Maputo , 29 July 2015 . Boletim Nº 68e

IESE
INSTITUTO DE ESTUDOS SOCIAIS E ECONÓMICOS

IDeIAS

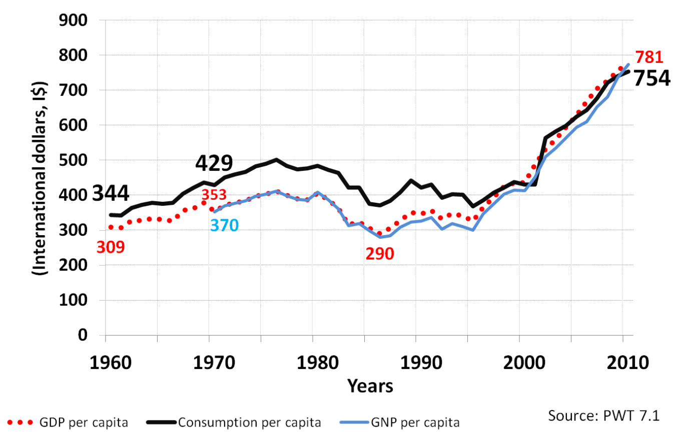
Informação sobre Desenvolvimento, Instituições e Análise Social

Mozambican Aggregate Consumption: Evolution and Strategic Relevance

António Francisco & Moisés Siúta

When Mozambique won its political independence in 1975, it was consuming more than it produced. According to the data from version 7.1 of the Penn World Table (PWT 7.1), between 1960 and 1975 real consumption per capita increased from $Int. 344 to $Int. 490 and production, measured by Gross Domestic Product (GDP) per capita, increased from $Int. 309 to $Int. 403 (https://pwt.sas.upenn.edu/). Consumption grew at an average annual rate of 2.4%, against a 1.8% growth rate of per capita GDP; a doubling of the surplus of consumption over GDP from 11% to 21%, in the last decade and a half of the colonial period (Figure 1).

Figure 1: Consumption, Gross Domestic Product (GDP) and Gross National Product (GNP) per capita, Mozambique, 1960-2010



In the first decade of independence, the new sovereign state, in the attempt to correct previous economic policies, failed by opting for a radical and destructive revolutionary path, instead of a really progressive transformation, seeking to expand national wealth, encourage individual and private initiative, innovation and productive entrepreneurship. But the most ironic aspect was that, despite the radical changes implemented, the state opted to maintain the economic growth option, when it would have been fundamental to change it strategically, in order to promote the accumulation of domestic surplus and savings, freeing Mozambique from its chronic dependence on external savings.

This statement might seem surprising, but only for those who believe in the wizardry of revolutionary utopias (and there were a lot of them!), and above all those who refuse to admit that the essence of the growth strategy of the colonial period was maintained and strengthened, to unprecedented levels, after independence.

This small text seeks to help clear up some misunderstandings, centring attention on the evolution and relevance of aggregate consumption vis-a-vis the GDP and the gross national product (GNP); the latter corresponds to the total income of the country, regardless of where the means of production are located (inside or outside the country). The text draws inspiration from an article which will form part of the book *Desafios para Moçambique 2015 (Challenges for Mozambique 2015).* Although the empirical facts are known, the literature shows that they have not merited due analytical recognition, to inspire the explanatory power that the current approaches to the economic development of Mozambique lack.

"RELY ON ON'S OWN FORCES"? WHEN?

Mozambican independence and above all the building of the new Sovereign State began by being led and dominated by politicians, who were partly or wholly convinced that the true modernisation of Mozambican society would involve a radical break with the international capitalist system. Many analysts believe that a new economic growth strategy emerged in Mozambique after 1975. However, as can be noted in many aspects of nature and of human life, appearances are deceptive.

Knowing that consumption is the main macroeconomic aggregate among the components of internal demand, it is worth thinking about some of its stylised facts, to understand the scope and implications of maintaining a growth strategy relying on external savings after the independence of Mozambique.

In 2010, total Mozambican consumption (private and public) was 97% of GDP, but that was only the sixth consecutive year with consumption less than 100% of GDP, despite several decades in which Mozambique was one of those countries where consumption was greater than GDP. It is worth noting that, in general, consumption represents the greater proportion of the income produced. For example, in 2010, world consumption reached 83% of GDP, in a total of 189 countries considered in PWT 7.1; that is, at world level savings amounted to 17% of GDP.

In the decade 1974-84 Mozambican consumption was around 124% of GDP. Of this, 115% was private consumption and 9% was public consumption. In this decade, the average annual rate of growth of per capita consumption was negative (-0.9%), while the real growth rate of GDP per capita fell to (-1.6%) a year. This regressive economic trend was in sharp contrast to the enormous potential of the hope of promised freedom and the expectation of benefits from the available natural resources. Consciously or not, the new political and government leadership accepted, in an uncritical and mistaken manner, the inevitability of low, or practically non-existent, domestic savings, inherited from the colonial period. Hence, in the attempt to promote and speed up economic growth, the Mozambican state resorted to ever larger current account deficits, internal dissavings (public and private), uncompetitive exchange rates, and investment with external savings.

This was the growth strategy followed by the Portuguese administration, at least in the last decade and a half of the colonial period, although with two important differences. First, despite the limitations imposed by the Portuguese central government on the internalisation of capital in the colonies, the colonial state was increasingly promoting the accumulation of internal surpluses. On the other hand, the new state radicalised and took to extremes internal dissavings in favour of consumption and against the accumulation of national capital. This is confirmed by the acceleration in the pace of consumption compared with GDP. Between 1975 and 1983, as a proportion of GDP, consumption increased from 121% to 134%; in the same period, investment, as a proportion of GDP, fell from 12% to 7%. In less than a decade, the option for growth with negative savings or internal dissavings, worsened to such an extent that in 1984 Mozambique was technically bankrupt.

The data presented here are sufficient to support the initial statement in this text that the true independence spirit was, in practice, contradicted, not to say betrayed, by the Sovereign State banking on a growth with internal dissavings and disaccumulation of national capital. It is not surprising that famous slogans, repeated and exalted insistently in the revolutionary period, such as "rely on our own forces", were soon shown to be empty and deceitful. If we understand "own forces" as meaning the endogenous capacity to generate savings and the accumulation of surpluses, then never before had Mozambique been so dependent on "the forces of others" as in the first decade of independence. The political leadership tried to camouflage and legitimise this dependence with ideological rhetoric, and resorting to external savings, from the ex-socialist countries, but in the end this was a purely parochial substitution of sources, lasting for only a short period, instead of a substantive and progressive change in the economic growth strategy.

Table 1: Consumption, Gross Domiestic Product (GDP), and Gross National Product (GNP), Mozambique 1960-2010

	Consumption		GDP		GNP		Consumption as percetange of GDP			
Years/ periods	per capita	Growth rate	per capita	Growth rate	per capita	Growth rate	Total	Private	Public	Invest.
1960-74	407	2.4%	350	1.8%			116	109	7	9
1974-84	470	-0.9%	381	-1.6%	379	-1.7%	124	115	9	11
1984-94	405	-0.5%	330	0.7%	310	-0.1%	123	114	8	13
1994-04	457	3.6%	445	4.9%	420	5.2%	103	96	8	19
2004-10	680	3.7%	694	4.8%	659	5.3%	98	89	9	15
1975-2010	**486**	**1.2%**	**442**	**1.9%**	**423**	**1.9%**	**113**	**105**	**8**	**15**
1997-2010	574	4.8%	581	5.4%	551	5.8%	99	91	8	18
2000-2010	615	4.9%	625	5.3%	593	5.7%	98	90	8	17
1960-2010	**463**	**1.6%**	**415**	**1.9%**	**417**	**2.0%**	**114**	**106**	**8**	**13**

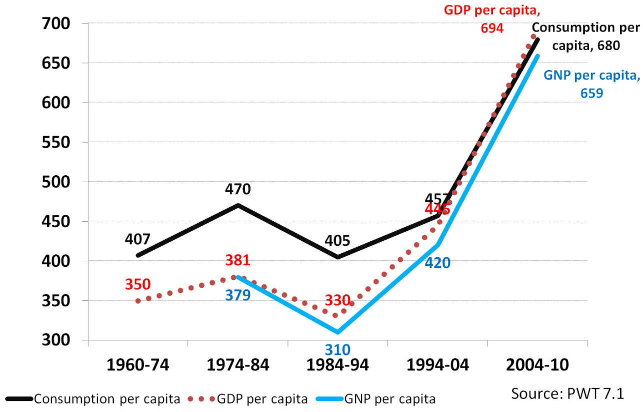
Source: PWT 7.1

1984-87: Break... of what type?

In the mid-1980s, bankruptcy was clear, with the worsening civil war threatening to push Mozambique into the situation of a failed state. Fortunately, this state of affairs spurred the then President of Mozambique Samora Machel, to accept liberalising economic reforms, under the tutelage of the Bretton Woods institutions. It was not long before positive results could be seen.

After membership of the IMF and the introduction of the Economic Recovery Programme (PRE) in 1987 – a programme mixing liberalisation and intervention – the previous economic regression was halted and reversed. In the decade 1984-1994, average consumption reached 123% of GDP, of which 114% was private and 8% public.

Figure 2: Decade average of consumption, of the Gross Domiestic Product (GDP), and of the Gross National Product (GNP), per capita, Mozambique 1960-2010



Consumption reached its peak in 1983 (136% of GDP), while the levels of per capita production reached their lowest point in 1986: $Int. 290, a level lower than that of 1960 (Figure 1). After 1987 GDP growth resumed positive rates (an annual average of 0.7%, in 1984-94), but the rate of growth of per capita consumption still remained negative (–0.5%), for some time (Table 1).

As from 1994, the average annual rate of growth of per capita consumption became persistently positive; but unlike the last colonial and the first post-independence decades, it became lower than the GDP and GNP growth rates. At the beginning of the 21st century, Mozambique finally managed to attain and surpass the average levels of per capita production and consumption of 1975. Furthermore, in this first decade of the new century, the Mozambican economy attained two unprecedented achievements. Average internal savings were positive, for the first time in 50 years. At the same time real per capita consumption grew at an average annual rate of 4.9%, compared with growth rates of 5.3% and 5.7%, of the GDP and GNP, respectively (Table 1). Although consumption had relatively high rates, unlike previous decades, these remained lower than the growth rates of production, that is, of the GDP and the GNP.

Faced with these facts, we consider the years 1984-87 as the period of the most important break in post-independence economic history and the start of a new trend in the dynamic of Mozambican capital accumulation. But what kind of break was this? Something which might indicate a substantive change in the economic growth strategy itself? Or was it a change in the growth trend which maintained dependence on external savings?

Our answer inclines to the second question, for the following reasons. First, halting and reversing the regressive trend of the Mozambican economy became a question of survival for the very state which had provoked it. Secondly, the political leadership which continued to control the state showed, at various times and in various ways, that it was uncomfortable and resentful about the reforms it had to introduce. Even today some of the protagonists believe they were coerced into making economic reforms; a remarkable confession of pessimism and cynicism, which has involved the return to the dependence of the economic system on external savings, which it was hoped to eliminate. Third, under the fragile conditions in which the Mozambican economy found itself, it is not surprising that external savings generated economic growth, considering their massive volume, prolonged duration and active involvement in the national economy. Fourth, with more distributionist than progressive political forces and economic actors, it is doubtful whether the international partners of the Mozambican State believe that Mozambique is capable of guaranteeing a more stable and robust macro-economic framework than that which it has achieved with growth anchored on external savings. Fifth, if the gamble on the exploitation of mineral and energy resources goes ahead, very probably dependence on the growth of external savings will increase and worsen alongside higher current account deficits.

Encourage what: Consumption, Savings, Both?

Time will tell whether, in the long term, the strategy of growth based on external savings can free the Mozambican economic transformation, turning it into economic development. Instead of a mere "underdeveloped country". However, the evidence shows a process of underdevelopment, because the Mozambican economy has been structured, has grown and has been based on external financing, oriented mainly towards consumption instead of investment.

Between 1960 and 2010 the annual rate of external savings was, on average, about 27% of GDP (about $Int. 1.6 billion, per year), of which 52% went to consumption and the remaining 48% to investment (about $Int. 780 million, per year). Obviously such averages hide important variations over time. For example, between 1960 and 1997, average annual dissavings were around 19% of GDP, while in the last 12 years of the series under consideration, internal savings became slightly positive (1.3% of GDP per year).

It would be difficult to expect, much less desire, that Mozambicans should reduce their current levels of per capita consumption, which remain among the lowest in the world, and way below the world average (in 2010, that was about $Int. 9266). In any case, four decades after independence, Mozambicans are still faced with the same dilemma: to remain hostage to external savings, or to opt for a growth strategy which guarantees that the current pace of growth of consumption is sustained by economic growth resting on improvement in the productivity of the factors of production. As Figure 2 shows, although the difference between the GDP and GNP is relatively small, the GDP has exceeded consumption but the GNP has not.

Both economic theory and the experience of countries which have achieved growth and sustainable economic development over the past century have shown that external savings play an important role, in an open economy; but that role will only be useful for the national economy, if external savings complement internal savings, instead of replacing them, as has been the case in Mozambique, since the middle of the 20th century.