsidized the prices of essential commodities. Furthermore, the government nationalized the major means of production and distribution. These measures, undertaken to restructure the economy, and introducing socialism were facilitated by the economic boom in Zambia. From 1964 to 1974, the Zambian economy was strong because the price of copper was favourable on the London Metal Exchange. Since the mining industry was the major earner of foreign exchange, the Zambian balance of payment was positive.

### The IMF Ideology

Most African states joined the IMF in the 1960s. However, they did not use the Fund's financial resources until the 1970s. During these years, African states began to experience balance of payment problems. African governments viewed their membership "partly as an entrance ticket to the World Bank and, in particular, to the International Development Agency (IDA); and partly as a way to gain access to the Fund's technical assistance and other low-cost services as training, data selection, consultation, etc."<sup>21</sup> In the euphoria of independence, African leaders were not fully aware of the IMF ideology and the implications for their political economy.

Zambia joined the IMF in 1965, a year after political independence. Zambia had not yet, at this time, adopted the philosophy of humanism, the guiding ideology for its economic and political development. The philosophy of humanism was not announced until 1967, after the publication of *Zambian Humanism: And a Guide to Its Implementation, Part I*. The decision, therefore, to join the IMF was made in the early days of Zambia's political independence. For at least ten years after independence, Zambian economy and government revenue was healthy. The new rules did not need loans or economic advice from the IMF. Zambian economic policies were designed by socialist leaders. These leaders, in restructuring the economy of Zambia, disregarded the implication of membership of the Fund. The IMF, too, had no authority to interfere in the new Zambian economic policy.

The IMF was established in 1946–1947 to promote a world capitalist system and trade. The founding states of the Fund tailored the fund to promote "free international trade". The delegates to the Bretton Woods conference agreed that the "function of the Fund is to facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of

all members as primary objectives of economic policy."<sup>22</sup> For the sake of monitoring the activities of the Fund, the US, a major contributor to the Fund, demanded that the headquarters of the IMF be located in Washington DC. The choice of the headquarters of the IMF changed the direction of the Fund. The US chose Washington DC as the headquarters of the IMF because it wanted the Fund to be perceived as an intergovernmental institution. Horsefield reported the views of the United States government thus: "The Fund, as an intergovernmental institution should be free of any possible influence from economic, financial, or commercial interest." William L. Clayton, the US representative, added: "The judgement of the government of the country in which the Fund is to be located should be given substantial weight. Washington DC affords a better opportunity for the members of the Fund to communicate with representatives of their respective governments."<sup>23</sup>

This argument did not convince John Maynard Keynes, the British representative. Keynes proposed that the Fund's headquarters should be located in a financial city like New York. He said: "New York, in addition to being a financial and economic World Centre, would afford a good opportunity for cooperation with the Social and Economic Council and the NO."<sup>24</sup> When the United State government refused to yield to the British government's proposal, Keynes retorted: "In the light of the unyielding attitude taken by the American representative, we are ... prepared to accept the proposal of the United State, but I am afraid that the arguments employed have not persuaded us that a mistake is not being made."<sup>25</sup> The United States' government, therefore, wanted the Fund to be a political and not a technical instrument, subject to political control.

Another political decision that strengthened the position of the US and of Britain and France, was the adoption of the weighted voting system. The architect of the IMF agreed that "the Fund decisions were to be taken by a weighted system of voting, giving proportionately greater power to the member with larger quotas, and for certain decisions slightly augmented voting power to creditor countries at the expense of debtor countries."<sup>26</sup> Because of the weak economies of the European countries, after World War II, the US was the largest contributor to the Fund, and thus was able to determine the nature and direction of the Fund. Britain and France, the allies of the United States, were second in offering larger quotas to the Fund. Although the Soviet Union was invited to participate in the establishment of the IMF, it refused to join. It charged that the Fund was created to promote capitalism and imperialism in the world. Most of the developing countries of African, Asia, and Latin America, on the other hand, were either still colonies or were economically weak. Their interests were represented, in theory, by their colonial masters.

The founders of the IMF resolved that the obligations of the members were:

1. to collaborate with the Fund to promote exchange stability;
2. to maintain orderly exchange arrangements with other members;
3. to avoid competitive exchange rate alterations; and
4. to make their currencies convertible as defined in the article.

The original members of the Fund maintained that it paid to become a member of IFM. They observed that the benefits for membership were:

1. to share in the sturdy growth of the international economy;
2. that members could count on active cooperation of fellow members in maintaining stable exchange and avoiding competitive depreciation; and

3. that a member may borrow from the Fund for a limited period certain resources with which a member had been endowed.<sup>27</sup>

The delegates to Bretton Woods agreed that members would borrow resources from the IMF of a short period, for the purpose of correcting adverse balance of payment. It was resolved that the Fund should not be used for long term investment purposes, but for short term ones only. The loans obtained from the Fund were to avert an economic slump. The delegates further gave "delegates acknowledged that such supervision would help the officials of these banks to acquaint themselves with the economic policies of the Fund. Furthermore, the officials of member central banks would exercise similar control over other banks within their countries. The policing and supervising exercises over central banks of member states were undertaken to further the IMF ideology and to promote capitalist economic policies.

In *The Debt Trap*, Payer has analysed the impact of the IMF's policies on developing nations. Payer observed that the IMF was established to prevent countries temporarily in payments crises from curtailing imports when short of liquidity (cash or assets which can be used for making payments), and particularly to prevent them from imposing restrictions of trade in order to deal with payments crises.<sup>28</sup> The normal reaction of countries in payment crises caused by shortages of foreign exchange would be to cut imports; to prevent such measures of control, the IMF offered assistance. The Fund's primary purpose has been to facilitate international free trade of the free market exchange system. The IMF, therefore, is opposed to centrally controlled economic policies. It is the watchdog of capitalist world trade and frowns upon protectionist economic measures. According to Payer, the Standard prescriptions administered by the IMF for an ailing economy are:

1. devaluation of national currency to bring down an overvalued exchange rate to "one closer to what the free market supply and demand for foreign exchange would dictate";
2. a floating exchange rate which is an effective devaluation. In this system, the national government does not choose a new exchange rate, it abdicates its 'responsibility' to free market forces;
3. liberalization of the national economy. This prescription requires the national government to abolish protectionist measures; and
4. the auction system. In this system, the exchange rate is determined by the business community that bid for foreign exchange.<sup>29</sup>

These IMF prescriptions have the purpose of advancing the free movement of goods. All member countries subscribe to this basic principle of capitalist trade. Article VIII of the IMF describes this principle thus: "No member may, without the approval of the Fund, impose restrictions on the making of payments of transfer for current international transactions, or engage in discriminatory currency arrangements or multiple currency practices".<sup>30</sup>

By joining the IMF, Zambia and other African countries subscribed to the Fund's ideology of economic liberalization. As a member, Zambia committed itself to the *laissez faire* economic system. In addition, Zambia subjected itself to carrying out 'sound financial policies' in a spirit of cooperation with fellow members of the IMF. Zambia committed itself, in principle, to follow IMF ideology irrespective of its impact on Zambia's industrial, political and social development programmes.

## Restructuring Zambian Political Economy

At independence, many African rulers wanted to transform the colonial political economies to suit the African socialist way of life. Zambian leaders maintained that the ideology of humanism they had chosen required the country to follow socialist economic policies. As long as Zambia did not require economic aid and assistance from the IMF, the politicians were free to restructure their inherited capitalist system. The situation, however, changed from 1975, when the Zambian economy began to decline. With low world copper prices, the main source of foreign exchange, Zambia experienced an adverse balance of payments. The Zambian leaders sought loans, Special Drawing Rights and advice from the IMF. The advisers from the IMF pointed out that Zambia's economic crises were caused by "unsound economic and financial policies" pursued by the government. The IMF economic advisers submitted to the Zambian leaders the need of restructuring the economy if they wanted loans from the IMF and other international financial institutions. The IMF experts pointed out that the Zambian economy could not recover so long as the government subsidized essential commodities, controlled prices, bank rates and imports, and overvalued its currency. The Zambian Kwacha, they observed, was overvalued, making Zambian goods uncompetitive on the international markets. With the overvalued Kwacha, Zambia could not earn enough foreign exchange to correct its balance of payments. In addition, the IMF economists suggested that the Zambian public service needed to be pruned. To earn the IMF loans, economic assistance and favour among financial institutions in advanced capitalist countries, Zambia agreed, in 1975 that its socialist political economy needed to be restructured. Zambian leaders advised the nation to brace itself for austere economic measures. The first package of economic restructuring comprised of: decontrol of prices, bank interest rates, and a reduction in consumer subsidies.

Although these measures were introduced in 1976, they did not significantly alter the Zambian political economy. The decontrol of prices did not affect the urban and rural populations very much because the government controlled prices of essential commodities through government subsidies. Furthermore, the government allowed organized labour to negotiate wages. Even though decontrol of bank interest rates restrained bank borrowing by business people, it did not affect the workers and peasants. The workers were protected by the government labour laws. The employers needed permission from the Ministry of Labour and Social Services to dismiss, to lay off or to declare workers redundant. The IMF economic measures were ineffective, they did not change Zambian socialist economy.

On October 4, 1985, however, the Zambian government leaders adopted the auctioning system. This decision reversed Zambian socialist ideology and established the capitalist ideology. The national politicians announced that the government chose the auctioning system as an instrument for allocating the scarce foreign exchange. The money to be auctioned was US\$5 million. Later, the sum was increased to US\$9 million. It was decided that the exchange rate to be used by commercial banks would be determined by market forces on the auction floor. The auctioning of foreign exchange was a departure from a manual allocative system to "a more automatic and impersonal allocative mechanism". The government decided that the marginal rate or ruling rate for a week was to be the rate at which the auction

fund appeared to get exhausted. The objectives of the Zambian auctioning system were to:

1. ensure that the exchange rate is fully responsible to changes in the demand for a supply of foreign exchange;
2. provide foreign exchange in a timely manner;
3. attract into the banking system foreign exchange which is currently held outside the banks;
4. reduce reliance on administrative mechanisms in the allocation of foreign exchange; and
5. promote the production of higher volume and broader range of exports.<sup>31</sup>

The underlying purpose for the decision was to diversify the economy from "the production and export of a diminishing asset - copper - to the agricultural and the manufacturing sectors". The Minister of Finance and the National Commission for Development Planning pointed out that the auctioning system would help these two sectors to:

1. achieve self-sufficiency in food production;
2. generate exports and gradually to take the role of copper as source of foreign exchange;
3. create employment;
4. assist income distribution;
5. create impact replacing goods;
6. promote the development of local raw materials; and
7. improve public sector performance.<sup>32</sup>

In addition, the Minister warned that unless "the economy's structural bottlenecks should be removed concurrently with the introduction of the auctioning system" the economy could not recover. He proposed that the government should encourage industries to use local raw materials and labour intensive forms of production. Furthermore, he stated that the auctioning system, an impersonal instrument of allocating scarce foreign exchange, would abolish the prevalent corrupt ways of granting foreign exchange. He added that, through the new system, consumption would be cut down and more stress would be placed on production. He concluded that the new instrument of allocating foreign exchange was not an economic panacea; it ought to be supported by a number of other sound policies, such as strict control of government expenditure, tight discipline in monetary expansion, realistic trade and pricing policies, and institutional reform.<sup>33</sup> By introducing these economic reforms, Zambia agreed to reverse its political economy and move away from its socialist path. After the establishment of the auctioning system, Zambia received loans and favourable treatment from the IMF and international lending institutions. In fact, the money to be auctioned came from outside.

### The Impact of the Auctioning System on Zambia

The consequences for the auctioning system affected all the Zambian people. Ten days after the introduction of the auctioning system, Zambia Industrial and Min-

ing Corporation (ZIMCO) increased the price of petrol and petrol products by 100 per cent. ZIMCO explained that the decision was necessitated by the depreciation of the Kwacha. The Kwacha was devalued by 107 per cent at the first auction. More importantly, the decision to increase the price of petrol by ZIMCO, a parastatal corporation, meant that the Zambian government had surrendered its economic control to the market forces. This decision also provided direction to business people that the *laissez faire* economy would be followed. Furthermore, ZIMCO leaders revealed the fearful mood of the business community over the auctioning system in Zambia. The chairperson of the Zambia Federation of Employers, E.C. Chimbwe, speaking on the effects of the auctioning system on business, said:

"Business operations have become uncertain and planning difficult due to the initial consequence of instability of the Kwacha and the linkage of all prices to the ruling foreign exchange rate. Entrepreneurs fear that as the resultant price increases are passed on to the consumer, commodities will be beyond the reach of the majority of the people and thereby reduce the volume of business or even stagnate it".<sup>34</sup>

Table 1 shows the floating marginal rate struck at the auction floor from the first week of auction in October 1985 to the 38th week of auction. In almost 9 months, the marginal rate had floated between ZK5.01 and ZK7.51. These have been the rates that directed the commercial banks in selling and buying foreign exchange to and from the public.

The panic of the business community, caused by the uncertainty of the exchange rate and amount of dollars to be auctioned was shown by the price hikes on all commodities in Zambia. By reducing subsidies on essential commodities, the government authorized price increases on mealie meal, the staple food of the majority of Zambian people. The price of a bag of 25 kilogram was increased by 40 to 50 per cent. For example, the price of a 25 kilogram bag was increased from K12.90 to K19.32 and the price of a bag of 50 kilograms was raised from K24.32 to K37.32. Table 2, extracted from the survey of the Prices and Incomes Commission, illustrates the price increases on the essential commodities, caused by uncertainty of the exchange rate and the anxiety of the business community.

Table 1: Marginal Ruling Rate Pre-Auction Rate US\$1 = K2.42.

Date	Ruling Rate	% Change over Pre-Auction	No. of Birds	No. of Successful Bids	% of Unsuccessful Bids	Rate
1. 12.10.85	K5.01	107%	306	97	37	K2.74-15.00
2. 19.10.85	K6.10	152	397	137	34	K3.11-12.00
3. 26.10.85	K7.00	189	345	103	30	K2.44-9.25
4. 2.11.85	K6.44	166	270	248	92	K4.60-9.00
5. 9.11.85	K6.25	158	234	181	77	K4.22-8.51
6. 16.11.85	K6.03	149	229	195	85	K3.50-7.50
7. 23.11.85	K5.80	140	234	210	90	K4.22-7.50
8. 30.11.85	K5.74	137	205	180	88	K5.00-7.05
9. 9.12.85	K5.75	138	187	169	90	K4.52-7.00
10. 14.12.85	K5.75	138	201	180	90	K5.50-6.65
11. 21.12.85	K5.77	138	172	160	93	K5.60-7.05
12. 28.12.85	K5.70	135	101	100	99	K5.60-6.65
13. 4. 1.86	K5.76	138	114	98	91	K4.95-6.50
14. 11. 1.86	K5.86	142	164	105	64	K4.52-6.50
15. 18. 1.86	K6.01	148	234	102	43	K4.52-7.50
16. 25. 1.86	K6.40	165	308	151	49	K4.52-7.50
17. 1. 2.86	K6.40	165	308	151	49	K4.52-7.50
18. 8. 2.86	K6.51	169	254	143	56	K6.00-7.11
19. 15. 2.86	K6.68	176	280	205	73	K6.00-7.15
20. 22. 2.86	K6.78	180	304	191	63	K5.05-7.50
21. 2. 3.86	K7.01	190	301	131	44	K5.54-7.50
22. 9. 3.86	K6.90	185	286	140	49	K6.00-8.00
23. 16. 3.86	K6.75	180	302	156	58	K6.40-7.80
24. 23. 3.86	K6.91	186	280	163	58	K6.25-7.86
25. 29. 3.86	K6.85	183	193	173	90	K6.50-7.60
26. 5. 4.86	K6.87	184	258	216	84	K6.50-7.60
27. 12. 4.86	K6.98	188	245	170	69	K6.00-7.50
28. 19. 4.86	K7.06	192%	273	176	65%	K6.50-7.50
29. 26. 4.86	K6.98	188	283	196	69	K4.50-7.50
30. 3. 5.86	K7.00	189	236	200	85	K6.50-7.50
31. 10. 5.86	K7.03	191	274	235	86	K7.00-7.50
32. 17. 5.86	K7.11	192	297	148	50	K7.00-7.50
33. 24. 5.86	K7.23	199	279	153	55	K7.00-7.55
34. 31. 5.86	K7.31	202	315	247	78	K7.00-7.60
35. 7. 6.86	K7.26	200	318	170	54	K6.50-7.75
36. 14. 6.86	K7.32	203	397	244	61	K7.11-7.65
37. 21. 6.86	K7.39	205	385	269	70	K5.00-7.61
38. 28. 6.86	K7.51	210	404	136	34	K5.50-7.50

Source: Based on Bank of Zambia Weekly Announcements, October 1985 - June 1986.

Table 2: Average Prices and Movements

Commodity	Prices October 1985	Prices June 1986	Prices Development
1. B/Meal	K19.78	K19.45	-1.7
2. R/Meal	K15.32	K15.59	1.8
3. Bread	K00.90	1.87	107.8
4. Chicken	6.79	9.74	43.30
5. D/Kapenta	8.92	16.71	86.30
6. F/Kapenta	3.92	7.00	78.60
7. C/Oil	17.57	15.78	-10.20
8. Sugar	2.18	3.40	56.00
9. Tomato	1.23	2.55	107.30
10. Onion	1.53	4.65	203.90
11. Rape	1.79	1.98	10.60
12. Brisket	6.50	8.16	25.50
13. O/Mince	6.90	8.25	19.60
14. Mixed Cut	5.53	7.44	34.50
15. D/Beans	3.26	5.02	54.00
16. Candles	9.00	7.57	-15.90
17. Charcoal	7.75	12.00	54.80
18. F/Milk	0.62	0.81	30.60
19. Egg	2.75	3.60	30.90
20. Matches	0.08	0.16	100.00
21. Tanganda	2.27	2.59	14.10
22. B/Bond	2.45	2.67	9.00
23. F/Salt	1.39	1.99	43.20
24. Detergent	2.35	4.37	86.00
25. Soaps	1.21	1.68	38.80

  

B/Meal	Breakfast Meal	C/Oil	Cooking Oil
R/Meal	Roller Meal	O/Mince	Ordinary Mince
D/Kapenta	Dried Kapenta	D/Beans	Dried Beans
F/Kapenta	Fresh Kapenta	F/Milk	Fresh milk
B/Bond	Brooke Bond	F/Salt	Fine Salt

Source: Price Information Bulletin No. 3, 1986 - Price and Income Commission.

The last column of Table 2 illustrates the rise or fall of prices in percentage. The Commission reported that the basket of commodities accounted for approximately 55 per cent of the total consumer expenditure "measured by the consumer price index (CPI) for the low income groups". It further observed that the cost of the commodity basket had gone up by 53.50 per cent. It concluded that the consumer, who spent K100 on the basket of commodities prior to auctioning, had to pay K154.00 to buy the same basket during the month of June. The majority of workers whose wages had remained static since October 1985, could only buy "65 per cent of what was bought prior to the auctioning".

To comprehend the impact of the price increases as shown in Table 2, it should be realised that these are only average prices. This means that, depending on the part of the country or city, a consumer may have to pay more than given average. For example, the cost of bread at 8 groceries in Lusaka ranged from K1.74 to K2.50, while the price of chicken per kilogramme at 8 groceries in Lusaka ranged from K8.50 – K11.00, according to the findings of the Commission. Since the cost of public transport also went up by 75 per cent after the auctioning system, it could be cheaper for a consumer to buy at the nearest grocery but at a higher price.

The auctioning of foreign exchange has eroded the buying power of the workers. While the business community has been observing or has taken into consideration the floating exchange rate in fixing the prices of commodities, the workers' salaries have not been pegged to the weekly marginal rate. In November 1985, the Government, the Zambia federation of Employers (ZFE) and the Zambia Congress of Trade Union agreed to a salary increase ranging between K50 and K75. The tripartite committee resolved that the low-paid workers should be awarded more salary increases than the highest-paid workers in an establishment. These increases, however, failed to alleviate the effects of the erratic price increases brought about by the auctioning of foreign exchange and the decontrol of prices. In the mining industry, for example, a lowest paid worker in Grade 8 was paid K284 gross salary per month, and the November 1985 increases meant that the worker was awarded 26 per cent increase. The highest paid union worker was awarded only 5 per cent. But the tripartite committee did not make these awards mandatory. The committee advised that the increases should depend on the ability of the establishment or industry to pay its workers. Thus, the mining industry effected 2½ per cent increase for employees in hot metal and 5 per cent for workers underground. The Lusaka Engineering Company Limited, on the other hand, authorized increases between 21 – 43 per cent to the highest – and lowest-paid workers. Table 3 shows how the pay rate per hour negotiated by the Union for 1985/1986 was revised in November 1985 because of the adverse impact of the auctioning system on the Zambian economy.

The Prices and Incomes Commission's file on the Collective Agreement between the University of Zambia and Allied Workers Union gives another example of the liberty that the establishment and industries were given in determining the salary increases. The workers in the administrative services at the University of Zambia were given wage increases ranging between 11 – 30 per cent.

Table 3: Collective Agreement

Grade	1985/86	November 1985 – July 31, 1986	
	Per Hour Kwacha	Per Hour Kwacha	% Increase
1	0.79	1.13	43
2	0.96	1.30	35
3	1.13	1.47	30
4	1.30	1.64	26
5	1.46	1.80	23
6	1.62	1.96	21

Source: Prices and Incomes Commission's Records, 1986

Since the Zambian businesses, industrial and transport corporations determined prices in anticipation of the weekly devaluation of the Kwacha, the November wage increments were of little significance. The cost of living was beyond the reach of ordinary workers. To understand the seriousness of the problem, the reader should take into consideration that the price hikes were affected in all commodities. Besides, with the decontrol of prices, retailers could fix prices without fear of government price controllers. The worker was besieged by the weekly devaluation of the Kwacha. The Zambia Congress of Trade Unions was silenced by the economic measures introduced in the country.

### Marginal Rate and the Pruning Exercise

The reduction of the cost of production was one of the factors proposed by the IMF in the process of restructuring the Zambian economy. The rationalization of the cost of production through declaring workers redundant and laying off workers was part of the IMF package. Many business establishments and industries and the government, fearing the loss of business caused by the new economic measures, decided to dismiss workers, declare them redundant or to lay off and retire workers (see Table 4). This Table does not list all the companies, private and public, that have declared workers redundant, that have laid off and that have offered early retirements to workers, but it demonstrates the general economic trend and the plight of the workers in the country. The Zambian government was unable to protect the interests of



the workers. The Government leaders reiterated that the government approved of the dismissal of workers as cost-saving measures because of the seriousness of the economic depression. They emphasized that since Zambia had no foreign exchange and had a debt of US\$4 billion, the government had to adopt the "IMF sound economic policies" to qualify for international loans, grants and credit facilities.

**Table 4: Workers Pruned**

Company	No. of Workers Dismissed	Reason given
ZCCM	3,000	As part of Company's Cost Saving Measures TOZ 4/8/86.
ZCCM	2,250	Dismissed in June 1985 because of the strike over the Mukuba Pension Scheme.
The State	5,000	It is better to prune a few workers than the whole nation to sink.
ZAFFICO	400	As part of the World Bank recommendation for the company to retain a manageable labour force 4/15/86.
ZAMOX	120	To enable the firm to survive the present economic crisis.
Ministry of Works and Supply	600	As cost saving measures.
Kitwe District Council	200	As cost saving measures.
94 Companies	3,000	To save operational costs.
Firms	3,511	To counter the unfavourable economic climate worsened by the lack of foreign exchange, TOZ 3/7/86.

ZCCM	Zambia Consolidated Copper Mines Limited
ZAFFICO	Zambia Forestry and Forest Industries Corporations
ZAMOX	Zambia Oxygen.
TOZ	Times of Zambia

Source: The Time of Zambia

### Conclusion: Analysis and Implications

This paper has discussed two restructuring processes undertaken by the Zambian government. The first change concerned the transformation, at independence, of the colonial and capitalist economy into a modern African socialist economy. The core of this transformation was the nationalist determination to control and direct not only the political but also the economic destiny of Zambia. The second restructuring concerned the abandonment of African socialism for capitalism. Zambia has been forced by economic realities to revert to capitalist political economy as

a condition for IMF aid and international capitalist loans. The decline of the prices of the raw materials have driven Zambia into balance of payment difficulties.

Many new political leaders in Africa, and in Zambia in particular, restructured the colonial and capitalist political economies after the traditional African way of life, called "African socialism". They decided to participate in the economic activities. The Zambia government introduced the Mulungushi and Matero Economic Reforms, in 1968 and 1969.

The Zambian model of socialism placed the human person at the centre of economic, political and social activities. Therefore, the government built primary and secondary schools and abolished school fees. The leaders argued that children in a humanistic society should be selected for education on merit and not on the basis of their parents' ability to pay fees. Furthermore, the UNIP government constructed many health facilities across the country. It decided that medical services should be offered to all people in Zambia free of charge. In addition, the government enacted labour laws that prohibited the employers from dismissing workers without permission from the Ministry of Labour and Social Services.

Through partial nationalization of the principal means of production and distribution and other socialist policies, the government acquired power to control and direct the Zambian economic development. The government, with the revenue from the parastatal companies and the mining companies, was able to provide free education, medical services and subsidies on essential commodities, and it controlled prices and bank interest rates. The Zambian government was able, therefore, to establish a socialist political economy during the fat years of high prices of copper at the London Metal Exchange.

The Zambian government joined the International Monetary Fund, a year after Zambia's political independence. For ten years (1965 - 1975), the government leaders did not seek loans and economic assistance from the IMF. The Fund, an institution established to promote free international trade, did not interfere in Zambia socialist transformation. In 1976, however, because of low copper prices on the London Metal Exchange, the government revenue declined. Since the mining industry was the major earner of foreign exchange and major contributor to government revenue, the low copper price created difficulties in the Zambian balance of payment. Since 1976, the Zambia government leaders have worked with the IMF to solve the Zambian balance of payment problems. The IMF advisers pointed out that the Zambian worsening economic situation would be saved through a change in economic and financial policies. The IMF, in reality, proposed the Zambia should discard its socialist policies, as a condition for loans from the Fund and other capitalist institutions. In 1985, the Zambian leaders yielded and decided to introduce a complete IMF economic package. The package consisted of the decontrol of prices and bank rates, the removal of subsidies on essential commodities, the control of wages and the laying off of workers to cut down the cost of production and the establishment of the auction system. The IMF proposed the introduction of *laissez faire* policies.

But the fundamental instrument that has undermined Zambian socialism has been the auctioning of foreign exchange. By adopting this capitalist instrument on 4 October, 1985, the government surrendered its power to control and direct the Zam-

bian economic development to the market forces. The government decided that the marginal rate, the exchange rate, to be used by commercial banks, industrial and commercial corporations, would be determined through the auctioning system and not through government intervention.

This paper has demonstrated that the auctioning system and the uncertainty of the weekly marginal rate has created panic in the business community and has made planning difficult. For the business corporations to survive, prices of commodities had to be pegged to the floating ruling rate. In addition, with the removal of price controls and subsidies on commodities, business people had power to increase prices based on the market indicators.

The consequence of pegging the prices of commodities on the ruling rates was erosion of the consumers' purchasing power. Although the government authorized wage increases in November 1985, these were not in proportion to the increase in the cost of living. The government advised employers to award wage increases depending on the industry's capability to pay. The government, furthermore, surrendered its power to protect jobs for workers to the managers. Thus, "job security", as Frederick Chiluba, the Chairperson-General of the Zambia Congress of Trade Unions said, "become the workers' nightmare". The sound economic and financial policies proposed by the IMF and adopted by the government have changed Zambia's socialist political economy. The 1985 restructuring of the Zambian economy has meant the reintroduction of the capitalist political economy.

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