Money and planning for socialist transition: the Mozambican experience

Thesis

MONEY AND PLANNING FOR SOCIALIST TRANSITION:

THE MOZAMBICAN EXPERIENCE

by

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abstract

This study develops an argument about the role of money in the process of planning for socialist transformation in the concrete case of the Mozambican experience in the period 1975-1983.

The context was an economy were the peasantry through its production of cash crops as well as through its supply of labour power constituted the cornerstone of the social organization of production. Hence, the nationalisations of the major means of production created a state sector which was only part of a wider economy.

This study argues that, within this context, the role of money can only be understood with respect to the dynamic, but not exclusive, role of the state sector in propelling the wider transformation of the economy.

The actual experience in Mozambique was characterised by a process of state centered accumulation which implied that planning boiled down to mobilising resources behind the accelerated development of the state sector. The result was the seperation as between the <u>official</u> and <u>parallel</u> economies, and the dynamics of peasant agriculture became determined by the latter. Money acquired an active function in this process inasmuch as monetary imbalances originating in the state sector fuelled the development of speculative capital in the parallel economy, and hence enhanced the social differentiation of the peasantry. As a result, the control of the state over the economy was weakened and the process of socialisation of the countryside effectively blocked.

Hence, the conclusion is that <u>money matters</u> in the context of socialist transition, because its role is not <u>neutral</u> with respect to the process of transforming production.

CONTENTS

CHAPTER 1

INTRODUCTION

Money and Planning for Socialist Transition

This study develops an argument about the role of money in the transition to socialism. More specifically, it raises the question as to the relationship of money to the process of planning for socialist transformation of an economy.

The theoretical analysis of the interdependence between money and planning is developed out of the concrete study of the Mozambican experience. This does not limit however the relevance of this study to a specific contribution to the analysis of the political economy of the transitional period in Mozambique. Rather, this study aims to contribute to the wider debate on the role of money in the transition to socialism by analysing this question within the context of a concrete experience.

As such, this study involves blending a concrete analysis of the Mozambican experience with a discussion of broader theoretical questions posed in the theoretical litterature. The way this is done is not by developing firstly a theoretical framework which is subsequently applied to the Mozambican experience. Rather, this study proceeds from the analysis of this concrete experience and aims to arrive at various propositions about the role of money in the transition to socialism which have a wider relevance than the case study upon which they are based, but which acquire their sharpness precisely because they are situated in a concrete context.

The aim of this study is therefore twofold:

(1) To contribute to the analysis of the concrete experience of planning for socialism in Mozambique and to investigate the role of money within this process;

(2) To relate this analysis of the interconnectedness between money and planning in the transition to socialism to the wider debate on this issue in socialist litterature

The central focus of this study is to look at <u>planning</u> within the period of transition and to investigate its relationship to the role of money. Planning is not seen here as a matter of techniques required to balance different sectors of an economy. Rather, planning is seen to constitute the dynamic intervention of the state within the economy and society at large so as to transform the social organization of production, exchange and distribution. Hence, within a context of transition, planning is about <u>changing</u> society.

The main structure of the argumentation in this study can be synthetised by putting forward seven basic propositions on planning for socialist transition and the role of money therein.

Firstly, planning takes place within a concrete context and is itself determined by that context. In the case of Mozambique, the terrain of the struggles for planning was set within a context of the legacy of colonial capitalism. It was the development of the latter which shaped class forces within the country.

The colonial economy was rooted in the exploitation of the peasantry. The dominant aspect of colonial development was the economic integration of Mozambique and its dependence on South Africa and Rhodesia. The export of labour power within the migrant labour system was the principal aspect of this dependence, and as such, the principal force which shaped the integration of the peasantry in the monetary economy. The other key aspect was the fact that the colonial economy was a strongly regulated economy with respect to 'planning' labour requirements for capitalist development within Mozambique and within the wider context of Southern Africa. The colonial state enforced and regulated the supply of labour power drawn from the peasantry in a general situation of chronic labour shortages.

The outcome was a peasantry which was not only deeply integrated within the monetary economy, but which was also a differentiated peasantry as a result of this process of monetization of the rural economy.

The implications of this colonial legacy for the period of transition were twofold: (1) the basic unity of interests as between the struggle for socialism in Mozambique and the struggle for the political liberation and economic emancipation of Southern

Africa, and, (2) the centrality of the agrarian question in the period of transition.

Secondly, the question of planning relates to the way in which state economic power is constituted and the manner in which it is used to propel the process of transformation within the economy and society. Clearly, selective nationalizations constitute a prerequisite for the formation of state economic power, but the key question revolves around the issue as to how this state economic power is used to engage on a protracted process of socialization of production. In the case of post-independence Mozambique, strategic as well as defensive nationalisations were undertaken in the aftermath of independence in 1975. The former type of nationalisations centered around the social services and reflected a conscious move on the part of the state to gain control of these sectors and to initiate their socialisation. The latter type was characteristic within the economic sector and was forced upon the government as a result of economic crisis and sabotage. Only at a later stage, at the Third Congress in 1977, the Party formulated a strategy for socialist development and it undertook to consciously build up the state sector.

Thirdly, planning for socialisation of production involves political struggles over the content as well as the organisation of this process of change. In the case of Mozambique, the complexity and richness of these type of struggles came to the fore most clearly in the case of the transformation of social services, and more specifically in health care.

The health services were nationalised in 1975, but it was the Socialisation of Medicine Act of 1977 which set the stage for its transformation, as health care became free of charge to the consumer. Clearly, the needs for health services were far greater than the available capacity, and hence imbalances would prevail for a long time to come as between need and supply. This involved struggles over content: the setting of priorities and rationing within priorities (e.g. the shift in emphasis to preventive health care and the need to extend coverage to the rural areas). Planning content directly interrelated with planning organization in order to concretise priorities and rationing in practice. This involved not only restructuring the state sector itself, but also establishing the relation of the state sector to the community at large. The state sector can only assume a dynamic role insofar as its action mobilises social forces which propel the direction of change. The role of the state sector was the dynamic, but not the exclusive force in transforming health care. Finally, this process involved political struggles within the state apparatus which related both to the content and the form of planning, and which were often posed as technical issues. The real content of these struggles was about socialisation of medicine: whether transformation would consist of nationalization while continuing the same pattern of health care as was characteristic for the colonial times (a position defended on grounds of preserving and improving the quality of health care within its given pattern) or whether it was necessary to reshape the whole system so as to make it correspond to the most basic needs of health care within the country.

In this study, it will be argued that at the level of economic planning the question of the content of socialisation of production and of its organisation in practice was resolved by centering resources virtually exclusively on the nationalised state sector and by defining its quantitative expansion as the basic content of socialist development. The argument to defend this policy was often formulated in technical terms: to preserve and develop productive forces for socialism within the confines of the state sector. As in the case of health care, this argument was presented as one of quality, but it suffered from the same weakness as was inherent in the position of those who argued for quality in the health services. It took as its basic premise the existing structure of productive forces which it aimed to expand quantitatively within the boundaries of the nationalised state sector. As such, it did not address the question of the transformation of class relations.The strategy for socialist transformation of the economy therefore boiled down to a modernization strategy based on the state sector.

Fourthly, the content of economic planning consisted of state-centered accumulation and was organized by setting up the machinery of a centrally planned economy. From 1980 onwards, production within the state sector became organized according to the specifications of the central plan which was virtually exclusively preoccupied with the quantitative expansion of the state sector. This was not only the case with respect to the allocation of material resources, but also with respect to the allocation of cadres within the state apparatus to the tasks of economic management. The drive towards the quantitative build-up of the state sector within a system of central planning produced the dynamics of a resource-constrained system as far as the state sector was concerned (Kornai, 1979). Within the context of the resulting shortage economy (accentuated by war and drought) the priority lay firmly on the expansion of the state sector, and rationing accordingly favoured the state sector in comparison with household production, and favoured accumulation as against consumption. The policy could be summed up as a policy which sought to tighten the belt to allow for state-centered accumulation. Within this perspective, the transformation of the rural economy through the cooperative movement was relegated to a secondary position, and accordingly state effort and resources were only marginally devoted to this aim.

Fifthly, the relationship of money to the process of planning for the transition to socialism can only be understood within the context of an analysis as to the dynamic, but not exclusive role of the state sector in propelling the wider transformation of production within the economy. This is specifically so in the case were the peasantry through its production of cash crops as well as through its supply of labour power constitutes the cornerstone of the social organization of production. The nationalization of the major means of production provides a context in which the public sector is only part of a wider economy, and in which the development of this sector depends in part on wage labour provided by the peasantry.

Two views on the role of money within transition will be discussed. The former argues that money ceases to be important as the economy becomes reorganised along the lines of a centrally planned economy. Money then becomes endogeneous to the requirements of the central plan. This view was inherent in the actual practice of planning in Mozambique in the period 1977-1983. It derived its inspiration from the analysis of the role of money within the Soviet economy. A second view stresses the importance of a cautious monetary policy in the period of transition. Its main proposition is that financial orthodoxy should constitute a binding constraint on the rate of structural change within the economy. The latter view has been argued theoretically by Griffith-Jones (1981), and became a position which acquired prominence in Mozambique around the time of the Fourth Congress (April 1983) when the financial situation of the country began to assert itself as a binding constraint.

This study enters into a debate with both views on grounds that both abstract from the process of transformation in the analysis of money. The former sees the process of transformation as a linear progression towards a given model without taking account of the specific context in which this transformation takes place and of its nature. The latter view essentially boils down to an argument for disciplined demand management in the period of transition, but it does not investigate how the role of money itself is determined by the content and the corresponding organization of planning the process of transformation.

This is specifically important with respect to analysing the character of monetary imbalances within the process of transition. The argument is that they cannot always be avoided, or that they should in all situations. Indeed, it is hard to envisage a process of major social change which would proceed along a balanced path. The argument is that monetary imbalances have to be analysed with reference to the direction and content of the process of transformation.

In this respect, it will be argued that the monetary imbalances of the early post-independence period (1975-77) were by no means destabilizing in view of the strategic aims of development. The imbalances which emerged in the subsequent period (1977-83) were different in nature inasmuch as they were a reflection of a process of state-centered accumulation which centralised resources onto the state sector and as such destabilized the wider transformation of the economy. As a result, the state sector did not assume the role of its dynamic intervention within the economy so as to allow for the socialisation of peasant agriculture.

Sixthly, the proposition is put forward that failure to transform on the part of the state sector in terms of its interaction with the wider economy and of its own internal organization does not imply that the overall context remains static (i.e. that no transformations take place). Rather, it is argued that the process of state centered accumulation led to a seperation between the official and parallel economies in which the peasantry became located in the latter. The development of speculative capital within the parallel economy enhanced the forces of differentiation within the peasantry and provided avenues of accumulation for private capital. This process weakened the control of the state over the economy, and entered in direct competition with it. As a result, the state sector could not maintain its own momentum.

Finally, the implication of the latter proposition is that the question of monetary imbalances is not merely one of distribution, but rather it needs to be analysed at the level of production. Hence, it is not merely a question whether the process of state centered accumulation and the monetary imbalances it entailed distributed the burden of adjustment unevenly between town and countryside or in terms of declining real incomes of consumers. Nor is it a question only as to whether this can lead to struggles over distribution brought about by the lack of incentives to producers. Rather, the argument is that such imbalances are not neutral in terms of the process of transformation of the social organization of production.

In developing these major propositions the analysis will proceed along two interdependent levels. Firstly, it involves an argument about the character of the transition period in Mozambique, and as such it enters in debate with various analyses which have been published on this issue. More specifically, the analysis presented here is contrasted with the analysis presented by J. Saul on the context and the content of the process of transition (1985). Secondly, it involves an argument as to the role of money in the transition to socialism and therefore aims to contribute to the debate on this issue within the theoretical litterature.

Outline of the Study

This study is organized of three parts along which the overall argument is developed.

Part I, THE COLONIAL LEGACY, which consists of chapter 2, is not concerned with history per se, but rather with pinpointing the major forces within the development of colonial capitalism which shaped the terrain of struggles within the period of the transition to socialism.

Part II, TRANSFORMING THE ECONOMY, aims to present an analysis of the character of the transformations which took place in the period 1975-1983 and of the context in which they took place. The analyses is structured over three chapters.

Chapter 3, The Immediate Tasks, looks at two aspects of change which characterised the early post independence period (1975-77). The period was characterised by economic crisis and defensive nationalizations within the economy, as well as by strategic nationalizations of social services. The first aspect which will be analysed is the issue of economic policy within a crisis situation in which the state neither controlled the economy nor had the organizational capacity to do so. The second aspect which will be taken up is the transformations which took place within the health services after its nationalizations. The health sector was singled out for analysis because the development which took place there highlighted the question of planning social change as a struggle over content and organization.

Chapter 4, State-Centered Accumulation, constitutes one of the central chapter of this study inasmuch as it addresses the character of economic planning in the period 1977-83. It analyses this question against the background of economic development in that period.

Chapter 5, Regional Integration and Economic Dependence, analyses Mozambique's strategy with respect to its external relationships. The main objective of this chapter consists in analysing the issue of Mozambique's strategy towards its integration within Southern Africa: its dependence on South Africa and the posibilities inherent in the struggle for economic emancipation through the SADCC alliance.

PART III, MONEY AND THE TRANSITION TO SOCIALISM, constitutes the core of the argument in which the main propositions on the relationship of money to the process of planning transition will be discussed.

Chapter 6, Monetary Imbalances in the Transition to Socialism, raises the general issues as they emerged within the specific experience of Mozambique, and relates them to the wider debate on money in socialist transition. This chapter contains therefore the central core of the arguments of this study.

Chapter 7, Money and Planning Rural Transformation, develops the argument that the failure on the part of the state sector to assume a dynamic role vis a vis the transformation of the rural economy does not imply that development within the rural economy remains static. Rather, the character of monetary imbalances produced by state centered planning accentuated the social differentiation of the peasantry.

Background to the research and its methods

The analysis presented in this study was based on extensive fieldwork carried out when I worked as a stafmember of the Center of African Studies and of the Faculty of Economics of the Eduardo Mondlane University during the period from July 1976 to December 1983.

The analysis of the character of the Mozambican colonial economy and of the problems of transforming this economy in the post-independence period is rooted in two complementary activities: (1) my participation in collective research projects of the Center of African Studies which concerned micro studies of issues of transforming production based on field work , and, (2) individual macro studies on the structure and development of the Mozambican economy in the colonial and post-colonial period, based on statistical data analysis, documentary research and interviews.

The analysis of the role of money within socialist transition was started in 1983 with an individual project which aimed to sketch the organization of money and finance in the colonial economy and study its restructuring in the post-colonial era under the impulse of socialist policies. This was done in preparation of a seminar with cadres from the banks and from the ministry of finance which I organized and carried out with the cooperation of M. Mackintosh. Subsequent research centered on the issue of money and the rural economy, and involved my participation in a collective research project on money and the parallel markets and its impact on shaping rural differentiation in Marracuene district in Maputo province.

In 1986, more data which then had become available, were gathered on the macroeconomic evolution of the economy for the period 1977-83. In this year, the main part of the data analysis on macroeconomic aggregates as well as on money was carried out together with the theoretical analysis of the litterature on money in socialist transition.

PART I

THE COLONIAL LEGACY

CHAPTER 2

THE COLONIAL LEGACY

Introduction

Frelimo's socialist policy in post-independence Mozambique cannot be analysed and evaluated outside the concrete context in which it took place. The legacy of a colonial-capitalist development which led to the close economic integration of Mozambique within the Southern African subsystem under the domination of South African capitalism does not only provide a background or starting point of this particular socialist experience, but rather it defines the terrain of struggles within which socialist policies needed to be mapped out, fought for, and defended. This chapter aims to identify the dominant aspects of this colonial legacy which set the stage for the specific context in which the transition to socialism takes place. The focus of the analysis within this chapter is not concerned with history *per se*, but rather with tracing the historical roots of the social forces which were operative in the struggle for socialism. Indeed, planning for socialist development is not a mere technical matter, but rather it involves investigating class forces within society and the conditions for their transformation.

The structure of the colonial economy of Mozambique was the outcome of a double dependence. On the one hand, it was the product of dependence on a relatively backward capitalist economy constituted by the Portuguese colonial power, while at the same time it was subordinated to the needs of the Southern African economic complex (CEA, 1977:13). This double dependence of Mozambique inevitably produced tensions within its colonial development, but it was the economic integration of the colony within Southern Africa which constituted the dominant aspect within this contradiction.

In terms of the development of class forces within colonial Mozambique two aspects of this double dependency relationship need to be considered:

1. The principal characteristic of Mozambique's economic integration within Southern Africa was the export of labour power within a migrant labour system. De facto, vast areas of the country became transformed into home lands for a reserve army of labour for capitalist development of the economically more advanced areas of Southern Africa. This process therefore involved the proletarization of the peasantry without however completely divorcing wage labour from its basis in family agriculture.
2. The interests of the colonial power with respect to Mozambique proceeded along two complementary lines. Firstly, "Portugal played the part of rentier, deriving the major

source of income from invisible trade, and speculating on the sale of the labour power of its African workforce" (CEA, 1977:13). Hence, Portugal strengthened the integration of Mozambique within Southern Africa upon condition that the colony should earn foreign exchange to finance capitalist development in Portugal. This involved strict financial control over the colony's external economic relations. Secondly, with respect to the requirements of the Portuguese bourgeoisie in terms of raw materials and with respect to the interests of the settler bourgeoisie, the policy was one of accommodation to the integration of the colony within Southern Africa by relying heavily on state intervention within the allocation of and control over labour. The colonial state therefore assumed the task of the regulator of labour requirements within a context of persistent labour shortage due to the competing demands for labour power from external and internal sources and the need for the production of export crops by the peasantry.

Hence, the colonial economy was in many ways a strongly 'planned' economy in which the colonial state exerted considerable control over the various labour regimes and over the allocation of labour power. Its cornerstone was the exploitation of the peasantry which was strongly integrated within the monetary economy on terms shaped and regulated by the colonial state. It is this process which provides the context for the analysis of the character of this peasantry and of the processes of differentiation inherent in the development of colonial capitalism.

The next section provides a brief sketch of the dominant moments in the development of colonial capitalism in Mozambique, and the subsequent section briefly maps out the main structural characteristics of the colonial economy at the end of the colonial era. Against this background, I shall analyse the role of the colonial state as the regulator of labour requirements and its impact in shaping the patterns of social differentiation within the peasantry.

The double dependence within colonial capitalism

At the time of the colonial division of Africa at the Berlin conference in 1885, Portugal was able to maintain its colonies not so much because of its strength, but rather, because of its weakness. Historically, Portugal had never managed to emancipate from the domination of English industrial capital, and hence its economic development remained relatively backward. Portugal was left with its colonies because the inter-imperialist rivalries between Britain, France and Germany would not allow the position of any of them to be strengthened with the possession and control of more territories (Serra et.al., 1983:59-83; Wuyts, 1980:12).

This did not imply however that in the case of Mozambique the old forms of colonial exploitation continued to persist, i.e. that the development of the colonial system remained basically mercantile in character. The backwardness of the Portuguese bourgeoisie at the time revealed itself not by the continuation of forms of colonial exploitation which corresponded to an earlier phase, but rather by the development of the colonial economy in response to the needs of capital accumulation within Southern Africa (especially, the development of the mining industry in South Africa as well as in Rhodesia) <u>and</u> by inviting foreign (non-Portuguese) capital to invest within the colony.

By opening up the colony to foreign capital, Portugal hoped to achieve three interrelated aims: (1) the economic development of the colony through investments in infrastructures, plantations and export-related industries (processing of raw materials); (2)

to establish indirectly administrative control over the colony by delegating the political administration over vast areas of its territory to these private companies; (3) to derive an income from foreign investment by claiming a share of the profits as well as of taxes collected by these companies (Serra et.al., 1983:26-39).

As such, roughly two-thirds of the total territory of Mozambique was leased out to a number of private companies, whose task it was to administer politically the area under their control as well as to develop it economically. The first company to be set up was the Companhia de Mocambique (1888), followed by the Companhia de Acucar de Mocambique (1890) - which later became the Sena Sugar Factory (1910) and then the Sena Sugar Estates (1920), the Companhia de Niassa (1891), the Companhia de Zimbesia (1892), the Companhia de Boror (1898), the Sociedade de Madal (1904) and the Empresa Agricola do Lugela (1908) (Serra et.al., 1983:26).

Notwithstanding the fact that these companies controlled the larger part of the territory, it was nevertheless the integration within Southern Africa through the export of labour power and the provision of transport services which became the dominant aspect of colonial economic development. Both the colonial state as well as the chartered companies responded to this outward propelling pull exerted by capitalist development in the surrounding colonies.

In southern Mozambique it was South African mining capital which, through state-to-state agreements, acquired the monopoly over the direct recruitment of migrant labour. The sale of this migrant labour was made conditional on the use of the Lourenco

Marques port and linking railway system to the Rand area. As such, Portugal obtained income from the tax on the export of manual labour as well as from transport services (CEA, 1977:Appendix I).

In northern Mozambique, the Niassa company undertook little or no productive investment, and soon settled down to sell contract labour to surrounding territories (at first to South Africa, later to Nyassa land, Tanganyka, Kenya, etc.) as well as to commercialise cash crops from the peasantry (Serra et.al., 1983:109-130).

In the central areas of Mozambique, the context in which the integration within Southern Africa took place was definitely more complex. At first, the whole region - whether company controlled or controlled by the Portuguese state - massively engaged in the export of labour power not only to South Africa, but also to southern Rhodesia and Nyassaland as well as to Sao Tome. In fact, the emerging plantations made use of the income derived from the export of labour power from the peasantry within the areas they controlled so as to finance the development of the plantation sectors. However, when the latter came of age and needed vast numbers of seasonal workers, the plantation economy sought to protect itself against the competition for labour from abroad. As such, in 1913 the export of labour power to the South African mines was restricted to the South of parallel 22. After that, labour use within Nampula (controlled by the colonial state) as well as in company controlled areas along the Zambezia became increasingly directed towards the development of the plantation economy (Wuyts, 1978:15; Serra, 1980:38-42).

Notwithstanding the needs of the plantation economy in the Zambezia valley, economic development in Rhodesia and in Nyassaland became a powerful force in shaping the patterns of labour use in central Mozambique as well as in opening up opportunities for transport services. With respect to the former aspect, the export of labour power to Rhodesia was never as strictly regulated and controlled as was the case in southern Mozambique with respect to South African mining capital. In part this was due to the fact that the Portuguese colonial state did not directly control the whole of the territory, and partly to the fact that the Rhodesian mines and farmers benefitted from the cheapness of the labour power of workers who migrated illegally to escape the harsher conditions of forced labour in Mocambique. The main interest on the part of Rhodesian employers in regulating the flow of Mozambican labour through state-to-state agreements was the continuous threat of competition for labour from the South African mining complex (Adamo et.al., 1981:59-72).

As to transport services, in 1897 the railway Beira-Umtali became operative and in 1922 Beira was linked with the border of Nyassaland through the construction of the trans-Zambezia railway (Serra et.al., 1983:255).

These developments which laid the foundations of Mozambique's integration within Southern Africa as well as of the plantation economy within the Zambezia valley constituted the first phase of the making of the colonial economy and took place within the period 1890-1926. As a result, the peasantry became forcefully integrated within the monetary economy principally as suppliers of labour power (within a context of a predominantly migrant labour system), and to a lesser extend, as producers of cash crops. The imposition of the hut tax, the use of labour rent in Zambezia and the extensive use of forced labour were the mecanisms through which this process of semi-proletarisation was enforced. The colonial state did not as yet exert a unified control over the regulation of labour, and hence the various labour regimes varied sharply in form as well as in intensity. The colonial state in this period promulgated general laws on forced labour as well as acted as a mediator in deliniating spheres of influence of various capitals competing for labour.

The installation of the new political order in the aftermath of the Portuguese coup of 28 may 1926 led to a redefinition of colonial policy from 1930 onwards. This new colonial policy found its legal expression in the Colonial Act of 1933, and was characterised by a strong dose of economic nationalism on the part of the colonial power: i.e. the colonies were to serve the interests of Portugal's national development. This policy put its stamp over the period 1930-60, after which it gradually was eroded with the impact of the advance of the armed struggle within the colony (Brito, 1980: 28).

At the political level, the new policy involved the abolition of the privileges of the large companies and their territories passed under the direct administration by the Portuguese state. For example, the territories of the Companhia de Niassa came under the direct control of the Portuguese colonial state in 1929 and those of the Companhia de Mocamhique in 1942 (Ibid: 28). After this change in the political set up, these companies fell back on their economic activities as private enterprises. For example, out of and around the Companhia de Mocambique the Entreposto group was founded which ended up controlling more than 20 large-scale enterprises by the 1970s (Ibid:28). The established plantation sector which included companies such as Sena Sugar Estates, Companhia de Borror and the Sociedade de Madal continued and developed their activities such that they were among the leading companies in the country at the end of the colonial era. It was the colonial state which actively assisted in this development by guaranteeing their supply of seasonal labour power under the system of forced labour (Head, 1980:54:61; Brito, 1980:28). Only the Companhia de Niassa left virtually no trace in terms of continued economic activity after its abolition in 1929.

In this period the colonial state assumed the role of controlling the various labour regimes as well as regulating the supply of labour power with respect to competing demands. The conditions under which labour power was provided as well as cash crops were produced by the peasantry were laid down in the increasingly repressive labour legislation which implied the intensification of the enforcement of labour (Mondlane, 1969:91-92).

With respe ct to the <u>content</u> of economic development within this phase of economic nationalism, the most striking feature was that the colonial power actively <u>enlarged</u> the economic integration of Mozambique within Southern Africa. Hence, notwithstanding the rhetoric of nationalism as well as the aspirations of Portuguese settlers who were adversely affected by the competition for labour power from the neighbouring countries, Mozambique continued to supply its labour power to the Southern African region, even when this implied a chronic shortage of labour power within the colony (Brito, 1980:28-30).

Clearly, the Portuguese state had little alternative but to come to terms with the dominant position of the Southern African industrial complex in terms of shaping colonial development in Mozambique. Indeed, the economic integration of the colony within Southern Africa constituted a major source of foreign exchange income to the Portuguese state. Development in Portugal demanded that its colonies should achieve financial balance from their own resources as well as contribute foreign exchange to the Portuguese state. In the case of Mozambique, the colonial budget as well as the greater part of foreign exchange earnings depended on taxes on emigration and recruitment, and on income from the use of the ports and the railways for transit cargo to and from the Transvaal, Rhodesia and Nyassaland (Brito, 1980:31).

Therefore, the policy pursued was not to close the frontiers for the export of labour power, but rather to increase the financial gains which could be obtained from Mozambique's integration within Southern Africa. This principle was made explicit in the Colonial Act as follows:

> "The economic systems of the colonies are established in accord with the development needs, with fair reciprocity between them and neighbouring countries, with the rights and

legitimate conveniences of the metropole and the Colonial Empire..." (Brito, 1980:31).

Hence, the 1928 convention between Portugal and South Africa established the system of deferred payment of a portion of the miners' wages to be paid to the Portuguese Trustee and to be remitted to the miners after competition of their contract period and paid out in Escudos upon return to Mozambique (CEA, 1977:AI/v). Through this system the Portuguese state sought to increase the foreign exchange earnings of the colony by obliging Mozambican miners to spend a portion of their incomes within Mozambique (rather than importing commodities bought in South Africa) as well as to grant credit to the colonial state. From 1964 the colonial state was to derive even more benefit from this system of deffered pay thanks to the next gold clause included in the agreements with South Africa. This clause allowed Portugal to receive the sums of deferred payment in the form of gold. As the price of gold was fixed in terms of Rands, the Portuguese state was able to obtain additional profit (in foreign exchange) by selling the gold at higher prices on the open market (CEA, 1977:AI/IX).

Similarly, with respect to the export of labour power to Rhodesia the Portuguese state did not attempt to reduce its size, but rather it sought to increase the foreign exchange income derived from it. As was argued above, the colonial state in Rhodesia was less inclined to enter in formal agreements with the Portuguese state on the export of labour power since its mines as well as settler farms benefitted greatly from the illegal migration of Mozambican worker-peasants in search of better conditions than those prevailing at home. However, Rhodesian employers feared the potential competition for labour from the South African mining industry if the latter was to attempt to increase its sphere of influence beyond the parallel 22. The agreements of 1934 and 1947 between Rhodesia and the Portuguese state reflected on the part of the former the desire to protect its supply of labour power from Mozambique against possible competition from South Africa at times when the demand for labour power was increasing rapidly (respectively the end of the great depression of the 1930s and the post-war boom). For Portugal, the main aim was to legalise the situation of clandestine workers so as to increase its income from taxes. The 1947 agreement was specifically successful in this respect inasmuch as recruitment in Tite district was to be formally regularised by granting the 'Rhodesian Native Labour Supply Commission' the right to establish the necessary infrastructures to recruit labour (on contracts of maximally 2 years), and furthermore, the Rhodesian authorities would henceforth collect the Portuguese hut tax from all Mozambican workers present in Rhodesia, whether or not legally so. The financial gain of the latter measure can be seen from the fact that roughly 200,000 Mozambicans were working in Rhodesia at that time, and only about 20,000 of these were legally recruited in Tete district (Adamo et.al., 1981:64-68). It was only in the 1960s that the Rhodesian authorities actively pursued a policy of phasing out the reliance on foreign migrant labour. The reasons behind this policy were the increased mecanisation within Rhodesian agriculture on the one hand and the increased supply of labour power from within Rhodesia (Ibid:68-71; CEA, 1979-d:16-20).

The provision of transport services was the other major aspect of Mozambique's economic integration within southern Africa. With respect to South Africa, the export of labour power to the mines was consistently used as a trade-off against the use of the port of Lourenco Marques for imports of the Rand zone. The convention of 1928 reconfirmed the agreement that 50-55% of the imports by sea and rail to the Rand was to be channelled through the Mozambican harbour. This figure was lowered in subsequent agreements: to 47.5% (1940) and 40% (1964). Finally, in 1969 the requirement of a fixed level of transport to be routed through Lourenco Marques was lifted altogether (CEA, 1977:AI/V). However, after the second world war the harbour of Laurenco Marques gradually shifted from being a harbour specialised in importing cargo for the Rand zone, to becoming an export harbor for mining products. A major factor in this change-over was the construction of the railway which linked the harbour of Lourenco Marques with Salisbury in Rhodesia. In the sixties, the main activity of the harbour centered around the export of chrome (Rhodesia), coal (South Africa, Swaziland), some other mining products and steel (Rhodesia). To this effect, new facilities were built in Matola to handle the increased exports of these mining products.

Apart from the continuation and strengthening of Mozambique's economic dependence vis-a-vis the southern African subsystem, the new era of economic nationalism did bring about new developments propelled by Portuguese economic, social and political interests.

Firstly, there was the rapid expansion of cotton production by the peasantry within a system of forced cultivation. The need for cotton exports arose with the development of the textile industry within Portugal which required the supply of new cotton at prices below world market level so as to allow the industry to become competitive in the world market. The colonial state persuaded investors, many of whom foreign, to invest in the construction of ginning factories by means of special concessions to assure profitability. Commercial monopolies were granted within fixed zones in which the cultivation of cotton was enforced by the state on peasant small-holders (CEA, 1981a:8).

Cotton cultivation was enforced in nearly all those areas of Mozambique unoccupied by plantations or settler farms and where the climate and soil permitted - as well as occasionally in unfavourable areas. Cotton cultivation became the main means of exploiting the peasantry in the northern provinces which previously had acted as labour resources for the plantations. In the central and the southern areas, cotton cultivation was done by women or by men too old or infirm for wage labour, since the principal occupation of men was contract labour on the plantations or settler farms as well as migrant labour to the neighbouring countries (CEA, 1981a:9). Started in 1936, by 1943 662,000 producers were integrated within this rapid drive towards the expansion of cotton production. The process went together with severe famines in the 1940s as peasants were forced to out back on food production. The colonial state attempted to remedy this situation by forced cassava cultivation in the cotton areas. Also, in the 1950s some attempts were made to introduce systematic crop rotation in concentrated settlements situated on the better areas. In the early 60s the number of cultivators had dropped to half a million while production doubled in comparison with 1943, and this on a total area only slightly larger than that of 1943 (CEA, 1981a:9-10).

Apart from cotton, rice production was also introduced as a crop under forced cultivation so as to cope with the growing needs of the towns (Wuyts, 1978:2). The post-war period also witnessed the rapid expansion of peasant production of cashew and copra as well as of marketed food crops such as maize, cassava, groundnut, etc.

A second feature of the economic development within this phase was the acceleration in immigration of Portuguese settlers within the colony. This resulted from deliberate policy measures undertaken by the Portuguese state so as to turn the colony into a province of Portugal. This was seen to be of special importance after the second world war when the colonial question became more prominent (Mondlane, 1969:79). While in 1920/30 the settler population grew at 4.5% annually, this growth rate increased to 5.8% in 1940/50 and to 7.3% in 1960/70 (Costa et.al., 1973:37).

The settler population was mostly urban based and de facto monopolised all administrative and technical/skilled positions within the employment structure. This division of labour was further enhanced by an educational policy which segregated the access to education along racial lines: the state directly provided educational facilities for the settler children while the Roman Catholic Church with state authorization and supervision provided primary school education for the African population (Marshall, 1985:158). Only a tiny proportion of the African population which managed to obtain the assimilado status could aspire to better education and better paid jobs (be it in a subordinate position vis-a-vis the white settlers). In 1950, only 4,555 Africans out of a population of 6 million had managed to obtain this status, while in 1960 only 1% of the African population was legally assimilated (Mondlane, 1969:50; Marshall, 1985:159).

The growth of the settler population with its higher income levels widened the scope of the internal market for food and for industrial consumer goods. With respect to the latter aspect, the period after the second world war witnessed the growth of industrial production for the home market. Up to 1960, this industrial growth mainly centered on consumer goods, but at a later stage it also involved the production of intermediary products (Wield, 1978).

In response to the growing demand for food settler farm production developed mainly in the southern region of the country (Sahie, Incomati, Limpopo and Maputo valleys). These farms specialised in the production of rice, potatoes, vegetables as well as meat and dairy products (Wuyts, 1978:3). A specific aspect of this development was the colonato scheme of the Limpopo started in 1951, which reached a peak of 1146 white colonos in 1968 (Hermele, 1986:8). Initially designed as a scheme to settle

Portuguese peasant families as small holder producers relying principally on their own family labour for cultivation, the venture proved financially unsatisfactory and in the longer run unattractive to settlers (Ibid:3-8).

Finally, the period of economic nationalism witnessed the growing influence of Portuguese capital (as well as of larger settler based capital) in the colony. After the second world war industrial development and the accelerated centralisation of capital in Portugal led to the formation of monopoly groups which also moved to establish a foodhold in the colonies. Hence, in this period portuguese capital would partake in the investment in commercial ventures for marketing cotton (Companhia dos Algodoes de Mocambique and the group of Joao Ferreira dos Santos), in sugar plantations (Sociedade Agricola de Incomati), in tea , and at a later stage in insurance and banking (CEA, 1981a:11; Brito, 1980:27-28; Head, 1980: 66)).

The implication of the development process in this period of Salazar's economic nationalism was that the peasantry was subjected to enormous pressures to supply its labour power to neighbouring countries, to the expanding plantations and settler farms, to the public sector for road building and the construction of railways as well as to the ports for cargo handling. The peasantry was obliged moreover to cultivate cotton, tobacco and rice under a system of forced cultivation as well as sought to improve its lot by producing cash crops such as cashew, copra and marketed surplusses of various food crops. Apart from these demands imposed on it, the peasantry also had to produce most of its own requirements in terms of food. The use of force by the colonial state was the mecanism through which peasant labour was kept cheap notwithstanding the chronic shortages of labour power which characterised this period. The fact that extra-economic coercion was used does not imply however that the peasantry was not dependent on the money economy to assure its subsistence requirements. Income from wages or from the sale of cash crops had become a matter of economic necessity, not only for acquiring necessary consumer goods, but also for sustaining and developing the level of family agriculture itself. This process of commoditisation and proletarisation contained the seeds of forces of differentiation within the peasantry which were to determine the character of the peasantry at the time of independence (Wuyts, 1978).

The early 1960s constituted a critical point in the development of the colonial economy. The wave of decolonization in Africa placed increased pressure on Portugal to decolonize, and its refusal to do so increasingly isolated Portugal within the international arena. The development of the armed struggle by the newly emerging nationalist movements in the colonies became an irresistable force for change. The regime's response was to 'turn the native into citizen' and to legally abolish forced labour and forced cultivation of crops in 1961. Although these changes were to a large extend intended to be merely formal in nature rather than changes in substance, the advance of the armed struggle forced the regime into making concessions (Wuyts, 1980:20-22).

To enlist the support of its western allies, Portugal adopted an <u>'open door'</u> policy with respect to foreign investors at home and in the colonies. The <u>Escudo Monetary Zone</u> was created in 1961 so as to ensure that all foreign exchange earnings were to be centralized in the Bank of Portugal. (Wuyts, 1983b:part 1).

The main purpose for setting up the monetary zone was that Portugal wanted to make sure that the colonies continued to contribute to its own development by providing foreign exchange surplusses. Table 2.1 shows how Mozambique normally had a surplus with the rest of the world (outside the escudo zone) and a deficit with Portugal. With respect to the rest of the world, income from transport services and from migrant labour were the main foreign exchange earners which accounted for the large surplusses on invisible trade.

Another institutional change brought about by the 'open door' policy was the liberal law on foreign investment as well as the new banking law of 1963. The former provided incentives to foreign investors to invest in Portugal or in its colonies. The latter opened up the colonies for Portuguese commercial banks which were allowed to establish branches. Prior to 1963, the Banco Nacional Ultramarino (BNU)--a commercial bank controlled by the Portuguese state and charged with issuing the colonial escudo--was the only Portuguese commercial bank in operation in the colony along with two branches of foreign banks.

Table 2.1 Mozambique's Balance of External Payments--balances only (in millions escudos)

	Escudo Zone				Rest of the World				Total			
	Visible trade	Invisibles	Capital movements	Total	Visible trade	Invisibles	Capital movements	Total	Visible trade	Invisibles	Capital movements	Total
1965	-210	-1,223	-25	-1,458	-1,032	+2,411	-139	+1,240	-1,242	+1,188	-164	-218
1966	-299	-1,126	+29	-1,406	-1,477	+2,533	-49	+1,007	-1,777	+1,407	-29	-399
1967	-173	-1,166	+25	-1,314	-1,781	+2,838	-76	+981	-1,954	+1,672	-52	-333
1968	-124	-1,061	-54	-1,240	-1,777	+3,077	-379	+922	-1,900	+2,016	-434	-318
1969	-413	-992	+62	-1,343	-2,675	+2,969	-230	+64	-3,088	+1,977	-169	-1,279
1970	-624	-849	-143	-1,662	-3,336	+2,495	-67	+92	-3,960	+2,601	-210	-1,570
1971	-462	-545	-31	-1,038	-3,339	+3,646	-291	+598	-3,801	+3,801	+260	-440
1972	-497	-525	-50	-1,072	-2,743	+3,960	+26	+1,243	-3,240	+3,436	-24	+172

Source: P. da Costa et al, 1973:131.

After 1965, all major Portuguese commercial banks (which were linked to the major monopoly financial groups in Portugal) opened branches in Mozambique. Apart from normal commercial banking activities, these branches also financed the specific joint-ventures or other investments of the financial groups to which they were linked (da Costa, 1973:112-118).

The latter period of the colonial era (1960-1973) witnessed some major investments within energy (Cabora Bassa project), within the ports (the development of the new facilities for exporting mining products, steel and sugar and the refinary for imported oil) and within industry (mainly intermediary goods and import substituting industries) (Wield, 1978; Mondlane, 1969:93-98).

Within the rural economy the abolition of forced labour and of forced cultivation was initially hardly enforced and in many instances the practice continued up to the end of the colonial era. With the advance of the armed struggle however, the system was forced into retreat and new alternatives had to be explored. One aspect which was directly linked to the war situation was the attempt to accelerate the development of settler agriculture with the intention to stem the advance of the armed struggle. Hence, the shift toward settler farms in cotton production in Nampula (CEA, 1981a:15-21) as well as in food crop production and cattle rearing in areas such as Angonia and Alto Molocue (CEA, 1983a:8-17; Mackintosh, 1986:5-8). Also, more scope was given to the emancipation of the richer peasantry both within the context of these settlement schemes as well as outside it. In the latter case however the richer peasants faced the ever present threat of being evicted from their land to make room for settler agriculture (CEA, 1981a:15-21; CEA, 1983a:8-17; Hermele, 1986:3-8; Mackintosh, 1986:5-8).

Finally, with respect to the employment structure low level administrative and skilled jobs were made available to African workers, a process which led to an extremely complex wage structure as white labour always received better wages even if situated within the same category of work (CEA, 1982c:Appendix). Corresponding to this development was the emergence of technical schools in the 1960s which progressively allowed more Africans to enrol (Marshall, 1985:162).

The Structure of the Colonial Economy

The structure of the colonial economy as it emerged out of the historical processes sketched in the previous section can be briefly summarized by the following three basic features:

1. The economic integration within the Southern African sub-system under the domination of South African capitalism led to a situation in which Mozambique became to a large extent a service economy dependent upon the provision of transit transport services (ports and railways) for the South African and Rhodesian economies as well as of the supply of migrant labour to the South African mining sector and, to a lesser extent, to South African and Rhodesian settler farms.

   To show the relative importance of thes services in terms of labour utilisation and of foreign exchange earnings about 25 per cent of total wage labour consisted of migrant labour to the Southern African region (and this is more likely to have been an underestimate) while employment in the ports and railways amounted to nearly half as much as total employment in the manufacturing sector (respectively five per cent and ten per cent of total wage employment which itself amounted to between 20 per cent and 30 per cent of the active population) (CEA, 1981b:unit 2). With respect to foreign earnings, the ports and railways sector was consistently the major foreign exchange earner with a relative importance of approximately 30 per cent of total income on current account of the balance of payments, which was considerably more than the income from the major cash crops - cashew (roughly 15 per cent of income on current account) and cotton (about 14 per cent). Income in terms of foreign exchange coming from migrant labour is more difficult to assess since no precise statistics are available. However obligatory, deferred payments of miners' wages amounted to about four per cent of current foreign exchange receipts in the latter phase of the colonial period (its share rising in the 1970s due to the increase in wages on the mines in that period) (CEA, 1981b:unit 5).

In terms of regional configuration with respect to the transport sector, 75 per cent of the total tonnage handled through the Mozambican ports was transit cargo. Of the total tonnage transported by rail, 39 per cent were exports and imports from South Africa, 18 per cent from Rhodesia and 18 per cent from Swaziland (14%) and Malawi (4%). In terms of income however, 57 per cent of revenue came from transporting Rhodesian cargo (due to the longer distances), 23 per cent from South Africa and 9 per cent from the remaining foreign transit transport, while the remaining 11 per cent accounted for internal transport (CEA, 1981b:unit 2).

Finally, the harbour of Lourenco Marques accounted for 77 per cent of all tonnage handled by Mozambican ports, 17 per cent through Beira and 6 per cent through Nacala and the other minor ports (CEA, 1981b:unit 2).

2. The production of primary commodities destined for exports: cashew, cotton, sugar, copra and tea as the major products (respectively 23 per cent, 21 per cent, 11 per cent, six per

cent and four per cent of the total exports of goods). Sugar, copra and tea were mainly produced by the plantation sector located in and around the Zambezy valley in the centre of the country. Cotton, initially exclusively a peasant cash crop produced under forced cultivation, was increasingly produced by the growing sector of settler agriculture toward the latter end of the colonial period (in the early 1970s more than half of the output came from this sector). In terms of location cotton was produced mainly in the northern and the central region of the country (CEA, 1981a: 9). Finally, cashew was produced exclusively by the peasantry along the whole coastal area (Wuyts, 1978). Linked to this process of production of primary commodities was the development of elementary processing industries (cotton ginning, sugar extraction, tea preparation as well as some vegetable oils production), destined primarily for exports. Together with the only other major export-oriented industry - the petrol refinery (oriented towards the South African and Swazi markets), these industries accounted for about 40 per cent of the total industrial output and were spread over the four provinces of Maputo, Sofala, Zambezia and Nampula with roughtly equal relative importance with respect to output (CEA, 1981b:unit 2).

3. A colonialism based on settler immigration which implied a relatively significant development of the internal market centred on the consumpion pattern of the growing settler community. Hence, in industry 60 per cent of total output was

geared to the internal market and included apart from the production of consumer goods (including certain durables like refrigerators, radios and other electrical equipment, etc.) also a significant level of production of intermediary goods (mainly linked to construction and transport industries). This industry was virtually wholly concentrated on three towns: Maputo (66 per cent of the output destined for the home market), and the remainder in Beira and Chimoio. It depended heavily on the proximity of the South African industrial complex on which it relied for spare parts, inputs and technical expertise in servicing equipment (CEA, 1981b:unit 2). Within the rural areas settler production concentrated on the supply of food (rice, potatoes, vegetables, dairy products) to the towns; an activity mainly concentrated in the Southern region - the Limpopo, Incomati and Maputo valleys. Rural trade was also largely in the hand of settler shopkeepers (often combined with agrarian production) (Wuyts, 1978:13-17).

Tables 2.2 and 2.3 provide us with a summary view of the regional structure of rural production as well as of the structure of wage employment in the country.

Table 2.2 The Structure of the Colonial Rural Economy in 1970

Region	Plantations	Settler Farms	Peasantry			Dominant Aspects of Regional Rural Economy
			Marketed Output 1	Sale of Labour 2	Own Consumption 3	
North (Cabo Delgado, Niassa Nampula)	Sisal (67%) 2%	Cotton (17%) Tobacco (50%) 12%	Cashew (78%) Cotton (37%) Food Crops (see 3) 26%	Seasonal labour to plantations and settler farms, plantations in Tanzania	Cassava (67%) Groundnuts (56%) (also sorghum, millet, maize) 60%	Cash crop production (in part under forced cultivation) by the peasantry. Later accelerated development of settler cotton farms
Centre (Zambezia, Manica, Sofala, Tete)	Sugar (73%) Copra (69%) Tea (100%) Sisal (33%) 28%	Potatoes (67%) Tobacco (27%) (also maize, cotton, vegetables) 11%	Cotton (28%) Cashew (9%) Food (see 3) 9%	Seasonal labour to plantations, Tete/Manica: contract labour to Zimbabwe and Malawi	Rice (28%) Maize (64%) Groundnuts (17%) Cassava (25%) (and other minor crops) 48%	Plantation economy in Zambezia Valley, relying on huge quantities of seasonal labour
South (Maputo, Gaza, Inhambane)	Sugar (27%) 2%	Rice (56%) Potatoes (32%) (also vegetables, wheat) 39%	Cashew (13%) Food crops (see 3) 10%	20-30% of male adults worked on South African mines for contract periods of 1.5 years. Seasonal labour to settler farms and plantations	Maize (16%) Groundnuts (27%) Cassava (8%) 49%	Labour reserve for South African mining and settler farm based granary to feed the towns
National	15%	15%	15%		55%	

Notes: 1. % between brackets refer to % of national production of the particular crop
2. % at the ottom of each block refer to relative importance within regional production
3. Meat and dairy products are not included (mainly South and parts of Central region)

Source: Wuyts, 1978.

Table 2.3 The Structure of Wage Employment in Colonial Mozambique around 1970

Sector	Percentage of total Wage Employment
External migrant labour	24
Agriculture	17
Fishing	3
Manufacturing	10
Construction	3
Commerce and finance	11
Ports and railways	5
Public administration	7
Domestic servants	11
Other sectors	9

Source: IV Plano de Fomento, Parte III, Relatorio Sectorias, Vol. 8, Mao de Obra e Formacao Profissional, pp. 5-6 (adapted).

Note:* Statistics on employment were generally of very poor quality and often inconsistent as to data sources. More specifically, large discrepancies existed with respect to data on agricultural employment depending on whether or not seasonal labour was taken into account. As a rough estimate, wage employment accounted for between 20 percent to 30 percent of the active population (which is high relatively to countries such as Tanzania with +/- 15 percent and Zimbabwe with 18 percent), the main reasons being the dominant feature of external migrant labour as well as the considerable demand for labour coming from plantations and settler agriculture. Since wage labour was mainly (but not exclusively) male labour, it follows that probably +/- 50 percent of the male active population was well integrated in wage work (although in agriculture the intensity of wage work varied weekly).

*To arrive at the picture provided by this table the information of the reference data source was cross checked with the 1970 census data, agricultural and industrial statistics, data on migration, etc.

The State as Regulator of the Colonial Labour Regimes

The colonial economy was rooted in the exploitation of the peasantry which not only produced a significant share of the export crops as well as marketed surplusses of food to feed the town population, but also supplied its labour power in accordance with the needs of capitalist production within the country and in the wider region. The integration of the peasantry in the monetary economy did not leave it as an undifferentiated mass of producers, but rather propelled forces of differentiation in the rural economy which were to become increasingly more prominent in the later days of the colonial era. To understand these processes of rural differentiation it is necessary to analyse the role of the colonial state in 'planning' labour requirements for the development of colonial capitalism.

Indeed, the colonial economy was by no means a 'laissez-faire' economy. Rather, it was a strongly regulated economy within a context characterised by chronic labour shortages for most of the era of colonial rule. It was the main task of the colonial state to ensure that the supply of labour power by the peasantry as well as the production of cash crops by them would meet the needs of capitalist development, and to do so under conditions which guaranteed the provision of cheap labour power. The colonial state assumed this role right from the start of the development of colonial capitalism, but the scope and the extent to which it carried out this task widened and intensified significantly from the 1930s onwards. In fact, the enforcement of labour is quite common to all colonial regimes and specifically in the process of the formation of the colonial economic structures. However, the salient feature of Portuguese colonialism in Mozambique was that the enforcement of labour under strict state supervision intensified and widened over time and continued virtually unabatedly up to the end of the colonial era. It was only the advance of the armed struggle by Frelimo which eroded this practice by forcing concessions from the colonial regime. The colonial labour regimes in Mozambique were characterised by the following specific and interrelated elements:

1. The migrant labour system: the key feature of this system is that wage labour remains organically linked to family agriculture, and hence the process involves only partial proletarization. Hence, "migratory labour systems assume that a substantial part of the cost of family reproduction are met through subsistence agriculture by the migrant's family, and that migrants 'retire' to their rural areas of origin when they are no longer needed by capitalist employers. In this situation, the social category of the 'reserve army of labour' corresponds to the population of particular geographic areas" (Johnson H. and Bernstein H., 1982:260). It would be incorrect however to categorize such reserve areas as regions characterized by an undifferentiated mass of labourers supported by subsistence production in agriculture since such view would neglect the dynamic features of migrant labour systems with respect to rural development within such areas. Rather, migrant labour systems acquire distinctive features by the

fact that they contain processes of <u>internal</u> differentiation which are conditioned by their dominant function as supply areas of labour power. It is therefore of utmost importance to investigate the <u>nexus</u> between wage labour and peasant agriculture so as to identify the specific dynamic features of each system.

Within the context of colonial Mozambique, the export of labour-power to South Africa, Rhodesia and Nyassaland as well as the supply of labour power to the plantations and to settler farms were all rooted within migratory labour systems. The terms and the conditions of contracts varied considerably and so did the impact of these systems on the dynamic processes within family agriculture (the processes of differentiation, including the impact on the gender division of labour).

2. <u>The use of forced labour:</u> although extensively used in the period before 1930, the practice of forced labour became rationalized and centralized under the control of the colonial state with the development of a country-wide repressive and administrative machinery of the state in the 1930s. The system which emerged contained two distinct types: (1) <u>compulsory contract labour</u> of adult males for a period of six months per year in cases where such workers were not otherwise gainfully employed. The definition of gainful employment was determined by the colonial state and included migrant workers to the neighbouring countries (if legally contracted), cotton producers, workers in wage employment in industry or in

government service, etc. Forced labour was recruited by the colonial state and subsequently allocated to public works, to the ports and railways for manual tasks of cargo handling and to other state institutions who needed labour as well as to plantations and settler farms (Mondlane, 1969:91-93; Penvenne, 1980:99-26). The legal wage for contract labour was always related to the 'native' tax in force and the state laid down the proportion to be maintained between the two. Furthermore, wages were paid at the end of the contract period after the tax had been deducted. There was therefore a direct financial interest for the state to recruit labour for private enterprise, and not surprisingly, taxation of the African population was the single most important source of direct revenue in the colonial budget (Head, 1980:56-61).

(2) forced cultivation of cash crops was the second type of compulsory labour exerted from the peasantry. In the case of cotton, the colonial authorities designated the areas for forced cultivation, fixed the producer prices as well as specified the area to be cultivated by the household with reference to family size and composition, and granted absolute monopoly on the purchase of seed-cotton to commercial companies within their zones of influence (determined by the location of their ginning factories). Cotton cultivation was directly supervised by the local administration as well as by the capatazes employed by the concessionary companies. In zones characterised by migrant labour of adult males, the forced cultivation of cotton was imposed on women, while in

other zones <u>both</u> men and women were made to produce cotton (CEA, 1981a:9-14).

3. <u>The fragmentation of labour markets:</u> within an overall context of labour shortage it was the deliberate policy of the colonial state to limit the <u>competition</u> for labour power as between different employers. The policy rested on two related sets of measures: (1) the legal determination of <u>zones of influence</u> over labour reserves, and, (2) the distribution of contract labour over competing demands through <u>direct</u> administrative allocation by the colonial state machinery in the context of the forced labour system (Wuyts, 1978).

Hence, for example, the parallel 22 constituted a borderline as between the zones of influence of South African mining capital on the one hand, and of the plantation econoy in the Zambezy valley as well as of Rhodesian mining and agriculture on the other hand. The various agreements with Rhodesia sought to regularise the flow of labour power as well as to designate the areas from which such labour was to be recruited. Similarly, commercial companies each obtained their zone of influence with respect to the marketing of peasants' cash crops in the system of forced cultivation.

Both aspects blended together at various points so as to assure that labour power was not only <u>cheap</u>, but also that a <u>differential</u> wage structure for the same type of labour could be maintained. In general, a <u>three tier wage</u> structure for unskilled labour power prevailed with wages being highest in South Africa followed by those in Rhodesia and with wages paid by plantations and colonial settlers in Mozambique constituting the lowest tier (Adamo et.al., 1981:59-72; Brito, 1980:23-32; Wuyts, 1978). It was the forced labour system which structured this lower tier and hence provided the framework in which capitalist accumulation within the country could be accommodated within a context of regional dependence on economically more advanced countries.

4. Political repression by the colonial state which prohibited any form of organisation of the producing classes to further their own interests. It was only in the latter days of colonial rule that the state was obliged to make some concessions and allow the development of limited trade unions (sindicados). The dominant practice remained however the brutal repression of workers and peasants in cases of strikes or revolts (Alexandrino, 1981:57-64; Habermeier, 1981:38-40; Manghesi, 1981:27-36; Mondlane, 1969:35-57).

It is the interplay between these characteristic features of the colonial labour regimes which determined the processes of social differentiation within the rural economy. In what follows an attempt is made to sketch some key features of the development of class forces within the rural economy.

In the case of migratory labour systems the key element in analysing patterns of differentiation consists in investigating the nexus between wage income and the organisation of household production (with family agriculture as its principal component). Indeed, the relation between them is not merely one of additivity (i.e. the wage being supplemented by subsistence production), but rather one of interaction and interdependence (i.e. the organisation and development of family agriculture, and of household production in general, becomes dependent on wage income and involves changes in the division of labour within the household economy). Furthermore, this interdependence cannot be analysed merely at the level of household units only (e.g. changes within the gender division of labour within the household) but needs to be analysed also at the level of the rural economy of the reserve area as a whole (e.g. the division of labour between households with respect to agricultural work as well as off-farm activities such as small-scale industry, crafts and trade). The latter aspect is particularly important inasmuch as the dominant process of proletarization of the peasantry may bring about increased commoditization through the establishment of exchange relationships within the rural economy which are financed by the influx of income from wages and which result from the fact that labour is withdrawn from family agriculture. These processes of wage-dependent commoditization within the peasant economy foment the social differentiation of the peasantry.

In Mozambique, those areas in which the incidence of the export of labour power to neighbouring countries was more pronounced (Southern Mozambique, and the border regions with Rhodesia and Nyassaland), this relationship between partial proletarization of the peasantry and the intensification of commodity relations within the peasant economy was most marked. Generally, contracts abroad were better paid, but also involved longer duration in comparison with local contract labour (1-2 years as compared to 6 months contracts). The high intensity with which adult men were involved in such labour over their livetime meant that the majority of these men became affectively divorced from agricultural work (CEA, 1977:56-69).

Clearly, the burden of agricultural work shifted to women, but this change did not take place in static conditions. Three aspects need to be considered with respect to the dynamics of change. Firstly, income from wage labour did not only pay for consumer goods, but also it financed agricultural inputs such as seeds, fertilisers, etc. as well as allowed in some cases for the acquisition of oxen and plough, water pumps for irrigation, and tractors. Secondly, certain tasks which previously were performed by men within the household became commoditized. Hence, a large proportion of households would cultivate with oxen and plough without actually owning them by renting this service from those peasants who did. Similarly, house building and the construction of water wells and tanks would be paid for out of remittances. Finally, also within consumer demand a certain proportion of the money spent would go to locally supplied commodities. Hence, for example, those families who did not produce sufficient food crops for their own consumption would buy from peasants with marketed surplusses for sale. Similarly, remittances from wages would be spent on furniture made by local carpenters and on clothes made by local tailors (CEA, 1977:106-112).

As a result of this process of deepening commodity relations household production became more differentiated and a more complex rural division of labour developed around it. Within these rural communities a strata of richer and middle peasants developed which relied on income from wage labour to invest in agricultural means of production as well as in small-scale craft, industry or trade, and as such stabilize their position within the rural economy without having to rely further on wage labour unless in exceptional circumstances (illness in the family, loss of cattle due to drought, etc). Hence, through a combination of a more developed agricultural base and other off-farm activities, these peasants managed to establish themselves within commodity production by producing food surplusses for sale to the towns or within the local community, by renting the services of ploughing the plots of other households with their oxen or tractor, by engaging in petty trade (which in border areas often involved smuggling), or by undertaking various crafts such as house building, brick making, carpentry or tailoring, as well as milling. This strata within the peasantry was heavily dependent on the dominant process of proletarization (within the context of the migrant labour system) as a condition of its formation and its reproduction . On the other hand, there emerged the poor 'proletarianized' peasants for whom wage work was a continuing necessity to provide the family with day to day basic consumer goods. Its family agriculture was also wage-dependent inasmuch as it relied on the purchase of seeds, etc. as well as on paying for ploughing the family plot by oxen and plough, etc. These families would often be deficit producers of food and had to rely on wage income to purchase food in the local markets (CEA, 1977:106-112; CEA, 1983a:8-16; Hermele, 1986:3-8; Wuyts, 1981a:2-5).

Within the areas which constituted the zones of influence of the plantations the patterns of differentiation within the peasantry were somewhat different but nevertheless quite pronounced. Seasonal contract labour to the plantations consisted of six months contracts and hence the separation of adult men from participation in family agriculture was not as drastic as was the case for migrant workers to neighbouring countries. However, this labour was recruited under the system of forced labour and hence was left with a much smaller margin of cash income over the payment of taxes. It was therefore not surprising that many peasants fled from forced labour by going to work in Rhodesian mins as illegal migrants (Dolny, 1985:218-220).

The specific feature of the plantation economy was that it generated a double demand with respect to its zones of influence: a demand for seasonal labour power as well as a demand for food to feed this labour force. It was the surrounding peasantry which supplied both the labour power and food, but the intensity as to which each element predominated varied with respect to region as well as to different strata within the peasantry. The peasantry who lived in regions bordering the plantation and who had been evicted from their land with the formation and/or expansion of the plantation sectors were generally more proletarianized and depended on wages for their subsistence. Their base in family agriculture often was insufficient even to feed the family. Further-off areas would have more compex patterns in which some became more specialised in supplying food and others in supplying labour power, but never exclusively so. Within such areas the relative importance of both elements would vary with the pattern of differentiation within the peasantry, but it was mostly within the food supplying areas that a strata of rich and middle peasants emerged based on food production to service the demand from the plantation sector (CEA, 1982d:24-43; Mackintosh, 1986:5-8).

The emergence of a stratum of rich and middle peasants within the supply areas of labour power was by no means an unproblematic process. In fact, up to the early 1960s the colonial state showed little interest in furthering the development of this process of social differentiation within the peasantry. Firstly, the peasantry as a whole was subjected to the labour legislation which required every adult male to work for at least six months a year for either the state or private companies and entrepreneurs. The rich and middle peasantry was by no means exempted from this law, although they could have relied on support from the regulos (the colonially appointed tribal chiefs) to escape the measure. Secondly, the peasantry faced the constant threat of being evicted from their land by the colonial state so as to make room for settler agriculture or the expansion of plantations. Thirdly, the overall context of chronic labour shortages made it difficult for the rich peasants to accumulate on the base of a stable supply of labour power. Finally, one cannot over-estimate the extent to which colonial policy, which was rooted in a doctrine of racial superiority, left little room for the advancement of the African population beyond the hardships of manual labour (Mondlane, 1969:Chapter 2).

It was due to the development of the armed struggle of Frelimo that the colonial authorities were forced to make concessions and began to look upon this stratum of rich and middle peasants as an element which could stem the tide of radicalism. However, its policy still remained ambivalent. Settler agriculture remained the dominant priority and its expansion threatened the peasantry with eviction. Nevertheless, in this period the richer peasantry managed to stengthen its position in a variety of ways. So, for example, in the Limpopo colonato some Mozambican peasants were incorporated alongside Portugues settlers, be it usually on probation (Hermek, 1986:3-8). In Alto Molocue in Zambezia, the richer peasantry managed to acquire the status of agricultor alongside Portuguese farmers, and as such they were exempted from forced labour as well as formally allowed to employ labour (Mackintosh, 1986:7). In Angonia, Tete district, the peasantry faced eviction from their land with the expansion of settler agriculture, but notwithstanding this threat (which was sharply opposed and led to often violent conflicts), many richer peasants developed their agricultural base by buying seeds, fertilisers, pesticides, etc. from colonial settlers (CEA 1983a:14). Agricultural credit provided by the agricultural credit bank (which became the Instituto de Credito de Mocambique in 1970) concentrated virtually exclusively on financing settler agriculture (Wuyts, 1983b:9-10), and hence the rich peasantry had to establish its base in agriculture by investing money derived from wage labour.

Turning now to the areas characterised by forced cultivation of cotton, the extreme exploitation of the peasantry limited severely the scope for differentiation within the peasantry up to the early sixties (Habermeier, 1981:38-40; CEA, 1981a:8-14). After that, producer prices rose and the practice of forced cultivation was somewhat slackened although the majority of the peasantry continued to be subjected to it up to 1969/71. However, groups of peasants began to use advanced techniques and specialised in cotton production. Many of these were regulos and overseers who used their privileged positions within colonial society to establish themselves as <u>agricultores</u> (Habermeier, 1981:41-42< CEA, 1981a:15-21). But also in this case, the thrust of development went towards the formation and expansion of settler agriculture in cotton production aided by the active support of the colonial state. This led to the eviction of the peasantry from the cotton settlement schemes in the late 1960s and early 1970s. The surrounding areas became transformed into supply areas of labour power within the process (CEA, 1981a:15-21).

Conclusion

The analysis presented in this chapter provides a basis for the analysis of the terrain of struggles for socialism in the post-independence period as it was shaped by the context of the colonial legacy.

A first conclusion which can be drawn from this analysis is that Mozambique's economic integration within the Southern African sub-systemm and its dependence vis-a-vis South Africa would constitute a critical area of struggle in the post-independence period. De facto, the struggle for socialism in Mozambique formed an integral part of the struggle for the political liberation and for economic emancipation within the Southern African region. There exists a basic unity between both elements and advances on one front will inevitably condition the developments on the other. In comparison with this major aspect, disengagement from economic dependence on Portugal was in fact a less significant (although not unimportant) factor since it involved breaking with the *'rentier'* relationship of Portugal vis-a-vis Mozambique.

A second conclusion of this analysis is that the peasantry constituted the cornerstone of colonial capitalism. It was a peasantry which was deeply integrated in the *monetary* economy and dependent on it for its subsistence. *Partial proletarization* within the context of the migrant labour system was its dominant characteristic. It was also a *differentiated* peasantry in which a stratum of rich and middle peasants which had acquired a stronger foothold in agriculture accounted for the greater share of the marketed surplusses produced by the peasantry. This process of differentiation had developed as a product of colonial-capitalism notwithstanding the fact that the colonial state never effectively backed the emergence of this stratum of better-off peasants. At the time of independence therefore, the peasantry did not constitute an undifferentiated mass of rural producers nor were they mainly subsistence producers with only marginal linkages with the monetary economy. Socialist policies would need to come to terms with the character of the peasantry.

PART II

TRANSFORMING THE ECONOMY

CHAPTER 3

THE IMMEDIATE TASKS

Introduction

After 10 years of armed struggle Frelimo conquered political power as a result of the collapse of the Portuguese fascist regime under the strain of its colonial wars. The Coup d'Etat of the 25the of April 1974 brought home the impact of the colonial question on the internal situation in Portugal. In the aftermath of the coup the attempts on the part of the more reactionary factions of the portuguese state to engineer a form of neo-colonial settlement were thwarted due to Frelimo's rejection of a cease fire and the advances made in opening up new fronts in a generalized offensive of the armed struggle. The unconditional transfer of power to Frelimo was agreed upon in Lusaka in September 1974 and led to the formation of a transitional government under Frelimo majority jointly with Portuguese administrators. This transitional government was to lay the basis for the final transfer of power on the 25th of June, 1975.

The 10 years of armed struggle had not merely been a period of struggle against Portuguese colonialism, but had also involved an internal struggle within the liberation movement itself. Indeed, the emergence of the liberated areas brought with it the question of the political and economic organization of society within these areas under Frelimo control. The basic question was whether liberation meant the substitution of Mozambicans for Portuguese within essentially the same structure of society, or whether society and the form in which it organizes production as well as shapes political power needed to be radically reorganized. It was the latter view which gained the upperhand in this struggle and as such mere nationalism became transformed into a perspective of revolutionary nationalism. Thus the movement which conquered power in 1974 had internalized already a revolutionary socialist position which sprang from its struggles and practice within the liberated areas.

This chapter addresses two issues which characterised the period 1974-76 and which were seen to be of immediate importance: one out of necessity, and the other as an expression of deliberate policy. The former concerned economic policy, which in this period had to confront an intense production crisis provoked by the impact of the massive emmigration of the portuguese settler community within a context of economic sabotage and capital flight. The policy involved defensive interventions within the economy which led to ad hoc nationalizations. The salient feature of this period was that Frelimo succeeded in mobilizing broad sections of the population within the political set-up of the Dynamising Groups behind an economic policy which aimed to counteract the impact of the crisis.

The second aspect of this period was strategic in nature and concerned the nationalizations of the social services (health, education, the provision of legal services and of funeral services) as well as of housing and of land ownership. Clearly, the aim in this case was to alter radically the access to these services as well as to housing and landownership. The event of these nationalizations and the explicit policy to transform the provision of social services along socialist principles set the stage for initiating a process of their socialisation. In this chapter, the case of planning the nationalised health services will be discussed because of the insights it provides as to the character of planning in transition.

Combating Economic Sabotage

The period starting with the event of the transitional government and which continued into the immediate post-independence era did by no means signal the end of conflict and struggle. On the one hand, the independence of Mozambique and Angola could not but intensify the struggle for the liberation in Zimbabwe, Namibia and South Africa. Indeed, the downfall of Portuguese colonialism and the victory of Frelimo and MPLA--both committed to a socialist strategy--radically altered the balance of forces within the Southern African region.

On the other hand, also internally the struggle intensified when the old economic order came into sharp contradiction with the new political power committed o building socialism. Indeed, the colonial bourgeoisie and petty-bourgeoisie jointly with factions of the administrative and technical labour force consisting of Portuguese settlers had tried already in the aftermath of the coup d'Etat to impede the transfer of power to Frelimo. First, by attempting to engineer a neo-colonialist settlement. And, when that failed to materialize, they tried to grasp power by force in an aborted coup immediately following the Lusaka agreements (Frelimo, 1977a: 53).

After that, economic sabotage within a context of massive emigration from Mozambique set the scene of the early years of Frelimo government. Even before the defeat of the Portuguese fascist regime, the 250,000 settlers had begun to desert the colony. Forty thousand left between 1971 and 1973. In the aftermath of the coup d'Etat up to independence in June 1975 at least another 100,000 left. The greater number of those who remained left within one year after independence (Wield, 1983: 85).

This flight of the settler community affected all sectors of the economy. Construction virtually came to a complete standstill. High-rise blocks were left half-finished as monuments to an old era which had suddenly collapsed. Small and medium industrial enterprises ranging from garages, carpenters, electrical workshops to brick producers and various types of import substitution 'finishing touch' enterprises, were abandoned by their owners. Tourism and tourist-related activities stopped all together since it relied mainly on South African and Rhodesian tourists. In the rural areas settlers abandoned their farms and shopkeepers their commercial enterprises. Road transport of passengers and of cargo dropped sharply as settlers fled with their trucks or busses or left them behind in a state of destruction. The larger plantations and bigger enterprises--mainly owned by foreign investors--had to keep on going with decreasing numbers of managerial staff and of technical workers. As settlers left, most domestic workers lost their job. Domestic work was the single largest employment sector embracing an estimated 300,000 workers (Wield, 1983: 86).

Economic sabotage was widespread and took all possible forms. The mentality of many settlers was that what could not be taken out, had to be left destroyed. Hence, the large scale destruction of equipment, of cars and trucks, the killing of cattle stock and the attempts at destroying economic and social infrastructure.

Capital flight was rampant and difficult to control: commodities were exported but the foreign exchange never reached Mozambique, imports were paid for in foreign exchange, but the actual commodities never materialized. Since most banks were still private, funds were transferred abroad without any control. Finally, often equipment, trucks, cars, cattle, etc., were simply driven across the border to South Africa or Rhodesia to allow settlers to start up business there (Frelimo, 1977a: 61-64).

Clearly the Portuguese owners of productive and commercial enterprises had lost all interest in organizing production. The colonial economy was collapsing rapidly. Large scale dismissal of workers from enterprises and complete production stoppages were the weapons which the colonial bourgeoisie and petty-bourgeoisie tried to employ to create the maximum economic chaos (Ibid).

Faced with this crisis of the colonial economy and society, the transitional government (and subsequently, the post-independence government) had to adopt immediate economic policy measures aimed at combating sabotage and preventing total chaos in production and exchange. The immediate tasks of economic policy were defined as those of maintaining the level of employment, preventing the collapse in production by keeping enterprises going as well or poorly as possible, and assuring stable prices of consumer goods to prevent the crisis of production to express itself in a massive inflationary pressure (Wuyts, 1983b: 20).

No organized state apparatus existed to direct the restructuring of the economy in the face of crisis. In fact, the colonial state apparatus was collapsing rapidly in this period, and Frelimo cadres at the level of government were few and thinly spread throughout the state apparatus operating often in a still hostile environment. The political and social forces which carried the thrust of the struggle against economic sabotage were the dynamizing groups--popularly elected groups of 8 to 10 people set up both residentially and at the workplace. They existed in every village, in every suburb of the towns and in factories, commercial and banking institutions, schools, hospitals, and administrative units of the public services. The GD's were the principal vehicles through which class forces expressed themselves (Wield, 1983: 88-91).

Their tasks were extremely complex: mobilizing the population behind the line of Frelimo as well as administering the practical organization of society since the colonial state apparatus no longer did so. Hence, a variety of issues such as marriage and divorce, settling conflicts, organizing vigilance against economic sabotage, mobilizing and organizing literacy campaigns, and organizing mass meetings to discuss political issues were all taken on by these groups (Ibid).

The dynamizing groups themselves were quite heterogeneous with respect to their class composition, and often sharp conflicts would erupt among their members or between some of their members and the population. These groups gathered within themselves all patriotic forces in the struggle against the remnants of colonial society, but the class position of the various social groups represented in them could be widely diverging (Wield, 1983: 91).

Regular meetings were organized at the national and regional level to unify the political strategy of these dynamizing groups and to organize their action around concrete tasks. So, for example, in the national meeting of May 1975 it was decided that the leadership of the GD's had to draw from the lower income strata of the population so as to avoid that the GD's became dominated by local traders, state functionaries or the intelligentia--groups which tended to be more literate and articulate.

The main function of the GD's organized at the level of productive or commercial enterprises consisted in combating economic sabotage and in assuring that production continued as well as possible. The legal instrument which gave force to the action of the GD's was the law on 'state intervention' of early 1975 (Frelimo, 1977a: 64-65 > Wuyts, 1983b: 20). This law allowed for the take-over of firms by the government in cases where acts of economic sabotage were detected. The latter included not only destruction of equipment or capital flight, but also the large scale dismissal of workers and any action which brought about the deliberate stopage of production. Upon discovery of such actions, the government would intervene, dismiss the management and constitute an administrative council composed of workers and (often) individual members of the old management. Enterprises thus intervened were left to be managed by these councils with the explicit goals not to dismiss any workers and to keep production going as well as possible . The state-controlled banks were instructed to finance the deficits of these enterprises to keep them running (Wuyts, 1983a: 20-23).

In early 1977, 319 commercial and industrial enterprises had been taken over in this manner. Of these 141 had less than 20 workers and 131 had only between 20 and 100 workers. Only 47 had more than 100 workers (Wield, 1983: 89). Small and medium scale enterprises were indeed the material basis of the colonial bourgeoisie and petty-bourgeoisie, and it was here that the problems were most acute. Big enterprises were only taken over if abandoned or after particularly bad sabotage. Some of the larger cashew factories and 80% of the tea plantations (mainly Portuguese capital) were taken over. Cifel, the large steel rolling mill was another case of government intervention (Ibid: 90).

The available cadres within government spent considerable energy in coordinating and combating the worst effects of the abandonment of these enterprises. In fact, as the Third Congress would subsequently analyze it, government policy in this period was very much akin to the action of a fire brigade: going where the fire burns hardest. It left the key sectors of the economy largely untouched and involved a considerable dispersion of effort (Ibid: 90).

In the rural areas the GD's played a large role in avoiding that abandoned settler land would be seized by private interests. The policy pursued here already contained a definite strategic interest with respect to rural transformation. In general, abandonded settler land was <u>not</u> redistributed to the peasantry, but rather it was quickly consolidated into state farms and cooperatives to keep production and employment going (Dolny, 1985: 224). However, in the case of the Limpopo colonato, Hermele argues that although the policy may have been to freeze any further development until a decision was to be taken, in actual fact the exodus of Portuguese settlers was accompanied by a steep rise in the number of Mozambican peasants who entered the scheme on probation (from 2600 at the end of 1974 to 6000 in 1976) (1986: 9).

Another aspect of the role played by the GD's in the countryside was the widespread mobilization of the peasantry for production in collective fields. Each peasant household would contribute its labour to work in these fields to produce a social surplus in the tradition of the organization of production in the liberated areas during the armed struggle (Ibid: 226).

In fact, agrarian policy remained still somewhat undefined within this period. For example, in February 1976 a Central Committee meeting decided that the main emphasis of rural development was to be the creation of communal villages which would constitute the backbone of development in the countryside. These villages were to be based in collective production which would provide a surplus for village development (social infrastructure, schools, stores and health posts) (Dolny, 1986: 224-5). However, in April of the same year, the ministry of agriculture reorganised itself, and the most significant shift was the creation of a National Directorate for the Organization of Collective Production (DINOCPROC) which consisted of two branches: one dealing with state farms and consisting of a team of 14 agricultural specialists or economists, and one dealing with cooperatives with a team of only 3, whose skills were mainly in political organization and preparation of propaganda material (Ibid: 225).

The impact of this crisis of the colonial economy on production was considerable. As will be shown in the appendix to chapter 4, production in all sectors fell within a range of 25 to 35%. The downward trend tapered out in the 1976-77 period as far as industrial output was concerned, and continued at a lesser rate with respect to monetary production in agriculture.

The policy of stabilizing employment while production and productivity were falling sharply obviously resulted in monetary imbalances. The policy to cope with this imbalance was not to rely on the price mechanism, but to ration the available supplies (Wuyts, 1983b: 23).

The breakdown of private trade was countered by setting up people's shops (i.e., state shops) and the formation of consumer cooperatives. The former operated on a system of selling out the supplies which they received by rationing the quantity each consumer could buy and by organizing sales on a first come, first served basis (i.e., the queue). On the part of consumers, this system involved quite a substantial process of searching and queuing. Not surprisingly therefore was the emergence of more complex rationing schemes in the consumer cooperatives. Here, available supplies would be rationed with respect to family size among members and an accounting system based on ration-cards would assure that each member got his or her share. As such, a fair amount of uncertainty involved in searching and queuing could be eliminated, although the various systems experimented involved more or lesser bureaucratic problems. All in all, an important practice of base level accountancy and control developed within these consumer cooperatives, and their system of distribution became considerably more superior than the erratic searching/queuing system of the people's shops.

In fact, it was on the basis of the experience gained in the practice of the cooperatives that it became possible to set up the generalized rationing system for the towns at a later date. On the other hand, in 1980 retail state shops were privatized due to their inefficiency in coping with distribution in a situation of goods famine (Machel, 1980: 73-84).

In summary, this period of transition was characterized by an intense struggle against economic sabotage. Productive and commercial enterprises were de facto taken over not because the state had developed the capacity to run them efficiently, but because the state was compelled to intervene. The task of developing the capacity to manage these enterprises could not as yet be taken on at this juncture.

The most interesting aspect of this period was the process of interaction as between party and mass organizations (the G.D.'s) in rallying the population within a broad front behind the economic policies of the party.

Transforming Health Care

Colonial Mozambique was a society sharply differentiated along racial lines. So, for example, Laurenco Marques was not one, but two towns: an affluent cement town and the surrounding 'canico' town (i.e., shanty town). With respect to health care, the following quote describes the reality of colonial rule in a nutshell:

> "What was the state of health before independence? For the majority, who lived in the rural areas, it was poor. Over one-quarter of all children died before they reached five years of age. Deaths were largely caused by common infectious diseases and malnutrition. Health services were almost non-existent outside the towns. As one health planner noted on his first visit to Mozambique, 'I remember how surprised I was...to see in so under-developed a country--in which some 70 per cent of the population lived out of reach of modern health care--the size and sophistication of the major city hospitals'. He went on to point out that in the last year of colonial rule, a third of the government's health budget was spent on the capital's main hospital within physical reach of perhaps 6 per cent of the population. The settler community living largely in the towns and receiving privileged and segregated treatment benefited the most. More than two-thirds of the country's doctors worked in the capital and nearly all doctors in civilian practice were in the three main cities

where not more than 10 per cent of the population lived" (Wald, 1983:).

Immediately after independence, health care, education, housing, legal services as well as land ownership were nationalised. These nationalisations were strategic in nature inasmuch as they were the expression of a deliberate policy to end with the colonial practice in which access to social services as well as to landownership was segregated along racial lines, and to reorganize their availability on the basis of socialist principles (Frelimo,1977:).

Transformation of social services does not end with its nationalization. Rather, the act of nationalization merely constitutes a starting point which sets the stage for their transformation. This process of transformation is a protracted process which poses questions as to the nature of planning within transition. The case of the transformation of health care in Mozambique provides a clear illustration of planning as a social process. In many ways, the relationship between planning and social change was much better understood and acted upon within this sector than in the case of planning production in the economy at large. As such, the experience of the health sector was not only important in its own right, but also it provides important lessons as to the character of planning in general.

It is the latter aspect which I shall focus on in this section. It is not the purpose of this section therefore to present a worked-out analysis of the transformation of health care in Mozambique. Up to date, a set of excellent analytical texts on this matter already exist, and it is not the purpose here to add to it nor to summarise its content (Walt and Melamed, 1983; Walt and Wield, 1983; Hanlon, 1984:55-71; Barker, 1985:316-346). Rather, the aim of this section is to put forwards a few propositions about the relationship between planning and social change as the emerged out of the experience of the health sector.

Firstly, although the health services were nationalized in 1975, people initially continued to pay for the services provided as had been the case in colonial times. Only some exceptions were made for the very poor (Walt and Wield, 1983:25). The Socialization of Medicine Act in 1977 ended this practice and introduced a plan for an integrated service which would be virtually free of charge (Ibid:25). It is this act, and not the mere fact of nationalization, which radically altered the character of the health services, although nationalization of health care was a necessary prerequisite for it.

Secondly, the act made possible the convergence of the demand for health care with needs (Thomas, 1974: 250-253), the fact that health care is provided free of charge at the point of delivery does not imply that it involves no social cost. Services can only be provided within the limitations of the available resources. Choices will have to be made, and this involves both the definition of priorities as well as rationing within priorities. Hence, intensity of need rather than ability to pay becomes the guiding principle in determining access to health care.

The desease pattern in Mozambique, as is the case for most less developed countries, arises principally out of poverty, which leads to malnutrition, unsanitory or overcrowded living conditions, pôluted and insufficient water (Walt and Wield, 1983:21). Hence the importance of a proper balance between preventive and curative health care. The main priorities were therefore twofold: the main emphasis of the health services was to be shifted towards preventive measures, while basic curative services had to be extended to permit wide coverage of the country as a whole, and specifically of the rural populations (Ibid:29-32). Within this broader framework specific priorities need to be defined and at each level principles of rationing need to be laid down. The following quote illustrates the question of rationing with respect to the provision of medical drugs:

> "In Mozambique an early decision was made to control the laissez-faire situation that had existed during colonialism and immediately after independence and to cut the number of products that could be imported from 13,000 to 2,600. This was further cut by introducing a new National Formulary (the list of essential drugs that doctors in the health service may prescribe) with only 640 products, and by only importing drugs which were in that formulary. This restriction was aimed to save foreign exchange but also to nationalize the sector. For example, an antibiotic, ampicillin, can cost seven times more for a course of treatment than a similar antibiotic (tetracyline) and could be used just as effectively for many adult infections. Tablets or capsules are

cheaper to prescribe than injections. Finally, drugs were purchased by international tender with more than 200 companies offering to sell drugs to Mozambique. This pushed down prices of drugs substantially. Efforts were made to educate health workers to use drugs sensibly, to keep costs in mind when prescribing" (Walt and Wield, 1983:32).

Thirdly, planning health care is not merely a question of laying down priorities and rationing rules on paper, but it involves restructuring the social organization of the provision and the coverage of such services. Planning is about organizing people and involves working with people.

For example, to provide a basic curative service with extensive coverage within a context of limited resources involved setting up a four-tier system of health care was set up from health post up to the sophisticated central hospital. This involved elementary care being administered at the lower levels and screening of patients from one level to the next. This also involved training health workers at the intermediary levels such as the tecnicos and the agentes de medicina which involved types of general medical assistants who required less training than doctors. At all levels preventive as well as curative medicine formed an integral part of the training and practice (Walt and Wield:25-27).

Fourthly, and directly related to the previous point, the provision of health care is not merely a question of organizing the state-run health services only, but rather it involves planning the interaction as between state and community. Stated differently, the state-run health services obviously constitute the dynamic force in reorganizing health care, but its succes depends on the specific way in which the state sector interacts with community organization. Indeed, an important difference between preventive health care and curative medicine is that the former requires the mobilization of whole communities to be effective, while the latter normally treats individuals (Walt and Wield: 22). In Mozambique, the organization of preventive health care involved working together with mass organizations such as the women's movement, the youth organization, etc (Bell,1983).

Furthermore, to be able to reach down to the village level in providing health care, it was necessary to decentralise its operation outside the state sector by training village health workers. The latter were persons above seventeen years of age and with at least 4 years of schooling who were given a training of six months before returning to their villages. These workers were not paid by the health services, and it was left to the village to support its own health workers (Walt and Wield, 1983: 27). The latter measure was in keeping with the general character of the society which consisted of a majority of peasant communities which needed to be incorporated within the general process of transformation. This policy therefore constituted an strategic element in a policy of the socialization of the country side. However, this element of transformation can only find root if it is supported by an overall process of economic and social transformation within the country side.

The main lesson which could be learned from this experience was that, within a context of a predominantly peasant society, the process of social change depends to a great extend on the way in which the state sector plans its intervention within society so as to mobilize those social forces which can carry the success of its policies. Therefore, the state sector has to assume a dynamic role which can never be exclusively defined within its own boundaries, but needs to propel the wider transformation of society.

Finally, the question of the content of health care and of its social organization is not merely a technical and administrative matter, but is the subject of sharp political struggles. Health matters to people, and struggles over health policies will reflect the material interests of various groups within society. But furthermore, the health service is not a neutral instrument which will merely carry out priorities and policies transmitted to it. The health services traditionally were organized along strict hierarchical lines, and its restructuring will involve struggles over content and organization in which political positions are often presented as technical matters (Bell,1983). Form and content cannot be seperated from one another, and often struggles about content would appear as issues of formal organization.

Much of the debate centered around the issue of quality. The medical elite, trained in the tradition of sophisticated curative care of the colonial hospital, would refer back to the quality of such services in colonial times and quote Frelimo's commitment to maintain and increase the quality of medicine provided in the hospitals (Hanlon, 1984:67). Bitter struggles took place in the central hospital over this issue, and major transformations took place which involved setting up workers' councils in wards as well as involving greater patients' participation (Cliff,1983). However, the hospital speech of the President in 1979 stressed the need for hierarchy and made no mention of workers' councils and hence vested power more firmly back in the medical elite (Hanlon, 1984:67). Clearly, these struggles were about form <u>and</u> content, and not merely about the form in which a given content was to be realised.

This debate was not merely specific to the health services. Also, within economic development the issue of <u>quality</u> was central to the content and form of economic planning. Quality was often defined as preserving the productive forces as developed within colonialism and therefore led to the concentration of effort on the so-called modern sector within the confines of the newly emerging state sector. Unfortunately, within economic policy there was hardly any equivalent for the shift towards preventive care and the widening of coverage within curative care, and as such the struggles over health posed issues of real planning much sharper and clearer than economic planning would even manage to do.

CHAPTER 4

STATE-CENTERED ACCUMULATION

Introduction

The Third Congress of Frelimo, held in February 1977, laid down the strategy for socialist development rooted in a worker-peasant alliance. The Congress called for the establishment of centrally planned economy based on a strong state sector which was to control the key sectors of the economy. This state sector was to play a dynamic role in transforming the economy as a whole.

In chapter 3 it was argued that the nationalization of the health services constituted a prerequisite for their subsequent transformation. The struggle for the socialisation of health care was a political struggle over the content and the organization of planning health services.

In this chapter I shall argue that similar struggles arose with respect to economic planning in the period 1977-83. More specifically, it will be shown that the period was characterised by a process of <u>state centered accumulation</u> in which planning both in terms of content and in terms of its organization became virtually exclusively preoccupied with the <u>quantitative</u> expansion of the state sector, and as such failed to address the centrality of the agrarian question. The latter argument will be developed further in chapter 7.

The question of the content and the organization of planning is not merely a technical or administrative issue, but rather the terrain of political struggles. Before embarking on the analysis of content and organization of economic planning in this period, it is necessary to briefly comment on the political processes through which such policies were forged.

Saul identifies the main tension within the political process as that of the dialectic of leadership and mass action, or stated differently, of the vanguard and the people (1985:85). Hence, within his analysis Saul points at the tendencies towards centralization and bureaucratization of the party as well as the counter-veiling forces towards 'mass action' and 'learning from the people'. With respect to the latter, Saul points at the broad based discussions which preceeded each congress as well as to the practice to submit party cadres to popular criticisms. This tension, according to Saul, was central to the political process in Mozambique, and it contained contradictory forces between which a unity needed to by established:

> "It was precisely this dialectic between leadership and mass action which continued to be the core of Mozambican politics up to the very moment of Frelimo's Fourth Congress" (1985:88).

> "The speech of March 18 (1980) was important, yet it pointed in two different directions, directions which were potentially compatible but not automatically so. One lay its emphasis on 'iron discipline' and reiteration of a theme related to that of the hospital speech: the central importance of "management", of the 'concentration of power', of the clarification of responsibility. As noted, that was certainly understandable enough at one level. Yet where were the Production Councils, pushing from below to guarantee the commitment to revolutionary practices by administrative and political 'responsibles'? And when were the party cells in facilitating such a push from below? True, Machel did speak forcefully of the need to revitalize this other form of the leadership--mass action dialectic" (1985:85).

The key concept to articulate this unity was '<u>popular power</u>' and the specific process through which this unity was to be arrived at was a 'dialectic' of <u>criticism</u> and <u>synthesis</u>. The role of the party was to construct the <u>synthesis</u> out of a broad based process of learning from the people. This synthesis therefore represented the '<u>pensamento comun</u>' (the common viewpoint) which would provide the basis for unity in action.

Within this conception the key problem is indeed the tension between the leadership and the people as Saul pointed out. However, Saul poses a question which he does not really answer since he situates his analysis totally within the conceptual framework of 'popular power' as a dialectic of criticism and synthesis:

> "The result? The leadership's 'correct line' on 'popular power' has not always given rise to vibrant political life at the base. Perhaps too, we should add--albeit much more tentatively--one further consideration: a query regarding the degree of 'correctness' of the line itself" (1985:102).

But surely, the people are not a homogeneous entity. Rather, class forces are at work within the 'people' and the level of criticisms brought forward will reflect these class forces and the contradictions they imply. Hence, it cannot be merely a question of arriving at a synthesis through a process of learning from the people. Nevertheless, this notion of a fundamental synthesis based on the people was a key feature of Frelimo's thinking, and definitely posed problems as to the place of class analysis within political practice.

Indeed, the concept of class struggle often was riddled with moral overtones as is clear from the following passage from the President's speech at a rally in Maputo:

> "On September 25, 1964 we declared war on the foreign enemy--Portuguese colonialism. Here today, March 18, 1980, we declare war on the internal enemy... . It is a battle in the class struggle...to open and consolidate the wide road to socialism... . Our state is a workers' and peasants' state.

It is not a state of the useless, the lazy and the reactionary" (as cited by Saul, 1985:84).

The organization of political decision making based on the concept of popular power gave the specific process of developing a political practice some singularly positive as well as negative aspects. First, the repeated reliance on learning from the people through a broad based discussion on policy certainly provided an important impetus to learn from past mistakes and to correct for such errors. Secondly, the notion of a fundamental synthesis to be obtained from this process of learning from the people implied that party politics did not proceed through open confrontation of different positions on strategy and tactics as deduced from different interpretations of the balance of class forces in society. Rather, a common platform which objectified the synthesis obtained from learning from the people was seen to be the outcome of the political process. The result was that such platform often boiled down to an addition of parts with lesser attention given to the cohesion and interconnectedness of various policies within an overall strategy.

Furthermore, due to this notion of the fundamental unity of the 'people', class analysis acquired a strong moral flavour inasmuch as it often boiled down to pinpoint areas of action which went against this unity. Hence, quite diverging class positions were often lumped together as one, and class forces were seldom distinguished from the individual actions through which such forces express themselves.

Finally, areas of contention which remained within the boundaries of the common platform were left vague and provided a terrain for further struggles over actual policies. As such, party documents lend themselves to quite diverging interpretations depending on which element was stressed in a particular context.

The latter point was specifically important in relation to economic policy since struggles over content and organization of planning were cast in various interpretations of the same basic party documents which tended to be vague on these issues precisely because they were contentious.

In the next section a brief analysis will be made of the strategy as laid down in the Third Congress of Frelimo. In a subsequent section , the period 1977-83 will be analysed as a period characterized by state centered accumulation. Finally, in the last section a brief analysis will be made of the significance of the Fourth Congress in defining a new terrain for struggle over the content of the transition process.

The Third Congress:
Defining the Strategy of Socialist Transition

The Third Congress defined the strategic lines of the task of constructing a socialist society and economy as well as it adopted a program of immediate tasks to be carried out towards the realization of this strategy. In this section a brief synthesis will be made of the major characteristics of this program of socialist development.[1]

The strategy was to be rooted in a worker-peasant alliance. Indeed, the congress recognized the uneven development inherent in colonial capitalism which implied that a majority of producers in the country were small-holder peasant producers. Peasant producers jointly with artisans were referred to as the <u>popular</u> sector of the economy. The latter element was seen as the <u>dominant</u> element within the economy, while the proletariat in industry, transport and agriculture was to constitute the <u>determining</u> force. The strategy for socialist development needed to embrace both forces as constituent elements of the process of transition (Frelimo, 1977a: 72-78).

Hence, with respect to the reorganization of the economy the strategy entailed <u>both</u> (1) the consolidation and expansion of the state sector based on a strong and expanding proletariat as the cornerstone of socialist development, and, (2) the transformation of the popular sector through the cooperative movement towards more socialized forms of production which would allow the transformation of productive forces in this sector. (Frelimo, 1977a: 118)

The task of the initial popular-democratic phase was to lay the foundations of an economy capable to engage on socialist transition. The prerequisite for socialist development was seen to be the sufficient development of productive forces--laying the foundations for heavy industry and raising productivity in agriculture through mechanization (Frelimo, 1977b: 18-20).

However, as noted above, this task of developing productive forces involved the transformation of the organization of production. Hence, the key notion was: develop productivity and production <u>while</u> transforming the social basis of production. Within this process of transformation the state sector was to constitute the <u>determining</u> element and was to become <u>dominant</u> within production over time. However, the strategy did not imply the <u>exclusive</u> concentration on the state sector. Rather, this sector was supposed to play a dynamic role in propelling the transformation of the popular sector as well.(Frelimo, 1977a: 117-118)

In summary, the process was to involve the transformation of the economy on a <u>broad</u> front with the state sector spearheading the movement of change, <u>both</u> propelling its own development <u>and</u> aiding the transformation of the wider popular sector. This way, productive forces could be developed throughout the whole of the economy.

As a precondition it was seen necessary that the state sector would control the key sectors of the economy: large scale agriculture, major industries, wholesale trade and financial institutions (Frelimo, 1977a: 118). Room was left for private initiative insofar as it inserted itself in the overall objectives of this process of change (Ibid: 121).

The state would not only be a major producer, but had to assume the <u>direction</u> of the economy through the development of planning. The overall process of transformation was to be organized by the state through central planning and this required the reorganization of the economic apparatus of the state (Frelimo, 1977a: 117-118).

With respect to the immediate tasks of economic policy, the Congress stressed the importance of recuperating production and productivity to the 1973 levels. Hence, the immediate task was seen to be one of <u>consolidation</u>. However, <u>consolidation while transforming</u>. That is, to consolidate productivity, it was necessary to transform the organization of production (Frelimo, 1977b: 22-32).

In this first phase, agriculture was to be the main source for accumulation as a producer of food for the towns and as an export earner. Hence, the concentration of effort was to be situated in this sector. Industry was to recuperate the production levels of 1973 and to concentrate on the production of basic necessities. Hence, industries geared toward the production of luxuries were to be restructured if possible. Only at a subsequent stage would investment be centered on the development of the foundations of heavy industry, the development of which was seen as the fundamental condition for raising long term productivity (Frelimo, 1977b: 20-21).

In fact, the basic notion that productivity and production could only be recuperated and further developed within a process of transforming production on the broadest front constituted a key and powerful element of the overall strategic vision of the congress. Consolidate while transforming and transforming while consolidation productivity and production requires to formulate a strategy within a concrete context shaped by the inherited organization of the colonial economy.

However, the Congress documents were not without vagueness with respect to the concretization of this strategy. This was specifically the case with respect to rural development. There was a marked difference in emphasis as between the "Report of the Central Committee to the Third Congress" on the one hand, and the "Social and Economic Directives" on the other, although both constituted basic documents of the Congress.

The Report stressed the central importance of the peasantry as the fundamental ally of the working class. It refered to the role that the peasantry played in the struggle for liberation. And it concluded that the strategy of the construction of communal villages based on collective production was to constitute the cornerstone of the socialisation of the countryside (Frelimo, 1977a: 74-75). In its discussion of the development strategy further on in the report, this emphasis is repeated in the opening paragraphs:

> "Our development strategy is rooted in agricultural production. The Communal villages are the fundamental instruments for the liberation of people in the countryside" (Ibid: 117; my translation)

The Report then continues to stress the importance of a planned economy and the role of the state sector as the dominant and determining force of development. This is followed however by the statement that :

> " The cooperative sector, the other basic form of collective production, has to be actively supported by the Party and the state" (Ibid: 118; my translation).

In the Social and Economic Directives the opening paragraphs of the section on general directives quickly lead up to the following statement:

> " The construction of the material basis for the passage to socialism is a long and difficult process which requires the planning of the development of productive forces, within a popular perspective" (Frelimo, 1977b: 19; my translation and underlining).

With respect to the social organization in which this policy is to be situated, the Directives subsequently stress the development of the state sector as the determining aspect, the development of a planned economy, the development of the cooperative movement , and the construction of the communal villages (in that order)as the elements of the overall strategy.

However, in discussing the immediate tasks up to the Fourth Congress, the Directives squarely put the emphasis on the development of the state sector and of state planning (Ibid: 24-28). With respect to the development of the cooperatives and of the communal villages, the following passage reveals some of the conceptions as to how the Directives envisaged their development:

> "It is the task of the Party to mobilize and organise the population in the formation of collective mashambas which constitute the basis for production cooperatives which will permit the consolidation of the communal villages.
>
> It is the task of the State to plan at the national level the movement of the formation of communal villages and, to the extend of its possibilities, to provide technical aid to the organization of collective production and the construction of the communal villages"
>
> In the development of communal villages it is essential to apply the principle that the <u>people rely on their own resources</u>" (Ibid: 29; my translation and underlining).

This emphasis is further confirmed inasmuch as the elaboration of specific tasks for the rural sector is concerned virtually exclusively with the state sector (Ibid: 32-48).

Clearly, the differences between both documents are not so much a question of sharply diverging contents, but rather differences in emphasis within a broader content. Yet, this left a terrain for struggle as to the concretisation of this content.

Finally, a remarkable feature of both documents was that within the discussion of the development strategy no reference is made at all to the character of the peasantry with respect to its integration within production. The extend of the proletarisation of the peasantry, its dependence on migrant labour abroad and within the domestic economy, and its patterns of differentiation within commodity production are not in any way analysed with respect to its implications for the development strategy. Yet, the state sector which was to emerge on the basis of plantations and of settler farms was still based on seasonal labour from the peasantry, and any strategy of transforming peasant agriculture would need to come to terms with its dependence on wage labour and its patterns of differentiation.[2]

State-Centered Planning

In the immediate aftermath of the Third Congress of Frelimo, economic policy concentrated on the task of building up the institutional apparatus for state planning and for establishing the control by the State over the key sectors of the economy.

With respect to the latter task, in 1977 and 1978 the key sectors of the economy in agriculture, industry, commerce, transport and finance were brought under the direct control of the state and formally constituted as state enterprises. In many cases, the process merely involved the formal set-up of state enterprises on the basis of the reorganization of colonial enterprises which had been intervened already in the period immediately following independence (Hanlon, 1984: 75-75). In some other cases, like the banks, the petrol refinery and a few others, the process involved the actual nationalization of the sector. The formal structure of state enterprises was laid down in a decree of April 1977, and at a later stage finalized in the law on state enterprises of September 1981 (Wuyts, 1983b: 34-35). Under this law, state enterprises were to produce in accordance with the targets laid down in the material plan, as well as to contribute surplusses to the state budget. In principle, all financial surplusses were to be transferred to the state budget. Fulfillment of targets was made obligatory by law, and exchange relationships between state enterprises were to be laid down in formal <u>contracts</u>

so as to be able to check on accountability for plan fulfillment (Ibid: 35).[3]

As to the institutional set-up for state planning, the 1977-78 period was characterized by the formation of the National Planning Commission (NPC) to which all economic ministries were subordinated and which was responsible for planning. Economic ministries were to be responsible for the state enterprises within their sector of economic activity (Ibid: 30).

The state budget became the principal instrument of financial planning and was to be restructured accordingly. Its income was streamlined through the introduction of a direct income tax along a single progressive scale and of a turnover tax (Ibid: 27). Furthermore, the reorganization of the banking system turned the banks into controllers of the execution of the plan as well as into financiers of the state budget and of state enterprises. As will be shown in chapter 6, credit provision became essentially <u>endogenous</u> with respect to the requirements of the state sector.

Along with this process of institutional change came a shift in focus from a policy of merely keeping production going as well as was possible considering the circumstances of the immediate post independence period, to a policy of consolidating productivity within new forms of production. To this effect, production councils were set up in all enterprises and their principal tasks were defined as striving for higher productivity, transforming the organization of production and maintaining workers discipline (Frelimo, 1977a: 71-72). In industry and transport, these councils became the focus of struggle with respect to the task of reorganizing production.[4] In agriculture, their role was much less pronounced since most state enterprises continued to rely on seasonal labour and did little to organize this labour within the enterprise (Hanlon, 1984: 102).

Consolidating productivity requires both the reorganization of the labour process and supporting investments in material means of production. Indeed, the immediate aftermath of Independence had witnessed a sharp reduction in the stock of capital goods (due to sabotage or to illegal exports), and hence the recovery of production would need to be backed up by investments geared towards recuperating the existing productive capacities. However, the concentration on the state sector and the untransformed nature of that sector made that often solutions to problems of production and of productivity were sought in expanding investment, and therefore, in expanding the scale of the problem.

Hence, the effort came to concentrate on the expansion of fixed capital, and therefore the nature of the process of consolidation basically became a leap into expansion of the state sector. Low productivity/high cost conditions in the state sector were seen as problems of learning to manage, and hence only needed time to work themselves out into higher productivity.

Therefore, transformation basically came to be seen as a question of investment in fixed capital within the state sector. The development of the planning process reinforced this tendency since planning became state sector centered on the one hand and concentrated on accumulation (in this sense of the expansion of fixed capital formation) on the other.

Hence, investments were stepped up steeply, as shown in table 4.1.

Table 4.1 Actual Public Investment 1979-82
(millions of meticais--current prices)

	1978 and 79	1980	1981	1982
Total investment	8,010	9,916	13,962	14,255
GDP	--	66,200	70,400	73,000
Investment/GDP (%)		15	20	20

Source: NPC, 1984

Although this table demonstrates the steep ascent of investment, the actual pressure exerted by this investment drive on the economy cannot fully be captured by these figures. Indeed, invariably, planned investment was far in excess of actual investment. So, for example, for the year 1980, actual public investment only amounted to about two-thirds of the planned level. Often, the reason was that no foreign finance could be found for investment projects, but in other cases the discrepancy was due to the fact that the plan overestimated the rate at which investments could be carried out. The actual gestation periods were longer than projected, frequent standstills would inflate costs and freeze the process, etc., and therefore, the weight of the rate of investment on the economy was in actual fact much higher.

The sectoral allocation of investment is shown in table 4.2:

Table 4.2 Sectoral Allocation of Investment 1978-83
(millions of meticias)

	1978 and 79	1980	1981	1982	1983
Economic sectors	7,290	8,027	11,827	12,291	8,803
1. Agriculture	1,095	2,271	4,181	4,826	2,560
2. Industry and energy	561	1,227	3,349	3,493	2,769
3. Transport and communications	177	155	345	468	1,012
4. Construction	5,457	3,346	3,270	2,424	1,969
5. Other	--	1,028	682	1,080	484
Social sectors	188	567	458	401	219
State administration	311	660	753	184	179
Local investment	24	127	312	463	306
Other (including military)	197	535	612	916	690

Source: NPC, 1984

If we take account of the fact that construction includes a range of infrastructural projects directed to agriculture (irrigation projects, dams, etc.), we can see from the table that agriculture was a major area for investments.

In the period 1977 to 1981, the state sector grew rapidly. Within agriculture, the state sector came to account for about 50% of total monetary output, although this estimate may have been an overestimate. Table 4.3 shows the share of state sector production in marketed output for selected crops.

Table 4.3 The Composition of Marketed Output
With respect to Various Forms of Production (%)

	1970		1980		
	Private	Peasant	State	Private	Peasant
Total	69	31	52	10	38
Cotton	35	65	45	10	45
Sugar	100	--	85	15	--
Cashew	10	90	--	--	100
Tea	100	--	90	10	--
Sisal	100	--	30	70	--
Copra	80	20	20	40	40
Rice	60	40	80	--	20
Tobacco	80	20	55	40	5

Source: Hanlon, 1984:100

The emphasis was on expansion, rather than consolidation, and with respect to the latter, problems of productivity were mainly dealt with through relying on increased mechanization. By 1978 100,000 hectares had been put under state farm cultivation and this expanded to 140,000 hectares by 1982. Investment in agriculture basically meant investment in the state sector: more than 90% of agricultural investment went to this sector as against 2% for cooperatives and family agriculture received nil (Frelimo, 1985a:27-28).

So, for example, in the four years after the congress 3,000 tractors and 300 combine harvesters were imported along with other agricultural machinery. To a large extent, this importation merely offset the depletion of stock due to wear and tear and as a result of sabotage, although the degree of mechanization was definitely stepped up. However, during this period no hoes were imported and production of hoes had fallen by more than half. (Hanlon, 1984:100).

The development of the state farm sector on abandoned settler land also sharpened the land question. Indeed, as shown in chapter 2, the development of settler agriculture had led to the eviction of the peasantry from their land and the privatisation of this land under settler ownership. In many cases this process had taken place in the latter days of colonialism. The state farm sector emerged by nationalising this land which had only recently been privatised. As such, the state farm sector entered in direct competition with the peasantry over land, and threatened to do so in its further expansion.

The land issue became most sharply posed in the case of the Limpopo Valley. After the floods of early 1977, a special commission was set up to implement the decisions of the Third Congress. As a result, the population was resettled in communal villages on the high lands, and state farms and cooperatives had priority access to the colonato lands. All land which was considered to be suboptimally used could be transfered to the state farm sector or to the cooperatives, and even those peasants who cultivated their land in an acceptable way could face eviction from their plots if these were needed for the expansion of state farms or cooperatives (Hermele, 1986: 10-11).

In June 1979, further measures were issued concerning the ex-colonos of the colonato and peasants on probation:

> " the following categories lost their fields: peasants who did not cultivate their land, or who cultivated less than 1 ha, peasants in debt to the state, irrespective of the amount, peasants whose debt were unknown because they have not declared their production, peasants who do not live exclusively from agriculture, peasants who are outside the district even if their wives cultivated the lands, workers or even former workers at CAIL or at any of the production cooperatives;
>
> peasants who cultivated only part of their farm get their farms reduced to the area cultivated (if it is more than 1 ha)
>
> farms must not be inherited" (Ibid: 11-12; my underlining).

Apart from the rather drastic measures this policy entailed, the above quotation shows very clearly the complete lack of understanding on the part of the 'planners' of the character of the peasantry in Southern Mozambique. The combination of wage work (especially mine labour) with family agriculture was fundamental to the subsistence of this peasantry.

Furthermore, as shown in a CEA case study of the Lower Limpopo (1979), the practice of a predominant monoculture of rice growing implied that the pattern of seasonality in recruitment had been accentuated: most seasonal workers only worked for two to three months on the state farms. As a result, while the state farm sector became dominant in terms of area and in terms of production, it did not do so in terms of assuring a sufficient livelyhood for the majority of population in the area: the communal villages had de facto become labour reserves for the state farms.

In the other sectors of the economy, the state sector also became dominant: 65% of total output in industry, 85% in transport and communications, 90% in construction and 40% in commerce (Frelimo, 1983a:33/37/39/42).

As stated, the planning mechanism reinforced this tendency to concentrate on the state sector and on investments. Initially, the planning framework was still more a question of coordination, rather than strict guidance of the allocation of resources. Plans were made by coordinating sectoral plans coming from different ministries. Foreign exchange was not as yet a binding constraint which would require more centralization of the allocation of material resources. At this juncture, the planning process did involve quite considerable involvement from direct producers (especially in industry and transports) since plans were discussed at factory level meetings of production councils (Wuyts, 1983b:part 2.2).

The actual practice of central planning through material balances became operative in 1979 in preparation of the plan for 1980. This was the first plan aimed at directly allocating resources to sectors and specifying targets to each sector and enterprise. Annual plans became obligatory by law, and their specific aims and targets were to be set within the context of the long term (10 year) indicative perspective plan which would contain the strategic options (Hanlon, 1984: 82-85).

The year 1979 is therefore of particular interest to understand the terms in which the role of planning was seen in relation to the economy. The perspective plan was to lay down the concrete investment strategy to realize the aims set by the Third Congress. In a major policy statement by the president, an analysis was made of the situation already attained and of the organization and content of the planning system. Two aspects of this statement are of importance with respect to the content of planning. First, the issue of the balance between big and small projects, and secondly, the question as to how accumulation was to be financed (Machel, 1979).

The question of the balance between big and small projects concerned the question as to the balance between the development of the state sector and the popular/private sectors. Big projects were the preserve of the state sector and consisted of large infrastructural investments as well as large scale investments in industry and agriculture (Machel, 1979: 23-26). These projects were mostly defined as investment projects and in the case of agriculture little or no reference was made as to the specific forms through which these investments in state farms and plantations were to restructure the patterns of labour use within this sector (Ibid: 23-24). Mostly, the state sector continued to rely on seasonal labour power supplied by the peasantry as the principal source for its consolidation and its expansion (CEA, 1979b; 1980b; 1981c; 1982b; 1983b).

In fact, the specific use of the term big projects already indicated that the principal function of the state sector was to develop productive forces for subsequent socialist transition. Hence the emphasis on investment as the motor of change within the state sector.

While big projects refered to investments to expand the nationalised sectors of the economy, the concept of small projects was left much vaguer.

At one level, small projects were defined as the solution towards the transformation of peasant agriculture through the cooperative movement (Machel, 1979: 22-23). In many ways this process was seen to be mainly a question of transforming production relations through the mobilization and organization of the peasantry within the cooperative movement and the communal villages (Dolny, 1985: 225-226). Small therefore cannot but refer to the dimension of state effort both in terms of material resources and in terms of organizing state cadres behind this effort, since the supposed dimension of this process of cooperativisation was by no means small on any count.

At another level, the question of small projects seemed to refer to supporting family agriculture (and not necessarely its transformation) as well as small-scale private enterprises (Machel, 1980: 104-105).

Although the importance of furthering the development of 'small projects' was repeatedly stressed, the actual development laid the emphasis squarely on the state sector. Clearly, this reflected political struggles as to the content of planning, and it involved the dismissal of the minister of agriculture during the 4th session of the Central Committee in 1978 for neglecting family agriculture and the cooperative movement. However, the basic pattern of state centered accumulation intensified over the whole period of 1977-83.

In fact, the real weakness of a strategy of balanced development as between small and big projects was that it is rooted in a conception of a dual economy: a modern sector which Aas to become the state sector and the traditional sector which was to transform principally on its own steam through the mobilization and organization of the peasantry. The strategy was therefore perceived as additive rather than being interdependent.

As a result, the question of balance between both parts was subject to interpretation with respect to its sequencing in time. Hanlon argues that the Third Congress saw state farms as the quickest way to carry out socialist transformation, and hence the emphasis within the short term was to be placed on this sector (1984: 119; Frelimo, 1977a: 125). The implicit assumption of this view is that the popular sector can manage on its own in the short term, and that the development of the state farm sector is somehow unrelated to this sector.

In chapter 2, I have argued that the colonial rural economy was by no means a dual economy, but rather that capitalist development in the country as well as within the wider region was based on the exploitation of the peasantry. The peasantry was deeply integrated in the monetary economy and depended on wage labour for its subsistence. It was also substantially a differentiated peasantry. O'Laughlin argued that the question of the development of the state sector and of the cooperative movement needed to be addressed simultaneously, and not sequencially due to the nature of this interdependence (1981: 9-32)

In fact, the development of the state sector in agriculture would require that the system of migrant labour on which it is based is restructured through the complete proletarization of part of the peasantry and the emancipation of family agriculture from its subordinate position through the cooperative movement (Ibid: 13-17).

Moreover, as will be argued in the next chapter, the Mozambican peasantry was heavily dependent on wage income from migrant labour to the region, and the post independence situation quickly changed from one of labour shortage to one of rural unemployment. This eroded the basis of peasant agriculture and would require an organized response which the state failed to produce. In this respect, the planning practice thread in the shoes of colonial planning inasmuch as it started from the assumption that the peasantry could survive on its own steam. Failure to analyse the patterns of labour utilization of the rural economy lay at the basis of this lack of comprehension that the survival of the peasantry was dependent on its integration within the monetary economy.

A second issue which arose in this policy statement of the President was the <u>incompatibility</u> as between material planning and financial planning. This was not merely a technical point, but rather one of crucial importance (Machel, 1979: 8).

What then was the conception as to how accumulation should be financed? First, foreign borrowing was seen to be a major component of investment finance on grounds that the future expansion of the state sector would pay-back the costs incurred in the investment (Hanlon, 1984: 84-85). Secondly, the internal source to finance investment was seen to be the issue of 'tightening the belt': i.e., to reduce consumption to be able to finance a growing volume of investment.

Strangely enough, to consolidate and to recuperate the existing capacity of production so as to raise productivity and to set free a larger accumulation fund springing from production was hardly considered as an option worth considering. This was indeed surprising inasmuch as this was the specific tactics laid down in the Third Congress: to consolidate and recuperate production to 1973 levels by 1980 and subsequently to engage in a broader process of accumulation. In fact, the issue of the need to recuperate production by 1980 became blurred within the drive towards expansion, and little attention was paid in 1980 whether the targets had been reached.

As such, development came to be seen as an issue of an accumulation drive, in which accumulation was in many ways viewed as delinked from the actual organization of production. That is, the future expansion of production was seen to bear little relationship to the present organization of production. Rather, the link with the present was the sacrifice which needed to be made in terms of consumption. This view was definitely dominant within the NPC, but not only there. In a pamphlet issued by the ideological department of the Party the need for big projects was expressed as follows:

> "[Such projects] involve the expenditure of enormous sums by the State, sums which could have been used instead to purchase rice--we have a shortage of rice--sugar, milk powder, meat, etc. But here there is a question of choice. If we buy these products which we need (it's true, we need them), then the money we spend is merely used up and is not going to be productive.
>
> If, on the contrary, we make a sacrifice in this phase, such that instead of buying rice, meat, fish, flower, we use that money for the construction of factories, then four or five years down the road the sacrifice we're making today is going to permit the production of all the material goods that we have mentioned. We think that to escape from poverty and underdevelopment, such sacrifice is necessary" (as cited in Saul, 1985:108).

The <u>incompatibility</u> between national planning and financial planning was a reflection of how this accumulation drive was to be paid for. Formally, the financial plan was balanced through the credits obtained from the banks to finance the budget. Money creation paid the surplus of investment over savings (net of foreign loans). However, this begs the question as to the <u>real</u>

counterpart of this money creation in order to finance accumulation. In chapters 6 and 7 the argument will be put forward that this policy of exacting a sacrifice in terms of consumption by financing a high rate of accumulation through money creation had not only adverse distributional implications, but also it seriously hampered the process of transforming production within socialist transition.

Turning now to the question of planning and the organization of the economy. In the above mentioned policy statement of 1979, the president stressed the importance of the concentration of power in economic management (Machel, 1979: 12-14). The plan required the subordination of each enterprise and of each sector to the overall requirements of economic development as coordinated by the plan. This required clear cut definition of tasks, the allocation of responsibilities and accountability. A series of measures were introduced to allow for a better organization in planning.

Firstly, there was the question of 'authority'. One-person leadership became operative at all levels of the decision-making process. The director was responsible for the decisions made, although it was required that such decisions were discussed with workers within the enterprise.

However, the basic issue was not merely that of fudging responsibilities. Often, important struggles took place with respect to the content of new relations of production at the level of the workplace. The issue often came to the fore as a question of "lack of directing power". In a way, this is normal since the revolutionary process has weakened the old forms of organizing labour without as yet developing alternative ones. This reflects itself in problems of productivity and workers' discipline, which then become expressed as a question of lack of authority on the part of management (CEA, 1982c).

A tension therefore develops as between attempts to restore the conditions of productivity and of profitability on the basis of the old forms of organizing production, and the opposed tendency to encounter new forms of raising productivity by reorganizing the labour process along new lines (Ibid > CEA, 1983b >O'Laughlin, 1981: 15-17>).

This process is of key importance not only because of its political context, but also because it relates directly to the issue of accumulation and productivity. Indeed, the state sector emerged within a situation of high cost/low productivity conditions, often accentuated by very low levels of capacity utilization. An important source of increased consumption and of accumulation therefore has to be found in the better utilization of existing productive capacity[5]. The latter indeed guarantees not only increased production, but also reduced unit costs of production.

Within agriculture, this issue was of critical importance in order to understand the problem of low productivity in the state farm sector. Low productivity in this sector was often ascribed to the irregularity in the labour supply which provoked shortages at critical moments in the agricultural season. This was seen to be due to the lack of discipline and the low 'consciousness' of seasonal workers because of their inherent peasant mentality (CEA, 1983b). However, as O'Laughlin argued:

> " Take for example the problem of the shortage of labour on the state farms. It is not a question of a general shortage, but a problem of seasonal recruitment: to pick the cotton, to harvest rice, or to cut the cane. Several tea plantations have in fact more workers than is necessary during those periods in which activity is at its lowest ebb, and experience shortages of labour during those months that labour is most needed because this period also coincides with the peak season in family agriculture. This is not a question of a generalised withdrawal of wage labour, but a withdrawal of seasonal labour to the extend that it enters in conflict with production in family agriculture. In colonial times, this withdrawal of labour was avoided because of the different forms of relying on forced labour" (1981: 15).

De facto, the state farm sector assumed that the supply of seasonal labour power was somehow infinitely elastic, and failed to take account of the fact that these peasant-workers were heavily dependent on their base in family agriculture to secure their subsistence since short contract were not sufficient to provide the necessary income for the family. This dependence on family agriculture was further accentuated by the tendency of state farms to accentuate monocropping (CEA, 1979b; CEA 1980b; CEA, 1983b).

As a result of these periodic labour shortages, the answer was often sought in increased mecanisation of production, rather than in transforming the pattern of labour utilization (O'Laughlin, 1981: 15-16; CEA, 1983b). In fact, in some case recourse was taken to obliging the peasantry to provide the necessary labour power for the critical periods of the agricultural season (Hermele, 1986: 16).

This issue was also sharply raised in a different context at a round table discussion of political and managerial cadres of the ports and railways cooperations[6]. Here, it was observed that the issue of organization was directly linked with that of investment, and if that link got lost, investment often ended up by covering up for lack of organization. As such, investment may increase production, but does so only under low productivity conditions. Implicit in this argument was the whole issue of reorganizing production as a condition for raising productivity and for expansion of production through investments which strengthen productivity. Again, also within this debate, the issue whether organization was merely a question of 'authority' or whether it constituted a much more broader issue was central to the discussion. However, the investment drive inherent within the planning set-up often ditched this fundamental question, and sought the answer to production in investment (CEA, 1982c).

Secondly, as the plan became obligatory by law in its execution, accountability required that all exchanges between enterprises became regulated through formal contracts. As such, it was hoped that enterprises could no longer escape responsibilities in deliveries of goods and services by claiming that necessary raw materials, etc., had not been furnished. The contract system allowed for a clearer definition of responsibilities and furnished the basis for greater accountability within the state sector (Wuyts, 1983b).

Thirdly, the political and organizational offensive of March 1980 called for the privatization of retail trade as well as of a multitude of small scale activities such as hotels, restaurants, and small scale artisan and industrial activities (Machel, 1980: 91-120).

The rationale behind this measure was that the State would be able to concentrate its efforts on the key sectors of the economy and would no longer be burdened with a dispersal of effort into a multitude of activities:

> "The state has to preoccupy itself with the direction of the economy, with the realization of the big projects" (Machel, 1980: 103)

Within this same speech, the importance of private enterprise was stressed with respect to undertaken these small-scale activities (ibid: 102).

Therefore, along with a conception of concentrating resources on the state sector, there was also a strong notion of centralization of state activity on big projects.

The privatization of retail trade and small scale productive activity was not seen to be an investment question. It appears as if the underlying notion as between the balance between state and private/popular sectors was to be dynamically determined by the <u>accelerated</u> growth of the state sector.

One exception can be made with respect to investment policy and the public/private sector balance. <u>Joint ventures</u> with foreign capital as well as some <u>larger scale</u> private investments were seen to be important for development inasmuch as they could by integrated within the plan (Hanlon, 1984: 77). In agriculture, large-scale private farmers could obtain additional resources and credit insofar as they were willing to integrate their production within the plan (CEA, 1983a: 63-72).

In summary, the 1977-83 period was characterized by the expansion of the state sector and the operation of a central planning system which <u>concentrated</u> and <u>centralized</u> resources into the development of the state sector. The solution to low productivity was not seen to be a question of consolidation and transformation of the existing organization of production, but rather a question of investment into building up a strong state sector. The resulting investment drive far exceeded the surplus generated in the government budget and the gap was to be financed by borrowing against the future growth of the state sector and by 'tightening the belt', i.e., reducing consumption. The specific mechanism through which this 'sacrifice' was imposed on the economy was money creation without a corresponding material backing within the state sector. The consequences of this type of forcing the pace of development will be analyzed further in chapters 6 and 7.

The Fourth Congress: Revision of Economic Policy

The Fourth Congress took place at a time of severe economic crisis. The escalation of the war waged by South Africa against Mozambique combined with the drought which swept the country in 1982-83 had led to severe famine and hardship within the country. As will be shown in the next chapter, foreign exchange reserves had run out and imports had to be cut drastically at a time that financing the war was of paramount importance. As shown in the appendix, production fell dramatically in this period.

The congress, as well as the preparatory discussions which led up to it, was characterized by wide ranging and sharp criticisms against the economic policy pursued by the party after the Third Congress. More specifically, the neglect of family agriculture and of the cooperative sector, the question of the place of private enterprise in economic development and the over concentration on the state sector were raised as major problems. The preoccupation of the planning system with big projects, and the consequent neglect of the role of small projects in sustaining and expanding the production of basic necessities was raised as a major issue. The focus on mechanization and the neglect of the centrality of the producer within the process of production was another way in which the problem was brought forward (Frelimo, 1983a; 1983b).

As a result, the economic policy of the party was drastically altered. The state sector would need to consolidate itself before it could engage in any further expansion. Family agriculture as well as the cooperatives were to be supported in terms of material resources. The role of private enterprises was to be realized and inserted into the development effort. Small projects geared towards the production for the immediate needs of the people were to be promoted vigorously.

In the interpretation of J. Saul the fourth congress heralded a victory for what he called "the socialist reproductionists" over the 'primitive accumulationists'. According to him, the former position entails that accumulation and mass consumption are being seen as less contradictory than the 'sacrifice' theory would have it:

> "far from being opposites, one of them--accumulation--can be driven forward precisely by finding outlets for production in meeting the growing requirements, the needs, of the mass of the population. An effective industrialization strategy would thus base its 'expanded reproduction' on ever increasing exchanges between city and country, between industry and agriculture, with consumer goods and producer goods...moving to the countryside. Collective saving geared to investment can then be seen as being drawn essentially, if not exclusively, from an expanding economic pool" (1985:21).

This somewhat confused statement could probably be restated as follows. It appears that Saul understands a process of expanded socialist reproduction as one in which a proper balance is maintained between accumulation and the growth in the supply of necessities since accumulation implies consumption through the expansion of the wage component within the growth process. Furthermore, underlying Saul's conception is a notion of maintaining a proper balance between sectors within the process of growth. The confusing element is that he projects this as a source for accumulation rather than a condition imposed on the process of accumulation. It might constitute a condition to increase the accumulation fund insofar as it induces a better utilization of existing productive forces (through its consolidation within transformed productive relations), but this is not explicitly stated.

To return to Saul's interpretation of the Fourth Congress, the importance of the congress is seen to be a reappraisal of policy within the boundaries of socialist development. The crucial point to him was that the congress moved decisively towards a policy which would reaffirm the alliance with the peasantry as a fundamental condition of socialist development. As such, the agrarian question was put on the center of the stage:

> "For under very real pressure from the peasantry itself the party was also inching its way towards a greater acceptance of the 'economics of expanded socialist reproduction' as key to defining other aspects of the industrial mix, in particular the balance between heavy industrial and infrastructural development on the one hand and consumer goods industries on the other.

> ...These emphasis bore the promise--other things being equal--of closing crucial gaps in Frelimo's post-independence economic policies. Moreover, this was a promise which built upon historic precedent: the precedent of Frelimo's close links with the peasantry, links which had premises in the movement's victory in the guerrilla war. For anyone in attendance at the Fourth Congress it was hard to escape the feeling that a fundamental aspect of Frelimo's practice was reasserting itself" (Saul, 1985:112-113).

Up to a point this was indeed the case, but the salient feature of this argument as well as of the congress was that no analysis is made of the class forces at work in the rural area. The peasantry appears as a homogeneous mass firmly behind a socialist policy. However, the peasantry was far from being homogeneous and this in part as a result of the economic policy pursued by the state.

Indeed, in chapter 7 I shall argue that the process of state centered accumulation did not remain neutral with respect to the dynamics of social change within the countryside. The state sector did not provide an answer to the deepening crisis within the peasant economy since its pattern of priorities and rationing in allocation of resources created chronic commodity shortages within the rural economy. The result was not <u>inaction</u>, but the intensification of the processes of differentiation of the peasantry through the operation of the parallel economy. The interests of the rich peasantry and of the larger private farmers were quite different than those of the poor peasantry whose standard of living was eroded by the operation of the parallel economy.

Hence, although the fourth congress asserted that the agrarian question was the central question confronting Mozambique at that time, the balance of class forces was never subjected to an analysis which could aid in formulating a socialist strategy. Thus, the fundamental issue of the class character of rural development was left vague and this defined a terrain for further struggle after the congress. Here, the policy of raising production as speedily as possible so as to find a way out of the crisis quickly strengthened the demand for deregulation and greater reliance on private initiative and hence propelled the process of differentiation further under the general policy of supporting the 'peasantry' and assigning a greater role for private initiative (Hanlon, 1984: 119-120).

Footnotes

1. The documents which laid down the strategy and tactics of socialist development are to be found in Frelimo, 1977a and 1977b.

2. See O'Laughlin, 1982.

3. The institutional set-up of planning is analyzed in more detail in Wuyts, 1983b. This analysis was based on interviews as well as on the budget and other financial laws.

4. See, for example, Sketchley, 1985:253-278.

5. See, for example, Hanlon, 1984:82-85. Hanlon underestimates the importance of the perspective plan in shaping the actual planning practice.

6. Round Table discussion of the Railways Cooperative April/June, 1981.

Appendix:
A Statistical Note on the Trends of Economic Development

In the context of Mozambique, the analysis of basic trends in macro-economic aggregates is by no means an easy task, and this for three reasons. First, few data are available and often it is difficult to link them up in a meaningful pattern over time. Secondly, the categories of macro aggregates do not correspond to those which are more commonly used and which are basically derived from Keynesian economic analysis. Finally, it is necessary to have some idea of the relative accuracy of the systems of date collection upon which the macro series are based in order to draw any conclusions with some confidence as to their exactness.

For these reasons I shall briefly discuss the data which exist and analyze them so as to turn inferences made from them more explicit. By doing so I hope to avoid the all too common error which exists in drawing inferences from data which have not been subjected to any analysis as to their sources in data collection, their precise meaning and to the conceptual framework used in aggregation.

The Evolution of Aggregate Output

No consistent series of data exists for the period 1973 to 1983 with respect to evolution of production and of its distribution over sectors (agriculture, industry, etc). However, some pattern can be constructed if different sources are employed and carefully related to one another. Clearly, as is not uncommon in developing countries, the most problematic area consists of the data on agricultural output, and hence special care needs to be taken with respect to this.

The study by Pereira de Moura and Fernanda Amaral (1977) is definitely the best statistical reference for the pre-independence period. For 1970, 1973 and 1975, Gross Material Product and its components are estimated. These estimates provide an indication of the extent of the production crisis in the period shortly before and shortly after independence.

Table 4.A1 Gross Material Product in 1970 Prices
(000 million meticais)

Sector	1970	1973	1975	% change 1973-75
Agriculture	5.8	6.3	5.6	-11
Industry	5.6	7.4	4.6	-38
Services	13.1	12.6	9.1	-28
GMP	24.5	26.8	19.3	-27

Source: de Moura and Amaral, 1977

In the table only the estimates of the Gross Material Product are included and not those of GDP. The reason being that the former concept provides a better idea of the evolution of production since it includes only agriculture, industry (i.e., mining, manufacturing, construction, and energy), and productive services (i.e., transport and storage, as well as trade). The services constitute the dominant share since it includes the commercial margins on domestic trade as well as on the import/export trade. Apart from trade which constitutes the lion's share, the other significant component is the transport sector, of which the relative importance reflects the economic integration of Mozambique within the Southern African region.

At a first glance it appears as if the crisis in production was considerably worse in industry as compared with agriculture. However, this is not the case in reality. The reason is that the agricultural output as recorded in table 4.A1 includes both monetary output as well as subsistence production in full force, while the impact on subsistence production would not be as important, at least not in the short run. Indeed, the breakdown of the trading networks in the period 1974-75 sharply affected the sale of marketed surplusses of the peasantry. Furthermore, the massive abandonment of settler farms as well as the production problems of plantations compounded in both cases by acts of economic sabotage were bound to have a significant impact on production. Initially, subsistence production was not affected as much, although in the medium run one would expect a feedback effect of the crisis in monetary production and exchange on the production for own consumption since the latter in part depends on the cash income of the peasant household.

Turning back to the quality of the data with respect to the different components of agricultural output. In fact, no consistent series of data existed which would provide us with the evolution of monetary and subsistence production. A survey carried out in 1970 covered settler farm and plantation output as well as total peasant production. Subsequent data covering the period 1970 to 1975 were based on recorded statistics of monetary production and some extrapolation of the 1970 data on the production of subsistence foodcrops. In this respect, data on the output of settler farms and of plantations as well as on the production of export crops by the peasantry are definitely much more reliable than those on the marketed surplusses of peasants' foodcrops. Hence, the data as presented in table 4.A1 include a sizable component which cannot be determined any other way than by 'intelligent guesswork'.

In a study of the structure of agricultural output based on the colonial data, I estimated the share of subsistence production in total output for 1970, and subsequently used these estimates and the available data on monetary production for the period 1970 to 75 to arrive at separate estimates of the evolution of monetary and subsistence production. The relevant data are summarized in table 4.A2.

Table 4.A2 Growth Rate of Agrarian Production (constant prices)

	% change 1973-75
Subsistence production	+12
Monetary production	-43
Total agricultural output	-13

Note: "agrarian production" does not include forestry, meat and dairy products.
Source: Wuyts, 1978:29-33.

These results confirm the hypothesis that the impact of the crisis in the immediate pre and post-independence period was not significantly different with respect to monetary agriculture as against industry. Both dropped by about an equal rate of change: respectively, 43% for agriculture and 38% for industry.

As for data covering the later period, two sets of data exist. On the one hand there are the national accounts data compiled by the National Planning Commission, and published for the years 1975, 1977, and 1980 to 82. Apart from these data, two other series are available: One for monetary agricultural output, and one for industrial output, both at constant prices. The data are also compiled by the National Planning Commission, and cover the period 1973 to 1983. As will be shown, these data are not always compatible with the national accounts data so that care should be taken with the interpretation thereof.

Apart from these statistical sources on production, exports at constant prices will be used as well since their evolution also reveals some aspects of the patterns in production. The latter data also tend to be more reliable than some production data with respect to accuracy.

To start with the national accounts data, table 4.A3 summarizes the relevant information.

Table 4.A3 Global Social Product at Constant Prices of 1980
(000 million meticais)

Sectors	1975	1977	1980	1981	1982	percentage change 1975-77	1977-81	1981-82
Agriculture	26.1	30.6	33.4	33.3	32.5	+17.2	+8.8	-2.4
Industry	26.4	27.8	30.7	31.6	27.2	+5.3	+13.8	-13.9
Transport	9.1	7.8	8.1	9.0	8.4	-14.4	+15.4	-6.6
Other	9.5	8.8	10.0	9.8	9.8	-7.4	+11.4	0
GSP	71.1	75.0	82.2	83.7	77.9	+5.5	+11.6	-6.9

Note: "Other", includes construction, commerce and unspecified others

Source: NPC, 1984

To interpret these data, some clarification on concepts and content is necessary. First, the concept of Global Social Product (GSP) is not identical to that of GDP or GMP. The concept of GSP is more frequently used in centrally planned economies where the allocation of resources is organized by material balances. Targets of production are set in terms of gross output which in monetary terms corresponds to the <u>gross</u> value of production. The income derived from such production equals the value added which in its material form refers to final output (i.e., for consumption, investment or exports). Hence, GSP is the aggregate gross value of production as distinct from the aggregate gross value added. In more technical terms, in aggregating GSP the value of the productive consumption of raw and auxiliary materials as well as intermediary products is <u>not</u> netted out. The object of the concept does not consist in arriving at a measure of national income, but at a measure of the gross value of all commodities produced.

Second, the categories are not comparable to those of the study of Pereira de Moura and Amaral. Not only since it concerns different concepts of aggregation, but also since the coverage of the different items is not the same. Industry is here defined in more narrow terms: it does not include construction and probably neither energy or mining, although this is nowhere explicitly stated. Finally, services are a much lesser component in the 1984 data, but since no reference is given to the manner in which they were arrived at, it is not possible to specify any reasons for this. However, since our major interest lies with production (industry and agriculture), this does not constitute a major problem.

Again the key problem lies with agriculture. From table 4.A3 it is clear that the evolution of agriculture is different from the other components. The reason again appears to be the problem that these data include an estimate of subsistence production, or, more broadly, of peasant production of foodcrops. However, no agricultural survey was carried out in the post-independence period, and the data on marketed surplusses of the peasantry are of poor quality. These data are obtained from information given by traders to the Ministry of Internal Commerce, and are furthermore poorly collected and aggregated. Finally, it is much more difficult now to make any inferences about the evolution of peasant production of foodcrops since a prolonged period of stunted exchange relationships with the peasantry characterized by goods famine as well as in the later years under the impact of drought, make it impossible to assess the dynamic of production in this sector.

Table 4.A4 compares the evolution of real GSP with that of real GSP of all sectors except agriculture and real agriculture GSP.

Table 4.A4 Evolution of Real Global Product
Excluding and Including Agriculture
(000 million meticais at constant 1980 prices)

	GSP		GSP (excl agri)		GSP (agri)	
	Value	Growth(%)	Value	Growth(%)	Value	Growth(%)
1975	71.1	--	45	--	26.1	--
1977	75.0	+5.5	44.4	-1.1	30.6	+17.2
1981	83.7	+11.6	50.4	+13.5	33.3	+8.8
1982	77.9	-6.9	45.4	-10.0	32.5	-2.4

Source:

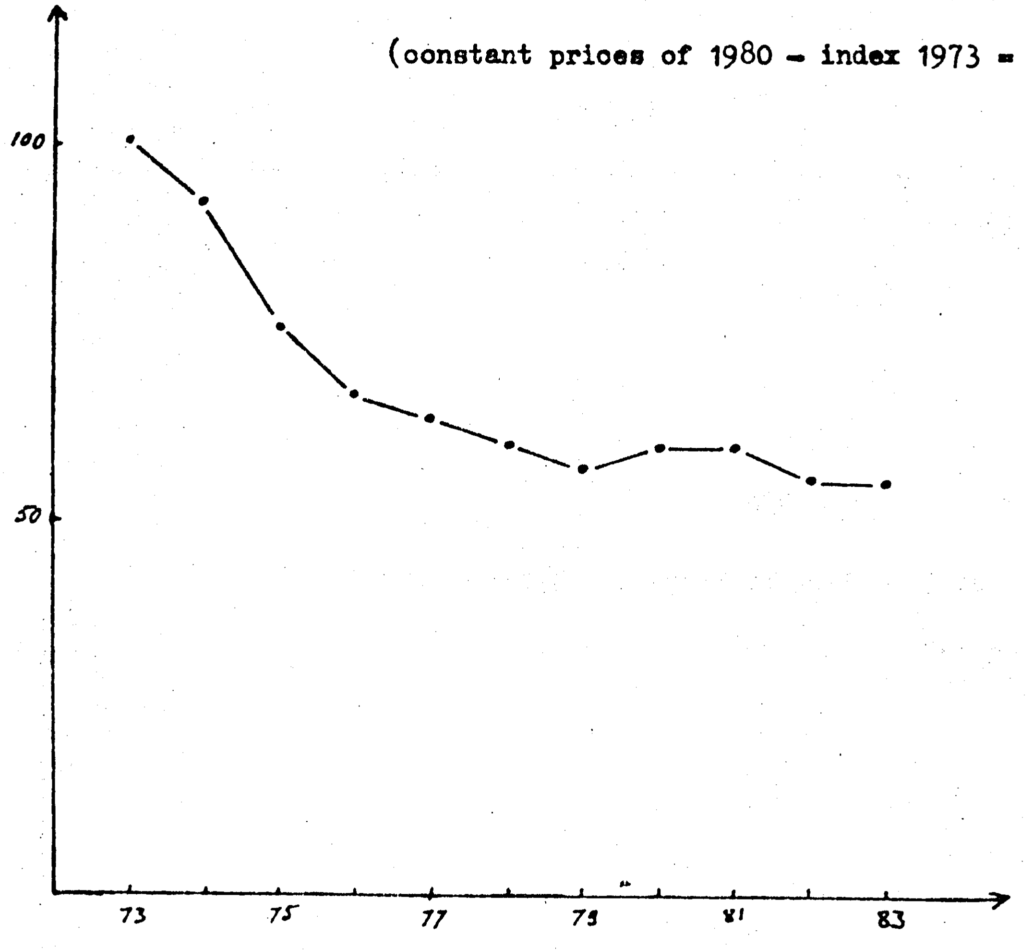
The growth is agricultural production in the 1975-77 period appears excessive given the extent of the production crisis at that time. Also, the slight drop in production in the 1981-82 period seems an underestimate of the actual drop provoked by the escalation of the war, the disorganization of exchange and the drought.

To get a better feel of the evolution of agricultural production, we can now turn to the second data set for an analysis of the time series on monetary agricultural output. The series is plotted in graph 4.A1. The picture presented here is quite different from the picture of the national accounts data on agriculture. Before turning to this, there is another peculiarity of these data which needs to be pointed out. In order of magnitude, the data do not tally at all with the national account data. Table 4.A5 gives us the respective values of both series and the percentage coverage for corresponding years.

GRAPH 4.A1

THE EVOLUTION OF MONETARY AGRICULTURAL OUTPUT

(constant prices of 1980 - index 1973 = 100)



Source : NPC 1984

Table 4.A5 Agricultural Output According to National Accounts Data and monetary Agricultural Output (NPC time series) (000 million meticais at constant 1980 prices)

	1975	1977	1980	1981	1982
1. Global Product in agriculture	26.1	30.6	33.4	33.3	32.5
2. Monetary agriculture output (NPC series)	5.5	4.6	4.3	4.3	4.0
Row 2 as percentage of row 1, (%)	21	15	13	13	12

Source: NPC, 1984

Now, I estimated that in 1970 monetary agricultural output constituted about 45% of total agricultural output. Clearly, in the 1973-75 production crisis, monetary output fell drastically and definitely much more pronouncedly in comparison with subsistence production. Hence, the share of monetary output in the total would have fallen in this period, but not down to 21%. In fact, we would at most put the share down to 30% given the information of Table 4.A2. The subsequent decline in the share seems highly unlikely.

Taking a closer look at the elements included in the computation of the series on monetary output does provide part of the explanation of this discrepancy in order of magnitude between both series. The serie of monetary output does not include the production of major agro-industrial sectors such as sugar, tea and sisal. The reason for this is probably that the series is compiled from data provided by the Ministry of Agriculture which is not responsible for these sectors (which fall under the Ministry of Industry). Sugar, tea and sisal accounted for about 12% of total agricultural output in 1970, and hence for about 25% of monetary output in that year. Its omission from the series obviously pulls down the share of monetary output as calculated in Table 4.A6. But again, this does not yet explain why this series on monetary output only covers 15% of the global product data in the period 1980-82. The problem again lies with the estimation of peasants" production: both marketed and subsistence. The likelihood is that marketed production was underestimated in the data on monetary production since no estimates are made of that part of production channeled through the parallel markets, while the national accounts data are probably over-optimistic as far as subsistence production is concerned.

Whichever may be the case, it seems clear that the agricultural data need to be handled with extreme care and better no inferences are to be drawn from it without some more supportive evidence. In fact, for the years in which both series overlap (1975, 1977, 1980 and 1982), the coefficient of correlation equals -0.95.

As far as industrial output data are concerned, it is useful to take account of the fact that the global product in industry measures the gross value of production, and not merely the gross added. Hence, the industrial global product contains a sizable proportion of monetary agricultural output. Indeed, it includes sugar, cotton ginning, cashew, tea, sisal and the production of vegetable oils. In 1973, industrial output geared towards exports constituted 40% of total industrial output, and with the exception of the oil refinery, all this consisted of agro-industrial commodities. Hence, as a first approximation, we can take the evolution of the global product of industry as a proxy for monetary output in industry and agriculture.

Quite unlike the case of the agricultural data, the industrial time series for the period 1973-83 tallies well with the corresponding data from the national accounts. In order of magnitude, the former series covers in between 85% to 90% of the national accounts values for the years in which both overlap. The simple coefficient of correlation between both series for the 5 overlapping years equals 0.97. This confirms that the industrial data are generally more accurate and of better quality than the agricultural series.

With the exception of prawns and oil (reexports), all commodity exports are all agricultural products. The evolution of exports at constant prices provide therefore another indicator of the evolution in monetary production in agriculture. However, it would be misleading to identify the movement in the volume of exports too closely with the movement in the production of export products. The reason is that it is necessary to assess the pattern of internal consumption of some of these commodities: more specifically, for sugar and cotton (as well as for oil as a non-agricultural product). Sugar consumption rose considerably after independence up to 1978. In 1979, the internal market was squeezed to allow room for more exports. similarly, for cotton there was the need to provide for the internal requirements of the textile industry. The need to supply the home demand meant that exports fell more sharply than production in the aftermath of independence. Hence, the downward fall in exports was much more pronounced than the corresponding fall in output (Wuyts, 1980a).

Graph 4.A2 plots the evolution of the series on industrial output as well as on the volume of exports. Finally, Table 4.A6 provides the comparative growth rates for monetary agricultural production, industrial output and the volume of exports.

Table 4.A6 Comparative Growth Rates of Industrial Output, of Monetary Agricultural Output and of Exports (%) (at constant 1980 prices)

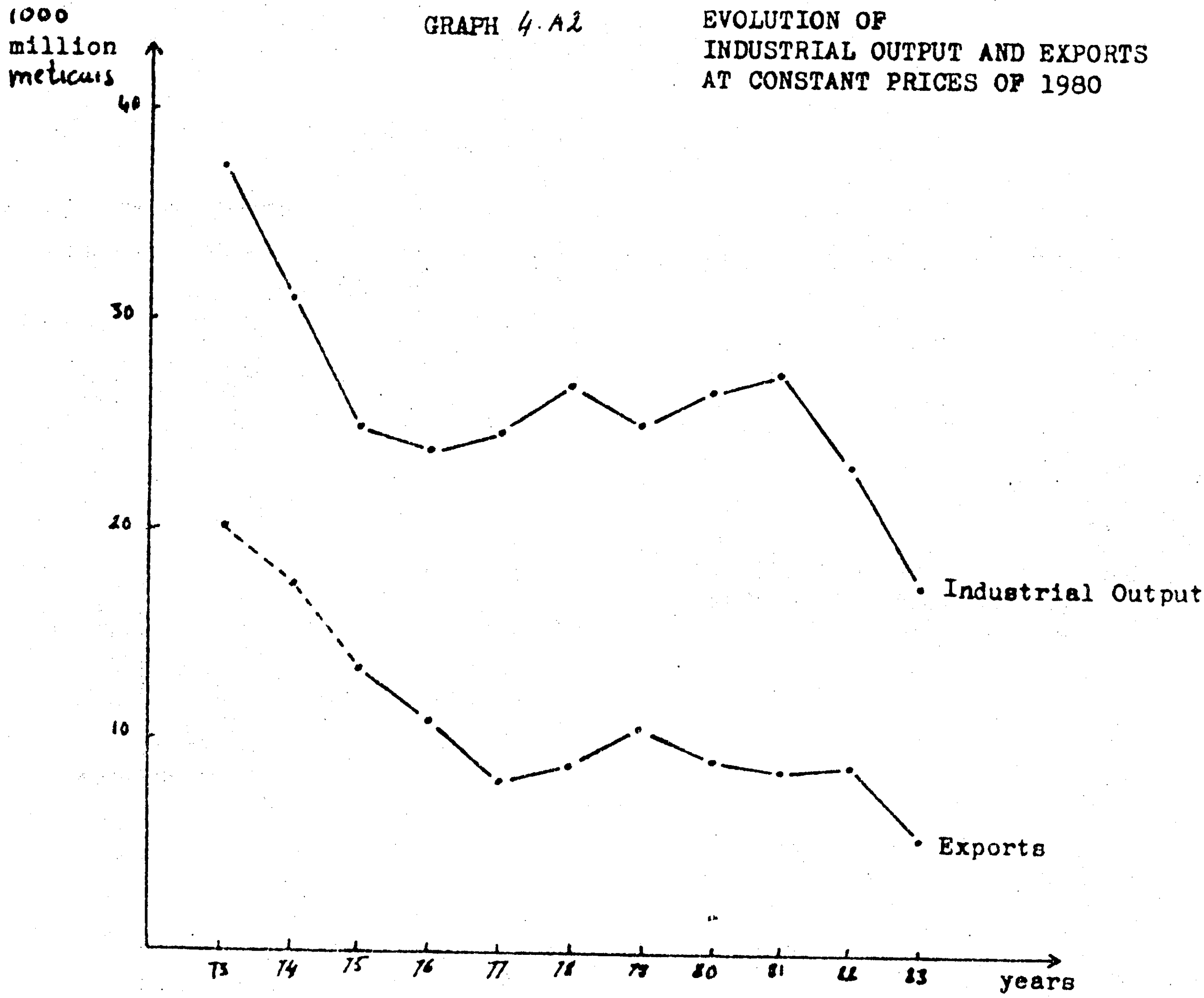
	1973-75	1975-77	1977-81	1981-82
Industry	-33	-1	+12	-13.5
Agriculture	-23	-16	-6.5	0
Exports	-34	-39	+6.5	+2.5

Source: Time series data of the NPC (1984) for agriculture and industry, and export data (1984)

Looking at the graph it appears that the fall in exports was due to the underlying crisis in production as well as to increased absorption in the home market. Sugar virtually ceased to be an export crop up to 1979, and so did cotton. At the other end, exports did not show any recovery in the 1978-81 period, which may be an indication of the fact that agricultural monetary production stabilized in the 1978-81 period but did not really manage to turn upwards.

In conclusion, the period 1973-75 was characterized by sharp falls in the levels of output for all sectors within a probable range of 25 to 35 percent. This movement tapered out in the period 1976-77 as far as industrial production is concerned, but probably continued downwards at a lesser rate in the case of monetary agricultural output. In this period transport dropped more sharply because of the closure of the border with Rhodesia. From 1977 to 1981 production recovered in all sectors except agriculture, and this at the time that the foreign exchange situation rapidly deteriorated (see chapter 5). Monetary agriculture probably stabilized somewhat in this period without really partaking in the process of recovery. After 1981, the situation worsened considerably due to the escalation of the war and the event of the drought compounded by the acute shortage of foreign exchange in 1983.

GRAPH 4.A2 EVOLUTION OF INDUSTRIAL OUTPUT AND EXPORTS AT CONSTANT PRICES OF 1980



Source : NPC 1984

- - - = 1973 and 1974 data for exports were obtained from another series taken from M. Wuyts , 1980 a

CHAPTER 5

ECONOMIC DEPENDENCY AND REGIONAL INTEGRATION

Introduction

In this chapter I shall trace the evolution of the external balance in the light of the economic policy pursued by the government in order to restructure its foreign exchange dependency.

A characteristic feature of the Mozambican economy was its dependence on foreign exchange income from services--transport and migrant labour. Towards the end of the colonial period services accounted for <u>about</u> half of the current foreign exchange earnings. Once more, this confirms to what extent the Mozambican economy became integrated within the Southern African region under the domination of South African capitalism. For Portugal, the Mozambican colony performed mainly two functions: supplier of raw materials for industry (mainly cotton) and foreign exchange earner. Within the Escudo Monetary zone--which centralized all foreign exchange in the Bank of Portugal and left the colonies only with escudo balances--Mozambique typically had a large surplus on international payments vis-a-vis the rest of the world (i.e., outside the escudo zone) and a deficit vis-a-vis Portugal (mainly as a result of income transfers of settlers and enterprises and to a lesser extent as a result of a negative trade balance).

Hence, when analyzing the question of external balance, it is important to consider the regional context in the light of the balance in earning income as between exports of commodities and the provision of transport services as well as the export of migrant labour-power.

In terms of economic policy, two aspects are of specific relevance. First, it was an explicit policy after the Third Congress to try to re-direct trade dependence (both in terms of exports and imports) towards the CMEA countries by seeking association with the CMEA. Secondly, after the independence of Zimbabwe, the formation of SADCC was seen to be a crucial element in reducing economic dependence on South Africa by restructuring regional integration within the SADCC alliance. With respect to the latter, the transport sector as well as energy provision were seen to be possible areas of expansion and consolidation (harbours and railways, the Beria-Umtali pipeline and Cabora Bassa energy complex).

In the next section an analysis will be made of the evolution of exports and imports of commodities and of the attempt to re-direct this trade towards the CMEA countries. Subsequently, the question of services will be analysed in the light of the struggle for political and economic independence within the region. Finally, the last section will deal with the foreign exchange crisis which became acute in 1983.

Export Stagnation and the Re-direction of External Trade

In the immediate post-independence period exports dropped dramatically as was shown in the appendix to chapter 4. Clearly, the fall in exports was due to the production crisis witnessed in that period. Imports fell equally dramatically: 54% in the 1973-75 period and another 13% in the 1975-77 period, both in real terms (NPC, 1984). The drop in imports was the combined result of two factors: (1), the massive emigration of the settler population implied a considerable drop in luxury consumption, and (2), the crisis of production lowered the demand for imported raw material and auxiliary products.

Table 5.1 gives the composition of exports over the period 1973-82 as well as the evolution of exports in current prices.

Table 5.1 The Composition of Exports in Selected Years
(% of total exports--main products only)

	1973	1975	1977	1979	1981	1982
Cashew kernals	18	15	30	17	19	19
Cotton	20	9	6	9	9	8
Sugar	10	11	5	12	9	4
Tea	4	4	8	8	5	11
Prawns	2	5	7	9	19	17
Petroleum products	5	7	7	15	19	16
Total exports in current prices (000 million meticais)	5.5	5.1	4.9	8.3	9.9	8.7

Source: NPC, 1984

Prawns and petroleum products (which implies a reexport to South Africa after processing at the refinery in Maputo) gained in relative importance. Agricultural exports remained problematic throughout the whole period as can be seen from Table 5.2.

Table 5.2 Evolution of Main Agricultural Exports 1973-83
(in 000 tons)

	1973	1975	1976	1977	1978	1979	1980	1981	1982	1983
Cashew	30	21	21	17	18	17	16	12	17	6
Cotton	50	18	16	6	13	16	6	15	14	13
Sugar	179	51	72	37	25	119	64	63	29	25
Tea	18	11	13	12	14	23	30	16	25	13
Copra	48	31	41	37	34	29	19	12	12	6

Source: NPC, 1979 and 1984

In fact, Mackintosh shows that in the period 1980-84 the fall in the production of export crops was specifically dramatic in family agriculture (1985:32). No doubt, the escalation of the war was a main factor to account for this fall in cashew and cotton production, but as I shall argue in chapter 7 part of the reason resulted from the fact that monetary imbalances within the state sector were offloaded onto the rest of the economy, and as such, produced a severe decline in the real incomes of peasant producers of export crops.

Turning now to the question of the redirection of foreign trade, Table 5.3 shows the evolution of the export and import trade with respect to countries of origin and/or destination.

Table 5.3 Trade Balance by Countries of Origin/Destination (million meticais)

Regions	1973	1975	1977	1979	1981	1982
OECD countries						
exports	4,166	3,200	3,706	5,861	5,167	3,453
imports	7,874	6,550	6,445	7,646	12,382	12,352
CMEA countries						
exports	3	0	12	773	2,040	1,154
imports	5	56	117	3,339	3,982	7,202
Other countries						
exports	1,372	1,850	1,209	1,677	2,720	4,047
imports	3,536	4,139	4,259	7,590	11,954	12,020
Total						
exports	5,541	5,050	4,923	8,311	9,926	8,655
imports	11,415	10,745	10,821	18,575	28,318	31,573

Source:

As can be seen from the table, a concerted attempt was made to redirect trade towards CMEA countries. By 1982, 23% of imports and 13% of exports were traded with the socialist countries. However, Mozambique did not succeed in joining the CMEA formally, although it received the strong backing from the GDR and Bulgaria. The USSR however rejected the bid on grounds that it was not prepared to subsidize Mozambique to the extent that it was doing so for Cuba and Vietnam. This definitely was a heavy blow for the Mozambican leadership who looked towards the USSR to find assistance to bridge them over the financial crisis provoked by the war (Hanlon, 198?:234-238).

Relationship with socialist countries therefore remained constrained to bilateral aid from the GDR and Bulgaria, usually through barter agreements, as well as military aid from the USSR.

The Regional Context

The exportation of labour-power and the provision of transport services were the two main characteristics of Mozambique's integration within the Southern African region.

With respect to the exportation of labour power, Table 5.4 gives the evolution of the number of Mozambican workers at the South African mining sector:

Table 5.4 Number of Mozambican Workers at the South African Mines

1970	113,293
1973	99,424
1975	118,030
1977	41,364
1980	45,824
1981	41,288
1982	45,491

Source: NPC, 1984

As can be seen from this table, recruitment fell drastically after 1975. The latter year itself was a year of peak recruitment due to the withdrawal of Malawian labour-power (First, 1983:55). Furthermore, the strikes of 1973 had led to considerable increases in wages on the mines: "the rise in the price of gold made it possible, and workers unrest made it necessary, to pay higher wages to African mines, especially those drawn from within South Africa" (<u>ibid</u>:50). Minimum wages (per shift) rose from R0.50 in

1972 to R2.50 in 1976, while average wages (per shift) rose from R0.81 to R3.00 (ibid:53).

As a result of this evolution, income from mine labour boosted in the early post-independence years: "mine wages earned by Mozambicans in 1975 are reflected in deferred payment sums for 1976. For that year the total of deferred pay was 1652 million escudos. The deferred payments for 1975 and 1974 were 1200 million and 711 million escudos respectively" (ibid:56). Within the rural economy of Southern Mozambique incomes boosted as a result of this increased inflow of wages, and as such the impact of the production crisis was cushioned over.

However, in 1976 recruitment of Mozambican miners fell drastically to 32,803 as against 115,309 for 1975 and 94,525 for 1974. Thereafter recruitment levels remained low. As First argued: "changes within southern Africa (the independence of Mozambique, the defeat of the South African army in Angola, and the escalation of armed struggle in Zimbabwe being the high peaks of this change) were causing the mines once again to review their dependence on external sources of labour supply. In 1973, it will be recalled, foreign labour had reached its peak of 80 percent of the mine labour force, but after this it began to fall rapidly, until by March 1977 it was only 52 percent" (ibid:50). Increased mechanization and rising unemployment in South Africa were two other factors which led to this shift in recruitment policy.

Hence, from 1976 recruitment fell drastically and moreover, only those Mozambican workers who possessed a valid re-employment certificate could continue to go to the mines (ibid:59-66). The impact on the rural economy in the South was bound to be dramatic:

> "Due to the time lag involved in terms of the long contracts of Mozambican workers (on average 15 to 16 months), the full impact of the drying-up of cash income was fully felt only towards the end of 1977.
>
> The impact on the peasantry varied. The hardest hit are the young peasants for whom wage work is not only indispensible to earn a living, but it is only through wage income that they can establish themselves in agriculture. It is the wage which pays lobolo (or bride-price), a wife being the major productive force in peasant agriculture in Southern Mozambique. Wages also pay for implements, cattle, and house building. The poor peasants, whose day-to-day living depends heavily on income from wage work, are suddenly cut off from their principal source of income. Finally, the middle peasants are also affected since (1) they often rely on artisan activities to supplement their incomes, and/or (2) they earned extra income by renting ox-ploughs to miners' families or by selling their food surplus. The drying-up of the cash inflow from the mines obviously reduced the internal circulation of money within the peasantry, and its impact was therefore wider than just the miners' families.
>
> The disintegration of South Africa now reinforced the existing crisis of peasant agriculture, rather than compensating it as was previously the case. Income from mine labour

and from sale of crops both underwent reduction; the two moments hence reinforced one another and created a severe payments crisis among the peasantry. The possibility of mine labour being cut off, most worker-peasants turn to the towns to seek wage work. The center of gravity in the dynamics of unemployment thus shifted from the town to the countryside, manifesting itself in an increasing flow to the towns in search of wage work.

Thus, what might appear to be a problem that only concerns miners is in fact the result of the combination of the two moments which characterized the crisis of the colonial economy in Southern Mozambique, i.e., the disintegration of the colonial bourgeoisie and petty-bourgeoisie and the breaking-up of Mozambique's integration within the South Africa economy--with the latter as fundamental movement over the former. Indeed, the drop in mine labour recruitment does not imply that the worker-peasant can fall back on his agricultural base because the latter, apart from being eroded in the first moment in the crisis, is for its very reproduction dependent on wage labour to finance essential inputs. It follows that the drop in labour recruitment directly reinforces the crisis of agricultural production already initiated by the disintegration of colonial structures (as well as by the natural calamities which affected the area in the post-independence period" (Wuyts, 1981:7-8).

The policy of concentrating investments on the state sector implied that family agriculture was left to cope when facing a severe income crisis. The failure to realize the extent of this crisis effectively meant that 'disinvestment' took place within household agriculture and rural unemployment aggravated considerably:

> "The concrete conditions of the present phase, however, are not constituted by the necessity to release labour from agriculture so as to enable industrialization, but rather to cope with a severe crisis of the colonial economic structures which manifests itself in the disintegration of the peasant economy, either through breakdown of commercialization networks, or through the crisis of the worker-peasant, or both. The question today is not to 'release' labour but to 'absorb' it within agriculture so as to prevent the deepening of the crisis of the peasantry. Failure to realize this may imply that 'short-run' policies which seem to conform to 'long-run requirements actually hamper the realization of such goals. A policy of concentration of resources in agriculture today may well imply that the controlled transfer of labour from agriculture to industry is counteracted by the crisis of employment created by the immediate implementation of such a policy. If one is serious about releasing labour from agriculture to build industry in the longer run, one may have to start with absorbing labour within agriculture so as to stabilize and control the rate at which labour can be

released from agriculture to be transferred to industry without creating unemployment in the process" (*ibid*:14).

However, this also induced the development of differentiation among the peasantry. Only a limited number of peasant-workers were able to continue working on the mines. These workers had access to commodities (consumer goods and producer goods) on the South African market. Initially, miners were reluctant to invest at home due to the cold attitude of local government structures to this type of investment. However, after the speech of the president in March, 1980, miners felt more confident to invest in trade, transport or production (1980). In fact, from 1980 onwards, positive incentives were given to miners to do so. While previously heavy import duties were levied on commodities brought in by miners, these were abolished after 1980. Also, miners could obtain unused settler land for cultivation if they could show that they had sufficient investment capacity to operate such farms. The impoverishment of the large majority of the peasantry meant that labour power was cheap and readily available.

Also in the central regions of Mozambique, the situation of labour shortages had already begun to change during the 1960s and early 1970s as a result of the reduction in the demand for foreign labour in Rhodesia (Adamo et al, 1981: 68-71). Hence, Mozambique inherited at the time of its independence a situation of growing rural unemployment of a peasantry deeply dependent on wage labour for its reproduction within family agriculture. The closure of the border with Rhodesia in 1976 accentuated this trend even further.

Agricultural policy was largely oblivious to this sharpening crisis within family agriculture since itwas not based on an understanding of the dynamic of class forces in the rural economy. It was assumed that the peasantry could subsist on its own resources, while de facto considerable disinvestment took place within family agriculture as a result of the cut in the demand for migrant labour abroad. Rural unemployment rose steeply and reflected itself in an increased migration to the towns. Hence, the need to invest in the 'zones verdes' (green zones) and subsequently, the need for forceful and definitely more brutal forms of forced emmigration from the towns to rural production with the 'operacao producao' (operation production) in 1983 (CEA, 1978; Saul, 1985:98).

Turning now to the contribution of migrant labour to foreign exchange earnings, Table 5.5 compares the income from the deferred payments from mine labour with total earnings from the exports of commodities:

Table 5.5 Foreign Exchange Income from Deferred Payments of Mine Labour as compared with Export Earnings (000 million meticais)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Deferred Payments (1)	1.2	1.7	n.a.	1.1	1.5	1.7	2.3	2.3	2.9
Exports (2)	5.0	4.5	4.9	5.3	8.3	9.1	9.9	8.7	5.5
1 as % of 2	24	38	--	21	18	19	23	26	56

Source: NPC, 1984

Table 5.5 underestimates the contribution of income from migrant labour to foreign exchange earnings on two counts. First, the deferred payments constitute 60% of miners earnings from the sixth month of their contract period onwards. Cash (or commodities) brought directly by miners from South Africa and either exchanged at the border or in the case of commodities directly imported added significantly to the country's capacity to import. Clearly, after the liberalization of border controls on miners in 1980 the greater part of this cash increasingly found its way into the parallel foreign exchange market.

Secondly, the 1964 agreement between Portugal and South Africa on migrant labour stipulated the conditions under which the deferred payments were to be transferred to Mozambique and provided for a secret clause which allowed that, "the Portuguese government could receive deferred pay in gold, the amount being a fixed price in Rands despite later increases on the world market (the gold would be sold by South Africa on the world market and the profit handed over to Portugal)" (First, 1983:220). Hence, the deferred pay in Rands could be converted into gold at the official gold price of R29-75 per ounce. This clause continued in operation after independence, and hence, the Banco de Mozambique realized the profit on gold equal to the difference between the free market price and the official price. This source of income allowed Mozambique to bridge the production crisis without any accompanying foreign exchange crisis. Rather, considerable reserves were accumulated during the first years of Independence.

In April 1978 South Africa officially revalued its gold price by setting the official price as a moving average of the world market price. As such, Mozambique lost its access to the profit on gold, and this indeed was the explicit aim of this monetary measure (CEA, 1979:23).

With respect to transport services, Mozambique relied mainly on income from the use of railways and harbours (Maputo and Beira) by South Africa and Rhodesia/Zimbabwe. Table 5.6 provides an overview of the evolution of transit transportation with respect to South Africa and Zimbabwe.

Table 5.6 International Railcargo in 000 tons

	South Africa	Zimbabwe
1973	6,824	3,384
1974	5,665	2,790
1975	5,639	2,277
1976	4,974	89
1977	4,248	--
1978	4,055	--
1979	4,155	--
1980	3,428	275
1981	3,024	930
1982	2,217	1,044
1983	1,468	553

Source: NPC, 1984

Note that as distances are longer for Zimbabwe traffic, the income derived from this transit was proportionally more important.

Two aspects need stressing with respect to the evolution of transport. First, the definite downward trend in cargo handling for South Africa. This reflects the fact that South Africa was consciously reducing its reliance on the Maputo harbour, and furthermore, it relegated the lower value/higher tonnage cargo to the Maputo harbour. Hence, the two main products handled through Maputo became the export of coal and imports of sulphur (fieldnotes, 1981).

Secondly, the closure of the border with Rhodesia in 1976 as a result of the imposition of the UN sanctions by the Mozambican government led to a severe cut in income from transport. However, the independence of Zimbabwe and the formation of SADCC provided a basis for Mozambique to re-assert its role as outlet to the sea for the landlocked countries such as Zimbabwe, Zambia, and Malawi. Initially, transit transport increased significantly, but the advance of the war and the fact that the transport system was specifically signalled out as a target for South African destabilization led to its collapse in 1983. Table 5.7 shows the evolution of income from international transport over the period 1978-83.

Table 5.7 Income from International Transport 1978-83
(000 million meticais)

	1978	1979	1980	1981	1982	1983
Transport income	2.7	2.2	3.0	2.9	3.2	2.7
Transport income as % of exports of commodities	51	27	33	29	37	49

Source: NPC, 1984

Hence, in 1983 income from transport dropped by 16% and furthermore, it became heavily dependent on south African traffic. Moreover, most of the transport of Zimbabwe to Mozambique was rerouted through South Africa in 1983 as a result of the war.

In summary, through SADCC Mozambique hoped to establish a basis of expansion for its transport sector which would be increasingly independent from South Africa. The destabilization policies of the latter country concentrated particularly on undermining this alternative road for Mozambique. As we shall see in the next section, Mozambique became extremely vulnerable by 1983 since most of its foreign exchange income derived from South Africa.

The Foreign Exchange Squeeze

On the basis of the previous sections it is possible to trace the evolution of foreign exchange income over the 1975-83 period.

in the 1973-75 period exports dropped drastically, while income from services increased rapidly. The latter evolution was due to the rise in income from mine labour (net of the additional profit on the sale of gold on the free market) and to increased earnings from transport services resulting from an increase in the rates charged on transport. Hence, income from services became the dominant element in foreign exchange earnings. After 1975 the situation changed.

In 1976 both the closure of the border with Rhodesia and the drop in mine-labour recruitment from 115,000 down to about 40,000 brought about a reduction in foreign exchange earnings from services. However, with respect to the mine labour the effect on income lagged behind the drop in recruitment since the average length of a contract on the mines is about 15 months. Therefore, the impact was only felt from 1977 onwards.

In the 1977-81 period exports started recovering and increased in relative importance vis-a-vis services. In 1978 the revaluation of the South African official gold price to the free market price level implied the loss of the profit on gold as well. Table 5.8 shows the evolution of current foreign exchange receipts (exports of commodities + invisibilities) and the proportion of invisibilities in this total for the period 1976 to 1983.

Table 5.8 Current Foreign Exchange Income 1976-83
(current prices in 000 million contos)

	1976	1977	1978	1979	1980	1981	1982	1983
Current receipts								
Exports	4.5	4.9	5.3	8.3	9.1	9.9	8.7	5.5
Invisibiles	8.0	6.6	6.5	6.6	7.2	7.9	9.2	8.9
Total	12.5	11.5	11.8	14.9	16.3	17.8	17.9	14.4
Invisibiles as % of current receipts	64	57	55	44	44	44	51	62

Note 1: invisibles includes grants
Note 2: the profit on gold is not included in invisibles since technically this concerns a revaluation of gold reserves. Hence, effective foreign exchange income was higher than stated for the years up to 1978.
Source: NPC, 1984 (the figures for 1983 are estimates of the NPC)

Nevertheless, 1981 signalled the turning point towards the escalation of open military and economic aggression against Mozambique. The stage was set by the increased struggle (and armed struggle) within South Africa itself, the formation of the SADCC alliance as a counter strategy against the regime's attempt to create CONSAS, and last but not least, the election of Reagan as the U.S. president whose policy of east-west polarization and of 'constructive engagement' with South Africa allowed for greater room of manouver on the part of south Africa in destabilizing the region.

The Matola attack on ANC refugees in January 1981 marked the beginning of this phase of escalating aggression and economic destabilization. Gradually, the activities of the MNR began to spread throughout the country at large, such that by 1983 virtually no province was left untouched.

The MNR attacks, apart from their ferocious killing, maiming and loating of the population, centered firstly on the transport links within the SADCC context (the Beira railway link to Zimbabwe, the pipeline, the Northern link from Nacala and the southern link from Maputo to Zimbabwe). Secondly, the attacks concentrated on the big projects which were being undertaken: the Ifloma wood project in Manica, state farm complexes in various parts of the country as well as on major economic infrastructure (roads, bridges, electricity links, etc.). Finally, the attacks aimed at systematically destroying social and economic infrastructure destined for servicing the rural economy and society: shops, health centres, schools, and especially in the communal villages.

The drought which hit the country in those years agravated the economic situation up to the point of famine and starvation. The investment fund of the country was tied up in larger scale undertakings which became the targets of the MNR. The relative neglect of family agriculture and related small scale activities in the rural economy (fishing, crafts, small workshops, etc.) left the economic situation of the peasantry extremely fragile.

In 1982 exports declined, although income from services could still manage to stabilize foreign exchange income as shown in Table 5.8. The gap on the balance of payments widened due to the increased import needs (as well as costs). The drop in exports made Mozambique to become more dependent on income from services which depended on South Africa for the greater part.

By 1983 the situation worsened considerably. Exports dropped to 63% of the already lower 1982 level. Income from services dropped as well as a result of the reduction in Zimbabwe and South Africa's transit transport. By now, invisibles accounted for about 62% of all foreign exchange income, and apart from grants, this income was directly or indirectly dependent on South Africa. Table 5.9 and Graph 5.1 map out the evolution of the foreign exchange gap over time.

Table 5.9 The Growing Foreign Exchange Gap
(millions of contos)

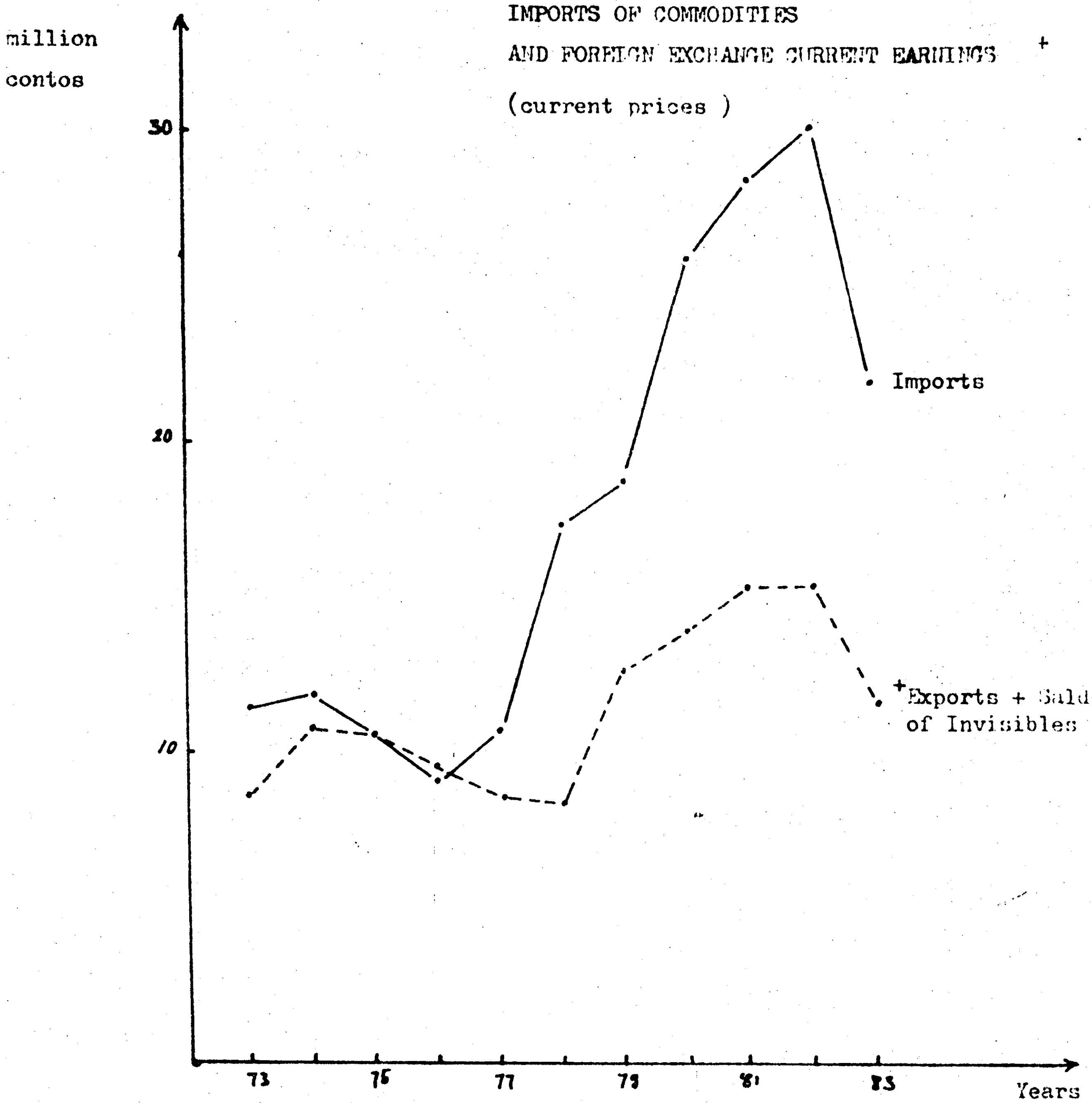
	Balance on Visible Trade	Balance on Invisibles	Current Surplus/ Deficit	Percentage of Import Coverage
1973	-5.9	3	-2.9	75
1974	-4.1	4	-0.1	95
1975	-5.4	5.4	0	100
1976	-4.5	4.9	0.4	103
1977	-5.7	3.6	-2.1	80
1978	-11.1	4	-7.1	54
1979	-10.3	4.2	-6.1	67
1980	-17.2	4.7	-12.5	53
1981	-18.1	5.3	-12.8	54
1982	-23.0	6.6	-16.4	48
1983	-16.5	6.1	-10.4	53

Note: Import coverage = ratio of (export earnings + balance on invisibles) over total imports of commodities.

Source: NPC, 1984

GRAPH 5.1

IMPORTS OF COMMODITIES
AND FOREIGN EXCHANGE CURRENT EARNINGS +
(current prices)



Source : NPC 1984

Conclusion

In terms of economic policy in the post independence period, Frelimo had three broad aims in mind with respect to international relationships:

1. To recover and expand export production of agricultural crops so as to make agriculture the base for industrialization;
2. To strengthen the economic relationships with socialist countries by becoming a member of CMEA;
3. After 1980, to struggle for economic independence from South Africa by strengthening the SADCC alliance in which the transport sector would assume a crucial role.

In actual fact, export production of agrarian crops stagnated (with the exception of tea). Specifically, peasant production of cash crops fell consistently during the period and especially so after 1980. Trade relations with CMEA countries increased significantly, but Mozambique did not succeed in becoming affiliated with CMEA. Especially, in 1983 when foreign exchange resources were depleted, the USSR was unable or unwilling to provide assistance to Mozambique in sufficient quantity.

The policy of destabilization of the South African regime undermined the objective of seeking new avenues of accumulation through the SADCC nexus as well as it considerably aggravated the crisis of production within the country. As such, in 1983, Mozambique became heavily dependent on South Africa in terms of its foreign exchange earnings.

The 'opening to the West' in the second half of 1983 sought to enlist support from Western countries to excert pressure on South Africa to discontinue its policy of destabilization. Furthermore, it reflected a search for alternative sources of finance. These provided the background for the Komati agreement as well as the association with the Lome convention, and for seeking membership of IMF and the World Bank. In chapter 6, I shall return to discuss some of the consequences of this policy in terms of the limitations it may impose on domestic economic policy.

PART III

MONEY AND THE TRANSITION TO SOCIALISM

CHAPTER 6

MONETARY IMBALANCES IN THE TRANSITION TO SOCIALISM

Two Views on Money

This chapter constitutes the central part of this study inasmuch as it puts forward the main propositions on the role of money in the context of planning the transition to socialism. More specifically, this chapter deals with the question of monetary imbalances within the economy in the process of transition.

Hence, the main concern of this study is to investigate how, within the concrete context of the Mozambican experience[1], monetary imbalances arose within the transitional period, and to what extend they influenced the dynamics of change within the economy.

To start with, I shall engage in a debate with two polar views on the role of money in the transition to socialism. One view argues that money ceases to be important in terms of the social dynamics of change as soon as the economy becomes reorganized within the framework of central planning. Money becomes endogeneous with respect to the requirements of material planning, and as such, monetary policy becomes passive with respect to economic activity. The dynamics of change are therefore determined by central planning, and not by monetary processes.

A second view argues however that financial orthodoxy in the sense of the need for strict demand management should act as a binding constraint on the rate at which structural transformation of the economy can take place.

The first view effectively underscored the actual practice of monetary policy in Mozambique in the period between the Third and Fourth Congress (1977-83). Its theoretical justification was the Soviet theories on the role of money and its context was a period in which the economy was being restructured with the establishment of a strong state sector within a framework of a centrally planned economy.

In essence the basic argument in this view is that money ceases to be important rather quickly as the economy becomes reorganized within a framework of central planning. Planning by means of material balances becomes the principal force directing the allocation of material resources and of labour power within the economy, and money becomes <u>passive</u> with respect to the plan.

To elaborate this point more precisely it is necessary to review briefly the basic premises of the traditional monetary theory of the USSR (Garvy, 1972; Lavigne, 1978). Monetary policy within the context of a centrally planned economy involves planning two assumedly distinct and separate <u>circuits</u> of money. The distinction between both circuits finds its origin in the division of the economy into two broad sectors. The <u>state</u> sector consists of the socialized sector of the economy and is completely planned in physical quantities through material balances. Here, monetary relations are said to be significant only for accounting purposes. The incompletely socialized sector (kolkhoz agriculture in the Soviet Union) and the non-socialized sector (the exchange with the population) is only partly planned in terms of aggregate flows since a margin of choice continues to exist as to expenditure patterns (Lavigne, 19 :30).

Hence, essential to the distinction as between both circuits of money is the divide between public and cooperative/private sectors within an overall context of central planning. The latter implies that non only the exchanges within the public sector are subject to material planning, but also the exchanges with the rest of the economy in which planning aims to balance the aggregate flows at regulated prices.

Clearly, within the context of the Soviet economy the extent of the non-socialized sector is virtually limited to consumer incomes and demand due to the predominance of the state sector.

The two circuits are planned separately, and are seen to represent two distinct forms of money which are distinguished by their functions. Fiduciary money is the means of circulation within the circuit which articulates the exchanges between the state sector and the partly-socialized or non-socialized sectors. Scriptural money is the means of payment and operates within the exchange of the state sector. The planning of the former involves regulating the aggregate flows of incomes and expenditures of the population so as to avoid disequilibria within these exchanges. However, this planning obviously does not control individual movements of money from one holder to another. On the other hand, individual payments with scriptural money is strictly related to plan execution and determined by it (ibid:31).

Clearly, various soviet scholars have pointed out that the two circuits cannot be neatly seperated and that in fact an objective unity exists between them. A central premise of Soviet thinking on money is however that all the money issued by the state bank is essentially endogenous with respect to the requirements of economic activity which itself is directed by the process of material planning (ibid:32-36).

Hence, within the process of economic activity the state bank will create money through its advances to the economy, and insofar the material plans were de facto feasible, these credits will be backed by material resources and therefore no 'inflationary' pressures will ensue within the economy. Hence, imbalances may occur in the economy if there exists a discrepancy between the planned utilization of resources and their actual availability, but these imbalances originate within real planning, and not within the financial sphere (Kornai, 1971:329-331).

The question arises now as to what extend this model of Soviet money is relevant for the organization of money and planning within the context of transition. Clearly, within the Mozambican experience this assumption was definitely made (Wuyts, 1983b: 26-31), but the question arises as to its appropriateness.

Two important differences need to be considered with respect to the context of planning in Mozambique and in a developed Soviet type economy:

(1) The state sector in Mozambique was formed on the basis of the nationalisations of key sectors of the economy and came to account for a large share of production within the economy (see chapter 4). However, due to the uneven development of colonial capitalism and the incompleteness of its processes of proletarization, the popular sector remained the dominant basis of the larger proportion of the population. Hence, the balance as between the public sector on the one hand, and the popular/private sector on the other was of a completely different nature as in the case of the developed Soviet-type economies.

(2) The main task of planning within the transition period is concerned with planning social change: i.e. the question of <u>transforming</u> the economy and society is of central importance. In the case of Mozambique, the question of the socialisation of production cuts accross the state/popular sectors divide, and hence the process itself requires a broad front of action.

Hence, the state sector is located within a wider economy (also in terms of production) and is itself only partially transformed (or as yet largely untransformed). Within this context, planning constitutes the dynamic intervention of the state within the economy and society at large so as to transform the social organization of production, exchange and distribution. To do so, the state needs to consolidate and organize its <u>economic power</u> behind the strategy for the wider transformation of the economy. That is, the state economic power needs to be capable to mobilize social forces within society behind the process of change envisaged within the development strategy. As such, planning is about changing society and involves the intervention of state economic power so as to propel class forces in society behind the direction of social change. This process is by no means unproblematic and involves political struggles over the content and the organization of planning as shown in chapters 3 and 4.

However, there is a further reason why this process is not unproblematic and this involves the limits of state economic power in terms of transforming the economy. It is not because the state wants to propel a certain type of change within the economy, that this change will actually materialise.

In actual fact, the documents of the Third Congress do not consider this question at all. It is more or less asssumed that the mere setting up of a central planning framework garantuees the effective control of the state over the dynamics of change within the economy:

> "The new state apparatus as the expression and the instrument of the worker-peasant alliance, has to plan and organize the economy by managing the state sector and aiding the cooperative sector, by controlling the private sector and by setting the objectives for all sectors" (Frelimo, 1977b: 27; my translation).

Apart from its rather instrumentalist view of the state, this quote illustrates the rather unproblematic view on the state's capacity to control and to set objectives for the economy at large.

Another way to look at this with reference to its implications for the analysis of money within transition, is that the domain of the two circuits of money within the centrally planned economy constitutes the official economy:

> "There exist a set of economic exchanges which take place at official prices, which are chiefly within the state sector or involve the state sector. These include wage payments by the state and by some local private firms and sales of rationed goods and goods produced by the state at official prices. They also include (most) purchases by the state of agricultural crops with controlled prices. They further include foreign exchange transactions at official exchange rates, and payments for imports at prices derived through the official exchange rate. This 'official economy', therefore, is a real, and to some extent a planned economy, depending heavily on continuing control of resources by the state, including control of the distribution of imported goods" (Mackintosh, 1985: 60).

Implicit in the view of the Third Congress documents is that this official economy coincides with the economy at large, and hence that the dynamics of change are wholly determined by state planning.

This position therefore negates the problem that the intervention of state economic power within the wider economy depends on its capacity to mobilise (or coerce) social forces within the economy behind its strategy, and this in terms depends on the extend to which its policy reflects the material interests of the classes it attempts to mobilise.

As such, the policy of state centered accumulation was based on the assumption that the state sector through its planning could mobilise material resources of the economy at large behind the accelerated development of the state sector, and that this process would not encounter contradictions within the economy. It is only when this assumption is valid that it could be argued that money remains passive within the economy, since the whole dynamic of the economy is then fully determined by central planning.

In this chapter as well as in the next, it will be argued that this assumption cannot be made. The extend to which the state sector can direct the overall evolution within the economy depends on the extend to which its intervention within the economy mobilises class forces behind its strategy, and this depends on the content and the organization of its planning.

The argument is that the process of state-centered accumulation limited the sphere of the effective operation of the official economy, and that as a result of the contradictions within planning a parallel economy emerged in competition with this official economy. It will be argued that within the confines of this parallel economy, money acquired an active function through the accumulation of money capital.

The second view on the role of money in the transition to socialism argues that money matters a great deal and that a cautious monetary policy inspired by financial orthodoxy whould constitute an absolute priority in the period of transition. This view has been most coherently argued by S. Griffith-Jones (1981).

The basic argument is that newly emerging socialist regimes tend to overspend within the 'preliminary' transition to socialism. Dudley Seers, in his preface to the book of Griffith-Jones, formulated this position as follows:

> "In the first place, commitments to wage increases, heavy investments in social infrastructure, etc., help a party gain power but they greatly complicate its life once it has succeeded. The experience documented here shows that big gains of this kind cannot by made in the early years of socialist governments. These only take power at a time of national crisis, which leaves a legacy of financial disequilibrium. The civil service, inherited from the earlier regime is unlikely to be willing, or even able to, to implement farreaching reforms. The structural changes that are attempted, such as land reforms and nationalization, cause--in the first instance at least--disorganization and declines in output" (ibid: preface).

Hence, the problem is that of a trend towards expansion and change in the composition of aggregate demand (as a result of radical changes in social policy) to which existing supply cannot respond under any circumstances, and, the existence of specific constraints to the supply response caused by the structural transformations in the economy, are seen to constitute the two major destabilising forces within the economy (<u>ibid</u>:19).

Given these structural features of the transitional economy, the argument then proceeds by stating that the need for sound monetary management should act as a <u>binding constraint</u> on the rate at which structural transformations should take place.

More specifically, monetary policy should center on two main targets: to pursue a cautious policy in curbing expenditures in foreign exchange so as to avoid large disequilibria on the balance of payments, and, to control the expansion of the domestic money supply since imbalances as between aggregate demand and supply are normally financed through the excessive issue of paper money. Both aspects are linked inasmuch as excessive money creation is seen to fuel excess demand within the economy, and this will add pressure to the demand for imports, thereby depleting foreign reserves (<u>ibid</u>:16-17).

The basic problem with this argument is that it essentially boils down to a case for cautious demand-management of the economy. Hence, it is essentially a macroeconomic argument: money should constitute a binding constraint on the rate at which structural transformations take place. However, this leaves open the question as to how this process of change itself determines the role of money.

The argument that monetary imbalances can and should be avoided is questionable. The role of money can only be analysed within a context, and hence, the question is not whether monetary imbalances are destabilising <u>in general</u>, but whether their occurrence within the process of transition propels or counters the forces of social change.

It is therefore interesting that the basic framework which Griffith-Jones employs in order to analyze inflationary pressures within the economy is Kalecki's structuralist analysis of the conditions for balanced development in a <u>mixed</u> economy (Kalecki, 1976b; Fitzgerald, 1983:1). As I shall argue in subsequent sections, this argument essentially defines the financial problem of development as that of the non-correspondence between the growth of national income and the growth of necessities, and as such, does not deal with the issue of the <u>content</u> of this growth process in terms of <u>transforming</u> the economy. This is already implicit in the notion of a '<u>mixed</u>' economy which is essentially a <u>static</u> conception when viewed from the point of view of a transition to socialism.

Hence, the basic criticism of this approach is that it deals with the problem of money within the transition to socialism by <u>abstracting</u> from the <u>content</u> of the transition itself. Money matters, and this not only in terms of aggregate balances, but also in terms of the role which monetary policy needs to assume within the process of transition. The approach basically assumes a <u>given</u> structure of the economy and analyzes disequilibria against the background of this structure, rather than starting from the premise that the fundamental aspect of transition is the process of <u>transformation</u> itself.

Both theories on the role of money in the transition to socialism provide the background to the further analysis within this chapter.

Firstly, it will be argued that monetary imbalances in the period 1974-77 were by no means destabilizing in view of the context of the economic crisis in which they arose and of the basic aims of economic policy in this period.

Secondly, it will be argued that the transformation of social services was not principally a question of an unwarranted expansion in expenditures, but rather a question of transforming the content of such services within the available means.

Thirdly, it will be argued that the process of state centered accumulation in Mozambique was characterised by a rate of accumulation far in excess of its capacity to finance it through either internal sources or foreign loans, and hence that money creation was the principal internal instrument of financing development.

Fourthly, it is argued that the question of 'inflationary' money creation is not merely an issue of distribution, but rather needs to be analysed in terms of its impact on the dynamics within production. The latter question will be further developed in chapter 7.

Finally, the issue of state planning and its impact in shaping the development of the wider economy will be discussed with reference to the demand for <u>deregulation</u> at the time of the Fourth Congress and after.

Economic Sabotage and Financial Unorthodoxy

In this section I shall discuss the first question raised in the introduction: namely, the argument that the inflationary issue of money in the immediate post-independence period was the most direct and effective instrument in the combat against economic sabotage. Far from being a destabilizing factor, this policy was crucial in stabilizing employment, preventing a further collapse in production and preserving stable prices.

As shown in chapter 3, during the period of the transitional government and into the first year after independence, economic policy basically remained on the defensive. In the face of a severe production crisis provoked by the massive emigration of the settler community and the widespread sabotage which went along with it, the immediate aim of the policy was to stabilize employment, to prevent the total collapse of production and to maintain stable prices.

Indeed, the immediate problem was to prevent the widespread bankruptcy of productive and commercial enterprises. Acts of sabotage and the withdrawal of the greater part of the managerial and skilled labour force provoked severe falls in productivity and in capacity utilization. The old state apparatus was collapsing and the newly emerging structures were overworked, inexperienced and ill-equipped to deal with managing the economy as well as assisting various enterprises in basic management.

As such, unit costs of production rose steeply, mainly because of falling productivity and lower capacity utilization. Nothing much could be done about falling productivity at that juncture, and the attention focussed on maintaining employment while keeping production going as well or poorly as possible. The wage bills in enterprises therefore de facto became a <u>fixed</u> cost, independently of the level of production. This clearly contributed to the rise in unit costs (Wuyts, 1983b: 20).

The rise in unit costs in all sectors of production would either imply massive price increases to guarantee the financial viability of the enterprises, or it would bring about a cascade of bankruptcies which would halt production altogether (Ibid: 23).

To prevent price inflation <u>and</u> to stabilize employment as well as to assure the highest level of output given the circumstances, the policy adopted was to finance the deficits of productive enterprises (whether private or 'intervened') through bank credit (ibid: 23).

At the eve of independence day, the old colonial bank--the BNU (Banco Nacional Utramarino)--ceased to operate and simultaneously the BM (Banco de Mocambique) was constituted as central bank as well as commercial bank (Ibid: 25). Furthermore, the ICM (Instituto de Credito de Mocambique) was under direct state control. The remainder of the banking system was privately owned and acted in an openly hostile fashion vis a vis the new government. The latter banks became important vehicles to channel the illegal export of money capital abroad (field-interviews, 1983).

Through its control over the BM and the ICM, the new government sought to struggle against economic destabilization by financing the deficits of enterprises through pumping paper money into the economy (Wuyts, 1983b: 23).

This policy, however unorthodox it may appear did in fact constitute the most direct and effective way to deal with the crisis situation at hand. The need imposed itself on the new government since fiscal policies within a framework of balanced budgets would have been impossible to carry out since this would have required a large scale organization of taxes and of government expenditures at a time that the whole state apparatus was in considerable turmoil.

In fact, Galbraith quite convincingly argued that the weapon of the inflationary issue of paper money was rather commonly wielded by the newly emerging power in situations of intense revolutionary change, although the direction of its use varies according to the given circumstances (1975:ch 6).

The important point to note in this concrete case of the Mozambican early post-independence period is that this inflationary issue of money was not caused by any excess demand created by increased government expenditures or by escalating wage costs, but rather by the necessity to avoid the complete contraction of production. The issue at stake was not to set a demand multiplier working into an inflationary spiral, but rather to prevent a supply multiplier spiralling downwards through production standstills and bankruptcies.[2]

Clearly, the results were queues and shortages, but an alternative policy of financial orthodoxy would have had disasterous consequences in terms of grinding the economy to a standstill (Wuyts, 1983b: 24).

Finally, it could be argued that the considerable quantities of money which were pumped into the economy without any effective material backing might end up becoming a destabilizing force in a later phase in which the consolidation of productivity would become of paramount importance. However, this problem was effectively dealt with through the monetary reform of 1980 which accompanied the introduction of the new currency--the Metical. This reform effectively destroyed large holding of cash balances held by speculators. Indeed, it was an explicitly stated policy of that reform to create favourable conditions for the stabilization of the currency (Ibid: 39).[3]

Undoubtedly, the monetary imbalances continued within the later period, but its origins were no longer a question of the immediate policies in confrontation with economic sabotage and production crisis. Rather, these imbalances originated from the specific way in which the economy was being transformed.

The point which I want to make here is that it would be incorrect to analyze monetary imbalances independently from the context in which they arise. In the immediate post-independence period money creation was aimed at preventing a collapse in production so as to neutralize the effect of sabotage and destabilization in a phase of intense struggle. Subsequently, the nature of monetary disequilibria became a <u>product</u> of the way in which the economy was being transformed within a system of state-centered accumulation, which is a different matter.

The Cost of Social Services

Dudley Seers, in his preface to the book of Griffith-Jones, argues that no big gains can be made through the transformation of social services within the early stages of transition since they involve an expansion in public expenditures which the new regime simply cannot sustain at that time (1981).

Clearly, the specific way in which services such as health and education are provided depends on the class character of the society and constitutes a significant determinant of the distribution of income. Preobrazhensky formulated this point within the context of socialist transition as follows:

> "from the moment of its victory the working class is transformed from being merely the object of exploitation into being also the subject of it. It cannot have the same attitude to its own labour power, health, work and conditions as the capitalist has. This constitutes a definite barrier to the tempo of socialist accumulation, a barrier which capitalist industry did not know in its first period of development. True, we know the enthusiasm and heroic self-restrain of the working class in the first years of the organization of state industry, especially in the period of civil war. But such factors as this are not characteristic of the whole period of socialist accumulation... .
>
> The first, quite obvious difference between the state economy of the proletariat and the typical capitalist economy

is the fact that...in relation to the worker it [the state economy] begins (but only begins, up to now) to act as a system of production for consumption by the producers" (1965:122)."

This argument combines <u>both</u> the need for transformation within the structure of consumption (including essential services) and the need for restrain in the early phases of transition. The argument of Griffith-Jones only contains the latter aspect without placing it in a context of transformation. In fact, it boils down to an argument about quantity, and not about quality. The following quote from the introduction shows this clearly:

"...in such cases agregate demand tends to increase sharply as the money supply grows to finance large deficits in the fiscal sector and the state enterprises. These financial flows reflect not only a process of redistribution of nominal income--from the wealthier groups of the population to the poorer ones--but also an expansion of total nominal income available for consumption. The latter tends to occur partly because the surplus available for redistribution, particularly within the specific political context and the existant class alliance, is insufficient to compensate for the increased income granted to the poorer strata. The problem is often not visualized clearly in advance by left-wing politicians, who over-estimate the surplus, mainly from the 'rich', effectively available for redistibution" (1981:19).

accumulation, the same argument is not made with respect to the alternative policy of the continued provision of these services as private goods (i.e., commodities). Private medicine or private schooling also imply a social cost, even if it does not show up in government expenditures. Hence, it would be incorrect to see public expenditures on health care as an unwarranted cost, while the burden of private medical care is seen as unproblematic.

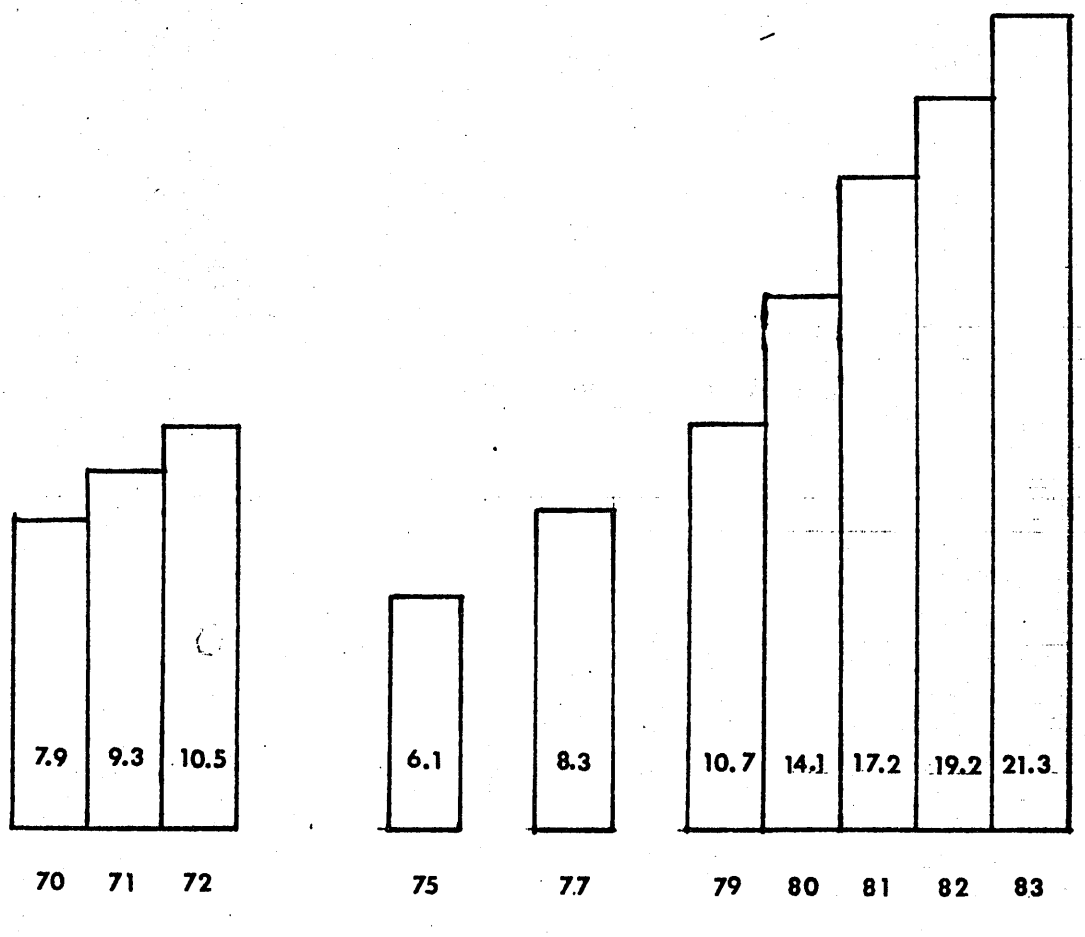
Clearly, it is possible that in particular situations the balance of class forces is such that it is not feasible to do away with private medicine or private education. This imposes a further constraint on the process of transition inasmuch as it implies an added cost which itself presents an issue for struggle.

Turning now to the quantitative dimension of the problem. Graph 6.1 gives the evolution of public current expenditures at current prices for the period 1970-83 (for those years for which data were available). As can be seen from this chart, public expenditures fell drastically in the immediate post-independence period as one would have expected. In comparative terms, current public expenditures constituted an estimated 17% to 26% of national income in 1970 and 19% in 1980.[4] From 1980 to 1983 this share of current expenditure in national income rose rapidly to 27%. However 54% of the increase in current expenditures from 1980 to 1983 was due to increased expenditures on defense as a result of the escalation of the war which also negatively affected the growth of income (NPC, 1984).

By 1980 health and education accounted for 28% of the current expenditures, as compared with 16% for general administration in

Graph 6·1 **GOVERNMENT CURRENT EXPENDITURES**

(1,000 million escudos/meticais)



Sources: Moçambique na actualidade (1973) and NPC (1984)

1970. The latter category included education, health and statistical services. For example, health expenditures amounted to less than 3% on the colonial budget as against 10% in 1980 (Walt and Wield, 1984:32).

Hence, it can hardly be argued that current expenditures on social services constituted a destabilizing force in terms of excess demand, although they obviously implied a significant social cost.

Furthermore, as shown in chapter 3, it was realised that the extension of health services to the whole of the country could not organized totally within the confines of the state sector since this would involve a major expansion of budget expenditures on wages. Through the training of village health workers a complementary as between the state sector and the popular sector was aimed at in terms of the latter providing training and material assistance and the former supporting the cost of the technical labour involved. Hence, the question of financing health services was in part rooted in a concept of labour accumulation in the provision of these services as an element of social change propelled by state action.

Central Planning and the Endogenity of the Money Supply

In this section I shall address the question as to the role of money creation in the process of state-centered accumulation during the period 1977-83.

In this period, major structural changes took place in order to set up the institutional framework for central planning. With respect to money and finance the institutional set-up became restructured in accordance with the requirements of central planning by means of material balances.

The government budget occupied a central position in the allocation of financial resources. On the income side, a unique progressive income tax was introduced and the pre-existing variety of indirect taxes was streamlined through the introduction of a general turnover tax. However, over time the major contributing factor to the budget was to be the surpluses realized by state enterprises (Wuyts, 1983b: 32-33).

Nevertheless, the contribution from surplusses of state enterprises remained insignificant up to 1981, in which year they amounted to only 18% of current government income (although the state sector had become dominant in terms of output in most sectors of the economy) (Ibid: 32).

Table 6.1 gives us a breakdown of the major sources of government revenue over the period 1978 to 1982 (for selected years). In general, current income only left a small surplus over current expenditures, and hence the investment budget could not be financed directly through the budget.

Investment in fixed capital as well as part of the investments in circulating capital were centralized in the budget (Ibid: 29). Table 6.2 gives the evolution of government investment over the period 1978 to 1983, as well as that part of this investment which was financed through official foreign assistance. Furthermore, overdrafts on foreign banks added a further component of foreign finance. With respect to internal finance, the main components were the small surpluses on current account as well as the profits from the sale of gold. The latter aspect is unknown, but table 6.3 gives some indication of the evolution of gold reserves and foreign exchange holdings (mainly bank accounts with foreign banks).

Table 6.1 Current Income of the Government Budget 1978-83 (millions of meticias), selected years

	1979	1981	1983
Direct taxes			
1. Profit tax	2,025	3,035	5,021
2. Income tax	907	1,248	1,742
Indirect taxes			
1. Turnover tax	4,075	5,307	5,873
2. Custom duties	2,047	2,497	2,449
3. Other taxes	1,037	806	1,028
Contributions from surplusses of State enterprises	271	3,247	2,952
Rent payments on nationalized housing	600	1,200	1,418
Other incomes	632	1,052	1,749
Total income	11,594	18,402	22,231
Total current exp	10,886	17,346	21,343

Source: NPC, 1981

Table 6.2 Government Investments 1978/79-1983
(million meticais), current prices

	1978/79	1980	1981	1982	1983
Total Investment	8,010	9,916	13,962	14,255	10,197
Of which foreign official assistance	3,689	4,470	6,548	7,796	8,180
GDP	--	66,200	70,400	73,000	68,800

Source: NPC 1984
Note: 1978/79 figures refer to both years taken together.

Table 6.3 External Liquid assets 1980-83
(millions of meticais)

	1980	1981	1982	1983
Gold	7,271	6,310	1678	1089
Foreign exchange	831	17	-741	-1040
Total	8,102	6,327	964	49

Source: NPC, 1984

The remaining deficit as between available financial resources (internal and external) and the volume of investment was financed through money creation (Wuyts, 1983b: 33).

However, a problem arises in assessing the deficit of the state sector's investments relatively to the available financial resources inasmuch as the contributions of state enterprises to the budget did not represent aggregate financial surplusses of the state enterprises. In fact, deficits of state enterprises over and above planned subsidies from the budget to these enterprises were not transferred from the enterprises to the budget (as an added expenditure), but rather these deficits obliged the state banks to reschedule credits which fell due, but could not be met (field-interviews: 1983).

To see this, it is necessary to turn to the restructuring of the banking system within the institutional set-up of central planning. In January 1978 the banking system was nationalized with the exception of one private bank (The Standard-Totta Bank) and the state banks were reorganized into two banks: the Banco de Mozambique (BM) and the Banco Popular de Desenvolvineto (BPD) (Wuyts, 1983b: 28). The BM was the state bank: central bank, financier of the budget, controller of the execution of the plan, as well as commercial bank. The BPD was a credit institution which specialized mainly in agricultural credit, as well as being a savings bank (Ibid: 29).

In 1979, a monetary reform introduced the new currency--the Metical. Within this process of change-over considerable balances of speculative funds were effectively being destroyed since they had not been deposited with the banks beforehand. The most interesting feature of the reform was a new law (issued a few months before the actual introduction of the metical) which stated that all the institutional bodies (government departments, mass organizations) as well as all commercial and productive enterprises has to deposit their cash balances with the banks, and on a daily basis they were only allowed to keep money in cash up to an amount of 10,000 MT (Ibid: 39-40).

Clearly, the rationale behind this measure was to organize monetary flows within two circuits: scriptural money was to be used for transactions within the state sector as well as with the (large-scale) private enterprises. Fiduciary money was to circulate mainly in payments to the wage and salary earners as well as in the exchange with household producers.

The inclusion of private enterprise within the circuit of scriptural money had mainly two reasons behind it. One was the issue of control so as to combat the holding of large speculative cash balances held by traders. Secondly, there was the explicit measure to integrate larger scale private enterprises within the plan and hence to subject them to planning by material balances (field-interviews: 1983).

The main function of the banks with respect to the economy was to finance the working capital of state enterprises. Hence, with respect to investment, a division of labour was set up as between the state budget and the banks: the budget would principally finance investment in fixed capital, while the banks would finance investments in circulating capital (Wuyts, 1983: 29).

Within the banking system, the BM was the main financier with 77% of all credits, followed by the BPD with 19%, leaving only 4% to the private bank. These relative proportions remained virtually constant over the 1980-83 period (NPC, 1984). Table 6.4 gives the sectoral distribution of credits for the period 1981/83.

Table 6.4 Sectoral Distribution of Credit
(% shares)

Sectors	1981	1982	1983
Agriculture	32	28	28
Industry and Agro-Industry	45	39	34
Construction	1	2	2
Transport	2	4	9
Commerce and Other	20	27	27
Total	100	100	100

Source: NPC 1984

The greater share of bank credit went to the state sector. This was also the case in agriculture, although the state sector provided only 50% of the marketed output (Frelimo, 1983:27). In fact, the cooperative sector only received 2% of all investments in agriculture (ibid:28).

Bank credit to the state sector would be advanced in accordance with the specifications of the national plan which balanced resource needs with their production and/or importations.

Although planned utilization of resources would formally balance with planned production or planned importation (financed by exports and foreign loans), in practice the actual availability of resources did not match their planned utilization. The nature of the disequilibria thus created is by no means simply a phenomena of the financial sphere:--a situation of excess demand. Kornai argues this point quite strongly in the following manner:

> "As has become clear earlier in this chapter, the state of suction in the socialist economy cannot be explained simply by the phenomena of the financial sphere: by the disproportion between demand and supply, or between purchasing power and the quantity of goods offered at the given prices. In that form, and without special restrictions, this can be said only about the consumer's market. On the market of the means of production the main problem is not that there is--using a simplified expression--'too much money' in the hands of the buyers. To cover the requirements of its current production, for a normal or maybe tense utilization of capacity, the firm demands more material, more spare parts, more machines and manpower than it has at its disposal. Similarly, for the realization of the agreed investment decisions there would be need for more machines, more building activity and more foreign currency than can be afforded by the investment potential of the country. In this case therefore it is not a disproportion in the financial sphere we are faced with, but a gap between the actual real requirement aroused by plans and decisions. and the actual real possibilities." (1971:330)[5]

Hence, the situation reflects itself in the financial sphere. but does not originate there. Money is essentially passive with respect to the financing of production integrated under the plan (and this concerns mainly the state sector) and with respect to planned investment. Or, as Kornai would say: the budget constraint is soft in these cases (1979:801-19).

High costs and low productivity conditions in the state sector implied that a considerable part of this sector ran consistent deficits which needed to be financed by bank credit. Furthermore, since the surplus generating capacity of the state sector remained low, investments could not be financed from an accumulation fund originating from the state sector.

Clearly, this raises the question of the pricing policy of the government vis-a-vis state enterprises. Higher prices for the output of the state sector would enable a bigger financial surplus to be generated. In fact, some prices were adjusted in 1981, and this accounted for the fact that contributions from state enterprices to the budget became more significant in that year.

However, there was a strong reluctance to resolve the problem by price increases. As explained by R. Balthazar--the minister of finance who also headed the price commission--the government was strongly preoccupied with the financial situation of state enterprises, but price increases would only be granted if normal average (prime) costs had risen significantly. Indeed, this measure aimed to avoid that state enterprises would ofload their inefficiencies onto consumers. Hence, the concept of 'normal' costs which implied that the enterprise was operating with reasonable capacity utilization and with reasonable productivity. However, since most state enterprises did not have any proper accounting, demands from enterprises to the commission to raise their prices could not be substantiated.[6]

It was often overlooked, however, that the inefficiencies of state enterprises were not merely a question of internal management problems, since many of the problems sprang from the planning system itself. The focus on accumulation often implied that necessary raw materials were not imported since priority was given to importing investment goods. The result was low capacity utilization in industry for lack of inputs (Wuyts, 1980a). Furthermore, the principal demand imposed on state enterprises was to fulfil their targets, although the latter exceeded the actual production capacity of the firms. The result was the inflation of costs due to added expenditures in order to cope with targets as well as to a dispersal of efforts (Ibid).

To consolidate the state sector it would have been necessary to start from the real organizational capacity as determined by the organization of the labour process and to concentrate on improving this organization so as to make targets a real expression of productive capacity. Investment would have to aim at strengthening the organization of labour within production, rather than substituting for the lack of such organization and therefore amplifiying the problem of high costs/low productivity at a larger scale (CEA, 1982c). The plan's preoccupation with fixed capital as a solution to productivity problems as well as to propel economic growth effectivily constituted a stumbling block vis-a-vis the consolidation of state enterprises. The policy of increasing the profitability of the state sector without resorting to excessive price increases therefore had little effect in practice, and the deficits persisted.

Money creation without a corresponding material backing is the logical consequence of this type of disequilibria, since as Lavigne explained clearly:

> "The bank's obligation to cover only expenditures tied to the execution of the plan does not protect it from an excessive opening of credits. That is the case, first, when the plan has been badly drawn up, in particular when it is too 'tight', demanding a final production of the enterprise without giving it sufficient resources. The enterprise will then tend to present additional credit demands, argueing from the necessity of buying supplementary supplies or given extra pay, in order to succeed in realizing the plan" (1978:43).

Two points follow from the analysis. Firstly, as was already hinted at, the investment budget of the government did not fully reflect the shortfall of government savings relatively to the volume of investments. Indeed, all financial deficits of the state enterprises (which were not covered by the relatively insignificant subsidies) were <u>not</u> supported by the budget[7].

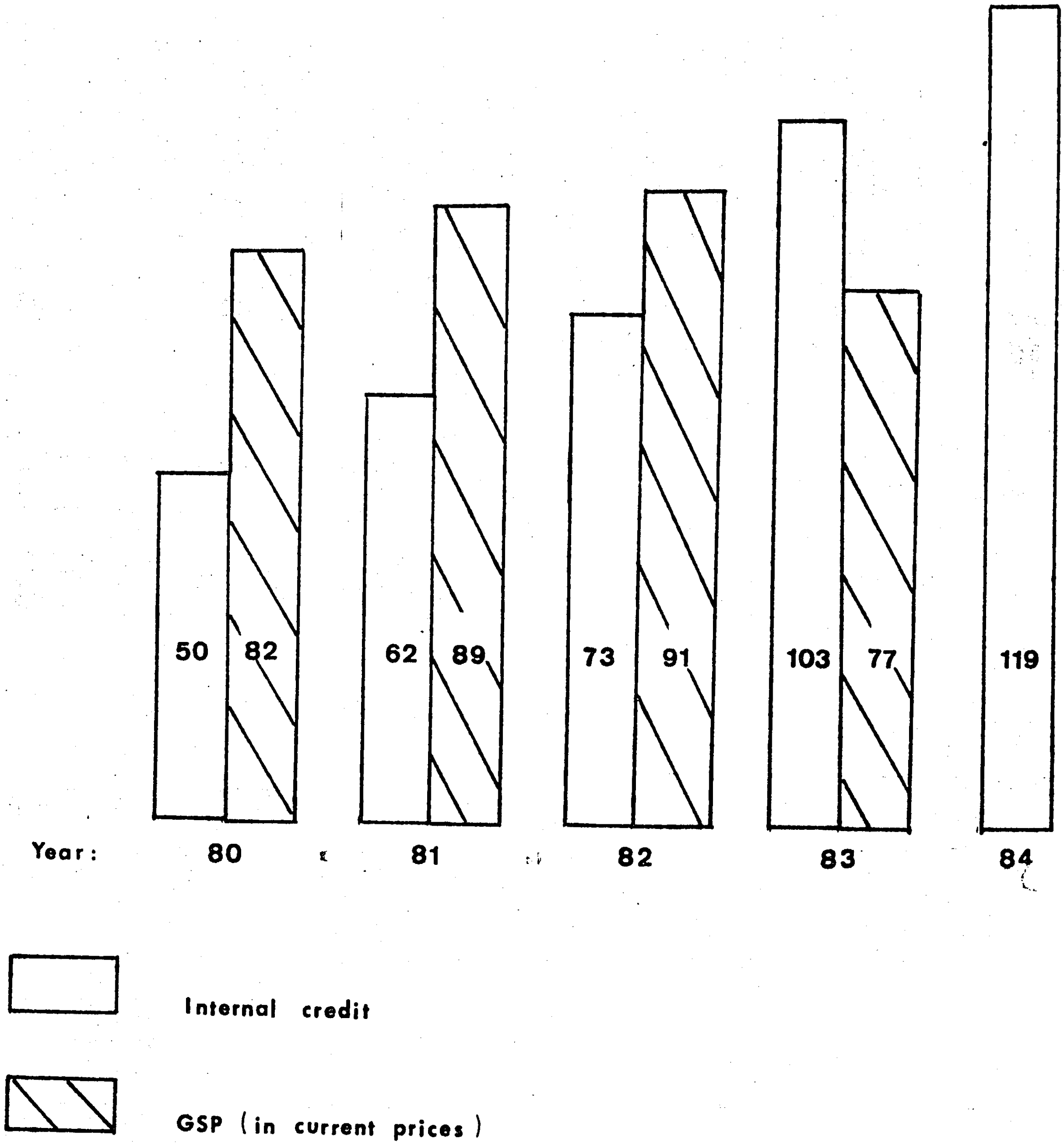
Secondly, these disequilibria were not confined to the state sector only, since they inevitable <u>spilled-over</u> into the remainder of the economy. Indeed, the two circuits of money were by no means separate, but part and parcel of an objective unity. For example, if a state farm contracted more seasonal labourers than planned for (while often producing well below the target) the increased wage bill would inflate the circuit of cash in the economy. Similarly, in the case where the actual capacity to import was less than the planned capacity, an inevitable competition for imports would ensue, which often cut out imports of consumer goods and of producer goods for household production, even if the latter were provided for in the plan (Hanlon, 1984: 100).

To assess the quantitative importance of this process of excessive money creation with respect to the state sector, the evolution of <u>internal credit</u> of the banking system is of particular interest. This item concerns the credits advanced to the economic sectors (and mainly to the state sector), but it does <u>not</u> include credits to the government budget (field-interviews: 1983). Now, under normal circumstances, the credits advanced by the banks to the economy follow the rythm of economic activity inasmuch as with the growth of the economy, credits will grow as well, and the volume of monetary circulation will consequently increase.

Graph 6.2 compares the evolution of internal credit with that of the global social product at current prices for the period 1980-84. While GSP increased slightly over the 1980-82 period and subsequently declined in 83, internal credit has been growing at a rapid rate throughout. The main growth component of internal

Graph 6.2 Comparing Internal Credit with GSP

(in 1000 million meticais)



Source : NPC 1984/85

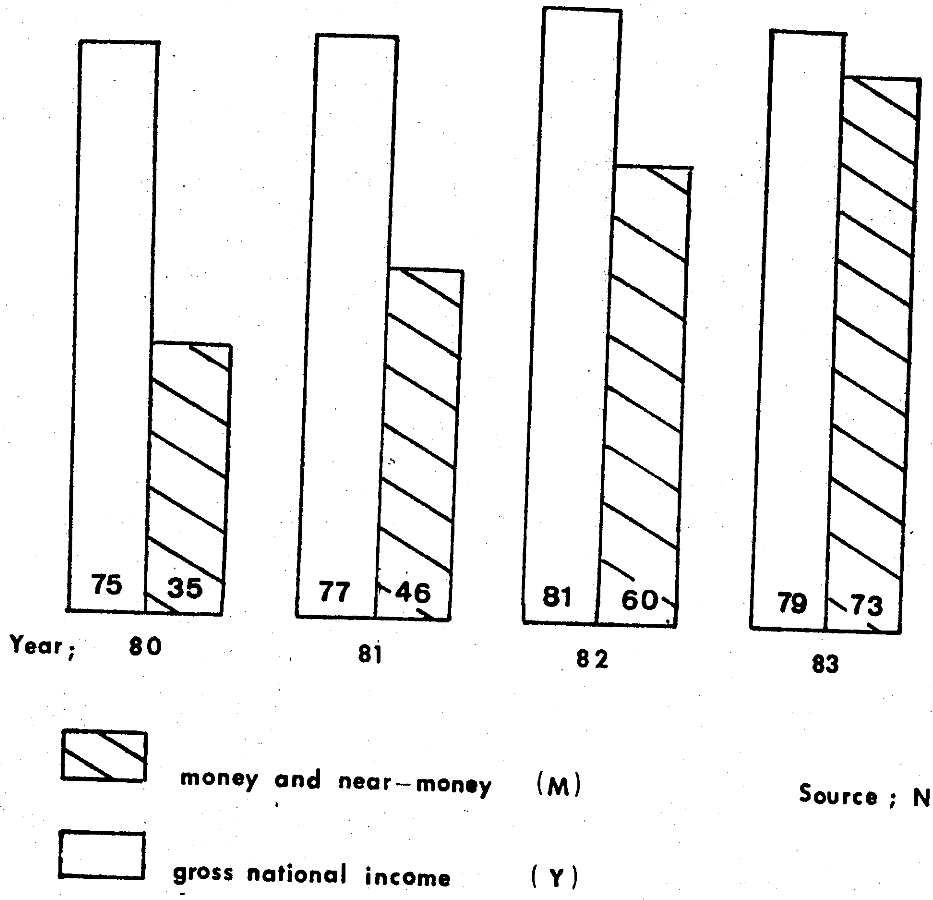
credit was due to the need to reshedule the debts of enterprises in persistent deficits. Furthermore, the sharp discrepancy between both variables was due to a large extend to the escalation of the war as well as the spread of the drought over the country and its impact on production of state farms (NPC, 1984).

Furthermore, graph 6.3 compares the evolution of the money supply with that of national income.[8] The money supply includes cash in circulation, demand deposits as well as time deposits (which one would expect to be a relatively small component). As can be seen, the money supply grew rapidly in relation to national income at current prices (which are of course official prices). The fastest growing component of the money supply was cash in circulation which doubled in volume from 1980 to 82. This growth of the money supply took place against a background of rather modest increases in official prices.

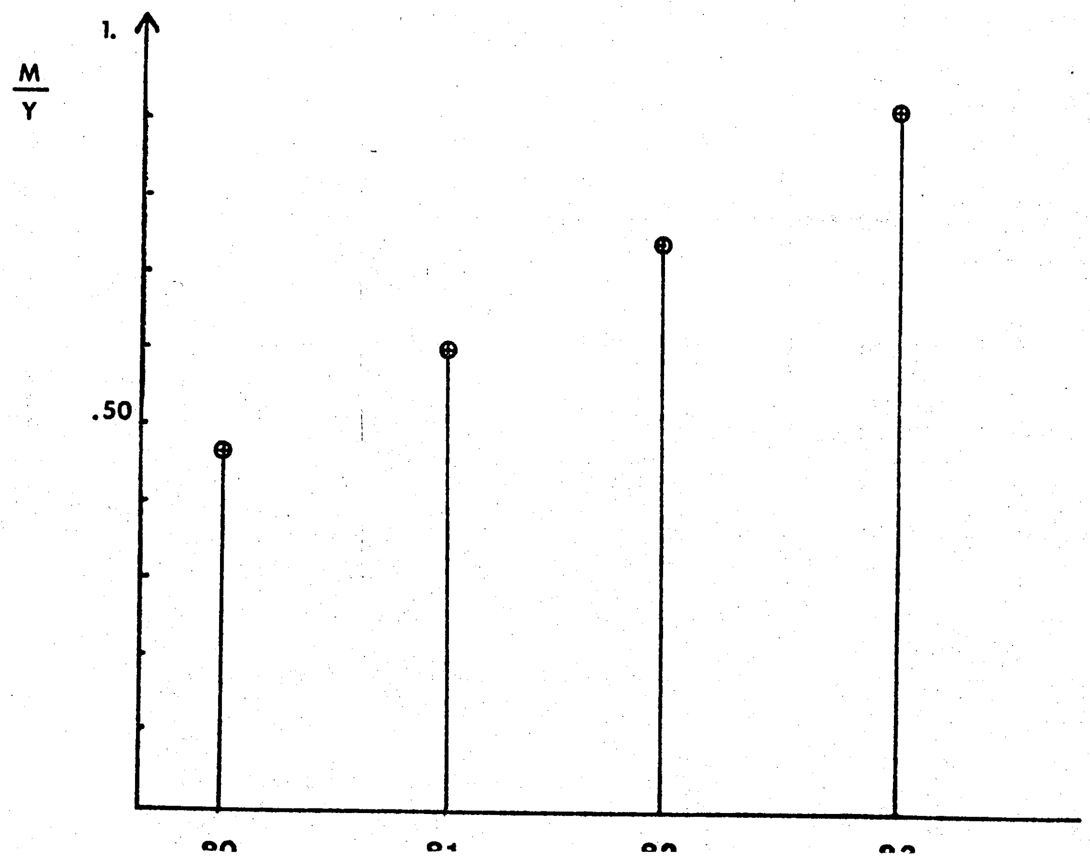
Graph 6.4 provides an indication of the rate of increase of official prices for the 1980-82 period. The official explanation of this rapid increase in the money supply (and especially in cash in circulation) was that the velocity of money declined as a result of the rupture in the normal commercial circuits due to the war and the drought (NPC,1984).

However, as I shall argue in the next chapter, this assumed decline in the velocity of money does not take account of the development of parallel markets and the rapid inflation of parallel market prices.

Graph 6.3 Comparing the evolution of money and of national income (current prices — 1000 million meticais)



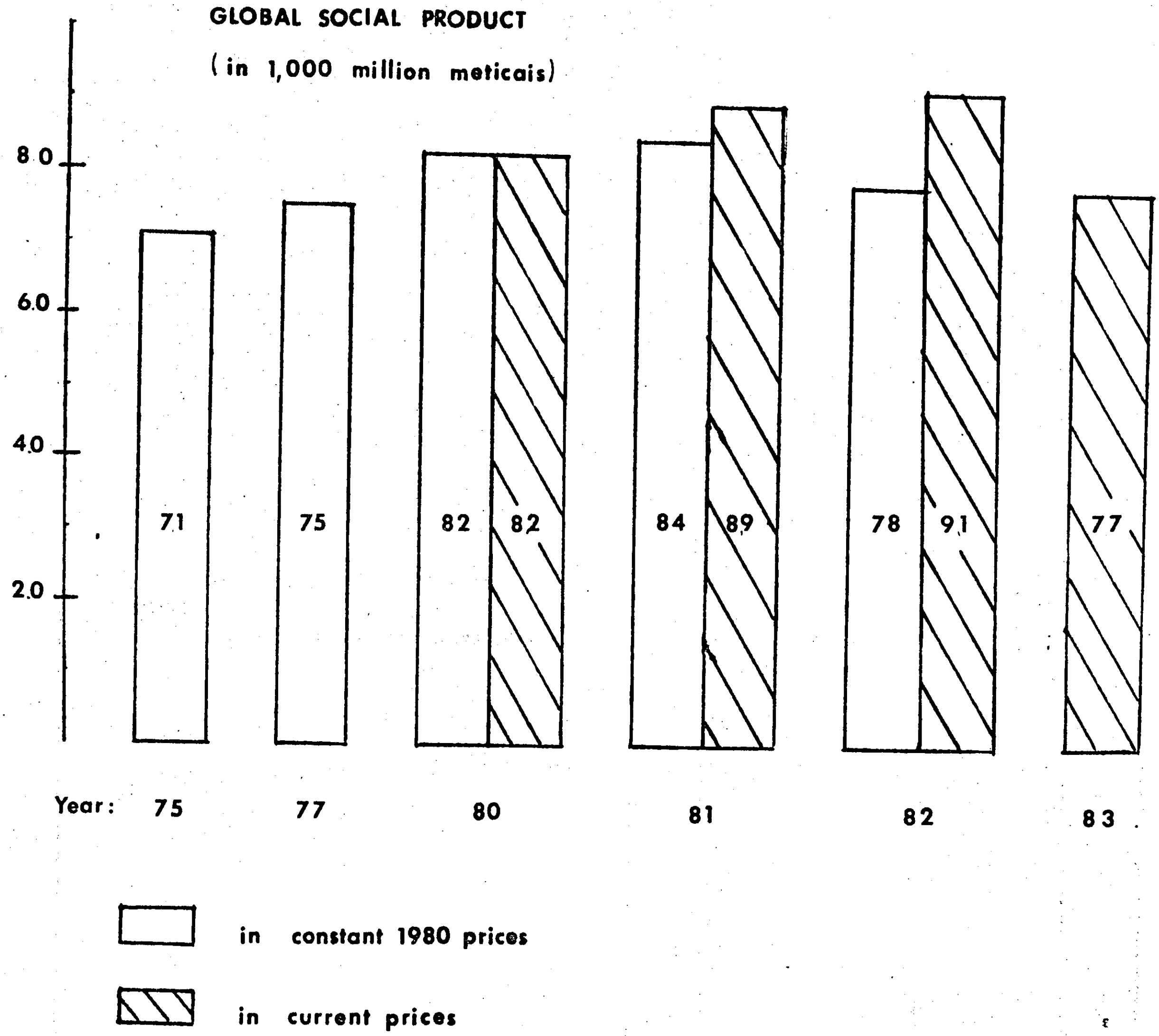
Source ; NPC 1984



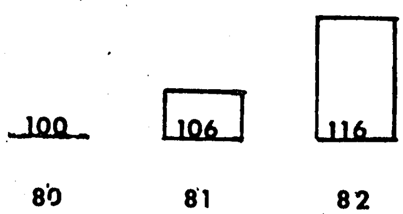
Graph 6.4

GLOBAL SOCIAL PRODUCT

(in 1,000 million meticais)



Implicit GSP deflator :



Source : NPC 1984

In summary, after the Third Congress the focuss of development shifted from consolidating productivity within the state sector to its rapid expansion through stepping up the rate of investment. As such, the state sector did not generate financial surplusses in accordance with the requirements of state accumulation, and only part of the difference was financed through foreign aid and loans. The remaining gap was financed through the creation of money by the banks in extending credits to the budget and to the state enterprises. The question now arises as to the consequences of these monetary disequilibria.

Financing Socialist Development

As was shown in the previous section, the accumulation in the state sector relied heavily on money creation as its principal internal source of finance. This process created monetary imbalances within the economy and this poses the question as to the consequences of such imbalances for socialist development.

Griffith-Jones argues that a useful starting point to examine inflation in specific cases of transition to socialism can be found in Kakecki's analysis of financing economic development in a mixed economy (Griffith-Jones, 1981:18). The basic premise of Kalecki's analysis is the following:

> "There are no financial limits, in the formal sense, to the volume of investment. The real problem is whether this financing of investment does, or does not, create inflationary pressures. ...It is easy to show that the crucial point in the problem of whether a certain level of investment creates or does not create inflationary pressures is the possibility of expansion of supply of consumer goods in response to demand". (1976a:44)

The key issue within this analysis concerns distribution and the key concept is that of forced savings as a source of finance of accumulation. The method is based on a structuralist analysis of real macro-economic balances and subsequently the financial adjustment mechanisms are deduced. Financial adjustments are analysed in terms of distributional relationships within a given social structure of the economy, and as such the consequences in terms of changes at the level of production are not explored or only marginally so. Production enters only in order to explain certain elasticities or rigidities in supply responses, but not within a context of tranforming the social structure of production itself as a result of the specific processes through which these monetary imbalances operate.

A straightforward example of an analysis based on Kalecki's key premise is provided by Saith in his article on the distributional dimensions of transition in Ethiopia (1985b:162-65). Saith argues that to maintain balanced development, economic growth should not imply a reduction in the standard of living of the poor. This premise then provides a simple equation of a dynamically specified equilibrium condition against which the actual experience can be assessed.

To see this, let p be the growth rate of population, y the targeted growth rate of income (which implies a certain rate of accumulation in the economy), and e the income elasticity of demand for necessities. It follows that the required rate of growth in the supply of necessities needed to avoid inflationary pressures on the price of necessites is given by the following equation which postulates a condition of balanced growth:

$$n = p + e(y - p)$$

[which is indeed the same basic equation as derived by Kalecki (1976b:99)]. Note that e is the average income elasticity of demand for necessities which reflects "a weighted mean of class specific elasticities" (Saith, 1985b:162).[9]

Assuming a plausible value for e, and inserting the real growth rates of population and income for the Ethiopian case during the 1974-79 period, Saith concludes that the actual rate of growth of necessities fell short of the warranted rate, and subsequently the financial adjustment mechanisms are hypothesized as follows:

> "Where the warranted growth rates are exceeded, two possibilities exist. First, the entire distributional profile could be depressed (or controlled) so as to achieve the required balance between the excessive demand and available supply of necessities. Such an effect could be obtained through comprehensive controls over the pricing and distribution of necessities. Hence, the loss of consumption would be shared by all. Secondly, and more generally, the rising price of foodgrains would act as an inequitable rationing devise, transfering real incomes and food consumption from the poor to the rich. Thus the value of e would be adjusted to its warranted level via income redistribution from the poor to the rich" (1985b:163).

Within this more general case, financial adjustment takes place through the inflation of food prices which implies that "the higher than warranted aggregate income growth rate is financed through forced savings in the form of lower consumption by the poor" (ibid:163).

Two observations need to be made with respect to this analysis. First, the logical chain of reasoning runs from imbalances within the real sphere to induced processes of financial adjustment so as to arrive at the resulting changes within income distribution. This analysis overlooks the fact that the process through which imbalances are created is not independent from the specific nature of the adjustment mechanisms. The question is not one of either/or with respect to possible adjustment mechanisms, because these processes take place within a organizational context which also determines the nature of the imbalances. The Ethiopian economy is characterized by a predominance of the state sector in major sectors of the economy and by the organization of the economy through central planning. The process of adjustment would not proceed through a flexible market price of food, but rather through the development of parallel markets and the widening differentials between official and parallel market prices of necessities. Competing circuits of exchange will exist within the context of a two tier pricing system. The character of these processes needs to be analysed so as to understand the nature and impact of the imbalances in the economy.

Secondly, contradictions within the economy will appear as struggles over distribution.[10] Indeed, the terrain in which the analysis is set concerns distributional relationships. This is not to say that distributional aspects are irrelevant or of secondary importance. The point is that a structuralist analysis does not address the question of the relationship between the nature of imbalances and the changes this can bring about at the level of production. It tends to analyse the burden of accumulation without reference to its content.

The problem is not solved by introducing production sectors within the analysis, and thereby broadening the framework of analysis by considering not only the question of forced savings (depressing consumption), but also the issue of net resource transfers as between such sectors. In this type of analysis, the key distinction with respect to sectors is not the type of economic activity (industry, agriculture, etc.), but rather the form of ownership (public/private, or more elaborately, state sector, capitalist enterprise sector, household production).

The context in which this broader type of structuralist analysis is set is the concept of the mixed economy. Within such economy, various production sectors characterized by different forms of production co-exist and the issue of financing economic development is seen to be not merely a question of the real wage, but also a question of balance as between the different sectors.

This point has been argued clearly by Fitzgerald in discussing the case of Nicaragua:

> "We have tried to show that the development of a macro-economic strategy based on 'real side' (in the Kaleckian sense and not that of the latter day new economics) balances to achieve macro-economic stability in the Plan, combined with a financial policy to support that strategy, is the correct way to approach the problem of stabilization rather

than the other way around. The Nicaraguan case shows how this can be done first to achieve a real downwards redistribution of income and then to 'force' domestic savings, in order to finance a higher rate of investment and substitute for reduced 'foreign savings'.

The shortcomings of the approach were already clear by 1982, and in 1983 were acted upon. In particular, the effect of inflation upon the relations between the 'formal' (or state-capitalist' in a crude sense) sector and the 'informal' (or rather petty-commodity form of production) sector was clearly negative. It was necessary to restore real wages and the internal terms of trade;...

The Nicaraguan experience would seem to indicate that financial balance is important, not to retain the required income distribution in the formal sector, but rather to maintain the current balance with the other forms of production--particularly the peasant farmers and the informal sectors" (1984:16-18).

Hence, apart from 'forced savings', two other key concepts come to the fore in this analysis: the concept of net resource transfers between sectors, and linked with this, the concept of the internal terms of trade as between two different sectors. The analysis therefore becomes more complex inasmuch as the problem of financing economic development is not only a question of maintaining a proper balance as between the rate of accumulation and the growth in the supply of necessities, but also in the exchange between different forms of production.

In fact, this conception of the need to maintain or to restore balance between the state sector and the popular sector was very much in the forefront of discussion in the concrete situation of Mozambique in 1983. The basic argument of the minister of internal commerce was that the deficits of the state sector had destabilized the exchange with the peasantry inasmuch as the state sector bought commodities from the peasantry in excess to what it sold to them. The peasantry was thus forced to hoard cash balances for which there was no outlet. As a result, it was argued that the peasantry withdrew from this exchange since there was no longer any incentive to produce cash crops or to supply labour power (Wuyts, 1983a: 1-5).

This theory fitted neatly in a framework of analysis in which money flows in two circuits with respect to two sectors within the economy (the state sector and the remainder of the economy). The imbalances created within the circuit of money within the state sector were then seen to spill-over into the other circuit, where it accounted for the withdrawal of household producers from the exchange. The preoccupation of the minister, not unlike the one expressed by Fitzgerald in his analysis of Nicaragua, was to restore balance between the sectors (Wuyts, 1983a: 5).

An interesting feature of this analysis of the relationships between sectors characterized by the form of ownership and set within a context of a mixed economy is that conceptually it runs completely parallel to the analysis of inter-sectoral net resource flows as between sectors characterized by economic activity (principally agriculture versus industry). Saith characterizes this latter approach as follows:

> "A quite distinct use of the notion of 'surplus' is made in the analysis of inter-sectoral net resource flows (ISNRF). Did agriculture generate a 'surplus' for financing industrialization in Japan, or China, or the Soviet Union? The inter-sectoral accounting framework used by Ishihawa (1967a, chapter 4; 1967b) for Japan India and Taiwan, and for China during 1950-59, by Elman (1975) and others for the Soviet Union during 1928-1932, and by Mundle and Okhawa (1979) for Japan during 1889-1937, and by Mody _et al_ for India and Japan, employs the word surplus to refer to the balance of trade, or the balance of payments, or other related balances arising from the exchanges between the sectors. These various surplus categories are thus akin to the ones derivable from the international trade accounting framework... .
>
> However, ..., this accounting framework could hide as much as it reveals with regard to the financial role played by agriculture: when transfer pricing is rampant in inter-sectoral exchanges, what is required is not a book-keeper who records the face value of transactions, but a cost accountant who can detect sharp pricing practices." (1985a:18)

Hence, Saith argues that not only the apparent net-resource flows between sectors should be taken into account, but also the hidden transfers which result from the movement of the internal terms of trade. These are indeed the concepts used by Fitzgerald to analyse the question of balance as between different forms of production.

In fact, both approaches converge not only with respect to the conceptual framework, but also in terms of substance if production sectors by form of ownership relate in a one-to-one fashion with production sectors by type of economic activity. The classic example is obviously the Soviet case in which the industry versus agriculture dichotomy converged with state sector versus peasantry division.[11]

This convergence of conceptual framework in dealing with the balance between branches of economic activity on the one hand and between different forms of production on the other is not so surprising since the underlying questions are very similar. To what extent is the burden of industrialization carried by the agrarian producers? And similarly, to what extent are the socialized sectors of the economy financed by the non-socialized ones? Hence, for example, if the state sector is seen to be the (at least potentially) socialized sector of the economy, the question relates as to how the growth of this sector is in part financed by other sectors such as household production and private enterprise.

However, two problems arise here if the method of analyzing macro-balances by means of inter-sectoral net resource flows is applied to deal with the issue of transformation within the transition to socialism. First, the danger is to see each sector as invariant inasmuch as the process of transformation of the character of the economy would then depend on the evolution of the balance between these sectors depending on their relative growth rates, and the latter in turn would depend on the extent to which one sector accumulates on the basis of resource transfers from the others. The question as to how these socialized sectors emerge and how socialization may proceed by transforming other forms of production (e.g., peasant production through the cooperative movement) is then left aside.

Secondly, the question arises as to the organizational mechanics through which this process of resource transfer between different forms of production is regulated (whether consciously or spontaneously). A concept of a 'mixed planned economy' in which different forms of production are 'articulated under state guidence' basically implies that the initiative lies firmly with the state with respect to the overall organization of the economy, although part of this articulation takes the form of market mechanisms (Fitzgerald, 1985:216). This notion does not preclude the possibility of contradiction or crisis, but the underlying notion of struggle is that of a conflict over distribution.

The concept of primitive socialist accumulation bears close resemblance to this type of structural analysis of inter-sectoral net-resource flows between sectors characterized by form of production. Nevertheless, it is somewhat more dynamically conceived inasmuch as it does not take as its starting point a given structure of various sectors within a mixed economy, but rather it looks at the process through which this structure evolves over time. Two aspects are important in this more dynamic set-up.

First, as clearly stated by Saith, primitive accumulation "involves a transfer of both stock and flow resources from an antecedent mode of production to an emergent one. It represents a transfer not between sectors, but between modes of production" (1985a:18). And, secondly, the notion of primitive socialist accumulation implied a concept of <u>struggle</u> as between two laws: the law of value and the law of socialist accumulation (Preobrazhensky, 1965:136-146).

Key to the notion of primitive socialist accumulation is that within the context of a less developed economy in which household production retains a significant, if not dominant, share in rural production, the process of transition is of necessity a protracted one. The initial nationalizations of the commanding heights of the economy and their consolidation within a state sector still only represents an enclave within a wider economy. To develop, this 'socialist' sector would need to expand not only on its owm steam, but also through transforming resources from the remaining private sector (Harrison, 1985:86).

With respect to the nature of these transfers, both <u>stocks</u> and <u>flows</u> are important. Indeed, for example, <u>expropriation</u> and <u>nationalization</u> are specific instances in which stocks are transferred between various forms of production. The expropriation of land holdings and either their redistribution to the peasantry through a land reform, or their absorption within the state sector is an example of this type of 'transfers'. Indeed, the state sector emerges precisely as a result of nationalization of private enterprises.

With respect to <u>flows</u>, Harrison points outs that the notion of primitive socialist accumulation as originally viewed by the Bolsheviks not only referred to flows of commodities, but also to flows of labour power:

> "For him [= Bukharin], primary socialist accumulation meant the mobilization and militarization of labour from beyond the ranks of the existing working class. Concription of the peasantry into public works would provide the necessities for industrial reconstruction on socialist lines. Although popular for a short time (at least among Bolsheviks) this idea was shelved in 1921 with the relaxation of wartime controls and initiation of NEP. When Probrazhensky (1965:91-112). revived "primary socialist accumulation" in the NEP context, the priorities had changed. Now the key dimension appeared to be the mobilization of the agricultural surplus product and its transfer to public sector industries by means of direct and indirect taxation of peasant producers" (1985:87).

In fact, the issue of the transfer of labour power 'from beyond the ranks of the existing working class' has special reference in these instances where the process of proletarianization itself was <u>incomplete</u>. In Mozambique, the colonial plantations and settler farms were based on the supply of seasonal labour power drawn from the peasantry with the aid of the coercive power of the colonial state. This supply of labour power was cheap inasmuch as the labour remained linked to household production and hence the wage did not cover fully the subsistence requirements of the worker and his family. The state farm sector largely inherited this form of procuring its labour supply, and in fact, planners at the ministry of agriculture often assumed an elastic supply of seasonal labour power when elaborating their plans. The fact that the state sector itself was based on this specific supply of labour power and hence that decisions taken with respect to this type of labour power would need to be evaluated in conjunction with a policy on transforming household production was largely overlooked (O'Laughlin, 1981:9-32). In his analysis of the agrarian question in Nicaragua, Fitzgerald makes a similar point as to the nature of the source of labour power for the state farm sector (1985:211).[12,13]

The key notion of primitive socialist accumulation is that of the necessity of transferring resources to the state sector so as to propel its more rapid expansion than that of other sectors over time. Comparing this with Fitzgerald's analysis on Nicaragua the difference in accent is striking. The latter argues for maintaining balance between the different forms of production, and indeed draws this necessity as a lesson from the Nigaraguan experience. Within the view of Preobrazhensky:

> "if capitalism is motion, socialism is still more rapid motion. And what it loses in speed in the period of primitive accumulation, in the sense of development of its technical economic base, owing to extreme poverty in capital, it is obliged to

> make up for by intensified accumulation at the expense of the non-socialist milieu" (1965:110).

Disequilibrium in the exchange with other forms of production (and specifically with the peasantry) was foremost in Preobrazhensky's mind. This comes out very clearly in his view on the issue of paper money as a form of primitive accumulation:

> "When the state is at the same time an organ which rules the country and the master of a huge economic complex, issue of paper money directly serves as a channel for socialist accumulation. This accumulation is carried out at the expense either of the incomes of the petty-bourgois and capitalist elements or of reduced wages of the state workers and office employees"(ibid:91).

In contrast, Fitzgerald's analysis on the rural question argues strongly for maintaining balance between the socialized sector and household production in the interest of production. Hence, his argument is for the consolidation of the state sector while supporting rather than competing with other production forms (1985:220). Undoubtedly, Fitzgerald was sharply aware of the dangers implied in a scissors crisis if the imbalances got out of hand.

However, there still remains the question why Preobrazhensky stressed the urgency of this process of transition. For him, the key issue was that of struggle as between two laws of organizing production, and their co-existence "cannot exist for long, because one system must oust the other" (1965:110). In Fitzgerald's analysis this notion of internal tension as between two organizing systems is not present as can be seen fron the following two statements:

"None the less, the major shortcoming of this accumulation model was undoubtedly its almost exclusive concentration on the APP [state sector] as a focus of modernization. Large private farmers might not wish to invest, but the middle farmers and the cooperatives were also neglected in machinery assignment, cattle restocking, and irrigation equiptment. The political objective of preventing the re-emergence of capitalist accumulation or the reconstruction of a rural bourgoisie (albeit on a petty scale) appears to have been the main justification. However, the cost in terms of production was high, and in any case such a sector could have been simply controlled through the existing fiscal, banking and commercial mechanisms, let alone the eventual applications of Agrarian Reform Laws (1985:220)... .

"To overcome this contradiction, which is already apparent, the APP would have to restore part of the role of estate agriculture in the rural economic formation, acting as a point of articulation for small and medium farmers instead of acting as a competitor to them. This articulation essential implies subordinating them to the state sector rather than marginalizing them, but also means shifting input and

> investment resources towards them in exchange for guaranteed production sold to the state" (1985:224).

In this view, the economy is firmly directed by the state which can determine as well as alter the conditions under which other forms of production develop. The state itself appears to be above class forces which those transformations may set in motion. Hence, the references to the state 'controlling' the scope of development of the other forms of production, as well as to the state sector 'subordinating' their dynamic to its own requirements. This view precludes the analysis of contradictions which may imply that the state looses its grip over the economy (and not merely because of a withdrawal reflex from private production) and that it looses its own cohesion in action since it too is on object of class struggle with respect to the process of transition.

In her analysis of the agrarian question in Mozambique, Bridget O'Laughlin stresses the urgency of a broad based process of transformation based on the simultaneous process of the growth and transformation of the state sector and the development of the cooperative sector. The former requires transforming the migrant labour system which underlies production in the nationalised agricultural sector (and hence breaking with the pattern of primitive socialist accumulation by drawing labour-power from the peasantry), while the latter expresses the need to raise productivity within family agriculture through its transformation within the cooperative movement. Hence, the need to advance on two fronts within the context of agrarian change. Within this view, the sectors are not seen as invariant, rather, each sector is subject to motion which interconnects through the relation between them (1981).[14]

Implicit within this view is that state economic power can be organized to propel this process of transition and hence retain the initiative in mobilizing class forces in favour of such transition. Conversely, failure to transform does not necessarily imply inaction or retarded development, but it may set in motion processes which may end up entering in direct competition and confrontation with socialist transition.

In this respect, the role of monetary imbalances can be singularly important. The danger inherent in financing the development of the state sector by issueing money which aims at transferring resources from the private sector to the state sector is not merely a question of distributional struggle on the part of private producers.

The key issue here is that the capacity of the state to propel a broad process of transformation depends on the way in which it succeeds to mobilise social forces within the economy through the specific forms in which it organises its economic power to intervene within the economy. Through its intervention within the economy the state sector can alter the terms at which access to material resources is determined, and as such influence the dynamics of change. The domain of the official economy is therefore dependent on the content and the organization of planning the transition.

This power is not absolute, and hence the domain of the official economy does not coincide with the economy at large. The state fragments the access to economic resources by using its own economic power within the context of a managed economy in which the state does not control all production. The boundaries between the official and parallel economies therefore depend on the content and the organization of planning state economic power in its intervention within the economy.

The strength of the argument of O'Laughlin lies in the realisation that state economic planning (in the concrete conditions which prevailed in Mozambique) could not afford to concentrate its efforts exclusively on the transformation and quantitative expansion of the state sector, since this would destabilise the peasant economy, and ultimately end up frustrating the process of state-centered accumulation itself, since it would prove impossible for the state to mobilise material resources within the wider economy behind the expansion of the state sector.

In the next chapter, it will be argued that the process of state-centered accumulation located the dynamics of the development of family agriculture within the parallel economy, and as a result propelled the forces of social differentiation of the peasantry.

Hence, the question of the parallel economy within the process of transition is not merely an issue of a nuisance befalling planners. The key issue is not its impact on distribution (although the development of parallel markets had important distributional implications), but its implications in terms of shaping production relations within the economy.

In the previous section the apparant fall in the velocity of money during the 80-83 period was pointed out. One explanation for this phenomena is given by Harrison in his discussion of the agrarian question in Soviet development:

> "...it is true that before collectivization peasants had begun to withhold sales of foodstuffs (especially grains) from state procurement agencies, but the reason was not the adverse terms of trade, which were improving. The reason was that the ambitious public sector investment programme was inflating household purchasing power in both town and country beyond the capacity of consumer industries to satisfy it. Lack of availability of consumer goods forced the seller of foodstuffs to accumulate <u>useless cash</u>, and constituted a disincentive to sell" (1985:92; my emphasis).

This argument abstracts from the operation of parallel markets and the <u>circulation</u> of money within these parallel circuits. As will be shown in the next chapter, the experience of Mozambique indicates that the hoards of useless cash quickly became transformed into <u>money capital</u> in the hands of speculative commercial capital. As such, money acquired an active role within the economy.

Financing the War and Deregulation

From 1983 onwards, the war waged by South Africa through the MNR against Mozambique became the overriding political, military and economic issue. At the economic level, the crucial question was how to pay for the war. At first sight, therefore, it may appear surprising that in a situation where the issue of organizing for a war economy became of central importance, the question of liberalization of the economy and consequently the demand for deregulation became a major issue. Indeed, the organization of an economy within a war situation normally implies centralization of decision making as well as increased regulation so as to concentrate resources behind the war effort.

Both external and internal factors accounted for the fact that the demand for deregulation of the economy became a <u>political</u> issue. First, as shown in chapter 5, there was the policy of opening-up to the west in the second half of 1983. Along with this move towards closer alliance with Western countries would come the external pressure for deregulation and liberalization of the economy.

But the pressure for deregulation and for freeing the market was not merely external. After the fourth congress a <u>pragmatic</u> position gained strength among party members and government officials. The argument was that in times of acute production crisis the overriding priority should go towards increasing production. To achieve this aim it was felt that it was necessary to allow for the partial liberalization of the economy by abolishing 'negative' controls over trade.

This solution appeared pragmatic inasmuch as it was seen to be the quickest way to recuperate production. And, de facto, there was an objective basis for it inasmuch as the prior development of parallel markets had created a certain room for manouvre for private enterprise as well as for the richer peasantry to gain relatively in strength. Private enterprise therefore appeared as more vigourous and capable as well as willing to organize production. Hence, the demand to allow more space for the development of the unoffical economy next to, and interconnected with the 'official' economy.

As such,the economy was operating a "two-tier pricing system, with a substantially differentiated market associated with differential prices" (Mackintosh, 1985: 59). At the level of domestic policy, the question of encountering new solutions in a crisis situation was not so much seen therefore as that of 'freeing the market', and hence moving towards a single pricing system, but rather the much more guarded approach of increasing the sphere of operation of the unofficial economy by deregulating certain prices (e.g., for vegetables and fruits as will as for dertain food crops such as cassava) and by channelling more resources towards private producers on a quid pro quo basis with the state sector (ibid, section C).

In fact, there are sound theoretical reasons why a two-tier pricing system should by maintained under such circumstances, contrary to what the free-market ideologues of many donor countries may think. An interesting parallel can be found with the debate which took place on the 'planning versus the market' issue in Britain immediately after the second World War. Of specific interest is the arguments put forward by H.D Henderson in his Presidential Address delivered to the British Association for the Advancement of Science on September 10th 1948. The opening paragraph has a 'deja vu' ring to it for anyone familiar with the recent Mozambican situation:

> A year ago, my predecessor in my present role, Professor Dennis Robertson, devoted most of his address to a review of the controversy which was then active about the potentialities of economic planning. I had made my own contribution...and which I was moved to write, partly by what seemed to me the incoherence of the planning ideology which was prevalent, and partly by the suspicion that planning appealed to many as having the properties of a magic charm which would enable us, not to solve, but to shirk our problems. Since then the ideologues of planning have remained mostly on the defensive, while their opponents, marching under the banner of a return to the price system, have launched a general assault. I had better confess at once that this revivalist ideology seems to me marked by the same defects which repelled me in planning ideology, that is to say, inchoherence and wishful thinking. The phrase, 'the price system', is bandied about as though its meaning were

self-evident, and as though it, too, has the properties of a magic charm" (1948:467).

To substantiate this statement, Henderson argued that in times of large-scale economic maladjustment the concept of an equilibrium price is plainly ambiguous. In true Marshallian fashion, he draws the distinction between the short run and the long run equilibrium prices, which--he argues--in ordinary times are seldom far apart. However, in times of severe economic disturbances in which there is a large excess of demand over supply, the short term equilibrium price may be very high; -effectively much higher than is useful to stimulate production since "an exorbitant price does not stimulate production appreciably more than a good price; it frequently stimulates it less" (ibid:473). And furthermore, he argues, "the disadvantages of an exorbitant price, or in more popular language, a profiteering price, may be very great" (ibid:473). Hence:

> "It is a mistake, therefore, to suppose that in such conditions the theoretical short-term equilibrium price is either what we want, or what we normally get in a free economy, or that relative prices would be "right" if the State did not interfere with them by controls and subsidies. ...Prices fail in these circumstances, to discharge the function of lopping-off excess demand; and problems of allocation must be dealt with by other means or left unresolved" (ibid:474).

He concludes by suggesting regulated prices guided by normal long-run equilibrium prices and supplemented by quantitative controls and rationing rules.

So much for a neo-classical argument in a different context, but the rationale for the two-tier pricing system can be very well understood with reference to this argument. As Mackintosh showed, the price adjustment of 1985 aimed to allow for profitable production at official prices such that the state sector would either break even or make profits, and subsequently the state sector should rally its economic power within markets to restrain parallel market prices (1985, sections B and C).

However, the situation in Mozambique was not merely a question of maladjustment as such, but rather that of an economy ravaged by an internal war. The key political issue is to regain the initiative in the struggle with the enemy, and this requires that the economy is organized such that it can pay for the war.

Two issues are of central importance. First, the state has to be able to secure procurement of food crops to feed the army as well as the towns, and of cash crops to obtain foreign exchange to pay for the war effort as well as to maintain the economy and to run essential services. The state sector can do so by producing these crops directly and by using its economic power so as to obtain the necessary marketed surplusses.

Secondly, since the war is waged within the country and hence the situation varies from region to region and in time, economic decision making cannot be but decentralized inasmuch as it needs to adapt to the situation at hand (Mackintosh, 1985:68).

Both aspects together call for a _strategic_ approach in relation to which _tactical_ measures can be decentralized to respond to the situation at hand. The tendency however seems to have gone in the direction of _ad hoc_ tactics which tend to _drift_ on the existing configuration of class forces rather than acting upon them or organizing them from a clear strategic perspective. This in turn is an indication that the initiative in part has been lost due to the action of the enemy.

A case study by Mackintosh suggests that a _symbiotic_ relationship may be developing in some regions between the state sector and private enterprise (1985:54). This relationship is essentially based on a _quid pro quo_ principle in which the state sector through its control over key resources can obtain part of the marketed surplus of the private farmers:

> "Almost all producers and traders in Chokwe in 1985 were engaged in some kind of balancing act between the state and private sectors of the market. The state was actively using the consumer goods it controlled to provide basic consumer goods to the population, but also to do it in such a way that it supported production in state and private farms, and suceeded in buying rice. The private farmers, for their part, were balancing their exchanges with the state against operations in the private (legal or parallel) markets" (_ibid_:57).

The fact that such relationship should develop is not surprising in the light of the argument put forward in the previous section (and which will be developed in more detail in the next chapter). The process of state centered accumulation during the 1977-83 period had as its consequence that the peasant economy became located in the parallel economy since the state failed to provide material backing for its socialization. Within these parallel markets commercial speculative capital gained in strength as it transformed the excess money pumped into the economy into money capital. The state wielded the power to issue money, but speculative capital held the power of money balances within the economy. As such, alternative terms and circuits of exchange developed which accentuated the differentiation of the peasantry and provided a field for operation for private enterprise and the richer peasantry. The production crisis of 1983 and the consequent pragmatism in policy widened the scope of this parallel economy into a more broader unofficial economy in which more resources were channeled by the state in search of obtaining a marketed surplus. Private enterprise therefore can engage in a <u>balancing act</u> which effectively means that it has more options open to it which allow it to explore new avenues of operation. The state opens up these options in order to secure a marketed surplus under its control and uses its economic power to forge the exchange. De facto, the state sector has come to terms that private enterprise represents an economic power to reckon with. To get immediate results, the state sector is driven to build on the best, especially in a situation where resources are extremely scarce.[15]

Ad hoc tactics without strategy tend to reinforce the existing balance of class forces, rather than propelling it in a certain direction. Clearly, the majority of the peasantry functions only marginally within this setup inasmuch as the process gravitates against them (as will be shown in the nest chapter). Hanlon argued that:

> "Despite the chopping and changing, Mozambique's agricultural policy has been consistent. It has consistently ignored the two essential tasks of socialist transition--changing the relationship between the state and peasants, and modernizing peasant agriculture--and has instead consistently tried to obtain quick results.
>
> The Third Congress saw state farms as the 'quickest way'. That view carried with it the assumption that machinery, expensive, imported hybrid seed and fertilizer 'must' produce more. The Fourth Congress looked to family and private farmers as the 'short-term' solution. So the same machinery, seeds and fertilizer are given to private instead of state farms." (1984:119).[16]

The notion of 'building on the best' indeed preempts the development of a broad front which aims to reach the mass of rural producers. It is a fallacy to believe that the state sector through material support, extension services or credit facilities would be able to reach the majority of the poorer peasantry on an individual exchange basis. Only through the cooperative movement based on the organized poorer peasantry can the state encounter a real alternative in recuperating production on a broad front. The poorer peasantry have an objective interest to ally with the state sector to widen the reach of the official economy since the sharp inflation on the parallel markets has reduced them to poverty and starvation. This choice is not that of the private farmer who balances his rates of return as between the official and parallel economies since he manages to occupy a crucial point of intersection in the circuits of exchange. Rather, their real and only choice is to struggle against the further erosion of their living standards by an unofficial economy which engulfs them. As such, they constitute a viable alternative to widen the sphere of the official economy and to curb the scope of the parallel market.[17]

Such policy would not imply that no support would be channeled to private enterprise, but rather that the balance of relative priorities would be redressed. However, it would not merely be a question of micro strategies at the regional/local level in terms of state support to the cooperative movement. Rather, it would also crucially depend on how financial adjustment policies are worked out at the national level.

Essential, two broad strategies appear to confront the present-day situation. One is that donor countries as well as IMF and World Bank missions will tend to favour a solution which would deflate the economy such as to curb excess demand as well as deregulate prices while devaluing the exchange rate.

This strategy is likely to have disasterous consequences in the context of Mozambique. The crisis which Mozambique goes through is principally a production crisis which to a large extent has been deepened through the war as well as previous drought years. Average consumption per head of basic necessities is therefore precariously low, but the fact whether this produces widespread famine and starvation is not merely a question of average availability of food, basic medical services, etc., but also of the distribution of access to such commodities or services (Sen, 1981). Given the wide disparities between the official and parallel price systems, and given the concentration of money balances within the unofficial economy, a policy of deregulation combined with deflation would radically alter the distribution of income within the economy. Existing safety nets such as the rationing schemes for the towns and the quota system in rural areas would fall away and lead to severe cuts in real incomes.

It is unlikely that such policy would be implemented overnight because of its obvious disastrous implications. The real danger lies in a creeping encroachment of such policies on the economy as a result of the external pressure exerted on policy making and the ad hoc attitude of the Party and the government. This would lead to a situation not unlike the one in Tanzania in which the government (or more correctly, certain forces within the Party and government) is placed in a position of defense of its policies without maintaining the initiative in shaping the country's policies. In a recent interview with former minister Jamal on the effects of partial liberalization of the economy, he stated that his main preoccupation was the "erosion of formal earnings" (Interview, July, 1985). In other words, the informal (parallel) economy was gradually eroding the sphere of operation of the official economy.[18]

An alternative strategy would imply adjustment policies which aim to widen the reach of the official economy and simultaneously reduce the differential between the two-tiers of the pricing system. To do so would require a policy package which would aim at monetary reform so as to sterilize/destroy excessive cash balances in the economy, combined with currency devaluation and compensating adjustment in minimum wages. The objective would have to be to do curb the influence of the money balances held within the inofficial economy so as to stabilize the currency by placing the burden of adjustment on speculators.

Footnotes

1. However, as stated in the introduction, the aim of this chapter is not only to contribute to the analysis of the political economy of transition in Mozambique, but also to the wider debate on money and the transition to socialism.

2. The concept of supply multipliers is taken from Benassy: "symetrically to this case [demand multipliers], one may define supply multiplier chains, with all goods in the chain in excess demand and all traders' demand constrained. In such chains, shocks on the supply side of one market in the chain will be transmitted to the other markets with the same sign and will thereby give rise to multiplier effects" (1982:49). This concept is quite useful in the analysis of resource-constrained systems (Kornai:1979).

3. The aim to hit at speculative money balances was specifically stated in the preamble of the law of 16/6/80 which led to the creation of the metical.

4. Colonial statistics were generally of poor quality and few consistent series existed for any length of time. This was also the case with national income data. National accounts were compiled for Mozambique for the period 1959-61. After that, the statistical estimates of national income merely extrapolated the above mentioned estimates. Hence, the report on the Fourth Development Plan drawn up in 1973 estimated GDP at 46,770 million escudos for 1970, as compared with the estimate of 30,750 million escudos made by F. Pereira de Moura and F. Amaral (1977).

5. See also Nove (1983:70-73) on the issue of tensions within the plan and their relation to money.

6. This information was obtained in an interview with R. Balthasar, Minister of Finance, made by a CEA research team in June 1983.

7. Rather, this deficits were effectively dealt with as a question of debt resheduling by the banking system, and as such financed through money creation (field-interviews: 1983).

8. The data on the money supply and on internal credit were taken from the report by Mackintosh (1985:91).

9. Saith applied this formula for the 1974-75 period to check the food balance for the Ethiopian economy. Hence, he used this equation to compare the growth in real GDP with the growth in food production (which he approximated by the growth rate of real agricultural GDP). For purpose of comparison, the 1977-81 period was taken for the Mozambican economy.

Annual growth rates	Ethiopia 1974/75-79/80 (%)	Mozambique 1977-81 (%)
y	2.5	2.8
n	1.6	1.6
p	2.7	2.6
y - p	-0.2	0.2
n - p	-1.1	-1.0

10. Fitzgerald (1983:17) refers to Kalecki's work as "marxian (if not marxist)". I would argue that Kalecki's work is essentially Ricardian in inspiration inasmuch as his concern is to investigate the relationship between accumulation and distribution. Within such conception, class struggles within capitalist economies are

seen as struggles over the shares of profits and wages in income. See, for example, the growth model of Kaldor (1970:81-91) or more recently of Taylor (1981:32-36) as illustrations of this approach. Within the discussion of growth in a socialist economy, this type of model will investigate the problem of choice as between immediate and future consumption, as is the central theme of the Feldman model of growth (see Domar, 1972:149-172). Alternatively, the model can be extended to include sectors characterized by various forms of production and the distributional relationships between them (f.e. Fitzgeral, 1983).

11. Another example of this approach in the context of a state versus peasantry dichotomy is provided by F. Ellis' work on Tanzania (1982) . He defines the principal struggle as springing from the drive on the part of the state sector to achieve control over the marketable surplus. Also, in this case, the analysis concerns a struggle over distribution and the key concept is the internal terms of trade. The institutional set-up of parastatal marketing boards is integrated into the analysis since producer prices appear as the residual factor after (inefficient) marketing costs and the commercial mark-up have been deducted from the sale-price of the parastatals.

12. "The classical division between between 'rural proletariates' and 'peasants' is not a very meaningful one in Nicaragua because as 'pure' classes they are not dominant. The permanent labour force is roughly 20 percent of the total, while independent peasants and their family labour are another 25 percent. The remaining 50 percent...are semi-proletarians, seasonal workers at harvest time and sup-subsistence peasants the rest of the year" (Fitzgerald, 1985:211).

13. In the case of the state farm sector in Ethiopia A. Ghose argues that: "the state farms are engaged in the exploitation of

peasant labour. The permanent labour force employed by the state farms is small and highly paid. For much of their production activities, the state farms in fact depend on hired casual labour which is supplied by peasants in search of cash incomes. Casual labourers are usually paid a daily wage equal to the statutory minimum daily wage of 1.92 birr. In general, average labour productivity on state farms is much above this while the implicit wage rate of permanent workers is much above the average labour productivity" (1985:140).

14. Saith argues that the priority accorded to industrialization sets the limits within which institutional change within agriculture can take place:

> "The new socialist governments in the Third World have had to tailor their rural developmental and institutional strategies in the limits provided by the three needs for surplus utilization, namely, accelerated industrialization, defence apparatus and basic needs, with the last forming an 'also-ran' in some cases and a non-starter in others. For reasons which are not too far removed from those discussed in the Soviet case, the choice becomes whether the national development strategy places agriculture first, or industry first. The unquestioned primacy of industrialisation then defines the stategic space for the formulation of rural development policies. The question here becomes whether the government should aim for generalized rural development or, whether, instead of spreading the left-over butter--after greasing the industrial sector--too thinly, it should concentrate its available resources in projects of high returns. The answer is implicit in the question: since agriculture provides the vital resources for the state, the crucial variable is the marketed surplus, not the total output of the rural sector. A higher output, if achieved at

the expense of a decline in the marketed output, would become cause for concern to a state interested in sharply accelerating industrialisation. As such, the state goes in for a strategy which pivots on selective agricultural commoditization, while excluding the rest ofr the peasantry from the mainstream development process. Such a strategy represents simultaneously the cause of imbalanced growth, as also an instututional arrangement for absorbing its implications. As far as the food balance is concerned, the state now carves out a core economy within the national economy, comprising the modern industrial sector and the selectivity commoditised component of the rural sector. For this core economy, a food balance might be maintained through first, the concentration of the state's available resources for rural development in the commoditised subsector which supplies itself and the urban modern industrial and state sectors, and, second, through restricted imports of foodgrains to supplement these supplies where necessary. The excluded sector then is more or less left to its own devices and has to generate a growth rate at least to match its additional population" (1985a:36).

15. An interesting parallel can be found in the following argument: "But the longer the socialization of the countryside is delayed after the revolution, the more the half-baked putty of transitional or 'temporary' rural production relations becomes clay, and the harder it becomes to remould it without having to break the structure altogether. Since Soviet-style collectivization is hard to accept as being even remotely feasible in contemporary situations, the progress must be that the socialist programme for institutional transformation of the countryside will not get beyond the first stage of intervention: indeed, subsequently, institutional regression--in the form of

differentiation of the peasantry and a subversion of partial co-operative organizations--is likely to set in. What is more, this regression itself could be institutionalized. Thus, the de-collectivization and the peasantization of the collective sector in a wide range of socialist countries is ironically being conducted as a response to the ostensible 'failure' of socialist agriculture" (Saith, 1985a:36).

In relation to the policy of opening-up towards private enterprise after the Fourth Congress, the important point is that the assumed vitality of that sector was in fact a product of state policy.

16. Saul's analysis of the significance of the Fourth Congress with respect to the issue of rural transformation is quite different from Hanlon's view as quoted here. Saul sees the Fourth Congress as the outcome of a struggle between "the primitive accumulationists" and the "socialist reproductionists": a struggle which tipped the balance in favour of the latter. For Saul, the 'economics of socialist expanded reproduction' refers to a position which argues that the process of accumulation can take place along with the growth in the supply of basic necessities (not unlike Kalecki's view) as against the 'primitive accumulation' view which he identifies with the position that accumulation implies a sacrifice in terms of the standards of living. Also, and not identical to the former distinction, Saul refers to the former as a view which sees a broader process of transformation in which town and country reinforce themselves through the expanded exchange, rather than a view which sees the extraction of surplus from the peasantry as the key equation. To Saul therefore the struggle was about two paths of agrarian socialist transformation distinguished by their concept of accumulation. He traces the 'socialist reproductionist' view back to the fourth session of the CC of the party (in 1978), and through various policy statements up to its victory within the Fourth Congress. Definitely, the

Fourth Congress stressed the importance of the cooperative movement as well as the need to support household production within an exchange which is acceptable to the peasantry. However, Saul does not take account of the fact that neither the Third nor the Fourth Congress analyzed the peasantry as being subject to class forces from within as determined by an overall context of development. The argument put forward in this chapter and further developed within chapter 7 is that state action itself created the objective conditions for the development of parallel markets, and as such, for the increased differentiation of the peasantry. The demand for deregulation and increased reliance on private initiative were also objective forces within the Congress, although often presented as a need to aid the 'peasantry' in general.

17. In fact, in his article, "On Cooperation", Lenin pointed out that it was precisely within the context of the liberalization under the New Economic Policy that the cooperative movement becomes of paramount importance: "By adopting NEP we made a concession to the peasant as a trader, to the principal of private trade; it is precisely for this reason (contrary to what some people think) that the cooperative movement is of such immense importance.

...We went too far when we introduced NEP, but not because we attached too much importance to the principle of free enterprise and trade--we went too far because we lost sight of the cooperatives, because we now are already beginning to forget the vast importance of the cooperatives..." (1968:683-84).

18. A recent analysis of monetary imbalances within the context of the Tanzanian economy is provided in a working paper of J. Verloren van Themaat (1984).

CHAPTER 7

MONEY AND THE AGRARIAN QUESTION

Introduction

In this chapter it will be argued that the question of the dynamics of the parallel economy is of crusial importance to understand the processes of agrarian change as they took place within the context of the system of state centered accumulation.

At the time of the Fourth Congress in April 1983, Mozambique was in the grip of a severe economic crisis which was compounded by war and the drought. Within the rural economy the symptoms of the crisis were well known: the decline in official marketing of food and of export crops produced by the peasantry, the depreciation of the metical and the rampant inflation on the parallel markets. In fact, the report of the central committee to the Fourth Congress stated clearly that:

> "The center of gravity of the class struggle in our country is located increasingly in the economic field. Together with the defence of the country this is the major battle that we are waging in the process of building socialism in our country" (Frelimo, 1983a: 26).

Furthermore, it was stressed that:

> "Speculation, hoarding and the black market have been transformed into a system of economic destabilization" (Ibid: 25).

Notwithstanding the emphasis which was given within the Congress documents on the destabilizing role of the parallel economy, the documents do not provide any economic analysis as to the causes of the parallel markets. Hence, in the section on "The main lines of development" (Ibid: 57-62), no reference is made to combatting the erosion of the official economy through the operation of the parallel markets by means of economic policy.

The question of candonga (= the term used to refer to all parallel market activities) only was raised again in the discussion of the character of the class struggle in Mozambique. In the section on 'internal agents' the document stated:

> "Hoarding and speculation worsen the situation of supply for the people, sabotage our state pricing policy and cause discontent and social instability. Thus they are part of the global process of destabilisation of our society.
>
> The successive analyses made by our Party leadership clearly indicates the need for an energetic fight against armed gangs, infiltrated agents, rumour mongers and black marketeers. They are the agents of counter-revolution." (Ibid: 69; my underlining)

As such, candonga was seen to be the outcome of the activities of candongueiros (= black marketeers).

However, in the discussions of the 11th Session of the Popular Assembly (March, 1983) there were several interventions which hinted at the fact that part of the problem of candonga was due to the economic policies of the government (Noticias, 25/3/83). More specifically, it was argued that excessive money creation by the banks in order to finance the deficits of the state sector created the objective conditions for the the emergence and the development of candonga (Ibid).

In the first section of this chapter, I shall develop this view in more detail within the framework of the Soviet-theory of money under central planning in a context of an economy in transition. It will be argued that this view basically identifies the main problem as a distributional struggle over the balance in the allocation of resources between sectors and over real incomes of producers within these sectors.

In a subsequent section I shall argue that the development of the parallel economy can only be understood as the product of a managed economy in which the state uses its economic power to fragment markets by imposing its priorities and its rationing rules on the allocation of resources within the economy. The erosion of the official economy by the operation of the parallel circuits reflect the failure on the part of the state to transform the economy. The excessive money creation by the state, which itself is a reflection of the priorities and rationing rules of its strategy, can fuel the development of this parallel economy by the impetus its gives to the accumulation of money capital in the parallel circuits.

In this sense, money acquires an active role in the economy, but it is not the cause of the problem. The real cause of the problem lies in the failure of the state to transform class relations within the rural economy, and hence its planning de facto boiled down to pseudo planning.

Excessive Money Creation and the Parallel Economy

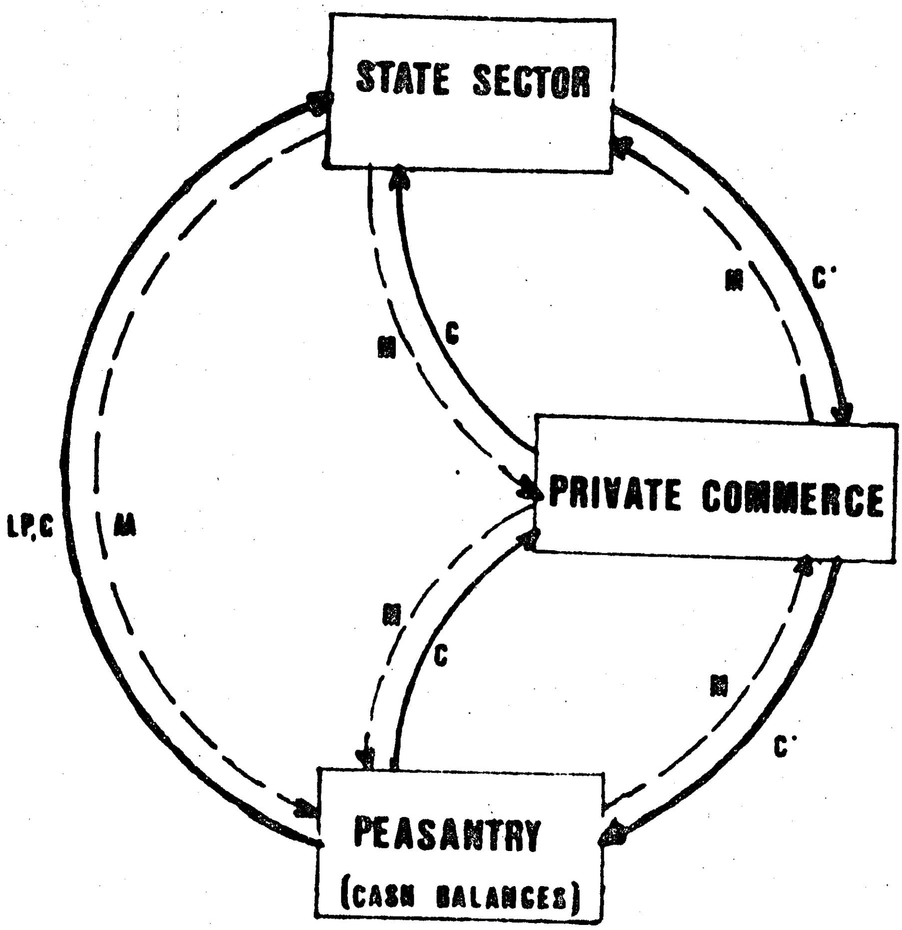
In chapter 6 it was argued that the monetary system of Mozambique in the period 1977-83 was set up within the context of two circuits which correspond to the organization of central planning. The first circuit concerned the circulation of money within the state sector (as well as incorporating larger-scale private enterprise). This sector was directly organized by the system of material balances. Secondly, there was the circuit which articulated the exchange between the state sector and the popular/small-scale private sectors. Here, it was planning of aggregate flows which aimed at regulating this exchange. Both circuits together constituted the domain of the <u>official</u> economy.

The exchanges between the peasantry and the state sector form part of the second circuit. Fig 7.1 provides a simple diagrammatical representation of this exchange of commodities and money as it was viewed by cadres within the ministry of internal commerce and in banking (Wuyts, 1983a: 1-4).

In this circuit, the peasantry appears as a homogeneous entity. Furthermore, the exchange between the state and the peasantry with respect to buying and selling commodities is to a large extend <u>intermediated</u> by private trade.

The basic question was to explain how imbalances can arise within this circuit, and how these can lead to the development of parallel circuits.

FIG 7·1



M ; MONEY

LP ; LABOUR POWER

C ; CASH CROPS

C' ; COMMODITIES SUPPLIES TO RURAL AREAS

In his intervention to the 11th session of the Popular Assembly in March 1983, the Governor of the BM, Prakash Ratillal, analysed this question by taking as his starting point the excessive money creation by the banks in order to finance the deficits of the state sector:

> "To put more money in circulation than there are commodities produced implies handing over money to people who will not be able to spend this money for lack of commodities. This implies that each month the stock of money in the hands of the public increases without there being any outlet for it" (Noticias, 25/3/83).

From this proposition he deduced two consequences in terms of economic development: Firstly, "the pressure exerted by these cash balances oblige us to import more commodities, and hence to spend more foreign exchange on consumer goods instead of on those means which allow us to increase production" (Ibid). This argument is in line with that of Griffith-Jones (1981: 16-17).

Secondly, the Governor of the BM went on to argue that the existence of a volume of money superior to that of commodities (at official prices) gave room for speculation, and hence, "as a result we encounter growing dissatisfaction and social instability. The metical depreciates and is no longer accepted as a means of exchange. This is the situation we live today in our country" (Ibid).

In fact, in 1982 the aggregate wage bill exceeded by far the available supply of commodities on sale to the public. The difference amounted to 10,000 million meticais, which in relative terms meant that the available commodity fund amounted to about

75% of the total wage bill (Frelimo, 1983:60). This does not include the demand for commodities springing from the income from the sale of cash crops. The imbalance was much more felt in the rural areas since no rationing system with guaranteed minimum quantities of basic consumer goods existed there unlike in the major towns:

> "the combination of a lack of consumer goods and a continued weak marketing network meant that peasants were able to buy goods worth only about half the meticais value of the produce they were selling" (Hanlon, 1984: 81).

Furthermore, the escalation of the war after 1981 necessitated the diversion of resources to pay for the war effort. This together with the weight of the investment cost effectively reduced the available supply of commodities to the public. As such, the commodity fund dropped by 8% from 1980 to 1981, of which the major drop was recorded for non-food products. The latter fell by 17% (mainly due to the reduced supply of textiles). From 1981 to 1982, commodity supplies fell by another 8%, while the subsequent year the drop was much more catastrophic (Frelimo, 1983:13).

This imbalance between the volume of money and the availability of commodities (at official prices) within the rural economy was seen to the major destabilising factor in maintaining the exchange with the peasantry. Indeed, the lack of availability of consumer goods forced the peasantry to accumulate useless cash, and hence constituted a disincentive to sell either cash crops or labour power (Wuyts, 1983a: 5).

Hence, contrary to Preobrazhensky's view that the excessive creation of money constituted an important source for primitive socialist accumulation, the position of the ministries of internal commerce and finance was in line with Griffith-Jones' remark that "money issue has a declining yield to the state" (1981: 6).

The argument therefore is that the peasantry will effectively withdraw from official exchange for lack of incentives in terms of the real availability of commodities.

Turning back now to the analysis of the Governor of the BM at the 11th meeting of the Popular Assembly, the proposition that the excessive issue of money gives room to speculation boils down to an analysis which views the development of the parallel markets as directly resulting from the excess supply of money.

This view is expressed by Hanlon as follows:

> "... there was still too much money chasing too few goods: it was largely taken up by black-market traders. With the price of basic foodstuff rigidly controlled, inflation showed up in less strictly controlled goods. Clothing and restaurant meals, for example, tripled in price in the eight years after independence. Goods transport, still largely in private hands, became vastly expensive. A black market grew up in consumer goods and hard to control items like fish (1984: 81)..

The basic question therefore concerned a struggle over distribution, and the decline in official marketing of food and cash crops as well as the price inflation of consumer goods in the parallel markets constituted the manifestations of this struggle.

What then were the policy implications drawn from this analysis in the context of the Mozambican situation before the Fourth Congress?

Basically, a solution was sought along two complimentary lines: (1) an austerity policy with respect to budget expenditures of the state as well as to outlays on wage bills in the state sector, and, (2) a shift towards <u>barter exchange</u> (or more correctly, an exchange based on a quid pro quo principle) as between the state and the peasantry (Wuyts, 1983b: 34-38).

The former measure had as its objective to reduce the size of the state sector deficits. The state budgets of 1982 and 1983 laid down limits on the growth of aggregate wage and salary payments of the state apparatus (Ibid: 36). Furthermore, the rule was established that growth of the wage bill of state enterprises had to be inferior to the growth of the aggregate value of production (Ibid: 36).

In this respect, Ellman argues that in a system of state socialism:

> "Money created in excess of the real need for money is regarded as inflationary, a disorgansing and thoroughly undesirable feature of economic life. It is inflationary, since an excess supply of money in the hands of the population causes suppressed inflation in the state supply of consumer goods and services, and open inflation in the private supply of goods and services (e.g. free markets for agricultural products). ... The essential feature of monetary policy under state socialism is the wide variety of instruments that are used to

> ensure the cautious monetary policy dictated by theory is in fact implemented. ... The basic instrument of monetary planning under state socialism is wage fund planning" (1983: 96-7).

This argument does not imply that money becomes active within a centrally planned econmy. Rather, the argument concerns the need for financial austerity within the plan so as to avoid that excessive money creation in the state sector spills over into the circuit of fiduciary money.

Similarly, the budget measures of 1982/3 in Mozambique did not imply any change the pattern of planning inherent in the process of state centered accumulation, but rather aimed at imposing a more rigid discipline in its execution.

The second policy measures was directly concerned with the question of the decline in official marketing of peasants' cash crops. The argument was that, even if the respective flows within the state-peasantry circuit could be made to balance, the accumulated cash balances held by the peasantry would continue to be a destabilising factor.

Hence, the solution was sought in organising official exchange within the rural areas on a quid pro quo basis by making the purchase of consumer goods conditional upon the sale of either cash crops or labour power (Wuyts, 1983b: 36-38).In actual practice, the exchange was not purely a barter exchange. Indeed, cash crops or labour power would be purchased (at official prices) in part against money and for the remaining part against consumer goods (at official prices). As such, the state could gain some leverage in obtaining the marketed surplus and labour power from the peasantry (field-interviews 1983).

In summary, the analysis presented in this section can be synthetised in two major propositions:

Firstly, that the development of parallel markets was caused by the excess supply of money in the consumer goods markets resulting from excessive money creation by the state sector in order to finance its deficits.

Secondly, that the key problem was one of <u>distribution</u> (the question of resource flows between sectors and of forced savings through price inflation in the parallel markets), which required a longer term solution of imposing stricter financial austerity on the state sector (through demand management) and short term measures (barter exchange with the peasantry) to assure the continued control of the state over the marketed surplusses of the peasantry and over its supply of labour power.

As such, the analysis was situated within the context of planning for state centered accumulation, which itself was not seen to be part of the problem.

Planning and the Dynamics of the Parallel Economy

This section aims to develop a critique of the theory presented in the previous section. The basic argument is that the parallel economy arises within the context of a managed economy in which the state uses its economic (as well as coercive) power to impose price differentiation in accordance with its priorities as informed by its economic policy. The key issue therefore concerns the fragmentation of markets brought about as a result of state intervention within the economy.

Clearly, an economy in transition to socialism is always a managed economy. The formation and consolidation of state economic power constitutes an essential feature in propelling the socialisation of production. Firstly, the nationalisation of key sectors of the economy provides the conditions for their socialisation, although it does not imply their immediate socialisation merely because of the fact of the formal change in ownership.

Secondly, the state economic sector has to assume a dynamic role in terms of propelling social change within the wider economy. Lenin expressed this position with respect to the importance of cooperative movement as follows:

> " Co-operatives must be politically so organised that it will not only generally and always enjoy certain privileges, but that these privileges should be of a purely material nature. ... A social system emerges only if it has the financial backing of a definite class. There is no need to mention the hundreds of

> millions of roubles that the birth of "free" capitalism cost. At present we have to realise that the co-operative system is the social system we must now give more than ordinary assistance, and we must actually give that assistance" (1977, 684; my underlining).

Hence, it follows that, in the transitional economy, access to resources is differentiated in accordance with the priorities of economic policy, and that the latter is not neutral, but reflects the class interests propelled by the state. Furthermore, as is clear from Lenin's analysis, differentiated access to resources in accordance with the class interests propelled by the state is by no means only a characteristic of socialist experiences.

In fact, the development of colonial capitalism in Mozambique provides a clear example of this. As argued in chapter 2, the colonial economy was to a large extend a 'managed' economy.

A crusial aspect of this colonial 'planning' was the backing provided by the state to the development of the plantation sector and of the settler farms. As such, the state fragmented the labour markets by specifying zones of influence over the recruitment of labour, and it used its repressive apparatus to coerce the peasantry into supplying cheap labour-power. As a result, wage levels were not only differentiated as between different regions, but also within the same region. Clearly, 'parallel' circuits existed within this context since the peasantry often sought to escape the harsh conditions and low pay on the plantations and settler farms by means of 'illegal' migrant labour to the neighbouring countries.

The colonial state also used its coercive power to evict the peasantry from their land so as to make room for the development of plantations and settler agriculture. As such, access to land and its privatization was differentiated in accordance with the class interests of the colonial state.

Both examples gave instances where it was mainly the coercive power of the state which provided the support to settler production and plantations. However, the state also made use of its economic power to aid the development of these forms of production.

The Caixa de Credito Agraria, which in 1971 became integrated in the Instituto de Credito de Mozambique, was virtually exclusively concerned with providing credit to settler farmers (Wuyts, 1983b: 9-10). The rich peasantry had to rely on income from wage labour or on informal circuits of credit to finance their agriculture. Secondly, the technical assistance of the state concentrated predominantly on settler production, both with respect to technical advice as well as to the provision of inputs (Mackintosh, 1986: 14; CEA, 1981a: 20-21; Hermele, 1986: 3-8). The rich peasantry was only marginally integrated within this process (by obtaining the status of agricultores or that of colonos on probation in the Limpopo scheme), and mostly had to rely on buying its agricultural inputs from settler farmers or traders. Finally, in the case of cotton for example, settler producers could obtain a better producer price by selling ginned cotton rather than raw cotton, an option which was not available to peasant producers (CEA, 1981a: 19).

In summary, state intervention was consistently used to enhance the development of settler agriculture and of plantations. Access to resources was by no means free for all, but differentiated in accordance with the class interests of the colonial state. Markets were fragmented so as to provide a fertile breeding ground for the development of capitalist agriculture based on cheap labour-power obtained from the peasantry. As a direct consequence, the development of family agriculture was subordinated to this aim.

Turning now to the question of the content of planning and the development of the parallel market in the period 1977-83. As shown in chapter 4, the period was characterised by a process of state centered accumulation in which resources were concentrated on the development of the state sector and the emphasis shifted toward accumulation at the expense of consumption.

Within the rural economy, this development strategy led to the nationalisations of settler farms and plantations, and the constitution of the state sector in agriculture. Subsequent development put the emphasis on the quantitative expansion of this sector:

> "In 1977, \$ 40 million were spent on machinery for agriculture, including 1200 tractors and at least 50 combine harvesters; in 1978, 25 out of \$ 38 million budgeted for agriculture went to state farm equipment. CAIL was the most important state farm of them all: in 1977, CAIL accounted for 50% of the agricultural sector's capital budget and for one-third of the whole capital budget of Mozambique. ...

... the degree of mecanisation in some respects did not surpass that of colonial days. For instance, the number of tractors in post-independence Mozambique did not grow and the level of mecanisation (measured in this sense) thus was not higher than in 1969. What did change, though, was the concentration of ownership that independence brought along: from a wide-spread, thin layer, the responsability passed onto a few units: the ministry of agriculture increased its possession of tractors by 1000%" (Hermele, 1986: 13)

The development of this state farm sector remained rooted in the seasonal labour of the peasantry within the context of the migrant labour system. In fact, as argued in chapter 4, the planners of the ministry of agriculture assumed an elastic supply of labour-power without any attempt to restructure the system of exploitation on which it was based. In actual fact, the tendency towards monocropping in the state farm sector often accentuated the seasonality of labour recruitment.

This development of the state sector was seen to be the quickest way to bring about rural transformation. As argued in chapter 4, the implicit assumption of this policy was that the peasantry could continue to rely on its own resources.

In chapter 5, I argued that this assumption was totally erroneous. The massive drop in labour recruitment by the South African mining sector (and the differentiated access to mine labour) as well as the reduction in recruitment of migrant labour to Rhodesia/Zimbabwe, produced a sharp crisis of rural unemployment which progressively weakened family agriculture because of its dependence on income from wages. This crisis hit hard at the poorer proletarianised peasantry, and especially younsters who had no means to establish themselves in family agriculture.

In chapter 2, I argued that the colonial economy was characterised by a three-tier wage structure with respect to labour power supplied by the peasantry within the migrant labour system. The above argument implies that recruitment for the two upper tiers became increasingly more restrictive, while the state farm sector accentuated the pattern of seasonality in its own recruitment through its policy of monocropping and mecanisation. The concentration of resources on the state farm sector meant that the state did not aid the peasantry in providing them with alternative sources of access to resources so as to raise productivity in family agriculture.

Furthermore, in cotton growing areas, the breakdown of the networks of commercialisation in the immediate post independence period and the subsequent emphasis given to state farm production worsened the conditions for small-holder peasants (Wuyts, 1978:).

Apart from ending the practice of forced labour and of forced cultivation of cash crops, the remarkable feature of the agrarian policy in this period was the <u>continuity</u> of the colonial patterns of agrarian change. The Fourth Development Plan of the colonial government for the period 1974-79 defined as one of its main objectives:

> "the acceleration of the process of transformation of the subsistence economy into a market economy (Da Costa et al, 1973: 138).

Similarly, the pattern of state centered accumulation implied that the emphasis was placed on the accelerated development of the nationalised modern state sector.

Furthermore, the assumption that the peasantry could subsist on its own steam was also made . The class character of this peasantry was not analysed, and hence the dependence of this peasantry on wage labour for its survival was not understood.

However, the context had changed drastically: from labour shortage to rural unemployment. The result was a protracted crisis of peasant agriculture, which was at a later stage compounded by war and drought. The state, through its policy of state-centered accumulation, failed to respond to the crisis of the family agriculture.

A crisis is never neutral in terms of its impact. That is, it does not hit equally hard on all strata within the population. On the contrary, within the context of a peasant economy, crisis is often a potent vehicle in propelling social differentiation.

The failure on the part of the state to respond to the crisis by supporting the poor peasantry within a process of cooperativisation and the development of communal villages, de facto meant that the peasantry had to survive within the parallel economy.

Indeed, the essence of the agrarian policy in this period was the state's attempt to mobilise material resources behind the development of the state sector: the supply of labour power for the state farms, of export crops to earn foreign exchange and of food to feed the towns. As shown in the previous section, this exchange with the peasantry was essentially unbalanced since the policy implied the curtailment of consumption.

Private trade was seen to constitute a mediating role in the exchange of the state with the peasantry. However, these traders rapidly assumed an independent role which was made possible by the fact that they had access to commodities supplied by the state sector as a result of their mediating role. As such, they controlled the interphase between official and parallel exchanges (Mackintosh, 1985: 82-83).

The dynamics of private trade in the rural areas was not merely to sell consumer goods at a higher price than officially specified, but rather to search avenues for accumulation by increasing its grip over the marketed surplusses of food (Mackintosh, 1986).

Within a context of a shortage economy, the control of private traders over the supply of basic consumer goods enables them to mobilise marketed surplusses of food at terms of trade which are less favourable than the official ones. For example, in the case of Angonia, some traders would only sell consumer goods in exchange for purchases of food, and would do so at terms of trade which were much less favourable to the peasantry than the official ones (CEA, 1983a: 64). The control over milling by traders was another form to obtain such surplusses as traders would charge the peasant 15-25% in kind for milling his/her maize (Ibid: 70). In the case of Angonia, Mackintosh showed how a small cohesive trading community gained control over the marketed surplusses of food without having to offer a better producer price to the peasantry, but by channeling consumer goods towards the commercialisation of grain (Mackintosh, 1985: 83).

In fact, traders in the rural areas de facto applied the principle of making the purchase of consumer goods conditional on the sale of food even before it became the official policy. However, as private trade mediated the state-peasantry exchange, the official policy merely endorsed the grip of private traders over the peasantry without being able to control the terms at which this took place (Wuyts, 1983a: 14).

The increased control of private trade over food surplusses eroded the coherence of the state sector itself. A CEA study showed that in Zambezia the official supply of food could not respond to the demand coming from the towns, the army and the plantations (since the latter needed food to attract labour power). As such, state enterprises and institutions resorted to buying on the parallel market to obtain the necessary supplies (1982).

As a result, this drive on the part of private trade to mobilise the food surplusses conditioned the supply of consumer goods in terms of who gets what. The logic of this system is that those who have a better agricultural base, and hence, have surplusses to sell will get the greater share of the available supply of consumer goods. In a context of shortage, the control of food and of basic consumer goods provides enormous leverage to the owner. More specifically, the control over wage goods provided the means to attract cheap labour power.

The combination of private trade (and control over milling and transport) with private farming provided several avenues of accumulation. Private farmers could opt to integrate within production organized by the plan and as such obtain inputs as well as services from the state sector (CEA, 1983a: 61-70).

Also, as a result of the presidential speech of March 1980 (Machel, 1980) more room was left for small-scale private enterprise. Also in this case there was a remarkable similarity with colonial policies. As shown in chapter 2, the colonial state rarely supported actively the development of the rich peasantry, but nevertheless in the latter days of colonial rule more room was left for the emancipation of this strata provided they could finance their own development. Similarly, the 1980 speech provided the <u>space</u> for this type of development, provided it was to a large extend self-financing .

Hence, as stated by the president in his speech:

> "The state will create the opportunities for aiding traders, farmers and private industries whose activities conform with our objectives. The state will aid thm in its organization and by providing the necessary means to work with.
>
> I have received many letters from Mozambicans in South Africa, Swaziland and Rodesia who want to know whether they can come and invest in trade, agriculture, restaurants and other activities".
>
> These are patriotic Mozambicans who want to contribute to progress in their country. They hope that the State will help them and create the conditions for their return.

... Let them come back. Let us help them to invest their savings in agriculture, in industry or in commerce, so as to develop our country" (Machel,1980: 105).

Hence, room was left for those who had the means and the organizational ability to invest in commerce and in agriculture (as well as in other activities). In the rural economy, these concerned mainly the rich peasantry who already had a better base and/or migrant workers abroad who had access to foreign exchange and hence could invest it to set up a farm or a shop.

The aid from the state sector basically amounted to selling agricultural inputs and providing services such as ploughing the land against payment (CEA, 1983a: 63-72 > Field interviews Marracuene project).

Furthermore, the control over wage goods allowed them to attract cheap labour power. For example, in Marracuene district near Maputo, a private farmer who also owned a shop in Maputo would channel part of the staple food received through official channels to his farm so as to attract wage labourers, and would subsequently sell the vegetables produced on his farm at speculative prices in his shop. During 1983 when drought and war had reached a peak, private farmers in the district put pressure on the government to supply them with food so as to attract more labour. As a result, within a policy of given priority to production, private farms obtained special food rations for their workers. This particular private farmer took advantage of this system however by extracting a longer working-day from his workers. He paid the nominal wage rate for a normal day of work, and subsequently the labourer would be compelled to do overtime for the "right to buy food with his wage" (Marracuene, 1983; own field notes).

Hence, the policy to concentrate resources on the state farm sector while attempting to mobilise resources from the wider economy behind this drive, meant that the developments outside the state sector was shaped by the principle of 'building on the best'.

Moreover, as the development of the plantation sector became critically dependent on the supply of food to feed its workers, and as official marketing of food became increasingly unable to supply to necessary quantities, this sector became dependent on private traders and private farms to supply it with food.

Indeed, as shortages in the rural areas became more pronounced and as prices inflated on the parallel markets, seasonal workers on the plantations and other state farms came to depend more and more on their weakened agricultural base as a result of the erosion in their real wages. To continue to attract labour, the state sector had to be able to supply staple food as well as some other basic wage goods to their workers.

The majority of the peasantry found themselves in dire circumstances. Peasant producers of export crops were caught in a real squeeze. As producers, they confronted official prices for their crops, and as consumer they had to resort to the parallel market prices. Mackintosh showed that the decline in marketed output of export crops was specifically pronounced in the period after 1981 (1985:9).

However, the withdrawal of the peasantry from the market in this case is not due to the fact that they have surplus cash and no commodities to buy. Rather, their situation is one in which they have an acute lack of both cash and commodities. In certain circumstances a switch to food crops can prevent a sharp decline in income, but even in this case, success depends on whether a stable marketed surplus of food can be produced.

In contrast, large scale private farmers of export crops, whose production was integrated within the plan, did not find themselves in a similar squeeze since they were allowed to transfer part of their income in foreign exchange. Not surprisingly, private enterprise accounted for a significant part of the marketed output of these crops in this period (Mackintosh, 1985:29).

As stated above, the majority of seasonal workers on the state farms and on private farms confronted worsening economic conditions as their nominal wages were eroded by the inflation on the parallel markets and their family agriculture in itself insufficient and weakened by this erosion in their real wages.

Therefore, contrary to the conclusions of the theory discussed in the previous section, the problem for the majority of the peasantry was not that of having surplus cash and no commodities to buy. Rather, they witnessed a severe shortage of both cash and commodities.

The excess money pumped into the economy as a result of the state sector deficits fuelled the accumulation of speculative commercial capital, and therefore were transformed into money capital. The state had the power to issue money, but the power of the stock of money within the economy increasingly came to be concentrated in the hands of commercial capital.

Hence, the outcome of this process was the development of private agriculture and trade within the rural areas in the context of the parallel economy.

In summary, the process of state centered accumulation implied that the state sector did not intervene to aid a process of the socialisation of agriculture. This was left to the mobilisation of the peasantry by the party guided by the principle of relying on one's own resources. However, the crisis of family agriculture meant that it was being depleted of resources, and hence desperately needed active material support from the state sector. This support was only marginally provided and based on a principle of building on the best.

The need to mobilise the agrarian surplus (and specifically, the food surplus) behind the development of the state sector provided private trade as the mediator between the state and the peasantry with the opportunity to assume an independent role in this process by enlarging its control over food surplusses and making the state sector dependent on it. The accumulation of commercial speculative capital within the parallel circuits in the rural areas therefore propelled the forces of differentiation within the peasantry by supporting the development of private agriculture in food production. By 1983, the state sector had become so dependent on this momentum that the immediate (and quickest) solution to the crisis appeared to be no other but to give greater room to the parallel economy.

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NPC = National Planning Commission

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