

commentary

Uganda does not need European reforms

The response. Fred Muhumuza, a Research Fellow at the Economic Policy Research Centre, who is on secondment to the ministry of Finance as an economic adviser, argued in *Thoughts & Ideas* (Sunday Monitor, August 28) that Uganda requires Europe-like reforms of reducing public deficit and debt, lowering welfare benefits and raising taxes. This rejoinder outlines that without learning from the flaws of Uganda's earlier reforms, that will only exacerbate the situation.

BY NDINAWE BYEKWASO

Pro-market economic reformists now acknowledge that the Ugandan economy is sick. However, pro-market advocates like Muhumuza still dogmatically believe in economic liberalism, and they do not want anybody to dare question it - they do not have any convincing reason, yet the facts about its failure are clear.

Muhumuza says Uganda's problem is the tendency to shift away from production of tradeables to non-tradeables. On the positive side, the non-tradeables are identified to include "a range of services like public administration, education, health, trade, transport, financial sector and construction of all categories of physical infrastructure".

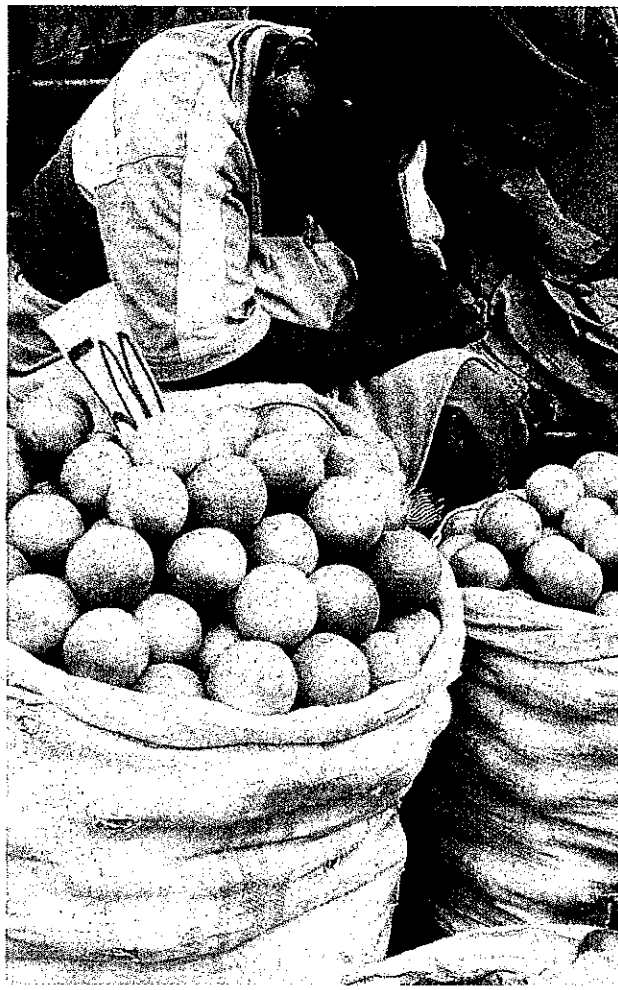
Like earlier critics who have faulted economic liberalism for undermining the economy's productive sectors, he is also pointing out the undesirability of an economy dominated by unproductive sectors like service and trade (instead of agriculture and industry) that do not produce tangible goods or further the production of tangible goods for consumption. Certainly, any economic growth that does not come from productive sectors is not sustainable as the neo-liberal Ugandan economy has been exposed, with run-away inflation and cost of living that has placed most essential goods beyond the reach of ordinary people.

Technical terms

Muhumuza uses confusing jargon: tradeables are defined as exports or imports. Within this context, if eucalyptus trees are bought from farmers and sold to consumers in the local market, then they are not tradeables. If matooke is bought from farmers in western Uganda and sold in Kampala, they are also not tradeables. However, coffee from farmers exported outside Uganda becomes a tradeable. Common sense tells us that any marketable item under a market economy is a tradeable because it can be traded in. Then why the confusing language?

It seems the confusing language is intended to convince unsuspecting Ugandans that the economy is performing poorly because the people are not producing enough raw materials like coffee, cotton, cut-flowers, and fish for export. Muhumuza is not happy because people can shield themselves from the unfair export-import trade by producing for the local market. To him this trend should be discouraged because what he terms non-tradeables will out-compete tradeables (export of cheap raw materials).

He says if production of raw mate-



A woman dozes in the absence of customers at Owino Market. PHOTO BY STEPHEN WANDERA

WHEAT MUHUMUZA SAID

• The loss of competitiveness for Ugandan exports is not so much in terms of international prices and demand, both of which are presently high, but rather domestic competition with non-tradeables

• In a liberalised open economy like Uganda, and let no one dare think that is the problem, market prices offer the greatest incentives to investors.

• The trouble with investments in non-tradeables is that most of them represent a stock of assets that can be used to generate wealth/flows under certain circumstances.

• The leading cause of structural distortion is growing consumption that is fuelled by public sector deficit is financed through both domestic and foreign debt.

rials (tradeables) is promoted there will be structural transformation in agriculture, industry and services as an outcome, not as the 'driver of economic growth'. By implication, Uganda should not deliberately aim at the transformation of agriculture as a strategy of development but to wait until the production of exports (tradeables), in whatever form, transforms the economy. This is absurd. The thinking on raw materials

for export is not new. In colonial rule the economy was deliberately distorted to become export-import oriented.

Yet export of raw materials has never transformed Uganda. More than 72 per cent of Ugandans still eke their living from agriculture and, inversely, there is a tendency for the percentage of people earning a meagre living from agriculture to enlarge as the service sector, the non-tradeables or the unproductive sector, dominate the economy. As Porat, the Israeli minister of Agriculture warned Ugandan farmers in 2004: "If they want to be poor, they should go on producing and selling raw materials".

Muhumuza says, "the loss of competitiveness for Ugandan exports is not so much in terms of international prices and demand, both of which are presently high, but rather domestic competition with non-tradeables." With due respect, it seems Muhumuza does not have a clear grasp of the theory of price mechanism in allocating resources for development, both in the short and long run. Price mechanism says in response to profitable incentives, the market forces are self-regulating and equilibrating without government interven-

THE FACT

Uganda's maize prices fell to a low of Shs30 per kilo in 2001, but rose to Shs50 in 2002. In 2003, prices fell again to Shs30 per kilo. In 2004, prices rose to Shs50 per kilo. In 2005, prices fell to Shs30 per kilo. In 2006, prices rose to Shs50 per kilo. In 2007, prices fell to Shs30 per kilo. In 2008, prices rose to Shs50 per kilo. In 2009, prices fell to Shs30 per kilo. In 2010, prices rose to Shs50 per kilo. In 2011, prices fell to Shs30 per kilo.

tion to bring about development.

Liberalisation, especially in agriculture, a policy Muhumuza does not want questioned, usually brings the price down to unbearable levels. In 2001, maize went as low as Shs30 per kilo. Later that year, it slightly rose to Shs50. Even at such low prices, there were few buyers! By implication, the farmers made huge losses. Consequently, they should have stopped further production, but being subsistence farmers, they continued growing maize lest they would have nothing to eat. In 2010, there were bumper harvests again and consequently maize prices went down to as low as Shs150 per kilo (not even a tenth of a dollar then). But the farmers' overhead costs had not decreased; on the contrary they were on the rise. Since then, transport costs have kept increasing just like other inputs.

Even if export prices are high now, as we are informed by Muhumuza, the past experience where farmers made huge losses has discouraged private people from exports (tradeables). Instead it has encouraged private capital to "flow towards import trade and real estate if that is what promises a better return or income security", to use his words.

Contradiction?

To turn around and argue that the "leading cause of social distortion is growing consumption that is fuelled by public sector deficit, financed through both domestic and foreign debt" is a contradiction, if not utter confusion.

If the production of exports were profitable, both in the short and long run, private capital would be invested in their production even if the money is got from excessive government public expenditure or not.

Even the concept of social economic distortion is incorrectly used, if not misunderstood. According to Muhumuza, social economic distortion occurs only when the government undertakes public expenditure beyond its means of revenue. This is not the case. If it was, then the US is socio-economically distorted too because it has lived with a public sector deficit for a long time, being very heavily indebted. Yet it is the world's largest economy, is industrialised and socially transformed. Socio-economic distortion has to do with a colonially underdeveloped economy, which is not independent, integrated and self-sustaining. Therefore, unlike Europe, Uganda's problem is not public sector deficit but rather primarily the structural orientation of the economy, which must be corrected first. And the socio-economic distortion cannot be corrected on the principles of economic liberalism, whereby only market forces are presumed to promote development on their own without government intervention.

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Uganda's economy needs local reforms

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Instead there must be deliberate planning and state activism within the economy to promote national goals.

To Muhumuza the pursuit of "twin objectives of maintaining macroeconomic stability and private-led growth" is taken for granted.

However, macroeconomic stability in Uganda has been misunderstood to mean only the control of inflation. If macroeconomic stability is understood to mean an economic situation where all variables within the economy are aligned towards equilibrium, then it has largely been a myth. Uganda has been having a perennial trade deficit for two decades, with imports largely outnumbering exports. Unemployment has been worsening. Every year, 400,000 youth join the labour market and only 90,000 of them get employment.

The objective of private sector-led growth is also misguided. In a country without independent national capitalists, described as "the weak state of the indigenous private business sector" by Whitworth and Williamson, then what was the essence of promoting private sector-led economic growth in the first place? It seems the economic reforms were meant to serve the interests of foreign investors, whose encouragement and attraction accompanied the implementation of reform in Uganda, by the enactment of the 1991 Investment Code, the privatisation programme and the return of Departed Asians' property. Unfortunately, the foreign investors "are interested only in national factors that will produce the highest profits without running any great risk" (De Rivero, 2001:48). For all the time Uganda has attracted foreign investors, it has not benefited in terms of industrialisation because it still imports matchboxes from abroad!

Muhumuza blames Uganda's economic woes on the government's expansionary fiscal policy expenditure on social welfare in education and health, as well as the construction of physical infrastructure (like roads). As correctly observed, the expenditure is not sustainable in the long run if it does not come from the productive sectors of the economy (like industry and agriculture). However, he does not blame the policies of reform under the so-called Poverty Eradication Action Plan that have been hailed in the past for not only promoting growth but also reducing poverty. To make matters worse, he proposes a dreaded second round of austerity

Structural Adjustment Programmes that Uganda carried out in the 90s intended to scrap the welfare component. Accordingly, there should be again downsizing through retrenchment and further privatisation of government corporations while the government regulates and strictly controls its remaining public expenditure.

The proposed measures are not only anti-people but are also against business development in Uganda because reducing the government expenditure in an economy with a weak indigenous private sector will also reduce people's purchasing power. Money will become scarcer than it was in the past, forcing small-scale businesses, especially in the informal sector, to crumble.

Then what is the purpose of the proposed measures? The proposed measures are to serve the interests of financial institutions, especially banks, that are mainly foreign owned.

It seems Muhumuza is signalling a policy shift in accordance with the current dominant global forces of corporatocracy, whereby politics and the economy are controlled by a few people in the West.

Instead of being blamed on economic liberalism that favours the financial interests of the rich to the disregard of all else, the economic crisis in Uganda is blamed on public sector deficit, including expenditure on welfare programmes. Then, what will be the use of the government when expenditure on welfare programmes is severely restricted while the construction of roads is de-emphasised, as Muhumuza seems to suggest?

Uganda has consistently implemented economic reforms. As a result, it has always been claimed that the country has enjoyed two decades of sustained growth, consistently exceeding that of Sub-Saharan Africa since 1986. Now we are told that the economy is in a shambles, without any asset to fall back on except the revenue expected from the newly dis-

covered oil resource. Then what was the effect of the claimed sustained growth rates on the economy, if they ever existed? Instead Uganda could not pay its accumulated debts until it was forgiven and the debt is again accumulating to unsustainable levels, a trend noticed by Muhumuza.

On the other hand, poverty emanating from the economic policies of reform has created opportunities for change through mass protests and uprisings. The wind of change through popular protests began in Tunisia. It is continuing to spread to more other countries in the world including Uganda.

The policies of economic liberalism have not only failed in Uganda but also in the US.

Therefore, the economic crisis we are experiencing in Uganda is not a product of economic distortions "arising from basic annual decisions that have weakened resilience of the economy to global shocks as well as long-term stability and growth", as we are made to believe by Muhumuza. It is the failure of predatory capitalism, the market fundamentalist ideology, introduced in Britain and the US by Thatcher and Reagan respectively in the 80s, and later imposed on the Third World by the IMF and World Bank. Now the Americans are revolting against the ideology of neo-liberalism. Like the revolutionary NRM, when it first came out of the bush before it became retrogressive, the Americans are increasingly advocating for policies of economic self-reliance and economic self determination.

Therefore, to have sustainable development in Uganda, there should be a regulated market economy by the state through indicative planning to promote industrial and agricultural as well as environmental sustainability while social equity is being advanced. The proposed economic reform by Muhumuza based on the principles of the 90s is not only useless but also dangerous. An underdeveloped country like Uganda, with economic distortions, requires a comprehensive long-term plan to remove those distortions and build an independent, integrated and self-sustaining economy, vaguely envisaged by the erstwhile revolutionary NRM. The private sector guided by the state with carrot and stick can be courted to assist in the implementation of the plan.

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WORSENING UNEMPLOYMENT

400,000

Youth who join the labour market every year

90,000

Youth who get employed per year