

MACROECONOMIC POLICY REFORMS AND AGRICULTURE

TOWARDS EQUITABLE GROWTH IN ZIMBABWE

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This study investigates the income and equity effects of macroeconomic policy reforms in Zimbabwe under the Economic Structural Adjustment Program 1991–95 (ESAP) and the Zimbabwe Program for Economic and Social Transformation 1996–2000 (ZIMPREST). Zimbabwe adopted these programs in an effort to stabilize the macroeconomy, promote economic growth, and improve equity after a decade of disappointing economic performance.

Zimbabwe followed a heavily interventionist and inward-looking development strategy from 1965 onward. Agricultural market controls and restrictive regulations promoting industrial import-substitution prevailed and continued after independence in 1980, when a black-majority government assumed power. Post-independence policies significantly expanded social investments and government support for smallholder agriculture; however, these increases could not be sustained beyond the mid-1980s because of growing macroeconomic imbalances and inefficiencies in resource allocation and use. Aiming to reduce government intervention and allow markets to operate more freely, ESAP emphasized trade and exchange rate market liberalization, domestic deregulation, and fiscal policy reform. Land redistribution was added under ZIMPREST.

This study underscores the links between macroeconomic policies and agricultural performance in Zimbabwe, along with agriculture's influence on aggregate income and its distribution. Three policy issues are emphasized in the context of 1990s reform: the foreign trade regime, public expenditure, and taxation. The quantitative measures of aggregate income used are GDP at factor cost and total household disposable income

in real terms. The equity effect is represented by the relative income changes for five household groups, highlighting smallholder farm households, which account for a large majority of the country's poor.

Zimbabwe's agriculture sector consists of a densely populated smallholder sector and a large-scale commercial (LSC) sector. The LSC sector occupies about one-third of the country's land area and a disproportionately large share of high-potential agricultural land. LSC farms are highly mechanized and show very high crop yields in the small proportion of total arable area they cultivate. Smallholder farms cultivate a much higher proportion of total farm area but show lower yields. These features reflect historical land allocation, stringent restrictions on farm subdivision, and the absence of an agricultural land tax.

The 1991 Zimbabwe social accounting matrix (SAM) constructed in this study has an agricultural focus and incorporates the important distinction between smallholder and LSC sectors. The income and equity implications for various growth paths are quantitatively examined through conventional multiplier analysis, which confirms the hypothesis that exogenous income increases affect lower-income households and agricultural production more strongly than they do nonagricultural production. Further, within the agriculture sector, larger GDP multipliers are associated with smallholder farms relative to LSC farms, suggesting that productivity increases in Zimbabwe's smallholder agriculture do not depend on a tradeoff between income growth and equity.

The "smallholder road to development," focusing on smallholder production, is associated with the largest GDP multiplier (2.23), indicating that each additional Zimbabwe

dollar that smallholder farms generate leads to an increase of Z\$1.23 in income elsewhere in the domestic economy (in 1991 prices). Agricultural growth based solely on food crops—in which the contribution of smallholders is much greater than that of LSC farms—yields the next largest multiplier (1.90), exceeding the (weighted) average agricultural multiplier (1.71). Lower GDP multipliers characterize the two agricultural growth paths emphasizing traditional and nontraditional export crop production, in which LSC farms predominate. Notably, the multiplier for light manufacturing—a potentially important source of needed employment generation in Zimbabwe—is calculated to be 1.44, which is lower than any of the agricultural multipliers except nontraditional export crop production. These results support the theory that rising agricultural incomes are strongly correlated with overall economic growth.

Agricultural growth emphasizing smallholder production also appears to have the most favorable equity impact. Smallholder households receive the largest income increment. The low-income urban household group also shows great benefit, presumably because of the more labor-intensive nature of smallholder household demand. The remaining three household groups—LSC owner/managers, LSC farm workers, and high-income urban households—experience smaller income gains.

This study also makes use of a computable general equilibrium (CGE) model for Zimbabwe that, unlike the SAM framework, allows for relative price effects arising from changes in sectoral supply conditions. It has distinctive features, including an explicit focus on agriculture, emphasis on income distribution among various rural and urban household groups, and a detailed specification of factor markets.

CGE model simulations show that trade policy reform alone—that is, dismantling import and foreign exchange controls and reducing import taxes to a low, uniform rate—increases GDP, agricultural production, and aggregate disposable household income.

In addition, foreign trade expands markedly. These effects are even larger when price decontrol of maize accompanies trade liberalization. In both cases, however, the equity impact is unfavorable because the export-oriented LSC farms benefit far more than smallholder farms from a liberalized trade regime. Moreover, a substantial loss in import tax revenue makes this policy option unappealing, especially in times of large fiscal deficits.

The model simulation that incorporates increased income taxes on enterprises and the two affluent household groups—to counteract the decline in import tax revenue from trade liberalization and reduced government consumption expenditure—markedly lowers the income gains for the two household groups paying the higher taxes (as well as for households in the aggregate). GDP and other household income effects, however, change little.

Adding two land reform alternatives to the above scenario results in markedly different income and equity effects. The first land reform policy involves government and donor purchase of 50 percent of large-scale farms and restricts the subdivision of the remaining 50 percent. The alternative—shown to be much more effective—actively encourages free subdivision and sale of lands. Given effective land reform and restructuring of government expenditure and taxation, the results show that the substantial progress in reforming trade and exchange rate policies achieved under ESAP could have helped promote the twin objectives of overall income growth and equity. It is also true, however, that without trade liberalization and the abolition of maize price control, the government would have had only limited success in achieving equitable growth in Zimbabwe.

The simulation results affirm the importance of policy combinations that synergistically contribute to equitable growth. It is insufficient to investigate the effects of trade liberalization (or any reform) in isolation; the corresponding effects of other policy changes must also be analyzed.

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