Book Reviews

The Political Economy of Poverty, Equity and Growth: Malawi and Madagascar.
Frederic Pryor. A World Bank Comparative Study,
Oxford University Press, 1990. 470 pp.

Policy Reform and Poverty in Malawi: a Survey of a Decade of Experience
David E. Sahn, Jehan Arulpragasam and Lemma Merid.
Cornell Food and Nutrition Policy Program, Monograph 7, December 1990. 254 pp.

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Malawi is popularly regarded as a paradigm of African capitalism, having pursued an export-orientated, agriculturally-based development strategy in accordance with the dictates of international comparative advantage. Until the late 1970s, when the economy was derailed by exogenous shocks and poor policy response, the reward was almost two decades of rapid economic growth. Madagascar is often cited as an example of failed African socialism. Capital-intensive import-substituting industrialisation, nationalisation, a distorted incentive regime and over-extension of the state's economic apparatus contributed to three decades of declining per capita income in the post-independence period. Also by way of contrast, Malawi has pursued over a decade of largely uninterrupted stabilisation and structural adjustment programmes under the auspices of the IMF and World Bank, whilst Madagascar has been slow to respond to the macro-economic crisis facing many low-income LDCs in the 1980s.

Frederic Pryor's comparative study of these two countries, which is one in a series of nine World Bank comparative studies in political economy[1], offers the first full-length analytic economic history of Malawi and Madagascar's post-independence period. In addition, it provides a rigorous and comprehensive update of economic statistics, many of which have been considerably reworked to improve accuracy. The scope of Pryor's work is extensive and focuses on three questions: what economic policies did the two nations follow? Why did they adopt different policies? How did these policies influence economic growth and income distribution? Five clear lessons, of relevance to growth strategies and prospects in low-income sub-Saharan countries, emerge from this questioning:

i) The misleading nature of ideological terms such as "market capitalism" and "socialism" when analysing the role of the state and the market in an African context.

1 The series, edited by Deepak Lal and Hla Myint, also includes Egypt and Turkey, Sri Lanka and Malaysia, Indonesia and Nigeria, Thailand and Ghana, Brazil and Mexico, Costa Rica and Uruguay, Columbia and Peru, and five small economies (Hong Kong, Singapore, Malta, Jamaica and Mauritius). Many of the series volumes will be published by Oxford University Press. A volume of special studies on related topics, edited by George Psacharopoulos, will also be published.

ii) The importance of both the quality *and* quantity of public sector investment.

iii) The need for appropriate market-based incentive regimes backed by adequate government investment and institutional support for the market.

iv) The need for consistency, continuity and administrative realism in the framing of policy objectives, combined with a degree of automatic equilibrating flexibility in specific policy instruments.

v) The fact that the choice of a particular broad type of growth strategy (e.g. inward or outward looking, labour or capital intensive, rural or urban biased) does not guarantee that growth will be accompanied by poverty alleviation and improved income distribution.

Sahn *et al*'s work illustrates the relevance of the above lessons in the context of Malawi's stabilisation and structural adjustment programmes undertaken during the 1980s. In many respects, the above five points suggest a mid-ground position on the role of the state and the market in African economies. Since this position reflects broader trends in many current policy-making and academic circles, it is worth exploring each of the five themes in more detail in the context of Pryor's comparative work.

Pryor's data shows that by most conventional indicators - public ownership, public sector employment, and the shares of public sector expenditure and investment in total GDP (Table 1-2), the role of the state was more important in the Malawian than the Malagasy economy. In addition, "'Capitalist' Malawi accomplished an unmet goal of most socialist nations - making state-owned farms profitable." (p. 83). In other sectors of the Malawian economy - industry, marketing, retail, finance, transportation - most parastatals also made profits, which were efficiently reinvested, through to the late 1970s: "The reinvestment by the publicly-owned enterprises shows in still another way that "capitalist" Malawi has achieved a means of expansion of the public sector unrealised in most of the socialist African nations." (p. 150). Hence, parastatal sector made an important contribution to Malawi's healthy growth rate during the 1960s and 1970s.

The progressive leftward shift of Madagascar's three political regimes (the 1960-72 government of Philibert Tsiranana, the 1972-5 government of General Gabriel Ramanantsoa, and the government of Didier Ratsiraka) culminated in extensive nationalisations, a state-led, heavy industry import-substitution programme, experiments with agricultural cooperatives, and a strong urban bias in the overall policy regime. Pryor details how Madagascar's state expansion set in motion a vicious downward economic cycle which lasted from 1972 to the late 1980s. GDP growth stagnated, agricultural and manufacturing output fell, the volume of exports decreased at an average annual rate of 3.8%, and the enlarged parastatal sector incurred

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large losses, "In contrast to Malawi, the parastatal sector in Madagascar has been a sink for, not a source of, savings" (p. 228).

Pryor's comparative survey clearly shows that use of the "capitalist", and "socialist" labels to indicate the level of state economic activity can be misleading. More importantly it challenges, the oft-made assumption that the level of state activity will be negatively correlated with economic performance. It is the nature, quality and objectives of public sector economic activity, rather than its extent, which is of relevance. It is in this respect that Pryor shows ideology to have been important in shaping the Malawian and Malagasy economic experience, "The official ideologies of Malawi and Madagascar have, however, strongly influenced... the goals of economic development and the means selected to achieve such goals" (p. 9). Pryor argues that the function of the Malawian public sector was to support and, in many respects, to lead, an agriculturally-based, export-orientated, labour-intensive development strategy. To this end parastatals were run according to a "capitalist" mandate of profit maximisation. Their developmental functions were minimal and this enabled them to earn a re-investible surplus or, more controversially in the case of the agricultural state marketing board, ADMARC, to extract surplus from smallholder producers and reinvest in other economic sectors, including the estate agricultural sub-sector.

It is in the assessment of the state's role in extracting surplus from smallholder producers, and more generally, in creating considerable agricultural intra-sectoral bias in favour of the estates, that Pryor's work on Malawi is most provocative. Pryor suggests, contrary to received opinion, (Kydd and Christiansen (1981)), that this "wager-on-the-strong" strategy did not significantly worsen overall income distribution, but rather that "the hiring of workers from the smallholdings serves to narrow nationwide income differentials" (p. 89). In addition, it is also asserted, although in this case with less supporting evidence, that the estate's favourable access to land labour and credit did not harm the smallholder sector as much as was previously believed (ibid.) and that "if resources had not flowed to the estate sector, Malawi's overall growth would have been slower" (p. 91).

In contrast to Malawi's capitalist brand of state intervention the state in Madagascar served as an instrument in a nationalistic, inward-looking, urban-based development strategy which during the Ratsiraka period explicitly shunned price and profit incentives. An important lesson which can be extracted from Pryor's broad historical survey is that the hackneyed dichotomy "the state versus the market" is of little assistance in explaining the kind of diversity in strategy and outcome as witnessed in Malawi and Madagascar.[2] In view of this, African governments currently undertaking market-based structural adjustment reforms, should perhaps focus not so much on a rolling-back of the state as on a reorientation of state economic activity with a greater focus on supporting rather than supplanting the market system.

2 A similar message emerges from Robert Wade's recently published study of the quantity and quality of state involvement in South East Asia's industrial and economic success. R. Wade (1991) *Governing the Market*, Princeton University Press.

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The comparative study of Malawi and Madagascar indicates the importance of investment, particularly public sector investment, in the growth process of low-income countries with fragmented markets and large, atomistic, ecologically fragile agricultural sectors. The most striking feature of Malawi's post-independence economic performance was the rapid mobilisation of both domestic and foreign resources which were used to carry out an extensive state-led investment programme. Much of the credit for this impressive savings and investment record lies with the public sector, which made extensive efforts to increase government savings. In addition to the re-investible surplus of the parastatal sector, a remarkable fiscal effort increased tax revenue from 7% of GDP in 1964 to 19% in 1985. Pryor's data suggests that this was achieved whilst also maintaining a mildly progressive tax system.

In contrast, "Madagascar has not been very successful in mobilising either internal or external resources for investment. As a result its domestic savings and investment rates have been relatively low" (p. 225). The government's open hostility to foreign capital discouraged external resource mobilisation, economic stagnation made it difficult to increase tax revenues, and excessive price distortions and mismanagement prevented the accumulation of surplus within the parastatal sector. Madagascar's gross national savings to GDP ratio stood at only 9.3 % in the mid-1980s - barely up from the 7.2% of 1968; whilst the ratio of gross investment to GDP stood at 13.8% in 1986 - the same share as in 1966.

Pryor clearly believes that Malawi's ability to implement a state-led investment strategy, in contrast to Madagascar's disappointing resource mobilisation effort, is a crucial explanatory factor in the sharply contrasting growth and export performance of the two countries. Direct and indirect investment by the public sector in Malawi accounted for between two-thirds and three-quarters of all post-independence investment. Much of this investment, particularly in the 1960s and early 1970s, was in productive sectors and infrastructure projects which generated positive externalities for the nation as a whole, and as such required a state-led investment strategy. Pryor's emphasis on the importance of public sector investment is refreshing following a decade when many policy makers and donors in Africa focused heavily on markets and prices whilst down-playing the relevance of public sector investment in generating a supply-side response (World Bank (1981)).

Pryor is careful to stress that the key difference between the two countries was not only in the quantity but also in the quality of their public sector investment. Malawi's investment gave priority to transport, communications and agriculture. The overall productivity of investment was higher than in many other African nations, including Madagascar, with Malawi's ICOR for the 1954-1986 period averaging 4.0 compared to 7.9 in Madagascar. The changing pattern of Malawi's public sector investment programme from the late 1970s, when the government launched a series of capital-intensive prestige projects, also helps to explain Malawi's declining ICOR during the early 1980s. The importance of the quality of public sector investment is best illustrated by Pryor's analysis of Madagascar's "invest-to-the-hilt" campaign which commenced in 1978 and led to a doubling of investment, largely financed by short-term government borrowing abroad. The invest-to-the-hilt policy, unlike Malawi's state-led investment strategy, focused on large, capital-intensive, urban-orientated industrial projects,

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most of which were "ill-chosen and had little impact on production" (p. 225) and were inappropriate to the country's "comparative advantage, factor proportions, or the administrative abilities of the government" (p. 229). In addition to inflationary and balance of payments pressures, the invest-to-the-hilt campaign contributed to an alarming increase in Madagascar's ICOR which reached 55 in the early 1980s. The contrasting outcomes of Malawi and Madagascar's very different types of state-led investment strategies illustrate the immense difficulties and potentially "catastrophic results" of attempting to pursue a state-led teleological investment strategy designed to reshape comparative advantage in favour of the industrial sector, within the context of limited public sector administrative capacity and in the face of a considerably more hostile external environment than faced by the South East Asian newly industrialised countries during their transition period.

Pryor's work draws attention to the importance of market-based incentive structures in the development process. Not only was Malawi's parastatal sector characterised by a capitalist, profit-maximising, individualistic philosophy; the overall level of price distortion was also relatively low. In particular, the avoidance of the anti-agricultural bias of an over-valued exchange rate, at least until the 1980s, was in marked contrast to Madagascar. In this respect, Pryor seems to ascribe the success of Malawi's estate-led growth more to the "provision of high personal economic incentives to produce" (p. 92) than to a plundering of resources from the smallholder sub-sector. Unlike Malawi, Madagascar progressively moved away from a market-based incentive regime and by the mid-1970s was implementing plans based on the belief that "productivity would be enhanced, not by closer attention to economic incentives, but by education and a change in the attitudes and behaviour of workers and managers, whose efforts would be channelled through a new type of participatory administrative system" (p. 235). This supplanting, as opposed to supporting, of the market system by the state, in conjunction with an over-valued exchange rate and a deterioration in the rural sector's terms of trade, led to a collapse in production and exports, particularly within the agricultural sector. Pryor provides ample evidence with which to chart the correlation between the Madagascar government's increasing distrust of material incentives and deterioration in sectoral and macroeconomic performance.

Comparison of Malawi and Madagascar's planning styles and use of macro-economic policy instruments illustrates the importance of realism in macro-planning, in terms of both the country's administrative and physical resource base, and the need for flexible policy instruments which can provide equilibrating mechanisms at the macro level.

Pryor suggests that Malawi's realistic policy goals in the post-independence period can largely be attributed to the pessimism generated by the considerable economic difficulties faced at independence. Consequently, the country's strong and surprising economic performance in the late 1960s and early 1970s helped to consolidate the political legitimacy of life president Banda's regime and enabled the emergence of a strong state which could lead the development process. Madagascar, on the other hand, with extremely high nationalistic hopes of rapid improvements in economic performance at the time of independence, found itself unable to fulfil these expectations, despite the fact that growth performance in the first post-independence

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decade was similar to that in Malawi. Unfulfilled expectations created political legitimacy problems which led to an increasing temptation to follow ever more ambitious and unrealistic "gamble-for-growth" strategies, culminating in the 1978 invest-to-the-hilt campaign. Pryor provides a sophisticated analysis of the manner in which such political and economic factors interacted to create virtuous (Malawi) and vicious (Madagascar) circles of cumulative causation.

The assessment of each country's overall policy framework and goals is supplemented by an analysis of individual macro-policy instruments. A major part of Pryor's thesis is that, in addition to differing public sector investment performance, differing flexibility and responsiveness of macro-policy instruments explains much of the contrast in the two countries' economic performance.

Pryor provides considerable detail regarding the flexibility of Malawi's macro-policy instruments in response to exogenous shocks, and the manner in which such flexibility deteriorated in the early 1980s when policy-makers introduced a range of new instruments which over-rode the previously equilibrating mechanisms. In particular, Malawi's trade regime, apart from the aberration in the 1983-87 period, "has permitted an adjustment to the declining terms of trade by discouraging imports and encouraging exports, the type of adjustment a functioning market economy would make in such circumstances to bring its balance of payments into equilibrium" (p.132). Likewise exchange rate and monetary policy instruments are shown to have "permitted automatic mechanisms to influence some operations of both the private and the parastatal sectors" (p. 137).

Madagascar's trade, monetary, exchange rate, and fiscal policy instruments lacked the Malawian equilibrating mechanisms and Pryor illustrates how "Madagascar's heavy reliance on quantitative trade restrictions to equilibrate the balance of payments left little scope for other equilibrating mechanisms to operate" (p. 300). During periods of balance of payments pressure, the shift in the relative price of tradables and non-tradables was much smaller than in Malawi, such that Madagascar was unable to "produce its way out of the crisis". Consequently, despite roughly similar current account deficits in the early 1980s, "the imbalance in Madagascar caused more severe dislocations throughout the economy because of its heavier reliance on administrative controls" (p. 131).

The lesson which again emerges from this part of Pryor's work is that it is not the number and extent of government interventionist policy instruments, but rather their quality, in terms of equilibrating capacity and the realism of their targeted goals, which is of relevance in determining economic performance. Differences on this score help to explain why the Malawian economy out-performed the Malagasy economy even though the latter faced a considerably more favourable external environment throughout much of the period.

Despite the title of Pryor's work, his findings are more conclusive regarding the political economy of growth than that of poverty and equity. Undoubtedly this has much to do with the paucity and quality of income data. One clear result, however, does emerge, namely, that the pursuit of a labour-intensive agrarian-based development strategy does not guarantee improved income distribution and poverty alleviation. Pryor's analysis and reworking of

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Malawian data indicates that both income differences and poverty have increased since independence. Although the agrarian-based strategy and the avoidance of urban-bias helped to reduce income differentials between Malawi's urban and rural sectors, income inequalities *within* both sectors widened. In particular, deteriorating income distribution within the agricultural sector contributed to the overall increase in income inequalities. In contrast to previous observers (Kydd and Christiansen, 1981) Pryor suggests that this was largely due to declining smallholder holding size caused by population increase and to the government's inability to implement a successful rural development programme to increase smallholder productivity, rather than to the intra-sectoral bias in favour of the estates: "These policy problems, combined with a decline in average farm size, have prevented escape from diminishing returns, which seem to be the most important factor underlying the apparent decline in the real income of the families at the bottom 40 prevent of the income distribution" (p.92). Indeed, Pryor goes so far as to suggest that excessive emphasis on the intra-sectoral estate bias has distracted attention from the root causes of Malawi's worsening rural income distribution. Policy conditions to reduce the pro-estate bias which have been attached to the World Bank's 1988 Agricultural Sectoral Adjustment Credit to Malawi suggests a contrary view within Bank circles. The distributional effects of Madagascar's development also cautions against the linking of broad types of strategy to certain distributional outcomes. Despite the urban and industrial bias of Madagascar's development policies, the urban-rural income differential narrowed as in Malawi, whilst income distribution also similarly worsened *within* both sectors,. Pryor is careful to stress that the causes of widening intra-sectoral, and hence overall, income inequality were very different in each country, and were related to the specific *manner* in which each countries' general development strategy was pursued.

The two countries also differed in that Madagascar's socialist ideology in the post-1972 period placed a greater emphasis on the state's role in providing social services and other forms of intervention to improve the distribution of real wage income. Yet Pryor's data suggest that although Madagascar *may* have had a greater overall equality of income, poverty "appears to be much the same in the two countries" (p.367), and "inequalities within the rural sector of Madagascar appear to be greater than those in Malawi" (p.364). Neither was Madagascar able to avoid intensification of inequality and poverty. Pryor's implicit conclusion from this appears to be that low-income Sub-Saharan countries have limited ability to directly address income distribution and poverty through the government budget, and hence should adopt Malawi's "particular type of basic needs orientation" under which the "major thrust of policy has been towards raising incomes, rather than redistributing income through government expenditures on education, health, and welfare" (p.180). The failure of Malawi's growth to trickle-down, as clearly shown by Pryor's own evidence, Pryor's controversial view that Malawi's estate-led growth strategy was not a prime cause of worsening inequality and poverty, and the fact that the Malagasy direct public sector basic needs strategy was implemented within the context of declining GDP per capita, macro-economic disequilibria, and excessive urban bias (yet was not itself a primary cause of this macro-economic deterioration) is a weak comparative basis from which to make such a judgement. Fortunately,

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it is the only instance, in an otherwise rigorous book, in which a strong policy conclusion is derived from a somewhat slender empirical foundation.

The five general types of policy issues which are analyzed in Pryor's comparative study and summarised above, provide important policy lessons, which although simple, are pertinent. They reflect a broader trend, in both academic (J. Toye (1987), T. Killick (1989)) and policy-making (World Bank (1990)) circles, towards a re-taking of the middle ground in the previously dichotomised debates concerning the state versus the market; public investment versus private incentives, national plans versus policy responsiveness and growth versus equity.

Michael Lipton's (1987) attack on the "pricist and state-minimalist" tendencies within the development counter-revolution coherently argued that price adjustments in the face of an excessive rolling back of the state's support for the agricultural sector are unlikely to elicit much by way of an increase in productivity and aggregate output. The influence of the pricist state minimalist school on many of the World Bank's early adjustment programmes and the disappointing agricultural response to such programmes in Sub-Saharan Africa (P. Mosley and L. Smith (1989)) means that Lipton's mid-ground position on the state and the market in Africa is rapidly becoming conventional wisdom. More recently, the Bank itself (World Bank (1990)) has expressed alarm at the growing evidence (P. Mosley, J. Harrigan and J. Toye (1991)) that stabilisation and adjustment programmes are often associated with cuts public sector investment. The cuts often appear to be indiscriminate as between quality and low productivity public sector investments. Again, the concern is that such an investment decline in the low income African economies is inimical to the success of the supply-side response required for adjustment with sustainable growth. The failure of private investment to fill the gap left by the cut in public sector capital formation lends support to structuralist arguments (L. Taylor (1988)) that for many African countries the "crowding-out" concept may be misplaced, with public and private investment functioning as a complements rather than substitutes.[3] Pryor's comparative historical analysis of the role of state-led investment in both Malawi and Madagascar lends historical weight to this emerging mid-ground position which emphasises the importance of public sector investment yet acknowledges the relevance of the quality and type of such investment and its relationship to market mechanisms.

On the planning versus policy responsiveness front, the retreat towards the middle ground is illustrated by the acknowledgement in both the IMF and Bank that some form of indicative policy framework is required in order to ensure policy continuity, consistency and realism in LDC macro-reform programmes. Hence the use of tripartite (Government, Bank, and Fund) Policy Framework Papers in low-income countries from the mid-1980s onwards. At the same

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3 Taylor cites as evidence for this complementarity or "crowding-in" view the case of the Côte d'Ivoire, Egypt, Turkey, Mexico and Argentina where reductions in public sector investment have been associated with a fall in private investment (L. Taylor (1988), p. 85), and the case of Kenya and the Côte d'Ivoire where stabilisation programmes, including cuts in the public sector investment programme, have failed to stimulate the inflow of foreign private investment (ibid., p. 51).

time, Bank supported research work, (D. Bevan, P. Collier, and J. Gunning (1990)) has shown the importance of the *type* of policy instruments employed within the policy framework, namely, the growth-enhancing role of flexible instruments which enable the policy regime to automatically respond with equilibrating mechanisms in the face of both positive and negative exogenous shocks.[4] Again, there are strong echoes here of Pryor's findings in the context of his two country comparative study - government planning exercises and the overall policy framework *are* important, yet equally so, the style of planning and the types of instruments employed.

Finally, the growth-equity debate, re-launched by UNICEF's work in the mid-1980s (G. Cornia, R. Jolly, and F. Stewart (1987)), is no longer characterised by the extremes of the "trickle-down" view (which implicitly underlay the Bank's lack of concern with poverty related issues in its early adjustment lending exercises) or the "growth requires worsening income distribution" position derived from naive interpretations of the Lewis dual economy model. It is now increasingly acknowledged that although growth may enhance, and itself be enhanced by, poverty alleviation and improved income distribution, this is not guaranteed by the adoption of a particular type of growth strategy in terms of trade-orientation, factor intensities, or sectoral bias. This conclusion equally applies to IMF and World Bank growth strategies based on rapid macro-economic stabilisation and market liberalisation. As a result, many policy makers are now attempting to specifically incorporate welfare and distributional objectives as an integral part of their policy framework instead of assuming that a particular type of general growth strategy makes explicit concern for such issues either unnecessary or futile. Pryor's analysis of two highly contrasting growth strategies lends support to this mid-ground position on the growth-equity-poverty front.

The work by D. Sahn, J. Arulpragasam, and L. Merrid, *Policy Reform and Poverty in Malawi: A Survey of a Decade of Experience*, illustrates the relevance of many of Pryor's general policy conclusions within the context of the stabilisation and structural adjustment programmes undertaken by Malawi during the 1980s. The stated objectives of their work is to "examine the functioning and characteristics of the markets and institutions that will mediate between macroeconomic and sectoral reform policies and their household and macroeconomic effects" (p. xii). To this end the reader is provided with a detailed specification of five types of vulnerable households: smallholders; wage labourers; tenant farmers; the urban poor; and female-headed households. Reform programmes in five areas - agricultural pricing and marketing, industrial and service sectors, external sector, monetary policy, and fiscal policy -

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4 The importance of an equilibrating set of policy instruments is particularly relevant in the African economies which remain heavily reliant on primary export commodities vulnerable to the vagaries of nature and international price fluctuations. Adaptive policy instruments help to ensure that a transient windfall income gain derived from a positive exogenous shock is translated into a permanent income gain whilst also ensuring that negative shocks do not result in large permanent income losses leading to a permanent fall in consumption, investment and growth (D.L. Bevan, P. Collier, and J.W. Gunning (1990)).

are then assessed in terms of both their macro effects and their effects on the five identified groups.

Although the book provides a plethora of data on welfare indicators for the five specified household types, its conclusions are often tenuous regarding the links between policy and household welfare effects. Most often, the reader is told that "the jury is still out" on such questions. For example, on the key issue of the effects of agricultural reforms on the rural poor, we are told that "The adjustment program does not appear to have made great inroads either in terms of raising smallholder productivity or generating employment or higher wages. Thus the jury is still out on both how to make agriculture more dynamic and whether doing so will raise rural incomes" (pp.100-1). Likewise, "it is impossible now to clearly distinguish the relative importance of endogenous and exogenous factors in contributing to Malawi's slow rate of growth and low living standards" (p.216), or "understanding with any confidence how various policies filter through the economy to affect marginal and vulnerable households, however, awaits the results of further research" (p.218). It is in identifying required areas for further research, providing extensive data on trends in household welfare indicators, and in tracing the first link in the chain between macro reform and household welfare effects, namely the link between reform and macroeconomic and sectoral level outcomes, that Sahn et al's book contributes most to the current work on policy reform and poverty.

In identifying casual links between adjustment reforms and macro and sector level economic outcomes Sahn *et al.*'s work provides detailed support for many of Pryor's broader conclusions. On the issue of the importance of state interventions, particularly in the form of public sector investments, Sahn *et al.* clearly argue that lack of public sector institutional and investment support to back the agricultural pricing and marketing reforms was an important cause of the latter's disappointing outcome in terms of both growth and poverty alleviation effects. Their data show that the use of pricing policy, namely increasing the producer price of smallholder exportable cash crops, in an attempt to boost the smallholder contribution to the balance of payments, failed to stimulate an aggregate increase in total smallholder output, "The hypothesis that high own-price supply elasticities are largely the result of the reallocation of agricultural resources among crops, rather than intensive or extensive agricultural growth, finds substantial support" (p.89). It is shown that success in increasing the marketed output of exportable cash crops was at the cost of declining food crop output with adverse macroeconomic and individual food security implications. Sahn et al's analysis of the overall reform programme places much of the blame for this disappointing agricultural outcome on the government's inability to provide adequate state support to the sector: "the limited scope of price-related adjustment initiatives in raising output and productivity, and consequently incomes, indicates that they must be accompanied by measures to raise and improve public inputs into the production process" (p.221). The need for a higher level of more effective public sector investment in order to increase the elasticity of aggregate agricultural supply is especially emphasised within the context of Malawi's land-constraint. Although this argument is not new (J. Harrigan (1988)), Sahn *et al.* have amassed a considerable amount of additional supporting data from a number of sources.

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Sahn *et al.*'s work also provides detailed support for another of the conclusions which emerged from Pryor's work, namely, that relating to the importance of consistency in the policy framework and equilibrating flexibility in policy instruments. Their assessment of the macro effects of the adjustment programme indicates that the disappointing response prior to 1988 was partly due to the government's failure to consistently implement the programme combined with increased recourse to destabilising policy instruments during periods of increasing balance of payments pressure. For example, regarding agricultural pricing policies, it is shown that although nominal producer prices increased between 1982-1985, real producer prices continued to be upwardly sticky leading to the conclusion that "pricing policy rules, per se, may not have undergone a lasting change during the past decade" (p.78). It is suggested that this, and several other policy implementation problems, can be explained by the government's failure in the early stages of the adjustment programme to devise a clear policy framework which acknowledged trade-offs between dual policy objectives such as price stability and border pricing, and food security and agricultural export earnings.

On the issue of flexible, equilibrating policy instruments, Sahn *et al.* show that by the mid-1980s, in the face of a disappointing supply-side response and mounting balance of payments pressures, Malawian authorities moved away from the use of policy instruments with built-in equilibrating mechanisms towards the use of short-term crisis management instruments such as quantitative restrictions on the allocation of foreign exchange. Failure, also, to maintain a conservative monetary policy is shown to have had a destabilising effect, leading to rapid inflation and appreciation of the real exchange rate. This macro analysis paints a picture of a vicious cycle not dissimilar to Pryor's picture of Madagascar in the 1970s. The new types of policy instruments employed by the Malawian authorities in the mid-1980s help to explain Sahn *et al.*'s observation that "the shares of both agriculture and industry have lost ground to the services sector, raising questions about the effectiveness of recent policy, or at least its implementation" (p.148). As with Madagascar in the 1970s, Malawi in the mid-1980s, having lost faith in many of its earlier equilibrating policy instruments and lacking a clear and consistent policy framework, was unable use expenditure switching techniques to "produce its way out of the crisis".

A careful study of Sahn *et al.*'s work will provide the reader with many other examples of the relevance of Pryor's lessons regarding the role of the state and the market, planning and flexibility, and public investment and private incentives in the context of Malawi's structural adjustment programme.

In one important respect, namely regarding the causes of income inequality and poverty in Malawi, the conclusions of Sahn *et al.*'s work differ substantially from Pryor's. Pryor maintains that it is increasing smallholder population pressure and the consequent decline in holding size, rather than the pro-estate bias of Malawi's export-orientated growth strategy that has been the prime cause of worsening income distribution and poverty within the rural sector. In addition, for Pryor, the pro-estate strategy has provided an important source of supplementary income-earning opportunities for smallholder families and hence, by implication, estate success is seen to have stemmed the increase in rural income inequality and poverty.

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Sahn *et al.* argue the reverse. They provide convincing evidence to show that rural poverty is *not* directly correlated with smallness of land holding size, as implied by Pryor's argument. Their data also suggests that the lack of correlation between holding size and smallholder family income is not predominantly due to earning opportunities on the estates - remittances, transfers, and other sources of income from rural and urban informal sector activities are shown to provide a more important income supplement than estate earnings (Table 7). Sahn *et al.*'s argument, however, is even stronger. Their view is that smallholder families have been forced to seek such non-farm income opportunities partly because the pro-estate dualistic structure of Malawian agriculture has contributed to the increasing marginalisation of many smallholder farms: "the poverty problem in Malawi particularly emanates from the dualistic structure of the rural productive structure" (p.217).

Both Pryor's and Sahn *et al.*'s work illustrate the complexities of rural poverty and distributional issues in low-income agrarian economies and caution against excessive emphasis on mono-causes such as pro-estate bias or land holding size. Unfortunately, however, a reading of the two works leaves the reader feeling that the jury is indeed still out on the key question, namely the extent to which Malawi's successful estate-led growth has contributed to the alarming increase in the country's income inequality and poverty.

Jane Harrigan
University of Manchester

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Policy Choice and Development Performance in Botswana
Charles Harvey and Stephen R. Lewis

Botswana stands out in the developing world as a country that has made great progress since Independence. Its diamond endowment has in general been well managed, and the government has avoided many of the pitfalls of other major primary commodity exporters. *Policy Choice and Development Performance in Botswana* documents these achievements objectively and clearly. While discussing areas where policy has been well managed, the authors do not fail to mention past limitations and problem areas as well as challenges remaining for the future.

The book sets the stage for its discussion of policy by presenting the country's position at Independence. Botswana's history says little for colonial rule and makes the achievements of the last 25 years even more impressive. Given this, the authors present and analyze the country's development strategies, macroeconomic management, and major sectoral policies. Of primary importance to the country's overall success has been its management of diamond export earnings. The government's control over spending, both recurrent and development, and management of the exchange rate provide an unusual counter example to all of the case studies of the "Dutch disease" effects of countries with booming primary commodity export sectors.

The book's chapter on the manufacturing sector demonstrates one of the benefits of successful macroeconomic management of diamond exports. Although manufacturing is a small sector of the economy, large export earnings from diamonds have not crowded this sector out or resulted in the Dutch disease's "de-industrialization". Instead, this sector has grown at high rates and has successfully broken into export markets, essential if the sector is to contribute to Botswana's future growth. This sector is extremely important for Botswana's future, given its comparative disadvantage in agriculture and since the country cannot reasonably expect continued new discoveries of minerals.

Developments in the manufacturing sector in Botswana are the result of activity in the private sector, but within a conducive macroeconomic environment. As the authors make clear, however, the country's overall success cannot be interpreted as an example of the benefits of low or no government involvement in the economy. Instead, the government has

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