The Economic Crisis in Zimbabwe: Contextual Historical and Global Factors

By Patrick Bond

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Our objective is to advance socio-economic and environmental justice by developing critical knowledge about, for and in dialogue with civil society through teaching, research and publishing.

South Africa's 'Social Movements United' march from Alexandra Township to the World Summit on Sustainable Development in Sandton, 31 August 2002
Two books on Zimbabwe (available from bondp@ukzn.ac.za)

Based on Zimcodd work, 2001-02
### Historical factors

**Phases of inward/outward macro-economic policy, 1920s-present**

<table>
<thead>
<tr>
<th>period</th>
<th>relevant policy</th>
<th>economic conditions</th>
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<tbody>
<tr>
<td>1920s</td>
<td>protection for local manufacturers</td>
<td>beginning of industrial development</td>
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<td>1930s-40s</td>
<td>relative isolation</td>
<td>high growth and inward maturation of secondary industry</td>
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<td>1950s</td>
<td>increasing financial and trade regulation</td>
<td>large inflows of foreign investment, but overproduction problems and unsustainable financial and trade relations</td>
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<td>1960s-70s</td>
<td>heightened financial/trade regulation coincident with sanctions</td>
<td>initial dramatic recovery, followed by a crisis of overproduction and civil war</td>
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<td>1980s</td>
<td>gradual loosening of financial/trade restrictions and strong export drive</td>
<td>enhancement of developmental state’s human capital functions, yet uneven economic record</td>
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<td>1990s</td>
<td>rapid liberalisation of finance and trade</td>
<td>dramatic volatility and vulnerability in many markets, deindustrialisation, underdevelopment</td>
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<td>1997-present</td>
<td>uneven, zig-zag return to <em>dirigist</em> policies--e.g., exchange controls, a currency peg, luxury import tariffs, foreign debt default (but IMF repayment), uncontrolled budgetary growth, negative real interest rates, price freeze to address inflation--under conditions of desperation and capital flight</td>
<td>deepening crisis across all sectors of the economy</td>
</tr>
</tbody>
</table>
Net National Income, 1924–40
(Constant 1929 Prices)

Millions of pounds

Year

24 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40

Source: Frankel and Herzfeld estimates,
Net National Income, 1940–1953
(Constant 1939 Prices)

Millions of pounds

Year

Source: Central African Statistical Office estimates, reprinted in Barber, EBCA, p.103.
Manufacturing Overaccumulation
Inventories, Output and Investment

Source: CSO Census of Production.
Manufacturing Overaccumulation

1970 = 100 (and corrected for inflation)

New Investment
(Capital Expenditure)

Year-end Stocks

Gross Output

Profits/GDP

Capacity Utilisation Rate

Year

70 71 72 73 74 75 76 77 78 79

Source: CSO Census of Production.
Manufacturing Overaccumulation Rates

Source: CSO Census of Production.
Manufacturing Investment by Asset Type

$ Millions (1980)

- Vehicles
- Land & Buildings
- Plant & Machinery

Year

Source: CSO Census of Production.
Manufacturing Overaccumulation Index
1980–1985

1980 = 100 (inflation-adjusted)

Source: Central Statistical Office
Census of Production
What about global factors?
Key moments in globalisation

- 1492!
- Late 19th century British empire, and inter-imperial rivalries (1885 Scramble for Africa)
- 1910s World War 1
- 1920s – financial speculative epoch, culminating in crashes
- 1930s – Great Depression
- 1939-45 – World War 2
- 1944 – Bretton Woods summit, New Hampshire, US ($/gold)
- 1946 – Savannah summit where IMF/WB charted out
- 1971 – dollar crisis, end of $/gold link, negative real interest rates
- Stagnation, falling rates of profit, and finally, decisive neoliberal turn
Key moments in neoliberalisation

- in 1973, the Bretton Woods agreement on Western countries’ fixed exchange rates - by which from 1944-71, an ounce of gold was valued at US$35 and served to anchor other major currencies – disintegrated when the US unilaterally ended its payment obligations, representing a default of approximately $80 billion, leading the price of gold to rise to $850/ounce within a decade;

- also in 1973, several Arab countries led the formation of the Oil Producing Exporting Countries (OPEC) cartel, which raised the price of petroleum dramatically and in the process transferred and centralized inflows from world oil consumers to their New York bank accounts (‘petrodollars’);

- from 1973, ‘Los Chicago Boys’ of Milton Friedman – the young Chilean bureaucrats with doctorates in economics from the University of Chicago - began to reshape Chile in the wake of Augusto Pinochet’s coup against the democratically-elected Salvador Allende, representing the birth pangs of neoliberalism;
Key moments in neoliberalisation

• in 1976, the International Monetary Fund signalled its growing power by forcing austerity on Britain at a point where the ruling Labour Party was desperate for a loan, even prior to Margaret Thatcher’s ascent to power in 1979;

• in 1979 the US Federal Reserve addressed the dollar’s decline and US inflation by dramatically raising interest rates, in turn catalyzing a severe recession and the Third World debt crisis, especially in Mexico and Poland in 1982, Argentina in 1984, South Africa in 1985 and Brazil in 1987 (in the latter case leading to a default that lasted only six months due to intense pressure on the Sarnoy government to repay);

• at the same time, the World Bank shifted from project funding to the imposition of structural adjustment and sectoral adjustment (supported by the IMF and the ‘Paris Club’ cartel of donors), in order to assure surpluses would be drawn for the purpose of debt repayment, and in the name of making countries more competitive and efficient;
Key moments in neoliberalisation

- the overvaluation of the US dollar associated with the Fed’s high real interest rates was addressed by formal agreements between five leading governments that devalued the dollar in 1985 (Louvre Accord), but with a 51 percent fall against the yen, required a revaluation in 1987 (Plaza Accord);
- once the Japanese economy overheated during the late 1980s, a stock market crash of 40 percent and a serious real estate downturn followed from 1990, and indeed not even negative real interest rates could shake Japan from a long-term series of recessions;
- during the late 1980s and early 1990s, Washington adopted a series of financial crisis-management techniques - such as the US Treasury’s Baker and Brady Plans – so as to write off (with tax breaks) part of the $1.3 trillion in potentially dangerous Third World debt due to the New York, London, Frankfurt, Zurich and Tokyo banks which were exposed in Latin America, Asia, Africa and Eastern Europe (although notwithstanding the socialization of the banks’ losses, debt relief was denied the borrowers);
Key moments in neoliberalisation

- in late 1987, crashes in the New York and Chicago financial markets (unprecedented since 1929) were immediately averted with a promise of unlimited liquidity by Alan Greenspan’s Federal Reserve, a philosophy which in turn allowed the bailout of the Savings and Loan industry and various large commercial banks (including Citibank) in the late 1980s notwithstanding a recession and serious real estate crash during the early 1990s;

- likewise in 1998, when a New York hedge fund - Long Term Capital Management (founded by Nobel Prize-winning financial economists) – was losing billions in bad investments in Russia, the New York Fed arranged a bailout, on grounds the world’s financial system was potentially at high risk;
Key moments in neoliberalisation

• starting with Mexico in late 1994, the US Treasury’s management of the mid- and late 1990s ‘emerging markets’ crises again imposed austerity on the Third World while offering further bailouts for investment bankers exposed in various regions and countries – Eastern Europe (1996), Thailand (1997), Indonesia (1997), Malaysia (1997), Korea (1998), Russia (1998), South Africa (1998, 2001), Brazil (1999), Turkey (2001) and Argentina (2001) - whose hard currency reserves were suddenly emptied by runs; and

• in addition to a vastly overinflated US economy (with record trade, capital and budget deficits) whose various excesses have occasionally unravelled – as with the dot.com stock market (2000) and real estate (2007) bubbles – the two largest Asian societies, China and India, picked up the slack in global materials and consumer demand during the 2000s, but not without extreme stresses and contradictions that in coming years threaten world finances, geopolitical arrangements and environmental sustainability.
Corresponding **slowdown** in world GDP growth

*World GDP per capita growth, 1961-2003 (annual change in per cent)*

*Forecast*

Dubious statistics: Correcting the GDP bias (global)

Source: redefiningprogress.org
Preliminary statistical problem: Why the denominator is skewed

• GDP treats crime, divorce and natural disasters as economic gain;
• GDP ignores the non-market economy of household and community (childcare, elder care, other home-based tasks, and volunteer work);
• GDP adds the cost of prisons, social work, drug abuse and psychological counseling that arise from the neglect of the non-market realm;
• GDP treats the depletion of natural capital as income, instead of depreciation of an asset;
• GDP increases with polluting activities and then again with clean-ups; and
• GDP takes no account of income distribution.

Source: Redefining Progress
Dubious statistics: Adjusting the data

- Subtract crime and family breakdown;
- Add household and volunteer work;
- Correct for income distribution (rewarding equality);
- Subtract resource depletion;
- Subtract pollution;
- Subtract long-term environmental damage (climate change, nuclear waste generation);
- Add opportunities for increased leisure time;
- Factor in lifespan of consumer durables and public infrastructure;
- Subtract vulnerability upon foreign assets.

Source: Redefining Progress
Especially low growth since 1980, and extremely *uneven* development

- Dramatic differences in annual % change of per capita GDP (note: constant 1995$, not PPP values)

Source: Alan Freeman

**GDP per capita in 1995 dollars, 1982-2000**

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<tr>
<th></th>
<th>1982</th>
<th>2000</th>
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<td>Rest of the World</td>
<td>1,457</td>
<td>1,116</td>
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<tr>
<td>Advanced or Advancing Countries</td>
<td>15,383</td>
<td>26,134</td>
</tr>
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</table>

**Annual percent growth in GDP per capita over the given period**

- Major industrial countries
- Other advanced economies
- Developing
- Countries in Transition
Since 2002, substantial commodity price increases

Index, 1990 = 100

Energy

Agricultural products

Metals and minerals

But longer-term commodity export value trends are negative

The overall process of described by Walter Rodney

The question as to who and what is responsible for African underdevelopment can be answered at two levels. Firstly, the answer is that the operation of the imperialist system bears major responsibility for African economic retardation by draining African wealth and by making it impossible to develop more rapidly the resources of the continent. Secondly, one has to deal with those who manipulate the system and those who are either agents or unwitting accomplices of the said system.

-- Walter Rodney, How Europe Underdeveloped Africa, 1973
Imperial/subimperial relations are male-biased

- patriarchal modes of surplus extraction include residual, worsening sex discrimination at the point of production and disturbing sites of labour reproduction:
- 'mainstream economic policymaking fails to recognize the contributions of women's unpaid labour - in the home, in the fields, or in the informal market where the majority of working people in African societies function... these biases have affected the perception of economic activities and have affected economic policies in ways that perpetuate women's subordination.'

A precedent for global critique

ZIMBABWEANS SPEAK OUT AGAINST NEOLIBERAL GLOBALISATION (JULY 2004)

‘Liberalisation taking away people's rights’

Statement by civil society organisations in the country who met in Nyanga, 27-30 July 2004 to discuss globalisation, bilateral and multilateral trade issues

We, the trade and economic justice activists from various civil society organisations in Zimbabwe, including the media, representatives of the business sector, academics, farmers and peasant movements, labour, students, consumer movements met in Nyanga to review post-Cancun developments especially negotiations at the World Trade Organisation (WTO) and the Economic Partnership Agreement with the EU. We note that these have got far-reaching implications on national economies, people’s livelihoods and the role of the state as a provider of basic social services: health, education, water, transport, food etc.

We observed that Africa is under siege and experiencing re-colonisation through corporate-led globalisation being championed by economic and financial institutions: The World Bank, International Monetary Fund (IMF) and the WTO.
...The meeting reaffirmed its opposition to:

- further liberalisation of the services sector in a manner that is tantamount to surrendering sovereignty in policy formulation. Zimbabwe has made commitments in the tourism, communications and financial services sectors.

- Negotiations on the New Issues (Competition Policy, Investment Policy, Government Procurement and Trade Facilitation). In Geneva most members now agree that the first three issues be dropped from the Doha work programme. However, on Trade Facilitation it was agreed to work on the modalities before negotiations can begin on the basis of explicit consensus.

- further commitments on the liberalisation of industrial goods (Non Agricultural Market Access). Already the domestic industry sector of the country has suffered under the trade liberalisation policies prescribed by the IMF and the World Bank in the early 1990s.

- fast track negotiations on the Economic partnership Agreements with the EU. There is need to slow down the EPA negotiations process. CSOs have been campaigning for a NO TO EPAs strategy and this workshop has reaffirmed this position.
Way forward

On the question "What is the way forward?" it was agreed that the determining factor in the whole process is national self-determination. This should be the main strategy of fighting the unequal system and it will involve:

- the need to deconstruct the dominant ideology of neo-liberalism which holds that the free market principles are fundamental to development. This ideology is promoted by the World Bank, IMF and the WTO. We should centre our development options whose foundation should be a domestic demand driven strategy

- There is a need to strengthen trade negotiators' capacity to fully analyse the implications of regional and multilateral trade agreements and work out holistic negotiating strategies. This must include all stakeholders including the private sector, civil society organisations, government officials, the media and workers representatives (a process that is already in motion)

- There is need to protect local infant industries and all other established industries from unfair competition brought about by liberalisation
· There is need to **strengthen local industries first**. The government should give incentives to local producers and manufacturers especially in the agro-processing industries for value added goods. There should also be a beneficiation mechanism for the mineral and natural resources the countries are endowed with.

· **Regional integration to fight empire-led integration and fragmentation of Africa.** In that sense Southern African countries should engage in building a regional strategy in all sectors e.g. Regional industrial strategy, agricultural strategy, rural development strategy etc.

· **Policy on science and technology, based on indigenous resources and knowledge systems**

· The government and relevant stakeholders should look at the deprived and marginalised sections of the society not just from a welfare perspective but from an empowering one. This means building on the **creativity and energy of the people.** Concretely, it means putting effective resources (knowledge, money, institutions, infrastructure, etc,) in the hands of small farmers, small and medium scale enterprises, indigenous business-people that produce for the domestic market, indigenous scientists and technicians, and so on.
Dewa Mavhinga  
Zimbabwe Coalition on Debt and Development

Dumisani Gandhi  
Media Monitoring Project Zimbabwe

Tendai Makwavarara  
Labour and Development Research Institute of Zimbabwe

Nkululeko Sibanda  
Zimbabwe Youth Democracy Trust

Didymus Maramwidze  
Zimbabwe National Association of Students Unions

Rutendo Kambarani  
MWENGO

Juliet Sithole  
General Agriculture and Plantation Workers Union of Zimbabwe

Chiedza Musakambeva  
Zimbabwe Women's Resources Centre Network

Tanyaradzwa Furusa  
Zimbabwe Regional Environment Organisation

Paul Nyakazeya  
Zimbabwe Union of Journalists

Ndamu Sandu  
Zimbabwe Independent

Walter Muchinguri  
The Herald

Collen Gwiyo  
Zimbabwe Bankers Association Workers Union

Dennis Madzete  
Confederation of Zimbabwe Industries

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Friedrich Ebert Stiftung

Mthulisi Mathuthu  
Ecumenical Documentation and Information Centre in Southern Africa

Ibrahima Aidara  
Consumers International

Nessie Golakai  
Consumers International
Social justice advocates’ initiatives

- ‘decommodification’ movements to establish basic needs as human rights, rather than as privatised commodities that must be paid for;
- campaigns to ‘deglobalise’ capital, such as defunding the World Bank and securing the right to produce generic (not patented) anti-retroviral medicines;
- demands for civil society oversight of national budgets; and
- activism to ensure equitable redistribution of resources in ways that benefit low-income households, grassroots communities and shop-floor workers.
Corresponding economic policies

- systematic default on foreign debt repayments;
- strategies to enforce domestic reinvestment of pensions and other funds;
- reintroduction of currency exchange controls and prohibition of tax-haven transfers;
- refusal of tied and phantom aid, along with naming and shaming fraudulent ‘aid’;
- inward-oriented import-substitution development strategies;
- refusal of foreign investments that prove unfavourable when realistic projections factor in costs such as natural resource depletion, transfer pricing and profit/dividend outflows; and
- reversal of macroeconomic policies that increase inequality.