Chapter 4: Transition dangers and opportunities for Zimbabwe's economy and society

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Introduction

My objective in this paper is to present some tough observations about the difficulties associated with a political transition process in the midst of a severe economic downturn. My input is meant to serve merely as a means of identifying the kinds of durable problems in macro/microeconomic management which I personally feel that neither of the two main contending perspectives -- ZANU-PF's brand of what we term 'exhausted' nationalism, and the MDC 2000-02 'BRIDGE' strategy of globally-oriented neoliberalism -- have yet come to grips.[54] I think a third perspective may be helpful, which my co-author Simba Manyanya and I term 'the *search* for social justice' -- because no one can claim to have found it, or even to have located a blueprint.

That third perspective is, in keeping with the MDC's orientation to the urban poor and workers, associated with popular demands for both democracy and basic needs made upon a social-democratic state, in the manner that the MDC claims it seeks in its *political* manifestos. However, our tradition is also -- perhaps somewhat in common with ZANU-PF's traditions of anti-imperialism -- associated with what is openly being described as 'deglobalisation'.[55] We find that our arguments resonate with the grassroots movements in Zimbabwe, and are consistent with the direction of the World Social Forum insofar as human rights, gender equity, ecological sustainability and the 'decommodification' of basic-needs goods have become alternative *economic* themes of progressive social movements in many parts of the world. Indeed, an emerging 'Zimbabwe Social Forum' spawned by the Porto Alegre model may well serve as a site for discussion of how 'Another World -- Another Zimbabwe -- is Possible!' That Zimbabwe would not suffer the depredations of human rights abuse, whether of a civil/political or socio-economic nature. It would be a society led by a government that maintains space for, and nurtures, a multiplicity of experiments in humane living that will contribute, *from below*, to the model society Zimbabwe can surely become. It is here that I would suggest a broader range of options should be kept open for macroeconomic and microeconomic policy.

However, to illustrate that the debate should not merely be about 'inward' and 'outward' aspects of economic development, let us recall the country's various historical swings in macroeconomic management. From Table 1 it should be clear that even a series of racist Rhodesian regimes swung backward and forward, zigzagging in a manner that puts the recent switches into perspective.[56] Moreover, to show that the terrain of debate must transcend the options now available, it may be useful to reiterate some of the arguments from the book Zimbabwe's Plunge advanced by myself and Manyanya (formerly a chief economist in the Zimbabwe Ministry of Finance, then a Zimbabwe Congress of Trade Unions economist).[57] What we tried to establish in that book is a set of alternative macro/microeconomic options that would meet the broader needs of society, not merely serve the interests of those who seek an 'elite' deal -- at a time when, finally, the new ultra-rich cronies of the Mugabe regime fear that their own assets may well now also be at risk.

Transition economics

On the optimistic side is the fact that over the past few decades, there have been a variety of political deals, not least the one that gave South Africa its 'liberation' in 1994. Such 'transitions to democracy' occurred from Southern Europe to the Southern Cone of Latin America to Eastern Europe to East Asia to Africa during the 1970s-90s. It could be argued that Zimbabwe was at the fore of this wave, in 1980, and that it is time again for such a process.

However, most transitions to democracy, sadly, were merely negotiated elite power-transfers. Authoritarian groups reliant upon the state's repressive apparatus gave way to popular fronts. Yet these very quickly reverted to neoliberalism. Merely naming the popular leaders demonstrates how common it was for anti-authoritarian critics--whether from right-wing or left-wing backgrounds--to transform into neoliberals: Alfonsin (Argentina), Aquino (Philippines), Arafat (Palestine), Aristide (Haiti), Bhutto (Pakistan), Chiluba (Zambia), Dae Jung (South Korea), Havel (Czech Republic), Mandela (South Africa), Manley (Jamaica), Megawati (Indonesia), Museveni (Uganda), Nujoma (Namibia), Obasanjo (Nigeria), Ortega (Nicaragua), Perez (Venezuela), Rawlings (Ghana), Walesa (Poland) and Yeltsin (Russia).

Most deals done by these men and women did nothing to identify and rectify the sins of prior dictatorships, the Cold War depredations and other imperialist power plays, the deeply-embedded corruption, the patriarchy, the racial/ethnic divide/rule techniques, and so much other detritus that the new elite were meant, somehow, to 'transform.' Most deals could be described as 'low-intensity democracy.' Below the facade of multipartyism, the overall parameters had been set in Washington. Truth/reconciliation commissions were rare.

Most deals left the economic *status quo* intact, no matter how unequal and unsustainable. 'Dictators left debt to democrats,' and only in a few cases--Aquino, Aristide and Megawati--were attempts made to retrieve the stolen loot, although civil society groups in Mandela's South Africa, Obasanjo's Nigeria and the Jubilee South movement worked hard to politicise bank collaboration with the dictators. But the period has been remarkable for how few 'democratic' leaders were willing to challenge their tormentors' 'Odious Debts'--which by international legal precedent *they should not have to repay*.

As a result, most such transitions replaced the repression of the generals/politicians with neoliberal policies favoured by the bankers/businessmen. The new ruling clique of 'democratic' politicians either went along for the ride, perhaps complaining a bit, or they mindlessly bought into the Washington Consensus ideology. In turn, in most cases, economic austerity and sometimes severe financial crises bred more intense class and gender inequity than before. Only a very few countries in Europe (e.g., Spain, Portugal) and Asia (Taiwan) remain as durable success stories of these elite transitions, combining democratisation, growth and expanding opportunities for the majority of citizens. Even South Africa's lauded 'miracle' already appears to be failing in ways that are all too similar to Zimbabwe's Independence.[58]

For the next few years in Zimbabwe, an elite consensus will not be easy to locate. A power-transfer deal cooked up in some new Lancaster House--perhaps here in Pretoria--would neither solve nor survive the most profound socio-economic contradictions. Yet by all accounts, nor can Zanu-PF continue along the current course.

What Washington wants

The basis for our pessimism is that at least a dozen areas of strife have emerged, since the late 1990s, between Washington, Harare and the interests of the broader Zimbabwean society. What were Washington's key priorities amongst the list in Table 2? Typically, it is impossible for the public to learn what demands are being made upon their elected leaders. Even today, World Bank reports carry the following warning in an intimidating front-page note: 'This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.'

However, readers of the *Financial Gazette* in mid-1999 were aware of IMF Africa official Michael Nowak's primary objectives in 1999 (the first three points below). The IMF sent a high-level team at that stage to negotiate the disbursement of a US$53 million loan (which in turn would release another US$800 million from other lenders). There was a confused flurry in early 1999, when president Robert Mugabe sought funding elsewhere than the IMF.[59] The IMF's Zimbabwe objectives were straightforward: reversal of both the luxury import tax and price controls on staple foods. According to Nowak,

> There are two issues outstanding and these have stopped the IMF from making the standby credit available to the country. These issues are, one, we want the government to reduce the tariffs slapped on luxury goods last September, and secondly, we also want the government to give us a clear timetable as to when and how they will remove the price controls they have imposed on some goods.[60]

In short, Mugabe was ordered to immediately reverse the only redistributive policies he had adopted in a long time, namely a) a ban on holding foreign exchange accounts in local banks (which immediately halted the easiest form of capital flight by the country's elites); b) a 100% customs tax on imported luxury goods; and c) price controls on staple foods in the wake of several urban riots. Meanwhile, tellingly, the IMF permitted Mugabe to continue the DRC war at a crucial negotiating stage in mid-1999, but on condition that 'there will be cuts in other budget sectors.' In other words, the IMF gave permission to penalise health, education and other badly-defended sectors on behalf of military adventures and the controversial associated business deals.

Later in 1999, the IMF agreed to increase the loan amount to US$200 million. But according to an IMF official, yet more conditions emerged, namely, access to classified Democratic Republic of Congo war information and a commitment to pay new war expenditure from the existing budget: 'The Zimbabweans felt offended, shocked, but they all the same agreed to give us the information, we got all the clarification we wanted. They had no choice... We have had assurances [that] if there is budgetary overspending, there will be cuts in other budget sectors.'[61] A final deal arranged in August 1999 also compelled the Zimbabwe Reserve Bank to restore foreign currency accounts to local corporations. The deal soon fell apart, however, when Mugabe's government violated several provisions.

In late 2000, another IMF team visited and publicly insisted that 'Fiscal consolidation and exchange rate re-alignment--the main pillars of the proposed package--should be buttressed by a re-orientation of public spending to priority sectors, tight monetary and wage policies, and expedite (*sic*) structural reforms especially privatisation, civil service reform and trade liberalisation,' the *Herald* reported. According to the same source, government would be compliant:

> Fiscal consolidation would be achieved by reducing the budget deficit from an estimated 23% to 15.5% of the gross domestic product in the 2001 national budget presented by Dr Simba Makoni last month. The deficit would be curtailed to 8% in 2002 and 3% in 2003. The wage bill will also be limited from 16.7% to 12% of GDP, which refers to the total value of goods and services produced in Zimbabwe, through the rationalisation of the civil service... Zimbabwe is also in the process of eliminating foreign currency and exchange restrictions, stimulate (*sic*) the export sector, paying off its debts and improve (*sic*) the collection of statistical data... But the IMF remained saddened by slow progress in rationalising the civil service and disposing of Government stake in public enterprises.[62]

Much of the analysis above by the *Herald* reporter looks naive in retrospect. But Washington's failure is not for lack of pressure. Washington also intends to provide a series of loans to Zimbabwe. A list of pipeline credits remained on the World Bank website through the darkest days of Zimbabwe's political-economic slide, as depicted in Table 3.

In 2001, the most important IMF manager, Stanley Fischer (who was raised in Bulawayo), was also explicit in his discussion with then-finance minister Simba Makoni, demanding restoration of property rights (the fourth point in Table 2).

Even prior to loans being granted or conditionalities revealed, there are several reasons to critique the premises:

1. the fundamentally unsound practice of using hard-currency financing (US$) to pay for goods/services that have no (or very little) import cost;
2. the fact that the Bank's previous Zimbabwe project loans in many of these areas were disasters;
3. the Orwellian discourse associated with decentralisation--typically meaning, in the context, more responsibilities but fewer resources, hence certain failure;
4. the spectre of privatisation, cost-recovery and even US-style 'managed care' problems--especially healthcare access for poor people and women--associated with commodification and a 'public/private mix'; and
5. the need for an alternative to borrowing from the Bank to buy imported drugs (in the form of high-priced international pharmaceutical products typically on patent): namely, local generic production of anti-retrovirals and other essential drugs, at a fraction of pharmacorp prices.[63]

For example, taking on a hard-currency loan so as to downsize the (coal-powered) rail sector would be especially daft, in the midst of a petrol crisis which should logically shift deliveries and even passenger traffic from road to rail. Railways trade unionists have opposed downsizing and public-private partnerships, and point to the Bulawayo-Beitbridge Railroad as an example of the patronage-based, corruption-ridden privatisation that must be avoided.

These comments reflect only the first cut critique of the Washington Consensus, applied to a Zimbabwean transition to democracy. There are many others. The Zimbabwe Coalition on Debt and Development, the Zimbabwe Congress of Trade Unions, and Crisis in Zimbabwe have repeatedly made these sorts of points, and are acutely aware of the dangers ahead.[64]

Time to debate alternatives?

Instead of narrow Washington-centric macroeconomic options and projects that are force-fed by donors/lenders, Zimbabwe can consider other advice that would be biased, instead, towards a broader, deeper strategy for inward-oriented, equitable development. To illustrate, one set of proposals has been supplied by the *Zimbabwe Human Development Report* published in February 2000. Sponsored by the United Nations Development Programme's Carlos Lopes, the study was conducted by progressive civil-society intellectuals associated with the Poverty Reduction Forum and Zimbabwe Institute of Development Studies. They came to similar conclusions about the financial and fiscal difficulties Zimbabwe faces in coming months and years, after detailed investigations of the background to and course of structural adjustment. The report makes six recommendations for government economic development policy--the last two of which are worth citing in full--with which it is appropriate to contrast the export-led decline, high-debt strategy pursued during most of the post-Independence period:

1. Overall objective: restore confidence by creating conditions of fulfillment of basic human material and social needs, and by opening up democratic space for dialogue in all sectors of life...
2. The hitherto neglected responsibility of ensuring conditions for the reproduction of labour and ensuring a life of dignity must form the core of the new strategy...
3. Better integration of gender concerns...
4. A well-focused land reform and agricultural regulation policy framework are necessary...

5. Restore production and safeguard the domestic market from external competition in respect of essential commodities and services, as a basic complement to fiscal and monetary tools. Probably considered subsidies and tariff protection might be necessary.
6. Carry out an audit of imports and introduce measures to cut down all inessential imports and luxury products. Carry out a similar audit of debt, retire illegitimate debts, and negotiate with the creditors for the payment of the legitimately incurred debts on the *principle of joint responsibility*. Put in place capital controls, regulate the banking sector, and review financial liberalisation measures to develop an indigenously led banking sector.

The UNDP/PRF/IDS report concludes by noting that such recommendations hark back to earlier periods of state intervention:

> Zimbabwe has a way out as it moves into the third decade of its Independence. It has a rich dual heritage. One, ironically, is the heritage left by the UDI regime that built itself up on a largely internally-oriented economy with minimal dependence on the outside world. Its illegitimacy was the cause of its demise. The second legacy is that of *chimurenga* (liberation war). That spirit is still present and often not properly channelled. The people of Zimbabwe can, once again, assert their primacy and with sober and deliberate intervention in national matters bring back the state and economy to serving first and foremost the interests of the people based on people's efforts and resources, and not one based on foreign dependence.[65]

Could such a programme actually be financed? The following are the potential ingredients of a strategy -- often accomplished in previous eras of genuine nationalist development -- to democratise finance and re-establish economic sovereignty, appropriate to low- and middle-income countries:

- *local basic-developmental needs with no foreign inputs should be paid for with local currency*, not with hard currency (like dollars, yen or euros);
- the reestablishment of *capital/exchange controls* is necessary to allow states to adopt pro-poor policies without fear of a financial run by the rich;
- a great deal *more public information and transparency* must be achieved in relation to financial resource flows, through disclosures of, for example, large transfers and cash transactions;
- *state-owned banks should be central* to redirecting financial flows, since the 'public good' and public-utility functions of financial markets are so important;
- *directed credit and credit-related subsidies* have, in the past, helped many countries to assure that finance flows into areas of greatest need and potential, and should be resurrected as industrial and social policy tools;
- for private-sector financial institutions that are reluctant to participate in meaningful development finance, one option is *'community reinvestment legislation,'* including requirements for cross-subsidisation of financial services (e.g., through lifeline accounts);
- *prescribed assets* have also been used effectively by developmental states, so as to assure that privately-raised finance is used more productively (while earning a market-related rate of return);
- another vital component of domestic financial resource mobilisation is a return to *progressive taxation* (income taxes to support both development and redistribution) and tariff resurrection (to raise resources, to promote important infant-industries, and to guard against transfer pricing);
- a feature of macroeconomic management consistent with financial resource mobilisation is *fiscal and monetary expansion* (i.e., printing money to finance deficits, so long as the deficits are justifiable, so long as hyperinflation is not threatened, and so long as protections against inflation are in place for low-income people);
- in the area of domestic financial regulation, a return to *'financial repression'* is important, including techniques such as interest rate capping, dual interest rates, re-

regulation, deposit-insurance for socially-important depository institutions, and state development finance guarantees that are demand-side not supply-side; and

• in all these respects, *central bank democratisation*--not formal independence (hence excess influence by the banking fraternity)--is vital;

• *social/labour movement leadership* is essential, so as to sustain the deeper political momentum; and

• organic experiences in controlling finance for development are, in this process, crucial to build upon, including *existing community/labour-controlled savings/credit systems*.

It is obvious, of course, that due to a variety of governance constraints, these kinds of programmatic suggestions for a democratic Zimbabwe would not be implementable in a foolproof way, at least initially. Still, the costs of not taking these kinds of steps outweigh, in our view, the benefits -- to adopt neoliberalism along the lines Washington is insisting, would be much more hazardous than gradually -- and in some cases rapidly -- implementing the above sorts of measures.

Of course, these recent programmatic and strategic suggestions are interesting not because they were formed in a democratic, thorough-going manner. Those kinds of essential debates are yet to happen, and indeed haven't really begun. But they do hint at a scenario by which alternatives to both exhausted nationalism and looming neoliberalism can and must emerge.

There is an exceptionally important precedent for suggesting an alternative strategy: the February 1999 'National Working People's Convention', which involved hundreds of representatives of mass-based civil society organisations. Although the Convention's resolutions and Agenda for Action are not elaborated in the sort of format that will be required as a guideline for future democratic policy-making, the initiative has not been forgotten.[66] It is not unrealistic to expect that progressive civil society will return to this sort of approach as a transition becomes more realistic.

The question is whether such an opportunity is consistent with the kinds of constraints that Washington and probably Pretoria too -- following its self-interest (sub-imperialism), its discredited NEPAD strategy, and its appalling 2000-03 record of opposing democracy in Zimbabwe[67] -- will be imposing on any political deal proposed in coming months. By discussing the problems in a frank, honest way ahead of time, perhaps the kinds of economic problems that have derailed so many other transitions won't be repeated in Zimbabwe.

Table 1
Phases of inward/outward macroeconomic policy in Zimbabwe

Period	Relevant policy	Economic conditions	Globalisation and the state
1890s-1910s	minerals exports and capital inflow, with subsequent reliance upon settler agriculture	severe boom and bust cycle, followed by widescale theft of land and enforced proletarianisation	chaotic globalisation and predatory pre-state corporate control (Pioneer Column and BSAC)
1920s	protection for local manufacturers	beginning of industrial development	vulnerable agricultural-based globalisation and nascent white state
1930s-40s	relative isolation and active import substitution	high growth and inward maturation of secondary industry	deglobalisation of trade and finance, and construction of full welfare state for whites
1950s	increasing financial and trade regulation	overproduction problems and unsustainable financial and trade relations	investment-led and finance-driven globalisation, with competent state regulation
1960s-70s	heightened financial/trade regulation coincident with sanctions	initial dramatic recovery, followed by crisis of over-production and civil war	decisive deglobalisation and intensely-racialised, proto-fascist state
1980s	gradual loosening of financial/trade restrictions and strong export drive	slow growth	slow globalisation and construction of weak welfare state
1990s	Rapid liberalisation of finance and trade	Dramatic volatility and vulnerability in many markets, de-industrialisation, financial crises, inequality	rapid globalisation, deregulation and deconstruction of welfare state
1997 -present	uneven return to *dirigist* policies--e.g., exchange controls, artificial currency peg, luxury import tariffs (subsequently irrelevant as currency fell), foreign debt default, on/off price controls, uncontrolled budgetary growth, extremely negative real interest rates--under conditions of desperation and capital flight	deepening crises across all sectors of the economy, especially agriculture and industry, starvation, unprecedented inflation	enforced deglobalisation (except for luxury imports and capital flight) and influence on increasingly patronage-oriented state by new financial-parasitic crony-bourgeoisie intent on looting public assets
future?	a) Washington Consensus and Pretoria-led regional free trade b) sensible developmental, industrial, financial and trade policies aimed mainly at meeting local needs, with maximum popular initiative	a) austerity, worsening de-industrialisation and inequality b) growth with equity	a) re-globalisation with further deconstruction and deform of the state b) purposive deglobalisation with popular democracy and efficient welfare state

Table 2
Who wins and who loses from neoliberalism

Washington's dictates	Progressive rebuttals
relax foreign currency controls (already very weak as a result of internet-based trading and capital flight)	Exchange control liberalisation would ultimately permit wealthy Zimbabwean individuals and corporations to decapitalise the country. Even a governing MDC--whose constituents in the urban proletariat loudly clamour to be lifted from poverty--would not offer a sufficiently convincing change to prevent capital flight.
retract luxury-goods import taxes (already extremely low given the artificial official overvaluation of the Zimbabwe dollar at the point of customs)	Zimbabwe already imports beyond its means, requiring the unethical use of good land and irrigation for export crops (especially tobacco) instead of for food production, in order that the economy has sufficient foreign exchange to serve rich Zimbabweans' First World tastes. Moreover, ongoing conspicuous consumption generates yet more class antagonism and instability.
abolish price controls	Under conditions of relatively monopolistic supply, there has been an inordinate rise in prices for basic essentials. Mugabe's 1998-2003 imposition of controls was generally not well considered (many controls were lifted in April 2003 as black markets became widespread). Yet while price controls are no long-term strategy, and while further interventions (even state supply) are required to assure that there remain supplies of basic price-controlled essentials, they were necessary to stave off starvation (and were supported by the ZCTU). It is worth recalling that ending more wide-ranging price controls in 1991 caused the onset of the inflationary era that lasted the whole decade.
restore full private property rights as the basis for land redistribution, and impose land titles in Communal Areas	As with the 1980s-90s willing-seller/willing-buyer policy, land holdings would concentrate in the hands of the wealthy, and would threaten to dispossess peasants once land was used as collateral for credit.

cut the enormous budget deficit, mainly through cutting parastatal subsidies and social spending (but not necessarily by lowering debt repayments)	Nearly invariably, fiscal shrinkage and erosion of subsidies for state agencies adversely affects women-headed households and other vulnerable groups most, because they typically are the least powerful when it comes to budget-related advocacy and pressure, and bear the burden of reproducing society.
repay foreign debt	The debt should be repudiated and cancelled, as it has been effectively repaid already (due to declining terms of trade and compound interest), and because joint creditor liability should compensate for 'odious' loans to the Mugabe regime and ineffective policies and projects (e.g. *Esap*).
devalue the Zimbabwe currency to the parallel market rate	Full devaluation would result in massive imported inflation.
restore a positive real interest rate	To raise interest rates by more than 200% so as to achieve a positive real (after-inflation) rate, would cause an immediate financial crisis for debtors, which in turn would undermine the health of many financial institutions when debts come due.
impose wage restraint	Zimbabwe's workers already took the brunt of the failures associated with structural adjustment, and their combined direct and social wages fell by far more than did profits and upper-income salaries.
privatise parastatal corporations	Parastatals are inefficient and corrupt, yet it has not been established who (if anyone) might buy the companies, what degree of job loss (and related social costs) would occur, and whether the 'public good' aspects of state assets would be lost in the process (e.g., subsidies for rural electricity)
cut the civil service and outsource state functions	To genuinely develop Zimbabwe, a larger (and de-bureacuratised) not smaller civil service will be required.
promote free trade in regional and international fora such as the World Trade Organisation	Zimbabwe was one of the few countries that stood up against the North--and South Africa—in Seattle and related venues, and should continue doing so for its own sake and on behalf of the Third World.

Table 3
Next-generation World Bank loans to Zimbabwe?[68]

Title	Amount	Loan purposes (and reference to critique #)
Structural Adjustment	US$140 mn	• restructure public expenditures (1,2) • reduce domestic debt (1,2) • privatise state enterprises (1,2) • initiate land reform (1,2)
Transport (roads)	US$100 mn	• rehabilitate and maintain roads (1) • coordinated plans, policy and institutional reforms (1) • programming of rehabilitation and maintenance (1) • private sector participation (1) • human resource development (1)
Transport (rail)	US$60 mn	• staff retrenchment and rationalisation (1,2) • infrastructure rehabilitation (1,2) • studies and technical assistance (1,2) • training and counselling (1) • assistance to retrenched staff (1)
Public Sector Management	US$50 mn	• infrastructure financing (1,2) • local government capacity building support (1,2)
Population, Health and Nutrition	US$50 mn	• district health decentralisation (1,3) • public/private mix (4) • provision of drugs (5) • personnel reform (1)