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THE ECONOMIC HISTORY OF CONTEMPORARY NATIONS.

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INTRODUCTION

Economists take pride in the sophisticated statistical techniques on which they rely to analyze phenomena such as growth, inflation, unemployment, trade, and even the long-term effects of abortion on crime rates. Many are convinced that their methods are more rigorous than those of all other social sciences and dismiss research that does not rest on quantitative methods as little more than “storytelling” or, worse, “glorified journalism.” Anthropologists, some economists jest, believe that the plural of anecdote is “data.”

A survey published in the Journal of Economic Perspectives found that 77 percent of the doctoral candidates in the leading departments in the United States believe that “economics is the most scientific of the social sciences.” It turns out, however, that this certitude does not stem from how well they regard their own discipline but rather from their contempt for the other social sciences. Although they were nearly unanimous about the relative superiority of their profession, only 9 percent of the respondents were convinced that economists agree on fundamental issues.

And they are right. Economists today are still grappling with basic questions for which they have no answers. Much more than fodder for academic squabbles, this uncertainty often has serious consequences. When economists err in theory, people suffer in practice.

Fernando Henrique Cardoso, Brazil’s former president, recalls that in the midst of his country’s financial crisis, he received calls from experts at the International Monetary Fund, several Nobel laureates in economics, and other superstars in the economics firmament. Each offered different advice, and each sounded convinced that his or her recommendation was the only correct one. A distinguished sociologist, Cardoso managed to employ his considerable talents and experience to steer Brazil out of the crisis, ignoring the recommendations of several celebrity economists—some of whom had even urged him to adopt a fixed exchange-rate regime just like the one that Argentina’s recent crash has now discredited.

“We do not really know what causes economic growth,” admits François Bourguignon, the chief economist at the World Bank. “We do have a good sense of what are the main obstacles to growth and what are the conditions without which an economy can’t grow. But we are far less sure about what are the other ingredients needed to create and sustain growth.”

This bewilderment doesn’t just appear when economists confront the devilish problems of the developing world. Plenty of what goes on in the rich world also baffles them. A well-regarded economist on Wall Street was recently asked what puzzled her these days. “Interest rates,” she said. “They should be higher.” Sure enough, economic theory predicts that today’s long-term interest rates—the rates for mortgages or bonds that will be paid years from now—should be higher and heading upward because of an expanding U.S. economy and exploding fiscal and trade deficits. But the financial markets just won’t
cooperate: Long-term interest rates have remained low and are actually heading down.

Before retiring in January, U.S. Federal Reserve Chairman Alan Greenspan described these trends as “a conundrum.” Robert Samuelson, a Washington Post columnist, surveyed the explanations that economists offer to explain this anomaly and found that they are all flawed. In his view, the experts’ inability to explain something so fundamental “attests to our economic ignorance.”

However I believe the incapability to explain the economic problems currently disconcerting the contemporary nations is poor appreciation of economic history – not that history has all the answers to the problems. Today’s blue eyed economist is apprehensive of an event that is put placed on his table for an example-hyperinflation. In other words he is more concerned about how to fix a unit that make up a whole whereas an economic historian is worried about facts embodied in the unit that make up the whole. So overall economics becomes a science which describes and explains the ways and means by which modern man makes his living, i.e. the conditions of production, distribution, and consumption of wealth; and if history is that branch of knowledge which describes and explains the course of human events in the past; then the task of economic history is to describe and explain the conditions under which man has made his living in the past and this has a bearing on how man shall make his living today.

In this paper, the present researcher seeks to evaluate how has the contemporary world economically evolved over time and how that can help in formulation and implementation of economic policy to drive Zimbabwe out of the murky waters that she is currently drowning in. The first section introduces the subject of contemporary nations’ economic history, followed by an outline of the theoretical underpinnings of economic history, the empirical works that have been covered on the subject and the last two sections get close to home as we introduce Zimbabwe into the equation.

Alfred Whitehead (1929, p. 162) once said “A science which hesitates to forget its founders is lost” and Jean Baptiste Say further expressed the same inspiration more succinctly: “The more perfect the science, the shorter its history”. Given the preceding statements, a century after, it should be no secret that the study of the history of economic thought is held in low esteem by mainstream economists and sometimes openly disparaged as a type of antiquarianism. Practically every commentator on the role of history of economic thought in modern economics in the last many decades has lamented the steady decline of interest in the area since the end of World War II and its virtual disappearance from university curricula, not just at the graduate but sometimes even at the undergraduate level.”

However, along with fewer and fewer university courses in history of economic thought, there appear to be more and more scholars attending scholarly meetings in history of economic thought and publishing articles about the history of economic thought. History of economic thought journals are burgeoning, and their quality seems to be high and steadily improving. In
addition to the premier *History of Political Economy* founded in 1969 and the old *History of Economics Review* founded in 1973, there is Research in the History of Economic Thought and Methodology appearing annually since 1983, the Journal of the History of Economic Thought dating from 1990, the European Journal of the History of Economic Thought and History of Economic Ideas to name just but a few. This indicates that on the applied side of economic policy formulation economic does play an important role.

Economic history aims to give an account of human progress from the earliest forms of the economy of primitive man, shall we say from the simplest animal forms of man’s economies, to the highly complex forms of man’s civilization which characterise the contemporary nations. Otherwise stated, economic history aims to trace the story of economic progress from the simplest early forms of man’s organized existence in the pursuit of a living, to the highly complex forms of modern life. From this point of view economic history becomes genetic economics which I regard as an important branch of descriptive economics.

Genetic economics may be defined by closely following the Greek meaning of economy and economics, as the science of economic organization, management, and achievement viewed and presented historically. Economic organization was the first form of social organization. It was also the first form of political organization, because it was itself the primary form of society upon which political society was constructed.

Economic history is social history which, although it is in no sense the drum and trumpet history within John Richard Green’s meaning of those words, can yet not wholly ignore political and military history. Economic history must take some note of church and state and of the sword as well as plowshare, chisel and plane, hammer and forge, spinning wheel and loom. Economic history, if used broadly, embraces a study of the development of industry and industrial organization in general, and it will include notice and recognition of the development of economic theory. Genetic economics or evolutionary economics thus is real economic history in the same sense that technological history is history of technology. The primary purpose, indeed, of the study of economic history is to inquire: How and why does industry or business tend to organize itself, and what are the successive stages of economic achievement? Accordingly, economic history occupies itself chiefly with successive forms of industrial organization and with successive stages of economic progress. Economic organization takes form and expression in the state, that is, in integral society and what is permitted thereby, in accordance with its own estimate of its welfare. Economic progress is progress in achievements or inventions representing the growing mastery of man over nature; it is progress also in associated living as related to the production and distribution of goods. The former is central in the production of economic goods; the latter, in their ownership and distribution, which are inconceivable without some system of law both public and private.

The use of economic history is appreciable if we first consider the nature and objectives of the subject which can best be made clear if we first describe its
position among the other branches of the study of economics. The study of economics can be subdivided into

(i) the science of economics, which is concerned with the formulation of economic laws or principles;

(2) the techniques of (a) accounting, which deals exclusively with economic phenomena; and (b) statistics, which, though most extensively used and developed in dealing with economic data, is by no means confined to this use and may, perhaps, be more properly classified as a branch of logic;

(3) the study of economic history in the broad sense, which covers all the facts of economic life and development of the past whether recent or remote. This field of facts, however, is commonly subdivided into (a) the more specialized studies of so-called applied economics and (b) economic history in the more customary sense of the term.

Though no sharp differentiating line can be drawn, the practical difference between these two branches of history is that applied economics commonly studies a contemporary problem in a limited field of economic activity and is often specifically directed toward laying down some line of action for dealing with the problem. The economic historian, on the other hand, is expected to cover the whole range of economic life and development of a nation or group of nations and over a considerable period of time, though his monographic studies may be limited to a small sector of the field. Its all-inclusive scope and its primary concern with the evolutionary development of the whole economic order chiefly distinguish economic history from applied economics. To understand the objectives of economic history it is essential to make clear the underlying problem with which it is concerned. This is the more necessary since the study and writing of economic history have been largely undertaken by two groups, one approaching the subject with the training and point of view of the political historian and the other with the training and point of view of the economist. The historian’s chief interest in the subject is ordinarily based upon the light which it can throw upon political or social history—in short, the influence of economic conditions and forces upon history. The economist, on the other hand, looks upon economic history as primarily a study of how a given people have proceeded in their endeavors to supply their economic wants, as an analysis of the means they have employed and the institutions and economic order they have evolved in their effort to raise their standard of living. For just as the main objective of the study of economics is to aid man in his struggle to supply his economic wants, so economic history, by describing and analyzing man’s past efforts to raise his standard of living, seeking to explain wherein and why he has succeeded and where and why he has failed, is directed toward indicating how he may do still better in the future. This may be called the functional approach to the study.
Obviously, since history must be founded upon facts, the first task of the economic historian must be the establishing of the facts. But the determination of the facts is only the first step; those facts and the trends of development which they portray must, so far as possible, be explained and interpreted if the study is to make its most valuable potential contribution to human progress. The student of economic history is often appalled, if not repelled, by the mass of factual detail with which he is confronted. Yet these facts are full of human significance if the student will but inquire as to their broader meaning and seek to formulate the ideas that lie hidden within them. As the historian Ranke once said, particulars carry generalities within them. Just as Isaac Newton, seeking to explain the fall of a particular apple, evolved the general, so the student of economic history in dealing with its mass of detail must constantly ask the question: What light does this or that little fact throw upon the problem of how this people proceeded in their efforts to maintain or to raise their standard of living? Only thus can the essential unity and coherence of the many topics covered be brought out and the mass of factual detail be made interesting, humanly significant, and valuable.

In order to appreciate the relation of these facts to this central problem the an economic history student must fully understand and constantly keep in mind the main factors involved. The standard of living of any people depends, first, upon what they produce or can secure through exchange of their products with other groups, and, second, upon how that product is distributed among them. What they produce is determined, first, by the quantity and what, for lack of a better term, may be called the quality of the four factors of production: natural resources, labor, capital, and business management; and, second, by the efficiency with which these factors are combined for purposes of production. The latter, in turn, is determined by the economic order with its institutional framework, including the related background of social organization in general, within which the given entrepreneurship must function. How the product is divided is also determined by this same economic and social environment.

No general economic history has ever been written, so far as I am aware, where the material was clearly organized along lines suggested by these basic factors in the underlying problem. To do so would be difficult and probably would not serve the various objectives of the study in the best manner. The histories that have been written typically are organized on the basis of the various fields of economic activity such as agriculture, manufacturing, commerce, finance, etc., or center about the more general changes in the organization of industrial society or simply seek to portray the economic background of political and social history. This often results either in the omission of important material bearing on the fundamental factors in the underlying problem or else in the failure of the reader to trace the connection between those factors and the material presented. Yet it is certainly possible to avoid these defects in an economic history where the material is organized on any of these different bases, and taking care to do so would greatly add to the reader’s understanding and appreciation of the human significance of that
material.

In this connection, however, the warning should be given that the promotion of the means for satisfying man’s economic wants which must be the central problem and the primary objective of the study of economic history is not to be confused with advancing welfare. Whether the satisfaction of any specific economic want contributes to the advancement of human welfare is a problem beyond the province of the economist as such, just as is the question what determines man’s wants in the first place. The chief social justification for the study of economic history, as of economics in general, must rest on the assumption that whether man wants much or little of economic goods, whether he is a sybarite or an ascetic, and whether the satisfaction of a particular want promotes his welfare or not, it is always desirable, other things remaining equal, that these wants be satisfied at the minimum cost. It must also be equally obvious that the economic historian, just as the economic theorist, can never say what ought to be done except where the ultimate ends have been determined on the basis of valuations established or accepted by some system of religion, ethics, or philosophy of life. But with the ultimate social objectives agreed upon, the economic historian, aided by theory, can say that past experience indicates that one line of procedure will presumably further the attainment of the desired objective in the most economical manner while another line of procedure will not.

At this point it may be pertinent to indicate what this conception of the nature of economic history implies as regards the training and equipment of the economic historian other than the possession of the attributes of scholarship in general. Since no important nation or group lives in economic isolation, the economic historian must know the main developments, economic, political and social, of the rest of the world in so far as they had an appreciable reaction on the country or group with which he is primarily concerned. Obviously he must possess a knowledge of generally accepted theory, while an acquaintance with the content of current controversy will of course also prove useful.

Familiarity with the essentials in the techniques of accounting and statistics is necessary, while on occasions where refinements are called for the aid of specialists in these fields may be required. To be fully competent in contemporary as well as more remote history it would be desirable to possess the knowledge of all the applied fields of economics that is commanded by the specialists in those varied fields. In short, the ideal economic historian would possess most of the knowledge to be found in a large and well-rounded department of economics. Unfortunately this is not all, for he must have some knowledge of the whole of the social and natural orders in which the economic order was set in so far as the former exercised significant reactions upon the latter. Among the social studies political history thus becomes especially important, though the sociological, legal, religious, and other cultural factors cannot be ignored. In the field of the natural sciences an equally broad background will be found useful. The whole history of the sciences, both natural and biological, and of the application of their contributions to
knowledge as they reacted upon the process of co-operation between man and his environment in man’s efforts to provide for his economic wants thus becomes significant for the economic historian. Finally, if he seeks to delve into the economy of certain periods and peoples, he will require the assistance of various other disciplines such as anthropology, epigraphy, paleography, etc. That an individual possessing even a near approach to this ideal equipment of the economic historian will seldom, if ever, be found is obvious. But, if those who feel that the economic historian’s products fall short of much that could be desired will only recollect the magnitude of the task confronting him, they may be disposed to be more lenient in their judgments.

I now turn to what I conceive to be the main objectives of the study of economic history or the chief purposes which it can serve. My previous statement as to the nature of economic history has indicated my idea as to its primary objective—that is, the raising of the standard of living through the knowledge gained from a study of the past and applied to social guidance in the future.

The economic problems confronting any country or people today are largely a product of developments extending back over a long period of time, and they cannot be dealt with effectively except as we understand the historical and causal background out of which they have arisen. Moreover, though we may accept the statement that history never repeats itself in the literal sense that all the factors entering into a given historical event are never exactly duplicated, yet it is equally true in the less literal sense that history is always repeating itself. This, for reasons subsequently indicated in more detail, is much more frequently the case in the field of economic history than in the field of political history where the more incalculable factor of individual, as contrasted with mass, action plays a larger role in determining the course of events. Thus in the field of economic history a study of the past is peculiarly fruitful in throwing light upon the present.

Undoubtedly the experts in those fields of applied economics where specialization has occurred will be better prepared to provide guidance, each in his own peculiar field, than the economic historian. The contribution of economic history to the specialist will consist in providing analogous situations from past experience, making clear the general background, indicating the complex interrelationships between the various specialized lines of economic activity, and suggesting the trends in the evolving economic order as a whole. The marked advantage gained through the study of economic history, in addition to the sense of evolution and relativity, is that breadth and scope of general background which necessitates a view of all the factors, economic and noneconomic, which enter into such specialized problems, while it alone surveys the economic process as a whole. If we turn from this major objective of economic history to consider other objectives there appear several of sufficient importance to justify separate consideration.
One may be called the nationalistic objective—the study of economic history for the light which it can throw upon such economic factors as tend to augment the power of a country in the struggle for survival or aggrandizement among the nations. If we look back over the ages we see few nations that have risen to a position of dominance which have been able to maintain that position for any great length of time; one after another has fallen from its high estate. Hence, if we have any interest in the survival and success of the nation as a political unit and whatever it stands for, we must concern ourselves with a study of the conditions which tend to make for such survival. In this struggle the economic factor, always important, has had its importance vastly increased in modern times, chiefly through the rapid advance in the mechanization of warfare. Add to this the remarkable intensification of the spirit of nationalism which has recently swept the world and we can appreciate more clearly the importance which may be attached to this second objective.

It must be noted, however, that while it is true, generally speaking, that conditions promoting an advance in a nation’s standard of living will also augment its political power, there are numerous cases where the two objectives do not, or are believed not, to coincide; certainly not in the short run. Witness contemporary Germany or Italy, though every nation will afford frequent illustrations of the point.

A third objective served by economic history is to provide such knowledge of the economic conditions and background as may be essential for the understanding of any phase or period in the civilization of any people—in short, to provide a basis for the economic interpretation of history, using that phrase in the broad rather than the narrow Marxian sense. Just how important the economic factor may be in the interpretation of the political or any other phase of the social process doubtless always will afford opportunity for dispute, so long as there is no accurate basis for measuring the influence of any one of the infinitely complicated mass of factors entering into the problem. I believe most economic historians would also readily admit the possibility of various other so-called interpretations of history, such as the geographic or the spiritual; and I am confident that a biochemical or an astronomical interpretation could be worked out if one deemed it worth while to stress the importance of some such factor. But, regardless of the dispute as to the exact degree of importance of the economic factor in history, there will probably be few today who will deny it a position of any importance; the whole trend in historical writing during the last half-century is sufficient evidence on the point. While the economic historian may be called upon to provide such economic material for the background of general history as others require, it does not seem to me to be his function as such to undertake the interpretation of this history, that being a task for which the political historian, or better still the historian covering all aspects of a given civilization, should be better qualified.

A fourth objective is to further the development of economic theory and to fructify that theory. Of course it is perfectly possible to develop a system of
theory based on assumptions which have no relation to facts or economic history if it is thought worth while to do so; but I assume there are few theorists who do not hope to make their theory of greater use than as pure mental gymnastics. If so, they cannot ignore economic history. This does not mean that the theorist must make the whole range of economic history his laboratory, and yet that vast store of material is full of data of which he can well make use. Economic history fructifies economic theory just as theory fructifies history; they cannot make their most valuable contributions to knowledge without each other. Together they provide the basic elements for the study of economics.

The ways in which history and theory fructify each other are various. Theory should provide much of the explanation for the course of developments in economic history; and without an understanding of why things developed as they did the facts lose much of their value. Theory also suggests what facts to look for as particularly significant. The economic historian, I fear, has not made the use of theory that he should; and this can be attributed only in part to the two main difficulties with which he finds himself confronted in the effort to do so. The first arises from the frequent lack of general agreement among the theorists as to what is correct theory. The second is due to the fact that the premises upon which much theory is built differ so from the actual conditions in a given historical case that the use of theory in explaining the situation is greatly limited.

Economic history aids theory by providing the only laboratory in which a practical test of its validity is possible. Occasionally the theorist may be in a position to initiate an experiment on a small scale in private business or on a much larger scale under governmental auspices, as in Soviet Russia or in our own recent alphabetical progeny. Unsatisfactory as this may be from the point of view of the ideal, the historical data thus resulting have to be employed as best they can. If the facts, assuming they are accurate and adequate, cannot be explained by theory, then either the theory is wrong, or if correctly deduced from the premises, it is useless for practical purposes, or at best simply suggestive. History then implies that the theory be revised or that it be developed upon premises that correspond to the factual situation. The picture of the institutional framework of any given period and of the evolution of that institutional background through the centuries is particularly important in making clear the relativity of any theory with its fixed premises for the practical purposes of explanation or guidance in action. The extent to which the trends of development in theory have been shaped by history is only too obvious, from the controversies of the mercantilist period through the physiocrats and the English classical school down to the economic history of the post—World War period with its impetus to the resurvey of monetary, banking, and cycle theory and the belated awakening to the need for a theory of imperfect competition.
A fifth objective is to provide the student of economic history with at least some guidance in meeting the problem of getting a living. He faces that problem in a business world which has been largely shaped by economic history, and throughout his life his efforts to get a living will be reacted upon by historical developments. The typical content of historical study will throw little or no light upon the problems connected with the internal organization of a business enterprise or upon the technique of an occupation. But the general trends in economic development may have powerful reactions upon a business, an occupation, or an investment; and it behooves the individual who would be successful to try to understand what those reactions are likely to be. For this purpose more remote history also provides many a lesson of value. The farmer or manufacturer who knew something of the economic reactions following the Civil War would have been better prepared to meet those that followed the World War. Though this objective is stated in terms of private gain, it is obvious that, in so far as it results in decreasing waste and increasing economic efficiency, it furthers social objectives as well.

A sixth objective would be a better understanding of ourselves. We are in part the product of the economic age in which we live, of the economic conditions in the country and section where we reside, of the economic class in which we are brought up, and of the pursuit whereby we strive to earn a living. Our aspirations, our ideals, and our notions on problems of economic and social policy are inevitably in some measure shaped by these influences or by our reactions against them. One of the outstanding lessons which the study of economic history must bring home to us is the extent and power of such influences and the undesirable consequences of social action that is so frequently the outcome of the biased ideals and judgments which ensue therefrom, though these may be as sincere and honest as our convictions on most other issues. If we can learn to study and understand the influences of this character to which we have been subject, and then have the reason and the will to endeavor, as best we can, to counteract any bias resulting therefrom, we can accomplish much in furthering economic and social progress.

Possibly there should be included as a seventh objective a purely cultural one—the acquisition of such knowledge of economic history as may be considered essential in a well-rounded education, quite independent of its use for social objectives. The important part played in human history by the economic factor would appear to justify considering some knowledge of economic history, particularly that of one’s own country, as a desirable part of one’s cultural equipment. In addition, the subject can be pursued in more detail for the mere satisfaction of intellectual curiosity. As a final objective there may be listed the formulation of laws of economic development or a philosophy of economic history. I list this last because I do not believe that in our present stage of knowledge it is possible to formulate laws of economic development that have universal validity. The nearest approach to such a law that I can suggest is the age-long tendency toward greater functional specialization or division of labor. The efforts to formulate a certain sequence in the stages of economic development have been shown to
be still less valid generalizations. Yet such generalizations, imperfect as they may be, are still useful. Their utility suggests the possibility of developing what may be called, in the sense in which Cournot used the term, a philosophy of economic history.

From this analysis it is therefore important that in isolating problems a country may be experiencing some factual arising from the history of the problems will be dropped thus limiting the scope of prescribing the medication of the problem or even the effectiveness of the medication.

**Theoretical Review**

The economic history of the contemporary world may be roughly divided into three phases: Premodern (Greek, Roman, Indian, Persian and Arab), Early modern (mercantilist, physiocrats) and Modern (since Adam Smith in the late 18th century). Systematic economic theory has been developed mainly since the birth of the modern era.

**Premorden era**

Before the field of economics had found its rooting, several ancient philosophers made various economic observations. Aristotle was chiefly concerned with the way transactions for livelyhood were done and labeled them either "natural" or "unnatural". Natural transactions were related to the satisfaction of needs and yielded wealth that was limited in quantity by the purpose it was inteded to serve. Un-natural transactions aimed at monetary gain and the wealth that was yielded was potentially without limits. He explained that natural un-natural wealth had no limits because it became an end in itself rather than a means to another end – satisfaction of needs.

Chanakya (c. 350-275 BC) considered economic issues and is often regarded as the Indian Machiavelli. He wrote the "Science of Material Gain" in Sanskrit. Many of the topics discussed in the Arthashastra are still prevalent in modern economics, including its discussions on the management of an efficient and solid economy, and the ethics of economics. Chanakya also focuses on issues of welfare (for instance, redistribution of wealth during a famine) and the collective ethics that hold a society together.

Medieval Muslims also made contributions to the understanding of economics. In particular, Ibn Khaldun of Tunis (1332–1406) wrote on economic and political theory in his Prolegomena, showing for example, how population density is related to the division of labour which leads to economic growth and so in turn to greater population in a virtuous circle. He also introduced the concept known as the Khaldun-Laffer Curve (the relationship between tax rates and tax revenue follows an inverted U shape).
Early Western precursors of economics engaged in scholastic theological debates during the Middle Ages. An important topic of discussion was the determination of the just price of a good. In the religious wars following the Reformation in the 16th century, ideas about free trade appeared, later formulated in legal terms by Hugo de Groot or Grotius (*Mare liberum*).

Economic policy in Europe during the late Middle Ages and early Renaissance treated economic activity as a good which was to be taxed to raise revenues for the nobility and the church. Economic exchanges were regulated by feudal rights, such as the right to collect a toll or hold a faire, as well as guild restrictions and religious restrictions on lending. Economic policy, such as it was, was designed to encourage trade through a particular area. Because of the importance of social class, sumptuary laws were enacted, regulating dress and housing, including allowable styles, materials and frequency of purchase for different classes.

Niccolò Machiavelli in his book *The Prince* was one of the first authors to theorize economic policy in the form of advice. He did so by stating that princes and republics should limit their expenditures, and prevent either the wealthy or the populace from despoiling the other. In this way a state would be seen as "generous" because it was not a heavy burden on its citizens.

**Early Modern Economic thought**

During the Early Modern period, mercantilists came closer to establishing an economic theory. This diverse school mirrored the emergence of nation states in Western Europe and they emphasized keeping a positive balance of payments.

During the Enlightenment, the French physiocrats were among the first to consider economics in and of itself. The most important physiocrat was arguably François Quesnay. Other French thinkers of that period include Richard Cantillon and Anne Turgot. In his *Austrian Perspective on the History of Economic Thought*, Murray Rothbard argued that the modern history of economics should properly begin with the physiocrats rather than with Adam Smith.

Anders Chydenius (1729–1803) was the leading classical liberal of Nordic history. A Finnish priest and member of parliament, he published a book called *The National Gain* in 1765, in which he proposes ideas of freedom of trade and industry and explores the relationship between economy and society and lays out the principles of liberalism, all of this eleven years before Adam Smith published a similar and more comprehensive book, *The Wealth of Nations*. According to Chydenius, democracy, equality and a respect for human rights were the only way towards progress and happiness for the whole of society.
Modern Economic Thought

Modern economic thought is usually considered to have begun with Adam Smith's *The Wealth of Nations*, published in 1776, although other earlier thinkers had made important contributions as well. This publication marked the beginning of Classical economics, the first modern school of economic thought.

The central idea promoted by Smith was that the competition between various suppliers and buyers would produce the best possible distribution of goods and services, because it would encourage individuals to specialize and improve their capital, so as to produce more value with the same labor. Smith's thesis rests on the belief that large systems can be self-regulating by the activity of their parts, without specific direction. Smith's formulation is called the "invisible hand" and is still the centerpiece of market economics, and capitalism in particular.

Other main contributors to the era of Classical economics were John Stuart Mill and David Ricardo. John Stuart Mill, in the early to mid 19th century, focused on "wealth", which he defined exclusively in relation to the exchange value of objects, or what would now be called price.

In the 19th century, Karl Marx synthesized a variety of schools of thought involving the social distribution of resources, including the work of Adam Smith, as well as socialism and egalitarianism, and used the systematic approach to logic taken from the philosopher Georg Wilhelm Friedrich Hegel to produce *Das Kapital*. His work was the most widely adhered-to critique of market economics during much of the 19th and 20th centuries. Marxist economics is based on the labor theory of value that was initially put forward by the classical economists (including, most notably, Adam Smith) and later developed by Marx. The Marxist school holds that capitalism is based on the exploitation of the working class: the wages received by workers are always less than the full value of their labor, and the difference is kept by the capitalist employer in the form of profit. The Marxist paradigm of economics is not generally held in high regard by market economists, though concepts from Marx's work are occasionally used in mainstream contexts, particularly in labor economics and in political economy. The term Marxian is sometimes used to describe work which accepts concepts from Marx's work but does not necessarily subscribe to the political thrust of Marxist thought.

The late 19th century also saw the "marginal revolution", which altered the basis of economic reasoning to include concepts such as
marginalism and opportunity cost. In addition to Marshall, the work of Carl Menger was influential in disseminating the framework of economics as the opportunity cost of decisions made at the margins of economic activity. This type of thinking is a basic building block in Neoclassical economics as well as in the Austrian school.

In the early 20th century, economics became increasingly statistical, and the study of econometrics became increasingly important. Statistical treatment of price, unemployment, money supply and other variables, as well as the compiling of these statistics, became more and more central to economic writing and disputes within the field of economics.

Macroeconomics diverged from microeconomics with John Maynard Keynes in the 1920s, and was codified in the 1930s by Keynes and others, particularly John Hicks. It grew in popularity as a reaction to the Great Depression. Keynes had been an influential exponent of the importance of central banking and government involvement in economic affairs, as well as a critic of the political economy of the post-World War I period. His "General Theory of Employment, Interest and Money" encapsulated both criticisms of classical theory that had been levelled by Thorstein Veblen and others, as well a method for economic management of aggregate demand. For an overview of a number of competing schools, see macroeconomics.

Many economists use a combination of Neoclassical microeconomics and Keynesian macroeconomics. This combination, sometimes known as the Neoclassical synthesis, was dominant in Western teaching and public policy in the years following World War II and up to the late 1970s. The Neoclassical school was challenged by monetarism, formulated in the late 1940s and early 1950s by Milton Friedman and associated with the University of Chicago (the Chicago school of economics) and also by supply-side economics.

In principle, economics can be applied to any type of economic organization. However, the majority of economic theory centers on systems where goods are exchanged in the market—where buyers and sellers seek to maximize their results by trading. The dominant form of market economics focuses on societies where property is owned by individuals, money has a rational basis, and profit comes from utilizing labor and capital to produce goods to be sold in the market—or capitalism. However, economic theory is also applied to markets where the control of capital is in the hands of the state or society, which include socialism and mercantilism, and to societies where the allocation of resources is not through the market, but through other mechanisms—see, for example, planned economies and gift economies, which are cornerstones of communism and anarchism, respectively. Some economists assert that it is impossible to avoid the "Invisible Hand" of the Market, and hence all societies can be
modelled through market dynamics, though this viewpoint has vehement opponents across the political spectrum.

The development of economics as a field of study is closely related to the rise of capital as the primary determining factor of production and trading, hence its most detailed and precise work has dealt with the institutions belonging to market societies, and most specifically to capitalist and socialist societies. To what extent economics must be adjusted to be applied to earlier forms of social organization has been a source of discussion. Generally, mainstream economists mostly feel that the basic framework of economics is relevant and flexible enough to be applied to virtually any form of society. Marxist economics asserts that history is divided into eras which are determined by which two classes are struggling to control the means of production—that is slaves and masters, peasants and royalty, wage workers and capitalists—and that mainstream economics only applies to those societies which are "objectively" industrial, that is to say, societies which are capable of industrial production based on their own knowledge and resources.

A summary of the different schools is given below:

**Mercantalism**

Mercantilism is an economic theory that holds the prosperity of a nation depends upon its supply of capital, and that the global volume of trade is "unchangeable." Capital, represented by bullion (gold, silver, and trade value) held by the state, is best increased through a positive balance of trade with other nations (exports minus imports). Mercantilism suggests that the ruling government should advance these goals by playing a protectionist role in the economy, by encouraging exports and discouraging imports, especially through the use of tariffs. The economic policy based upon these ideas is often called the mercantile system.

**Classical economics**

Classical economics is widely regarded as the first modern school of economic thought. Its premised on the instantaneous adjustment of the economy through the operation of the market forces such that it is always at full employment.

**Neo-Classical Economics**

Neoclassical economics refers to a general approach to economics focusing on individual and group choice based on preference relations.
This typically involves rational utility or profit maximization using available information. Mainstream economics is largely neoclassical in its assumptions, at least at the microeconomic level. There have been many critiques of neoclassical economics, often incorporated into newer versions of neoclassical theory as circumstances change. Neoclassical economics is often called the marginalist school.

**Keynesian Economics**

In Keynes's theory, general (macro-level) trends can overwhelm the micro-level behavior of individuals. Instead of the economic process being based on continuous improvement in potential output, as most classical economists had believed from the late 1700s on, Keynes asserted the importance of aggregate demand for goods as the driving factor of the economy, especially in periods of downturn. From this he argued that government policies could be used to promote demand at a macro level, to fight high unemployment and deflation of the sort seen during the 1930s.

A central conclusion of Keynesian economics is that there is no strong automatic tendency for output and employment to move toward full employment levels. This conclusion conflicts with the tenets of classical economics, and those schools, such as supply-side economics or the Austrian School, which assume a general tendency towards a welcome equilibrium in a restrained money-creating economy. In neoclassical economics, which combines Keynesian macro concepts with a micro foundation, the conditions of General equilibrium allow for price adjustment to achieve this goal.

**Monetarism**

Monetarism is a set of views concerning the determination of national income and monetary economics. It focuses on the supply and demand for money as the primary means by which economic activity is regulated. Monetary theory focuses on money supply and on inflation as an effect of the supply of money being larger than the demand for money.

Monetarism today is mainly associated with the work of Milton Friedman, who was among the generation of liberal economists to accept Keynesian economics and then critique it on its own terms. Friedman and Anna Schwartz wrote an influential book, *Monetary History of the United States 1867-1960*, and argued that "inflation is always and everywhere a monetary phenomenon." Friedman advocated a central bank policy aimed at keeping the supply and demand for money at equilibrium, as measured by growth in productivity and demand. The monetarist argument that the demand for money is a stable function gained considerable support during the late 1960s and
1970s from the work of David Laidler. While most monetarists believe that government action is at the root of inflation, very few advocate a return to the gold standard. Friedman, for example, viewed the gold standard as highly impractical.

**New-classical economics**

New classical economics emerged as a school in macroeconomics during the 1970s. As opposed to Keynesian macroeconomics, it builds its analysis on an entirely neoclassical framework. Specifically, new classical macroeconomics (NCM) emphasises the importance of rigorous foundations, in which the macroeconomic model is built in analogy to the actions of individual agents, whose behaviour is modelled by microeconomics, in spite of the fact that microeconomic postulates do not carry over to macroeconomics. Several assumptions are common to most New Classical models. Primarily, all agents are assumed to be rational (utility-maximising) and possess rational expectations. At any one time, the macroeconomy is assumed to have a unique equilibrium at full employment or potential output and this equilibrium is assumed to always have been achieved via price and wage adjustment (market clearing).

**New-keynesian economics**

New Keynesian economics developed partly in response to new classical economics. It strives to provide microeconomic foundations to Keynesian economics by showing how demand management by the government or its central bank can improve efficiency under imperfect markets. The main assumption of New Keynesian economics that distinguishes it from the new classical economics is that wages and prices do not adjust instantly to allow the economy to attain full employment. (This price and wage stickiness is explained using microeconomic theory.) Thus, unemployed resources and non-clearing markets can exist and persist, even when rational expectations apply.

**Supply-side economics**

Supply-side economics is a school of macroeconomic thought which emphasizes the "supply" part of supply and demand. The central concept of supply-side economics is Say's Law: "supply creates its own demand," the idea that one must sell before one can afford to buy. Therefore good economic policy encourages increased production, versus attempts to stimulate demand — this is the fundamental dispute between classical, supply-side economics and Keynesian economics or demand side economics. Supply-side economics is often conflated with trickle down economics. Supply-side economics was popularised in the
1970s by the ideas of Robert Mundell, Arthur Laffer, and Jude Wanniski. The term was coined by Wanniski in 1975.

**Emperical Review**

As previously alluded to, economic history has not often been written in a generalised format but rather looked at the various events which make up the whole thus we have issues like the industrial revolution, agricultural, trade among others. It is however important that we attempt at this juncture to take a glimpse at how some of the economic “Goliaths” of the contemporary world have evolved economically. It equally important to note the economic evolution of the contemporary world was rooted on the theory of the respective period from mercantilism up to the modern economic theory of the Neo-classicals and the Post-Keynesians.

**Japan**

Japan achieved sustained growth in per capita income between the 1880s and 1970 through industrialization. Moving along an income growth trajectory through expansion of manufacturing is hardly unique. Indeed Western Europe, Canada, Australia and the United States all attained high levels of income per capita by shifting from agrarian-based production to manufacturing and technologically sophisticated service sector activity.

Still, there are four distinctive features of Japan's development through industrialization that merit discussion:

**The proto-industrial base**

Japan's agricultural productivity was high enough to sustain substantial craft (proto-industrial) production in both rural and urban areas of the country prior to industrialization.

**Investment-led growth**

Domestic investment in industry and infrastructure was the driving force behind growth in Japanese output. Both private and public sectors invested in infrastructure, national and local governments serving as coordinating agents for infrastructure build-up.

- Investment in manufacturing capacity was largely left to the private sector.
- Rising domestic savings made increasing capital accumulation possible.
- Japanese growth was investment-led, not export-led.
Total factor productivity growth -- achieving more output per unit of input -- was rapid.

On the supply side, total factor productivity growth was extremely important. Scale economies -- the reduction in per unit costs due to increased levels of output -- contributed to total factor productivity growth. Scale economies existed due to geographic concentration, to growth of the national economy, and to growth in the output of individual companies. In addition, companies moved down the "learning curve," reducing unit costs as their cumulative output rose and demand for their product soared.

The social capacity for importing and adapting foreign technology improved and this contributed to total factor productivity growth:

- At the household level, investing in education of children improved social capability.
- At the firm level, creating internalized labor markets that bound firms to workers and workers to firms, thereby giving workers a strong incentive to flexibly adapt to new technology, improved social capability.
- At the government level, industrial policy that reduced the cost to private firms of securing foreign technology enhanced social capacity.

Shifting out of low-productivity agriculture into high productivity manufacturing, mining, and construction contributed to total factor productivity growth.

Dualism

Sharply segmented labor and capital markets emerged in Japan after the 1910s. The capital intensive sector enjoying high ratios of capital to labor paid relatively high wages, and the labor intensive sector paid relatively low wages.

Dualism contributed to income inequality and therefore to domestic social unrest. After 1945 a series of public policy reforms addressed inequality and erased much of the social bitterness around dualism that ravaged Japan prior to World War II.

Since then Japan has become the world’s seconded most industrialised nation.

United States of America

The economic history of the United States has its roots in European settlements in the 16th, 17th, and 18th centuries. The American
colonies progressed from marginally successful colonial economies to a small, independent farming economy, which in 1776 became the United States of America. In 230 years the United States grew to a huge, integrated, industrialized economy that makes up over a fifth of the world economy. The main causes were a large unified market,

- a supportive political-legal system,
- vast areas of highly productive farmlands,
- vast natural resources (especially timber, coal and oil), and
- an entrepreneurial spirit and commitment to investing in material and human capital.

The economy has maintained high wages, attracting immigrants by the millions from all over the world.

Infrastructural development like railroads were, by far, one of the most important contributions to the economy. Many contrasting views exist regarding whether the railroad was "indispensable" or not, but it was undoubtedly very important. The railroad paved the way to new developments in running large-scale business operations, creating a blueprint for future businesses to use. They were first to encounter managerial complexities, labor union issues, and problems of competition. Due to these radical innovations, the railroad became the first large-scale business enterprise.

Panics did not curtail rapid U.S. economic growth during the 19th century. Long term demographic growth, expansion into new farmlands, and creation of new factories continued. New inventions and capital investment led to the creation of new industries and economic growth. As transportation improved, new markets continuously opened. The steamboat made river traffic faster and cheaper, but development of railroads had an even greater effect, opening up vast stretches of new territory for development. Like canals and roads, railroads received large amounts of government assistance in their early building years in the form of land grants. But unlike other forms of transportation, railroads also attracted a good deal of domestic and European private investment.

Some people made fortunes overnight, but many people lost their savings. Nevertheless, a combination of vision and foreign investment, combined with the discovery of gold and a major commitment of America's public and private wealth, enabled the nation to develop a large-scale railroad system, establishing the base for the country's industrialization.

One notably episode in the history of the American economy and the majority of Europe is the great depression which is explained below:
The **Great Depression** was an economic downturn which started in 1929 and lasted through most of the 1930s. It was centered in North America and Europe, but had devastating effects around the world, particularly in industrialized countries and producers of raw materials. Cities all around the world were hit hard, especially those based on heavy industry. Unemployment and homelessness soared. Construction was virtually halted in many countries. Farming and rural areas suffered as prices for crops fell by 40–60%. Mining and logging areas had perhaps the most striking blow because the demand fell sharply and there were few employment alternatives. Several arguments have been given as the causes from insufficient government spending as power the Keynesians to several theories. To get out of the depression the then American president prescribed what was called the New deal which sought to stimulate demand by:

- Reforming the financial system, especially the banks and Wall Street. The Securities Act of 1933 comprehensively regulated the securities industry. This was followed by the Securities Exchange Act of 1934 which created the Securities and Exchange Commission. (Though amended, the key provisions of both Acts are still in force as of 2007). Federal insurance of bank deposits was provided by the FDIC (still operating as of 2007), and the Glass-Steagall Act (which remained in effect for 50 years).
- Instituting regulations which ended what was called "cut-throat competition," which kept forcing down prices and profits for everyone. (The NRA—which ended in 1935).
- Setting minimum prices and wages and competitive conditions in all industries. (NRA)
- Encouraging unions that would raise wages, to increase the purchasing power of the working class. (NRA)
- Cutting farm production so as to raise prices and make it possible to earn a living in farming

**Britain**

In Britain's earliest history agriculture was overwhelmingly dominant. The most important export was cassiterite, which gave the country its name (cassiterite being called *tin* in Anglo Saxon). In the middle years, Britain conducted extensive trade with the low Countries and Italy, exporting vast quantities of wool to those countries' textile industries. For many years England did not have the skilled workforce or the population density to itself participate in manufacturing, but turmoil on the continent as a result of the end of the Italian Renaissance and the wars of religion caused by the Protestant Reformation led to an influx of skilled dyers and weavers. By the 17th century England was a leader in textile production.
During the era of imperialism, slave trading generated astounding wealth for Britain. In the late eighteenth and early nineteenth century a series of technological advances led to the Industrial Revolution. Britain's position as the world's pre-eminent trader helped fund research and experimentation. The nation was also gifted by some of the world's greatest reserves of coal, the main fuel of the new revolution. It was also fueled by a rejection of mercantilism in favour of The predominance of Adam Smith's *laissez-faire* capitalism.

The Industrial Revolution saw a rapid transformation in the British economy and society. Previously large industries had to be near forests or rivers for power. The use of coal-fuelled engines allowed them to be placed in large urban centres. These new factories proved far more efficient at producing goods than the cottage industry of a previous era. These manufactured goods were sold around the world, and raw materials and luxury goods were imported to Britain.

During the First Industrial Revolution, the industrialist replaced the merchant as the dominant figure in the capitalist system. In the latter decades of the nineteenth century, when the ultimate control and direction of large industry came into the hands of financiers, industrial capitalism gave way to financial capitalism and the corporation. The establishment of behemoth industrial empires, whose assets were controlled and managed by men divorced from production, was a dominant feature of this third phase.

New products and services were also introduced which greatly increased international trade. Improvements in steam engine design and the wide availability of cheap steel meant that slow, sailing ships could be replaced with steamships, such as Brunel's *SS Great Western*. Electricity and chemical industries also moved to the forefront. In many of these sectors Britain had far less of an edge than other powers such as Germany and the United States, who both rose to equal and even surpass Britain in economic heft.

Amalgamation of industrial cartels into larger corporations, mergers and alliances of separate firms, and technological advancement (particularly the increased use of electric power and internal combustion engines fuelled by coal and petroleum) were mixed blessings for British business during the late Victorian era. The ensuing development of more intricate and efficient machines along with monopolistic mass production techniques greatly expanded output and lowered production costs. As a result, production often exceeded domestic demand. Among the new conditions, more markedly evident in Britain, the forerunner of Europe's industrial states, were the long-term effects of the severe Long Depression of 1873-1896, which had followed fifteen years of great economic instability. Businesses in practically every industry suffered from lengthy periods of low — and falling — profit rates and price deflation after 1873.
The current British economy is firmly rooted on advanced industrialisation which see the country exporting technology notably to countries like China.

**Germany**

Germany had already developed a strong economy during the Middle Ages. It was based on guild and craft production, but with elements of merchant capitalism and mercantilism. The trade conducted by its cities ranged far and wide throughout Europe in all directions, and Germany as a whole often had trade surpluses with neighboring states. One reason for these exports was the sheer necessity for the small states to sell abroad in order to buy the many things they could not produce at home.

The German guilds of the Middle Ages established the German tradition of creating products known for quality and durability. A craftsman was not permitted to pursue a trade until he could demonstrate the ability to make high-quality products. Out of that same tradition came an equally strong passion for education and vocational training, for no craftsman was recognized until he had thoroughly learned a trade, passed a test, and been certified.

The Industrial Revolution reached Germany long after it had flowered in Britain, and the governments of the German states supported local industry because they did not want to be left behind. Many enterprises were government initiated, government financed, government managed, or government subsidized. As industry grew and prospered in the nineteenth century, Prussia and other German states consciously supported all economic development and especially transportation and industry.

The government played a powerful role in the industrialization of the German Empire founded by Otto von Bismarck in 1871 during a period known as the Second Industrial Revolution. It supported not only heavy industry but also crafts and trades because it wanted to maintain prosperity in all parts of the empire. Even where the national government did not act, the highly autonomous regional and local governments supported their own industries. Each state tried to be as self-sufficient as possible.

Despite the several ups and downs of prosperity and depression that marked the first decades of the German Empire, the ultimate wealth of the empire proved immense. German aristocrats, landowners, bankers, and producers created what might be termed the first German economic miracle, the turn-of-the-century surge in German industry and commerce during which bankers, industrialists, mercantilists, the military, and the monarchy joined forces.
Germany recorded one of the highest episodes of inflation in the history of the world reaching millions and millions. However through co-operation of both the public and private sector she managed to tame the enemy to a one digit level. Today Germany is the largest economy in Europe and the largest exporter of heavy industrial machinery in the world.

Brazil

The economic history of Brazil covers various economic events and traces the changes in the Brazilian economy of the course of the history of Brazil. From Portugal's discovery of Brazil in 1500 until the late 1930s, the Brazilian economy relied on the production of primary products for exports. Portugal subjected Brazil to a sternly enforced colonial pact, or imperial mercantile policy, which for three centuries heavily curbed development.

Measurable changes began occurring only late in the 19th century, when slavery was eliminated and wage labor was adopted. Important structural transformations began only in the 1930s, when the first steps were taken to change Brazil into a modern, semi-industrialized economy.

These transformations were particularly intense between 1950 and 1981, when the growth rates of the economy remained quite high and a diversified manufacturing base was established. However, since the early 1980s the economy has experienced substantial difficulties, including slow and stagnation. Nevertheless, Brazil still has the potential to regain its former dynamism. In the mid-1990s, it had a large and quite diversified economy, but one with considerable structural, as well as short-term, problems.

The Brazilian economy also experience an episode of destabilisation with stagnant economic growth and high inflation levels most as a result of expectations. Several solutions were made available from high provile economists but introduction of a new currency that was valued on fundamentals drove the ship out of the rath of the sea and today the country is enjoying steady economic growth still pinned on agriculture but complimented with a growing industry.
THE CASE FOR ZIMBABWE

The present Zimbabwean economy is a result of historical legacy which dates back to the period British settlers arrived into this country. When the settlers arrived in 1890, there were traditional agriculturalists dating back some 2000 years (G. B Mombeshora 2001). The farmers who grew a wide variety of crops practiced shifting cultivation. The British South Africa Company (BSAC) established rule over Southern Rhodesia in 1890 and its rule lasted for about 25 years. This is the period when land appropriation by whites started and it also marked the birth of the dual agrarian structure that exists today. Reserves were located in the remote and drier parts of the country and by 1913; a total of 104 Native Reserves varying from 2,024 ha to 607,287 ha had been established. From then onwards, several acts of Parliament were passed in order to consolidate the colonial government's objectives on agriculture. These included:

- 1891 Lippert Concession
- 1898 Native Reserves Order in Council
- 1931 Land Apportionment Act
- 1951 Native Land Husbandry
- 1965 Tribal Trust Lands Act

However, it was the Land Apportionment Act of 1931 that formalized the dual agrarian structure. Institutions that shaped the evolution of Zimbabwe's agrarian structure also began to emerge. For instance the BSAC directors visited the country and launched the white agricultural policy, which promoted commercial farming. A department of agriculture was set up in 1908 to implement agricultural policy for white commercial farmers. The first research stations in the country were established in 1909 at Gwebi and Harare. Rhodes, Nyanga and Matopos were acquired in 1917. No support was rendered to smallholder agriculture, and this situation continued up to 1980.

Southern Rhodesia became a self-governing colony in 1924 and this period of self-rule (1924 - 1965) was characterized by huge investments in physical social infrastructure for the white areas. These included the establishment of state agricultural marketing and control boards. Such developments which took place in the 1930s and 1940s were the prime movers of the agricultural production revolution on the large-scale commercial farms, starting in the 1950s with tobacco as a major export crop. Smallholder agriculture was, however, ignored. In addition, further support to the white agricultural sector came through the 1933 Danzing Commission. This Commission was appointed to examine the economic position of the agricultural industry amid the world depression of the 1930s. This Commission recommended that
government subsidies and support for white agriculture as a matter of survival of the white community. The global depression set the stage for an all-embracing state intervention. For example, from 1935 to 1956, a 50% subsidy plus free technical support programme was launched to allow white farmers to build soil and water conservation works. From 1936 to 1944, agriculture was declared a controlled industry. Government controlled the prices, international trade as well as the area and sale of tobacco, and extended subsidies to white farmers.

In 1953 came the Federation of Nyasaland and Rhodesia. The Federal government, acting on recommendations of a 1958 Select Committee, actually started to amend the Land Apportionment Act in order to increase the amount of land for blacks by extending the special native reserves and by creating a category of non-racial (unreserved) land. White conservatives did not like the idea and, in an all white election, fought on the land issue, and the Rhodesian Front won, thus restoring the Land Apportionment Act and freezing the unreserved category of land. In 1965, the Rhodesian Front Party declared an illegal Unilateral Declaration of Independence (UDI) from the United Kingdom (UK). The UK and the United Nations (UN) imposed sanctions on Rhodesia. Government immediately instituted measures to reduce dependency on tobacco through crop diversification schemes. Agriculture continued to be the most important foreign exchange earner. The agricultural sector survived UDI largely through government support, although in the 1970s large-scale agriculture became less and less profitable.

At independence, Zimbabwe inherited an agricultural sector characterised by two different systems, namely, the commercial sector exclusively for the whites and the communal areas for blacks. The commercial sector had access to better and larger pieces of land compared to the blacks. The new government maintained the dual agrarian structure of commercial and communal farms, but significantly increased government assistance to the communal sector. The new government maintained the colonial government’s cheap food policy and actually increased food subsidies during the first few years of independence, with tax rebates given for some basic food items. Government introduced new legislation on minimum wage, which in turn increased the demand for manufactured food items.

In all indications, up to the late 90s, Zimbabwe was in a relatively decent shape as far as macroeconomic fundamentals were concerned - it was considered a moderately indebted country and its credit rating was better than most comparable developing countries, booming agricultural sector, a moderately performing manufacturing and mining sector, at least an improving standard of living. In reality though, it was really an economy where external creditors were willing to support an otherwise unsustainable external balance of payments, and where domestic creditors were prepared to hold high levels of domestic debt. However, this "temporary" equilibrium could not be sustained, largely because of deep-seated problems in the macro-economy. Recent internal political, social and economic pressures have forced a sharp downturn in economic activity, with dire implications for debt service.
Zimbabwe's macroeconomic policies have changed between extremes. Like many other developing countries, the post independence experience is characterised by a structural adjustment programme which reversed a long tradition of *dirigisme*. There is little doubt that economic reforms have changed the contours of the Zimbabwean economy, although it is also clear that the effects were very much the consequence of both the initial conditions and the subsequent management of the process. The structural inequalities, which had been built during the settler colonial period and which had not been greatly altered during the first decade of independence, provided the foundation for a programme which sharpened inequality and increased poverty. Despite the contrasting policy episodes, a common feature running through all these is a large fiscal deficit, averaging 10 percent of GDP or higher. The main result of this fiscal mismanagement has been the inability of a populist government to exercise fiscal discipline which has contributed to mounting public debt problems (Davies and Ratto, 1999). Prior to economic reforms, it was possible for the regulated economy to suppress the destabilising consequences of the debt through price controls, foreign exchange rationing, financial repression etc., at least in the short run. Once the shift to market orientation was made, these control instruments were removed and any imbalance between aggregate demand and supply quickly showed up as a combination of inflation, balance of payments deficit and currency depreciation. As a result, Zimbabwe's debt problems pose significant problems largely related to the country's creditworthiness and its ability to direct resources towards productive use.

At the heart of the 1980s policy regime was a complex and comprehensive foreign exchange allocation system that was supplemented by a stringent investment regulation and approval system and an extensive price control. Although this regulated economy appeared to shield the poor more than the preceding liberalized one, the system discouraged new entrants, had an anti-export bias and the regime was macroeconomically unsustainable. There was heightened awareness that the existing policy of subsidizing consumers and producers and constantly bailing out parastatals was keeping the fiscal deficit at an unsustainably high level and contributing to rising public debt. During this period, there was a significant increase in the stock of outstanding total external debt, reflecting not only the poor fiscal and external position, but also the reconstruction needs of the economy. In 1980, Zimbabwe's stock of debt outstanding stood at US$786 million or about 16% of GDP, of which more than 40% related to external borrowings from South Africa. Following independence and the need for substantial external financial resources required for reconstruction and rehabilitation of economic infrastructure, debt levels rose significantly to US$2.4 billion in 1985, representing about 52% of GDP, more than 70% of which was sourced from non-concessional commercial sources. This resulted in hardening of the average terms of the country's debt, with grace periods of 2 years, maturities of five years and an average interest rate of about 10%. Consequently, debt service payments rose rapidly, with the debt service ratio increasing from about 9.5% in 1981 to an excess of 29% in 1985. Since then, there has been a substantial reduction in commercial bank
exposure and the country has increasingly tried to finance its development requirements from long term concessional official sources.

Although the country experienced positive growth in the 1980's, it embarked on a SAP in 1990 because of a perception that growth was too slow. There was also concern over the failure of GDP growth to translate into jobs. Economic performance during this period was largely unsatisfactory. The key year is 1992, when the trade account was essentially fully liberalized. Output and investment contracted by about 8-10%, the inflation rate doubled to over 40%, a consumption boom increased imports and the trade balance moved into serious deficit. This performance must be understood against the unfortunate background of a coincidental drought that must take much of the balance for the contraction. However, the worry is that GDP per capita in 1997 is still at the 1992 level, well below the gradually expanding per capita GDP during the period 1985-1991. While inflation jumped to an annual rate above 40%, nominal interest rates went up to about 30%. The inflation rate was gradually reduced towards 20% in the mid-90s, but the interest rate showed strong inertia.

Consequently, real interest rates turned positive and quite large with depressing effects for investment in the 1990s. The underlying reason for the loss of macro-balance during this period was the size of the budget deficit. Stabilisation policy has focused almost exclusively on fiscal deficit reduction (from about 10% of GDP to 5% of GDP) for good macroeconomic reasons. Other goals included targets on inflation reduction (from 16% to 10%) and a stable external sector. Until recently, only the external sector developed according to plan. The budget deficit has remained quite high for the rest of the 1990s, rising to more than 10% of GDP. In 2000, it reached 23% of GDP and is forecast to remain at 20% of GDP in 2001/2002. Government borrowing to finance such a high deficit pushed up interest rates, discouraging investment and growth. As a result, inflation turned out to be higher than planned. Total external debt more than doubled between 1985 and 1996. Although the GDP growth rate was impressive at 7.3 percent in 1996, in 1994 it was lower than in 1985. Import liberalization of 1990-91 led to a substantial increase in imports, accounting for a serious trade imbalance. Failure of the major donors including the World Bank to disburse funds on target forced the Government to raise short-term commercial loans. This accounts for the substantial increase in external debt.

In 1996, the performance of the economy was relatively better and prospects for the remainder of the decade looked good. Public finances improved in 1998 with a primary surplus of 5% of GDP. But with hindsight, this was just a calm before a storm. The storm, which came in the form of the currently ongoing crisis, erupted when the Zimbabwean dollar fell to an unprecedented low level on Friday 14th November 1997. It was largely generated by the failure to bring the fiscal deficit under control. What acted as a trigger to the crisis, however, was growing uncertainty over the financing of about Z$4 billion that had been promised war veterans as compensation and pensions, the lack of progress made in the negotiations between the government and the Bretton Woods Institutions and uncertainties on the direction of land reform.
In 1999, fiscal handle was lost and the primary balance shifted to a deficit of 1.4%. Government deficit before grants rose to 11.5% GDP. Fiscal performance in 2000 and 2001 has deviated sharply from the original official target (of 3.8%GDP). In 2000, the deficit rose to 23% of GDP. The slippage stemmed from a 60-90% increase in public wages, overusing defense and domestic interest outlays. In 2001 the fiscal deficit is projected to be 20% GDP. The combination of rising fiscal deficits and dwindling foreign financing has raised the government's domestic debt from 19.5% of GDP at the end of 1998 to about 29.3% of GDP at the end of 2000. The declining economic situation has gone hand in hand with rising concerns for political stability. The contentious issue has been the implementation of the needed land reforms, which has eroded external confidence and diminished direct foreign investment. These factors have led to the accumulation of some US$500 million in public sector external payments arrears as of the end of September 2000, of which US$204 million were owed by the central government.

The fact that there is currently a reduction of net aid inflow on the one hand and a shift in the willingness of the domestic private sector to hold government securities on the other complicates the problem even further. Inflation surpassed the 1000% mark, foreign currency shortage continue grapple the nation, disunity of purpose, speculative activities which have seen unwarranted price increases that are not based on fundamentals, price distortions, high unemployment levels all characterise the present Zimbabwean economy.

The question is what can we learn from economic history?

**Policy Implications and Lessons**

In the background, we talked of the Brazilian president receiving calls from all corners of the globe as high profile economist thought each had a solution to the problems that were crippling their nation. I believe the Zimbabwean situation is equally on the same yoke. Be it the print media, the electronic media, the internet- an encyclopaedia can be compiled of the solutions people believe will turn around the country’s economic fortunes.

The empirical analysis of the history of contemporary nations has the following lessons for the economy of Zimbabwe:

**Agricultural importance**

From Japan stretching to the Americans, the Europeans and the whole of Africa, Agriculture has been the base upon which industrialisation war fare was launched. The countries which have gone all the way to become economic powerhouses, recognised the importance of this sector the same way the Zimbabwean government has taken heed. However the point of departure has
been on the environment (both political and cultural) and the ways of supporting the sector.

**Agricultural subsidies**

American agriculture has up to now been competitive than any other in the world because it is heavily subsidised. However farmers are not subsidised before they do the farming like what is happening in Zimbabwe. Subsidies on come after the produce is available to incentivise the farmer to even do more. Our subsubsidies are a disincentive to production since there is very big room for one to get higher returns out of arbitrage than when they commit the subsidy to the cause of production.

It is therefore important that should be given after the producer has brought output and they have to be market based.

**Unity of purpose**

This may not seem like an economic policy. Indeed it is not an economic policy but a cultural policy which if its seed is sewn among a country’s populace, economic policy become easier to implement. The Germans jumped out of their hyperinflation ship partly because of the unity of the people which supported government policy. They agreed to work for very low wages in the hope and trust the same wages will tomorrow become mountains. This unity is what Zimbabwe is currently crying for. The cart is pulled in all directions such that overall it remains stagnant. The people have lost all hope in the authorities entrusted to give confidence to the people therefore as a first step, the task should be to restore the people’s trust in authorities and that way the neo-classicals believe expectations can be dealt with.

**Production**

Production is by far the most affluent long run remedy to which most economic problems can be stabilised. The developed countries are what they are today because they produced and they are still producing. In an environment where production is not a taboo, the exchange rate just finds its footing, the inflation animal just find itself in the cage. It is therefore imperative that the government through the responsible authorities set an environment that is free of any distortions that militate against the production cause.

**The market way**

Classical economics is rooted on the operation of the invisible hand in determination of economic fundamentals. Though the system has its own shortcomings, to a larger extent it is the way to ensure an efficient allocation of resources to competing ends. The government should only come in cases where the market is registering high scores of failure.
Promotion of savings

The Japanese industrialisation was footed on the promotion of investment rather than exports. In other words it was an investment led industrialisation strategy where efforts were directed at ensuring massive local investments are undertaken before producing for the export market.

Import substitution

Brazil, and the Asian tigers among a host of other countries successful implemented economic turn around programmes through import substitution industrialisation strategies. In the first instance focus should be substituting consumer imports through local production. A look at Zimbabwe’s import basket will find everything from sacks used by GMB as packaging for grains. In other words it seems little is currently being produced in the country- a situation that is highly unsustainable for a country that is facing crippling foreign currency shortages.

Conclusion

In a nutshell the problems facing Zimbabwe if mirrored in the economic history of contemporary nations are not new nor is she the first one to go through such experiences. It is therefore pertinent that the authorities take their time to look at the conditions under which previous victims have operated in to move out of their predicaments.

Public debt, both domestic and external, is a major problem in Zimbabwe today. The single most important proximate cause of the problem is macroeconomic instability. The road ahead for Zimbabwe is likely to be very bumpy. An even severe recession appears unavoidable if the debt situation is to be brought under some reasonable control without the help of donors. Although the task to be accomplished is very daunting, the country has approached the point at which it has to tolerate this effort. Politics aside, the central thrust of macroeconomic policy management has to be on controlling the budget deficit. The government is aware of the measures needed to bring the budget process under control: proper construction of budget targets, adherence to agreed budget allocations, reduced domestic borrowing. In the past high budget deficits have been due to the failure of various ministries to remain within the authorized expenditure ceilings. But the debt service burden also adds a large non-discretionary element to expenditures. Short-term measures are necessary to reduce this burden. Experience has shown that the capacity to implement the above measures is limited.

Therefore, mechanisms to assist the Government in sticking to its budget proposals will be required. In the absence of donor support (the most likely scenario), there are two realistic options open for Zimbabwe to tackle the debt problem: austerity and export promotion. Austerity would be contractionary in the short run. In the medium run (assuming the economy survives this far),
however, the fiscal deficit will come down and there is redistribution away from high savers. Inflationary pressures would be reduced by efficiency gains from public enterprise commercialisation and privatisation. Export growth promotion is another complementary policy. Without substantial capital inflows, there will be need for directed policies such as cheap credit, explicit subsidies and devaluation to keep exportables afloat. However, except for devaluation, this conclusion is not warranted from our analysis in this paper, since we have not addressed the impact of directed policies on exports explicitly. Nonetheless, experience in the last half of the 1980s suggests that this is a reasonable interim measure to promote exports.

Although there appears to be an impenetrable stand-off between donors and government, there is need to obtain a workable consensus on the way forward. The donor financing route may appear less politically feasible to the government, but the alternative of trying to ignore the economic imperatives is likely to have far more adverse political spin-offs in the next three to five years. An important reason for attracting donor support would be the boost that this would give to investor confidence, making the future appear more certain. This route also raises the possibility of swapping domestic debt for foreign. With credible government policies, this would lead to higher growth and lower inflation. These conditions are prerequisites for sustainable debt.

Policies that create an environment that is suitable for production should be put in place. Subsidies should be market based and be aimed to promote the production cause-not prone to abuse through arbitration. Removal of distortionary pricing is very essential. Finally the unit of purpose from policy makers to the rest of the economic agents helps oiling the rusty economic engine.
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