AFTER MUGABE GOES - THE ECONOMIC AND POLITICAL RECONSTRUCTION OF ZIMBABWE

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Abstract

This Presidential address briefly outlines the developments in Zimbabwe since independence in 1980 leading up to the current political and economic crisis. The Zimbabwean situation is assessed within the conceptual framework of patrimonialism and predatory states. The origins of the Zimbabwean crisis are then analysed in their economic and political context leading to an eventual "fragile" or "failed" state. Evaluation of the crisis suggests that institutional damage has proceeded to the point at which only large scale economic and political reconstruction offers sustainable long term solutions, irrespective of when President Mugabe leaves office. The address concludes with an examination of the regional implications for Southern African Development Community — as well as the role of the global community — and outlines some of the core components of any reconstruction process-to-be in Zimbabwe.

Keywords: President Mugabe, autocracy, democracy, governance, patrimonialism, failed state, hyperinflation, land reform, structural imperatives, political negotiations, global assistance, SADC, economic and political fundamentals

> . . . We have real hope for the future and are so grateful that we have lived to see the liberation of Zimbabwe. My wife and I have just returned from the opening of Parliament and I remembered 34 years ago, attending my first Parliament. The horses and guns and the processions were almost the same but the great difference lay in the thousands of cheering, singing, dancing people outside Parliament. The new mandate from the people was there for all the world to see and I believe that the Government is sincerely determined to run the country for the real benefit of "the masses". . . . *(Former Prime Minister of Southern Rhodesia Sir Garfield Todd* — from a letter written on 17 May 1980)

> In political life we can easily unlearn what we have already learnt — indeed we have done so many times — because we are never sure of what we know. We can never be sure why any political or social project failed — whether the flaw lay in the project itself, or in the conditions or methods of its application. Since large-scale social experiments cannot be decisively refuted by events, there is no guarantee that they will not be tried again. Perhaps there is a learning curve in these matters, but it is very gradual and liable to huge memory loss. (Robert Skidelsky, *The World afler Communism,* Macmillan, 1995, pp. 165-166)

1. INTRODUCTION

The birth of Zimbabwe was attended by great rejoicing and high hopes. Twenty-seven years later the country is facing institutional collapse and economic disaster. The deepening political, social and economic crisis in Zimbabwe has — over the past 5 years and more — therefore seldom been outside the headlines. Irrespective of when President

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Mugabe decides to go, it seems worth considering the kind of interventions — both domestic and external — that will eventually be needed to put Zimbabwe back on the right path. Such a study should also consider the wider regional implications of helping to reconstruct Zimbabwe's economy as well as the lessons we can learn from the origins, nature and extent of the crisis. How did an apparent success story turn into a tragedy? What needs to be done — and how can such a crisis be prevented from happening in Zimbabwe again? Can societies transcend their history?

The history of autocracy or despotism is depressingly familiar to any student of politics. Though propelled to some extent by individual good fortune, propitious historical circumstances and vulnerable institutions, President Mugabe achieved autocracy because he — like so many others in this category — had acquired an extravagant appetite for power and has had the ruthlessness, political cunning and uncritical belief in his calling to transform that ambition into reality. It is the essence of despotism that it is invested with the courage of its convictions, that it is willing, indeed eager, to push its principles to their ultimate conclusion. The techniques used to sustain it — from the unscrupulous use of the security apparatus through to the overblown "cult of personality" - bear an age-old stamp.

Yet to call President Mugabe dictatorial or despotic may well be both true and morally satisfying. But it *explains* nothing, and widespread "demonisation" may even potentially be an outright barrier to understanding the Zimbabwean situation. We need to identify several of the major factors that have brought Zimbabwe to where it is now and consider what needs to be done. Broad brush strokes are inevitable, but it is submitted that these offer high explanatory power.

Has the personal role of President Mugabe been overplayed? After the pendulum has swung between exaggerating and underestimating the respective roles of personalities, popularly-endorsed policies and other institutional factors, the longer perspective suggests that in the case of Zimbabwe — as in many other instances of failed states -neither the institutional forces nor the individual personality is sufficient explanation by itself without the other.

There is nonetheless a strong tendency to fully ascribe developments in Zimbabwe to Robert Mugabe's particular personality and autocracy — implying that his exit from the national stage is all that will be required to return the country to its former status as an admired and successful nation state. If this was the case then, even if recent attempts to negotiate his departure from office are unsuccessful, one of life's two certainties will eventually solve the problem. However, neither President Mugabe's eventual departure from office, nor even a speedy reversal of failed policies — while both may be necessary preconditions for the reconstruction of Zimbabwe — will by themselves guarantee that the rebuilding policies will be a success.

At the moment a number of post-Mugabe scenarios are ultimately possible — one or two of which would probably serve simply to extend and deepen the current crisis. President Mugabe could handpick a successor, step aside and try to orchestrate developments from behind the scenes; there could be a military coup; the reformist faction within the Zimbabwe African National Union - Patriotic Front (ZANU-PF) -could gain the ascendancy and oust the Mugabe loyalists; or — and obviously first prize -a broad government of national unity could eventually be formed. In deciding how to put Zimbabwe in a stronger position to make better political and economic choices in future there are several outcomes possible.

We will also have to evaluate what important facilitation and influential role the Southern African Development Community (SADC) in general - and South Africa in particular — can usefully play in the processes that lie ahead; more particularly the roles they would *have* to play — given, not least of all, the plans for regional economic integration. This is not to say that lesser measures or preconditions will necessarily fail to ameliorate the situation somewhat and in certain respects. We must be prepared to see them as necessary, but nonetheless to be judged on their merits. All SADC states have a vital stake in the *nature* of the change in Zimbabwe and in the success of those who support genuine political and economic reconstruction there.

It will be necessary to assess the extent to which core institutions have become corrupted after 27 years of effective one-party rule in Zimbabwe and to identify all the post-Mugabe challenges to be met in turning the country around. Whatever the outcome, the present government's eventual successors will have to deal immediately with some of the consequences of past misrule and errors. How they choose to do so, and how the international community responds to their efforts, are important factors in evaluating their prospects for success. Ultimately, of course, the decisions have to be taken by Zimbabweans themselves.

2. THE ORIGINS OF THE CURRENT CRISIS

To put a history of autocracy and economic dislocation firmly behind Zimbabwe, we have to understand how history is made. To get things as they were, not as they are now imagined to be, is the problem of all history, and is even more difficult when looked at from a political economy point of view. Our point of departure must be to seek the origins of the Zimbabwean crisis in that country itself. Yet Zimbabwe is by no means alone in being labelled a "fragile" or "failed" state; perhaps we can also find some explanations of the current crisis in a more general analysis of the political economy of some other problematic developing countries.

Attempts to explain political developments in developing countries in the 1950s and 1960s generally did not anticipate or account for the real or potential problems of political folly and bad governance, whether in Africa or elsewhere. There are said to be up to 30 "fragile" or "failed" states in the world today by one or other acceptable definition. Recent efforts to explain this phenomenon in terms of dependency theory (in the late 1960s) and neo-liberalism and neo-patrimonialism (in the 1980s) provided some additional, but only partial, insights into why a number of African states were failing.

Teddy Brett[1] (2006) believes that reform processes advocated by international finance institutions like the International Monetary Fund (IMF) and World Bank often ignore the impact of "politics" on state performance. He notes:

> Rulers and officials can only follow technical advice when they can reconcile them with their need to respond to the demands of the groups on which their support depends. Democracy increases the range of often contradictory demands to which they have to respond, and cannot *guarantee* good government because elections can be manipulated, intensify partisan conflict and reinforce populist demands, while opposition parties that win power may be as incompetent and venal as their predecessors.

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[1] Brett, E.A., *State Failure and Success in Uganda and Zimbabwe: The Logic of Political Decay and Reconstruction in Africa,* Crisis States Programme, Development Research Centre, February 2006.

In recent years, there have been many instances of improved economic performance and better governance in several parts of the African continent — there are strong "pockets of prosperity"[2] emerging in several African countries — whilst several of the reasons for state failure in Africa and elsewhere continue to be found in the absence of some of the institutional infrastructure necessary to successfully widen and deepen democratic systems. These include the significant leavening of intellectually detached, independent, and yet informed, alert and public-spirited citizens every country must be said to need -and how this can best be developed where necessary.

Also, for countries in several regions of the world with limited means, the counter-balancing elements that are traditionally associated with democratic systems — including political parties, pressure groups, media organisations, educational and research organisations — can be costly to maintain. Sustaining democracy therefore becomes, in part, a function of the productivity of the economic system. While economic performance is strong, such institutions may flourish, but they can fade into insignificance quite quickly in the face of economic decline — as is clearly evident from developments in Zimbabwe.

Economic crises often can, and do, unseat governments. While they may frequently cause political turbulence, it is unusual for them to damage or destroy *systems* of government. In the twentieth century and subsequently there are countless examples of serious economic setbacks being compatible with the survival of democracy — where democratic institutions were strongly anchored and underpinned by adequate social cohesion. It depends to a large extent on how deep the roots of democracy are in particular national circumstances.

Alongside these "contextual shortcomings" and an inability to establish and maintain the institutions necessary for democracy to thrive, many African countries suffer from an "institutional multiplicity" which unduly reinforces communal commitments at the expense of enlightened individualism. The number of representative business organisations in South Africa, and the difficulty encountered in trying to consolidate and rationalise business representation could be an example of this — as could the fragmentation of opposition groups in Zimbabwe.

This phenomenon of institutional multiplicity tends to subvert the basic principles of good governance by encouraging clientelism, nepotism and other forms of corruption. With its colonial history and highly distorted income patterns, Africa's "patrimonial" environment has frequently been accompanied by well-documented processes of "primary accumulation", which typically use state power to create new economic classes and property rights through asset seizure.[3]

This combination of patrimonialism and primary accumulation is almost always viewed negatively, and some analysts such as Chabal and Daloz[4] argue that there is no

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[2] Indeed, the growth rate of the African continent is expected to exceed 6% in 2007, according to the OECD and the World Bank. In 2003 there were 17 African countries in which the economy was shrinking but now that number has fallen to six. The number where per capita income is higher than 3% per annum has risen from 18 to 25.

[3] The sociological basis of patrimonial states is explored in Buccheim, Christoph, *What Causes Successful Late Development? Insights from History,* South African Journal of Economic History, September 2006, p. 80.

[4] Chabal, P. and Daloz, J.-P., *Afica works: disorder as political instrument,* Oxford: James Currey 1999.

reason to expect these destructive processes to cease — *because* they serve the interests of the political and economic elites that control state power. Reforms that accompany each new attempt to introduce democracy have at various times been used by these elites to secure renewed legitimacy and to access the new assets that any liberalisation policies make available.

In recent years, the emergence of the New Partnership for Africa's Development (NEPAD), the African Union (AU), the Commission for Africa and other related initiatives testify to the new mechanisms dedicated to the upliftment, transformation and better governance of the African continent. "In order to do this", says Reuel Khoza, "Africans must demonstrate their refusal to accept poor economic and political leadership. Incompetent and brutal regimes are inherently unstable and, therefore, at odds with development and progress . . . governance means nothing without discipline. One of the risks of national instability is that it can spill over into nearby territories".[5]

This was strongly echoed by former United Nations Secretary-General Kofi Annan at the fifth Annual Nelson Mandela Memorial Lecture in July 2007 when he said that "it is a pernicious self-destructive form of reason to rise up and expel tyrannical leaders who are white, but to excuse tyrannical leaders that are black". He described the deteriorating Zimbabwean situation as "intolerable and unsustainable" and an example of conflict in Africa. "Although stability in Africa is spreading", said Annan, "a continent of peace is still a distant goal. A solution to Africa's problems" he said, "rests on (the) three reinforcing pillars of peace and security, development and human rights, and the rule of law".[6]

Success in these terms is dependent on a government's ability to achieve a symbiotic and reinforcing balance between their political, administrative and economic roles. Broadly, political compliance depends on equitable access to the services and livelihoods provided by the state; administrative capacity is dependent on the state's integrity and ability to tax; and the productivity of the economy rests in large measure on the quality of the protection, regulation and infrastructure that the government provides to the private sector.

Achieving such a balance requires that appropriate boundaries are established and maintained between these constituent parts — something we might describe as maintaining the necessary *institutional checks and balances.* The best way to do this is almost certainly to allow agents in each sphere relatively high degrees of autonomy[7] In Brett's view, this implies that:

> Politicians must be able to enforce the rules without being captured by particular economic or bureaucratic interests; and citizens must be able to organise autonomous political movements. Officials must be able to use their professional judgement to deliver services in accordance with impersonal rules and free from 'political interference' or corrupt payments; and private firms must be guided by market, and not political, controls, and be strong enough to generate the surpluses needed to reproduce themselves and finance the state.

States that manage to achieve the necessary balance between these key functions are much less likely to fail. Non-conforming (or "non-performing") regimes are almost always — as

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' Reuel Khoza, *Let Africa Lead,* Johannesburg, 2007, pp. 138-139.

6 Quoted in *Southern African Report,* 27 July 2007, p. 6.

7 "Reform initiatives are more likely when political institutions insulate politicians and their technocratic allies from particular interest group constraints, at least in the short-term". Stephan Haggard and Robert Kaufman, "Introduction: Institutions and Economic Adjustment", in Haggard and Kaufman (eds), *The Politics of Adjustment,* Princeton University Press (1992), p. 19.

has been the case in Zimbabwe — forced into making socially destructive decisions, usually leading to a growing loss of control, which could range from officials falling down on their jobs because they are either poorly paid, or not paid at all; to firms that go bankrupt, migrate or cease operations and therefore no longer pay taxes or provide employment -or whose desperate citizens rapidly emigrate to SA.

As Van der Walle[8] describes it, a neo-patrimonial regime, usually embodied in the office of the President, often exists side-by-side with a Weberian rational bureaucracy -frequently created in colonial times (as is the case with Zimbabwe) — that seeks to perform routine public administration tasks. It is here that several of the difficult dilemmas arise for decision-makers who have to contemplate structural changes, especially in a country like Zimbabwe.

In this context, Zimbabwe's initial economic performance was promising. Zimbabwe achieved its independence much later than most other ex-colonial countries. From the early 1980s to about the mid-1990s the Zimbabwean government managed to sustain a reasonable balance between the three key functions of state — despite the massacres perpetrated in Matabeleland in 1982 — which the world largely chose to ignore.[9] Zimbabwe was, at this time, looked upon as a "going concern". Despite the rhetoric, the modification of Marxist policies in practice helped to retain key skills and capital, which - in turn — assisted the Mugabe government to enjoy majority political support, sustain administrative capacity and deliver services of a relatively high standard, and expand its tax base. Foreign investors, bankers and aid agencies ignored the official Marxist-Leninist policies and were prepared to invest in — or lend to — Zimbabwe.[10]

For much of the 1980s, consequently, the Zimbabwean economy therefore produced an average growth rate of about 4% per annum. This was at the time higher than the regional average growth in Southern Africa. There was also a more benign global economic climate in this period. Zimbabwe exhibited economic resilience in the face of setbacks, including drought, and was widely seen as the second strongest economy in Southern Africa — although this was not accompanied by strong formal employment growth.

Zimbabwean agriculture was both efficient and substantial while rural and urban workforces alike enjoyed relative job security. The bulk of the population that remained in communal (largely subsistence) farming areas at least received better services and food security that were, in part, funded by an expanding tax base and limited redistribution of commercial farming land. All-in-all, the Zimbabwean economy had a great deal going for it in the first decade of independence, even though certain key socio-economic challenges remained.

Yet it must be argued that the seeds of subsequent economic difficulties began to be sown in Zimbabwe even in the 1980s — through an increasing lack of discipline in fiscal

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[8] Van der Walle, Nicolas (2001) *African Economics and the Politics of Permanent Crisis, 1979-1999*, (Cambridge, UK: Cambridge University Press).

[9] Although it lies beyond the remit of this Address, there remains the neglected story of the suppression of supporters of Mugabe's nationalist rival — Joshua Nkomo — at this time. See, for example, Judith Garfield Todd, *Through the Darkness — A life in Zimbabwe*, Zebra Press, 2007.

[10] It is ironical, therefore, in the light of the more recent financial upheavals in Zimbabwe, that it was Lenin who is said to have declared that the best way to destroy the capitalist system was to debase the currency.

policy aggravated by artificial attempts to significantly boost wages by decree. These trends were superimposed on an economy already made "inflation-prone" by more than a decade of sanctions and import substitution policies under the previous Smith regime.[11] The balance began to tilt too far in favour of consumption as against the investment needed to rebuild the economy.

Thus, by the early 1990s the picture started to change, with twin fiscal and current account deficits resulting in severe shortages of foreign exchange. This, in turn, gave rise to reductions in net domestic investment and a rapid increase in unemployment, and led to the subsequent adoption of a market-based, IMF-supported Economic Structural Adjustment Programme (ESAP). Unfortunately, the short-term results of this ESAP were not encouraging — due in part to factors such as drought, a failure to control the escalating fiscal deficit, a lack of official enthusiasm, and incorrect policy-sequencing.

There were also unintended consequences arising from the implementation of orthodox adjustment and liberalisation programmes in Zimbabwe in this period.[12] In addition, a patrimonial regime also undermined the purpose of externally imposed conditions to the extent of being prepared to forsake the modern state sector in Zimbabwe — while preferring the option of protecting, and often expanding, the scope of the neo-patrimonial state which the external financial resources made possible.

These externally encouraged market-based reforms included fiscal restraint, which led to a reduction in social service provision and reduced job security in the government sector; and tariff reductions that led to the closure of inefficient industries. The net effect was mounting opposition to the ESAP from civil society and trade unions, and a decline in political support for ZANU-PE The Mugabe government's response was to adopt populist, essentially patrimonial policies aimed at "buying back" political support from the key constituencies from which it was being lost.

One of these policies was the announcement — in 1998 — of an intention to transfer white-owned farms to black Africans. Land reform policy, for whatever reasons, was now gradually being "radicalised". No one disputed the need for expedited land reform but the new methods left much to be desired. The whole scheme for land reform could -and should — have been implemented in a more rational, consultative, law-abiding, strategically planned and well-funded manner. An orderly transfer of land with proper funding for agricultural entrepreneurs could have yielded sustainable growth and stability. Instead, there has been a severe contraction of agricultural output. It would be unwise to think that once the land issue — as currently presented to and understood by the Zimbabwean populace — is out of the way, the problem will be solved. For it has now become enmeshed with a wide range of other concerns.

At the time these developments, together with the adoption of currency controls and also a decision to be militarily involved in the Democratic Republic of Congo — which merely served to increase the fiscal deficit still further — led to suppressed exports and

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1 Norman Reynolds, *No Matter What it Costs Zimbabwe,* Business Day, 31 July 2007, p. 13.

12 The relatively poor implementation of structural adjustment programmes suggests that the actual influence of the IMF on fiscal policymaking in sub-Saharan Africa (and elsewhere in the developing world) has been less powerful than commonly thought. . .', F.K. Siebrits and E. Calitz, *The Legacy and Challenge of Fiscal Policy in sub-Saharan Africa,* South African Joumal of Economics, June 2007, p. 226. See also World Bank, *Assessing Aid: What Works, What Doesn 't, and Why?,* New York, Oxford University Press (1998).

rising inflation. The hardships associated with these developments in their turn had the effect of consolidating the opposition even further — to which the government responded with more rounds of patrimony, and resulting in a deepening of the crisis. A "vicious circle" of vain attempts at crisis management seemed to unfold in Zimbabwe as the 1990s drew to a close, with the huge pay-out to the 50,000 war "veterans" in 1997 probably as the "tipping point",[13] beyond which lay only mounting economic misfortune.

A steady deterioration in social indicators from the early 1990s had therefore been gradually filtering into political opinion. This was then reflected in the rise of the urban opposition — first as the Zimbabwe Congress of Trade Unions, then in the form of the Movement for Democratic Change (MDC) — something which, at an early stage, President Mugabe took steps to offset and neutralise through the economic and other means at his disposal, including constitutional changes. Some of these have continued subsequently.

Just before the 1990 elections, the "rules of the game" for Parliamentary elections were changed. In effect it meant that, even if an opposition party or coalition returned the majority of elected legislators at the polls, it would not necessarily have enough seats to form a government. This was because thirty seats were now under the direct control of President Mugabe, who would *appoint* such members of Parliament. Henceforth ZANU-PF only required *46* seats to constitute a majority, whereas the opposition would require 76 seats to do so. This of course made it difficult for the normal democratic "pendulum" to swing if and when political support for ZANU-PF waned.

While the progress made in recent negotiations between ZANU-PF and the MDC about removing President Mugabe's right to appoint members of the lower house of Parliament — as well as some other electoral changes — is to be welcomed, it is premature to see them as a "breakthrough". President Mugabe retains the right to determine when he can leave office and has influence over the choice of his successor. It remains to be seen how this process will unfold in the period ahead.

3. SOME DIMENSIONS OF THE ECONOMIC CRISIS

Available figures from official sources are riddled with inconsistencies, with the result that it is hard to discern exactly how serious the economic deterioration has been in Zimbabwe. These inconsistencies and uncertainties appear to have increased in recent years, which could suggest deliberate attempts to hide the true picture. The official picture almost certainly is unreliable. However, strong anecdotal evidence does suggest widespread perceptions of serious economic decline, and indeed of crisis and widespread impoverishment.

The official figures indicate that between 1998 and 2006, Zimbabwe's real Gross Domestic Product (GDP) contracted by about a third. It has probably deteriorated still further in 2007- In addition to any politically motivated distortions, the accuracy of these figures will have been further undermined by the fact that the GDP deflator used is still

[13] The external value of the Zimdollar fell by 72% on the news of the unbudgeted payment to the "veterans". Subsidies and transfers in the Budget virtually trebled between 1996/97 and 1997/98, thus increasing the dependence on short-term loans substantially. The estimated cost of the capitulation to the war veterans was about Z$4 billion, against a background of existing fiscal excess. Defence spending had tripled over the period 1997-1999.

based in 1990 — so the effect of hyperinflation on spending patterns is probably not fully captured. Unemployment rose steadily and is now estimated at 80% of the working-age population.

Because official figures estimate that the population increased from 11.7 million to 12.2 million between 2000 and 2006, the decline in real per capita GDP is more marked than that of the overall real GDP (at about 36%). But given estimates of over three million Zimbabwean economic "refugees" in South Africa, and many more in other SADC states, it is hard to know how these population estimates were arrived at. If these economic refugees were to be excluded from the population numbers, then the decline in per capita GDP would not be as great, but a substantial gap would have developed between this measure and that of real gross national income per capita.

While the expectation might be that the output of the agricultural sector would have shown the largest declines, according to the available official figures the manufacturing sector was harder hit, with declines in production volumes of around 41% between 2000 and 2006. By contrast, agriculture's percentage contribution to GDP has been estimated to have remained stable over this period — suggesting a contraction similar to that of the real GDP.

However, this estimated decline in agricultural output has been at odds with estimates of employment in the sector. A few years ago the agricultural sector employed about 450,000 people; its contribution to gainful employment is now estimated at only about 45,000. For a country that was previously a net exporter of food to have experienced a 33% decline in agricultural production provides some explanation for the estimated five million Zimbabweans who may be in need of international food assistance over the coming year.[14]

Another sign of economic shrinkage (and, it may be said, of "patrimonialism") is the ballooning share of general government consumption expenditure in the GDP. The government estimates indicate this ratio rose from 18% in 2000 (and 5-5% in 2003 if the figures are correct) to 47% in 2005- Apart from its inflationary implications, this suggests that the regime has been at pains to insulate party loyalists from the economic collapse happening around them. As a consequence, the fiscal deficit has in recent years fluctuated from more than 20% of GDP in some years to lows of 3-5% of GDP in others. Accumulated government debt has hovered around 100% of GDP in recent years.

Global experience suggests that runaway inflation usually comes packaged with many other policy mistakes, the accumulation of which contributes to a poor — and often disastrous — economic performance. Officially, annual consumer price inflation climbed from around 55% in 2000 to about 1,300% in 2006. However, the calculation of this official rate is thought to understate the true position because it makes extensive use of administered prices and extensive price control — even though it is almost impossible to buy goods at these prices; or at all, except on the black market.[15]

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[14] "In the terrible history of famines in the world, no substantial famine has ever occurred in any independent and democratic country with a relatively free press. We cannot find exceptions to this rule, no matter where we look". Amartya Sen, quoted in Alan Greenspan's *The Age of Turbulence,* Allen Lane, London (2007), p. 253.

[15] The artificially low prices set by price control and the skewed exchange rate have also encouraged smuggling of certain products — such as soft drinks, clothing and foodstuffs — into neighbouring countries.

Eventually such distortions become so widespread and all-pervasive that market signals lose most of their meaning. The way in which price control has been handled in Zimbabwe recently may have compounded the inflation outlook — due to the degree of restocking and other factors which will come into play soon. In this context, the Zimbabwean government's recent decision only to publish inflation figures annually may be designed to obscure the extent of the crisis in the hope that the situation will improve before the next figure comes out.[16] A recent IMF forecast said that annual inflation could reach 100,000% by the end of 2007, compared with the central bank's latest figure of 6,751% in July[17]

As conventional tax revenues to the national treasury have declined in the face of economic collapse, the central bank has increasingly become the focus of government finance, thanks both to its capture of foreign exchange and its printing of money[18] (It must be the only central bank in the world that itself imports tractors!) International experience suggests that once inflation reaches these levels, inflation rates tend to escalate exponentially. Already Zimbabwe has the highest inflation rate in the world.[19]

On the international trade front, the current account deficit was officially estimated at around US$486 million in 2006 - but the yawning gap between official and parallel market exchange rates suggests that this too is grossly understated. As an example, at a time when the official exchange rate was Z$250/US$, it was possible to get between Z$250,000 and Z$300,000 for every US dollar in the parallel market, and there were indications that the monetary authorities and unnamed senior party officials were taking advantage of the arbitrage opportunities.

In the meantime the new black economic empowerment and "indigenisation" drive, which the Zimbabwean government hopes will start in late 2007, could further damage an economy already hard-hit by other policies. Although there has already been considerable "indigenisation" of the Zimbabwean economy in recent years, now the plan is to transfer control of all companies, including foreign banks and some mining companies, to local control under the black empowerment legislation. This suggests that President Mugabe may again be seeking to influence key potential waverers ahead of the next election in 2008, this time by redistributing businesses to his "cronies" in the same way as he previously distributed farmland. This could make the economy's speedy recovery even more problematical when the time comes.

There is little doubt that the Zimbabwean crisis has had a profoundly negative and traumatic impact on Zimbabweans themselves — and the human costs have been high -but the regional "contagion effects" have been more mixed. Zimbabwe's neighbours in aggregate have gained from the influx of skills, and their regional market share of exports,

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[16] "The power of taxation by currency depreciation is one which has been inherent in the state since Rome discovered it. ... A government can live by this means when it can live by no other. It is the form of taxation which the public finds hardest to evade and even the weakest government can enforce it when it can enforce nothing else". (JM Keynes, *Monetary Reform,* MacMillan, 1929, p. 9 and p. 41.)

[17] Tony Hawkins, *Zimbabwe Inflation Set for 100,000%,* Financial Times, 2 August 2007, p. 4.

[18] Money supply growth reached 4,211% in April 2007. Zimbabwe's Central Bank Governor Gideon Gono has previously designated printing money as the country's "last line of defence", (Quoted in *Business Day,* 5 September 2007, p. 9).

[19] Zimbabwe's "misery index" (a combination of inflation and unemployment rates) must be among the worst internationally.

tourism revenues and other services has increased.[20] At the same time, however, there can be little doubt but that developments in Zimbabwe have affected the attractiveness of the region to foreign investors, and have reinforced stereotypical global Afro-pessimism.

Much as we individually or collectively may hope for an early resolution to the crisis, we should not delude ourselves into thinking that the extent of the economic collapse in Zimbabwe will necessarily give rise to a speedy political settlement. Ongoing income transfers from the Zimbabwean Diaspora, and previous experience of "failed" or "fragile" states in apparent crisis hobbling along at a subsistence level for years, could still confound our hopes. Zimbabwean business has also demonstrated remarkable resilience and creativity, and an instinct for survival, in coping with an increasingly difficult situation. The present Zimbabwean circumstances are not entirely devoid of profitable opportunities, even though much of it may merely reflect distorted patterns of investment induced by hyperinflation. In any realistic assessment of the situation and its risks, one should not confuse power with legitimacy, nor underestimate the extent to which control of military, police and propaganda power can prolong regressive change.

But whenever a political settlement *is* finally reached, there will be extensive socio-economic reconstruction to be done.[21] How far to go? Adopting the approach of Jeffrey Sachs,[22] let us not push for any particular private enterprise model — these choices lie with Zimbabwe — but rather to entrench (or re-establish) the "core institutions" required to make *any* version of "capitalism" work effectively: stable, convertible currencies, liberalised trade and foreign investment; private property rights, rule of law, corporate control of large enterprises *and* a social safety net. Drawn from global experience, this basic institutional infrastructure can be adapted to local cultural and social circumstances.[23]

4. THE POLITICAL ECONOMY OF STABILISATION IN ZIMBABWE

In contemplating a future Zimbabwe inequities and injustices can be expected to keep alive the search for a just and equitable society in a post-Mugabe era. We need, therefore, to ask what signposts might help to point the way ahead. From friendly observers not wishing to be prescriptive about how Zimbabwe can eventually correct the situation, the following — under four broad headings — may be offered as only *some* of the core components of that reconstruction process-to-be:

(a) Constitutional, Political and Public Administration Aspects

Security and the rule of law need to be re-established. In this context, while a large scale demobilisation is neither necessary, nor desirable, it may be important to purge the

[20] Yet the steady flight of emigrants from Zimbabwe to SA is already causing problems. Although the SA government is anxious not to precipitate a crisis in Zimbabwe through undue pressure, it is hard to escape the conclusion that the damage is already being done.

[21] "This is a tragic turn of events for a country with a previously well-functioning agricultural sector, a relatively high degree of economic diversification and, following on independence, one of the better . . . and more democratically inclined populations in the region". Andreasson, Stefan, *Can the "development state" save Southern Africa?,* Global Dialogue, April 2007, p. 9.

[22] Jeffrey Sachs, *Understanding Shock Therapy*, 1994, London, Social Market Foundation.

[23] Broadly speaking, institutions should be the steel frame of the economy, its "formal rules and informal constraints", according to Douglas North. Quoted in Razellen Sally, *The Political Economy of Trade Liberalisation,* SA Institute of International Affairs (2007), p. 28.

security forces of those elements most closely associated with the Mugabe regime, and its excesses. Stabilisation of the rural areas will also require that the paramilitary "war veterans" are somehow contained. There are those who think that President Mugabe can go in due course and the ZANU-PF will — or even should — stay in power, even without popular mandate. This is partly because they believe an alternative government will be unacceptable to the security forces.

It is tempting for those who espouse this view to see it as a viable option for Zimbabwe. Unless a political accommodation can be found, however, and be recognised as such, both within and outside Zimbabwe, a mere "changing of the guard" would almost certainly not be enough to bring about economic recovery. The Diaspora will not be reversed, and Western aid will not be forthcoming. This could lead to a "political change and economic stagnation scenario" — unless a broader view is taken of what is required and possible.

There are many paths to democracy and the "right" choices vary from country to country. It is precisely because we need a balance of forces that no single mantra will work. Zimbabwe has to navigate the tricky passage to a restored democracy without wrecking authority and increasing the scope for autocracy. The path of wisdom here is a narrow one, to be trodden safely only by those who see the pitfalls on both sides. This may require that a formalised government of national unity is established to run the country for a minimum period of— say — 5 years.

The basic task is to tame the power of the state; to direct its activities back towards ends perceived as legitimate and beneficial by most of the people it serves; and to regularise the exercise of power under the rule of law. Ultimately it is the interests of the Zimbabwean population as a whole which are paramount. The traditional constraints of abuse of power come from the division of powers as between the executive, the legislative and the judicial spheres. If Zimbabwe moves towards a new constitution, these safeguards need to be strengthened rather than pushed aside.[24]

What needs to be avoided in future if possible is the recurrence of an "elective dictatorship" in Zimbabwe, where several of the outward forms of democracy continue long after the reality has changed or disappeared — the constitutional safeguards and associated institutions having been simply too weak to resist any subsequent abuses of power.

In addition to a possible government of national unity, a "social pact" with labour and business may be called for to negotiate how the pain of stabilising the economy is to be distributed among the major "actors".[25] The political stability of reform needs to be underpinned. A strong tripartite structure along the lines of the National Economic Development and Labour Council may also be needed to help rebuild "social capital" and

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[24] "The very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of the leader; not because it is always so, but because such is the natural 'tendency of things, to guard against which is the especial use of free institutions' ", J.S. Mill, *Considerations on Representative Government (1861)* in J.S. Mill, *Essays on Politics and Society,* 11, Toronto, 1997, p. 505.

[25] The Governor of the Reserve Bank of Zimbabwe, Gideon Gono, earlier this year mentioned a possible "social contract" in his "advice" letter to the Zimbabwean Government (published in the *Mail and Guardian,* 13 July 2007, p. 2). The Association of SADC Chambers of Commerce and Industry recently said that new negotiations under the provisions of a previous "accord" were needed. "In reality, this social accord has been moribund for a long time". *Business Day,* 24 August 2007, p. 10.

trust within Zimbabwe. The inexorable "crowding out" of democratic institutions in recent years has had serious negative implications for levels of social capital and trust in Zimbabwe.[26]

All levels of government will need to be reinforced with competent administrators, and, where necessary, purged of incompetent "cronies" of the current regime.[27] However, it is critical that this process does not serve to further undermine the abilities of the state to provide social services — however compromised they may have become. The HIV/Aids pandemic in Zimbabwe remains a serious challenge to health services, as life expectancy in Zimbabwe continues to fall.

(b) Monetary and Financial Issues

To reduce inflation from its current levels — whether by "shock therapy"[28] or "gradualism" -will inevitably involve painful adjustment for all stakeholders in the economy, especially the poor. A stabilisation plan will be needed, including a substantial reduction in the fiscal deficit. The degree of currency demoralisation is such that Zimbabweans certainly cannot take it for granted — when the basic conditions for stabilisation are eventually present -that the exchange rate will automatically steady itself. When inflation has reached runaway proportions, the population loses confidence in the currency. Every kind of shift is tried by a population when this happens. Citizens look for alternative currencies or stores of wealth. By this time a whole population becomes a "bear" of its own currency and the obstacles to a remedy are almost insuperable.

This is what happened in Austria and Germany after the First World War - classical historical examples of rampant hyperinflation having drastic socio-economic consequences. Hopefully the experience of hyperinflation will — as in the war-torn Weimar Republic — leave a sufficiently lasting impact on the Zimbabwean electorate to ensure strong support for future economic policies that will severely limit inflation long into the future. It may be helpful and even become necessary to introduce a new currency unit for Zimbabwe, as in Germany in 1948 under Ludwig Erhard after the Second World War.[29]

As part of the process of recreating the right institutions in due course that could help to reconstruct and stabilise Zimbabwe, the autonomy of the central bank may have to be entrenched in the constitution — recent experience in Zimbabwe having again

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[26] No society, certainly not one that aspires to be a modernising economy, can function well with a cowed and fearful population. Even passive support is not enough to create the necessary social capital and trust. Andreasson *op cit,* p. 9 casts the net even wider: "Rather than pursuing economic growth, (Zimbabwe's) neighbours ought to think about how to create the social cohesion necessary for the national mobilization that is key to the development state".

[27] "An impartiality of public authority is an essential precondition for secure property rights and economic development". Buccheim, *op cit,* p. 82.

[28] "Shock therapy" was first used on the hyperinflationary economies of Latin America in the 1980s, involving flexible prices, opening the economy up to competition, cancellation of subsidies to loss-making industries, cutting the budget deficit, and reduced money creation. A country embarking on shock therapy would get foreign help and bridging finance to meet the "transitional costs" of restructuring its economy. Such a process also needs a strong and legitimate government.

[29] Subsequently, the Reserve Bank of Zimbabwe has announced that a new currency is to be introduced in late 2007, but it is not clear whether this is merely a technical exercise or part of a larger package of economic reforms.

demonstrated what can happen when that independence is undermined. Whether the Reserve Bank of Zimbabwe was capable of withstanding, or "leaning against", political pressure is no doubt a story on its own. It will be necessary to examine what sins of omission or commission by the central bank contributed to the implementation of economically damaging policies, and how this can be prevented in future.

(c) Infrastructural, Agricultural, Industrial and Skills Dimensions

The Zimbabwean economy needs to recover its competitive edge after the serious setbacks of recent years and there are several ways in which this can be addressed.

To begin with, a recovery plan will — necessarily — have to incorporate a strong supply-side focus on rebuilding the productive capacity of the economy. Anecdotal evidence suggests that only some of Zimbabwe's infrastructure *may* still be in reasonable shape, and that security of tenure and financing could, with the correct management, accommodate renewed growth once a political settlement is reached. Water, power, roads and other infrastructure will nonetheless need extensive rehabilitation and could require an immediate investment of up to R30 billion.

The agricultural sector would need to be given a high priority — with attention being given to attracting back farming skills, providing adequate security of tenure and agricultural extension services, and ensuring that the exchange rate is appropriately managed. Depending upon the extent to which physical capital is actually destroyed, there remains the potential for quite a strong revival in mining and manufacturing production, provided the necessary institutional reforms are in place. Agricultural reconstruction may be much more intractable but the issue of expedited land reform should be put on a sounder footing.

While Zimbabwe once possessed one of the best-educated workforces on the continent, many of these skills have been lost to the country as a result of the Diaspora. It is unclear how many of these individuals would flock — or for that matter, could be enticed — back to the country. In this context, early economic success could quite quickly be undermined by skills bottlenecks. Since competition between the public and private sectors for scarce skills could drain both public administration and the productivity of the private sector, a skills development and acquisition strategy that could incorporate the importation of critical skills would also need to be put in place at an early stage.

(d) International and Regional Assistance

While recognising that the decisions ultimately must be taken by Zimbabweans, the global community will need to help — particularly the IMF and World Bank, whose revised charters leave no doubt about their obligations to advise and, as appropriate, assist the wayward or needy. The IMF and World Bank, which withdrew from involvement in Zimbabwe in the late 1990s, will need to give a new Zimbabwe maximum assistance. Other important components of the international community -including the United Kingdom, Zimbabwe's regional neighbours and the rest of the Commonwealth — will have to support the reconstruction process in a number of important ways.

It is not possible to envisage a "rescue plan" without the participation of at least the United Kingdom, the United States and the IMF. Given some heroic assumptions - and as a broad estimate — the cost of recovery in Zimbabwe could exceed R100 billion, say, over the next 5-10 years. But there must also be wider support. It is, indeed, in the interests of Zimbabwe itself that SADC remains involved and that whatever support eventually materialises should be as inclusive as possible.[30]

Regional support will be both essential and self-interested. It is in the interests of the African continent, the region — as well as South Africa — that Zimbabwe should be given all possible assistance to help it on the path to recovery and reconstruction when the time comes. Whatever natural recuperative powers the Zimbabwean economy may still possess, it will not be a factor that can be solely relied upon. NEPAD and the AU — having set a pan-African agenda for economic and political change of the continent — will ultimately test our continent's willingness and ability to help Zimbabwe in the post-Mugabe era.

That all said, a lack of state capacity in poorer countries or "fragile" states has come to haunt the developed world much more directly in recent years. Those who are committed to nation-building have to acknowledge the highly troubled record of success in this sphere. Such efforts, usually well-intentioned, have often failed; many of these instances have actually *eroded* institutional capacity over time.[31] In seeking to assist Zimbabwe when the time comes, we therefore need to take a hard look at what is — and is not -possible, and must understand clearly the limits of what outside help can hope to accomplish. External assistance must be part of the solution, not part of the problem for Zimbabwe.[32] The art of policymaking here is to identify the range of effective influence open to outsiders.

5. CONCLUSION

We cannot conclude the subject of Zimbabwe as though its proper treatment only depended on a "failed state" analysis or on economic facts. In a sense I have adopted an old-fashioned role for this Presidential address on Zimbabwe — that of a "political economist" — which although hard to define does for this purpose basically see economics "as a branch of statesmanship rather than as a self-enclosed discipline with inviolate laws".[33] It is a language of political economy[34] Explanations of the Zimbabwean situation as a political phenomenon need a different and wider conceptual apparatus if we want to understand — and change — it successfully. The latter factor is perhaps now the most

[30] The recent economic interest of countries like China, Russia and Venezuela in Zimbabwe — at a government-to-government level — should also be noted.

[31] Fukuyama, Francis, 2004, *State-building — Governance and World Order in the Twenty-First Century,* London, Profile Books.

[32] "... recent IMF assessments of the effectiveness of structural adjustment have emphasised the importance of country ownership of reforms . . . (which) essentially boils down to strong government commitment to the implementation of reforms". Siebrits and Calitz, *op cit,* pp. 227-228. Of course, whatever "package" is provided for a future Zimbabwe will have to be crafted to meet the special circumstances prevailing.

[33] Skidelsky R., *Three Great Economists,* Oxford University Press, 1997, p. 234.

[34] "Maynard Keynes was a political economist in the old-fashioned use of the term. His views on policy were derived partly from his analysis and theory of the economic system and partly from his views of the kind of political and social system in which he thought people should live". Chester, D.N., in *Keynes as a Policy Adviser,* (ed. A.P. Thirwall), MacMillan, London, 1982, p. 158.

important one for Zimbabwe — the constructive imagination of the "statesmanship" and the related ability to build enduring structures.

Enough international experience has now accumulated to expose the serious pitfalls that may be encountered in seeking to implement even the best-designed economic and political reconstruction programmes in a post-conflict situation. SADC's efforts -especially through President Thabo Mbeki — to facilitate and assist the political process in Zimbabwe must be strongly applauded and encouraged and then assessed on their merits.

Here we must recognise that — in the world of *realpolitik* and negotiation -compromises will no doubt have to be struck. Success will depend on minimising disputes, not in winning them. The first fruits of the negotiations between the MDC and ZANU-PF in September 2007 are evidence of the long road that still lies ahead. South Africa has expended considerable political capital in wanting to help "unblock" the Zimbabwean situation, with as yet no guarantee of success. It does seem to have fallen to South Africa's lot to persuade an intractable autocrat to do the right things, while holding so few cards in her hand. Getting Zimbabwe "right" will call for political and economic leadership — and strategic insight — of the highest order.

What Zimbabwe needs is stability, economic recovery and political reform in a post-Mugabe era. Zimbabwe must be empowered to take political and economic decisions which will enable it to prosper again in an even more competitive, globalised environment. Zimbabwe has to be restored to a position from which it can again leverage the demand and resources of the global economy and successfully tap into the flows of world trade and investment.[35] This requires an appropriate institutional framework and policies.

One of the major lessons from Zimbabwe is that even good institutions may work badly if wrong methods of procedure are followed, or if there is no mood demanding action, or if implementation fails. It is not easy for bad political institutions to work well, but they can be made to work better than good institutions used badly. A crisis situation develops in a developing country like Zimbabwe when the rules, incentives and sanctions that govern existing institutions cannot reconcile the escalating and crippling demands made on them. This intensifies social and economic dislocation and undermines the ability to manage conflict and produce viable solutions.

The practical task facing those who have a vision of a new and revitalised Zimbabwe is to give hope to its people that things can eventually change for the better. If the planned general elections in 2008 are deemed "free and fair", they *could* be a major watershed in Zimbabwe's political and economic fortunes, as well as providing a clearer timeframe for what still remains to be done. Confidence needs to be rebuilt. The restoration of confidence could be cumulative, just as its collapse has been; thus, to begin the restoration of confidence may be half the battle won. Part of the answer therefore lies in timeously recognising some key institutional and policy challenges that are relevant to the future of Zimbabwe — and in starting to debate them now, whether in SADC or elsewhere.

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[35] Not surprisingly, recent research providing empirical evidence on sources of growth and sub-Saharan Africa concludes that "countries with a more open and outward orientation are more likely to experience higher growth and advocate steps to this end". Ahmed A.D., and Suardi, Sandy, *Sources of Economic Growth and Technology Transfer in sub-Saharan Africa,* South African Journal of Economics, June 2007, pp. 175-176.

Above all, let us trust that in the course of that discussion — and also when final decisions are taken — we will not, in the words of Robert Skidelsky, "be liable to huge memory loss" about the fundamentals that should really matter to a future Zimbabwe. But, of course, there are no inevitabilities in history History will not do the work for us. It teaches by analogy Yet history does tell us that countries *can* help themselves by putting good fundamentals in place. If Zimbabwe can do so, then — as Sir Garfield Todd hoped in 1980 — it becomes possible "to run the country for the real benefit of the masses". Let us hope this will be the case; the people of Zimbabwe deserve it.