FOREIGN AFFAIRS
Published by the Council on Foreign Relations

Tuesday, August 20, 2019 - 12:00am
History Repeats Itself in Zimbabwe
New President, Same Old Problems
Tendai Biti

TENDAI BITI is Vice President of the Movement for Democratic Change in Zimbabwe and served as Finance Minister in the Government of National Unity from 2009 to 2013. He is a co-author of *Democracy Works: Rewiring Politics to Africa's Advantage* [1].

In August 2008, I visited a hospital roughly 100 miles outside the Zimbabwean capital, Harare. Hundreds of patients lay in overcrowded wards and on makeshift beds in hallways and in waiting areas. Outside, hospital employees scrambled to pitch tents in order to accommodate the sick and dying still streaming in from the countryside. Doctors stood by helplessly, unable to do anything without the necessary drugs and equipment.

Zimbabwe was in the throes of a hyperinflationary meltdown. Basic sanitary services had collapsed, unleashing a cholera epidemic that would eventually claim thousands of lives. Two years before, in 2006, President Robert Mugabe's government had abandoned the Zimbabwean dollar in favor of a new quasi-currency called the "bearer check." But prices continued to skyrocket and zeros quickly accumulated on the bearer checks. Soon, the Central Bank was printing hundred-thousand-trillion-dollar denominated notes that could barely buy a bottle of soda. Inflation would peak at 500 billion percent in December 2008, the second highest in recorded history after Hungary in 1956.

Mugabe's ruling party, the Zimbabwe African National Union–Patriotic Front (ZANU–PF), blamed external forces, but the crisis was entirely of its own making. For more than a decade, ZANU–PF had raided public coffers in order to shore up political support. The party ran enormous budget deficits, which it partially plugged by printing money. Such was the habit the ruling party had formed back in 1997. That year, war veterans took to the streets to demand better compensation. Mugabe offered the veterans hefty new allowances, even though the budget had not provided for these. The announcement spurred a dramatic selloff in the Zimbabwean stock exchange and caused the currency to plunge more than 70 percent in a single day.

So began an 11-year decline, during which the economy lost 60 percent of its value. Mugabe's government spent profligately. It intervened militarily in the Democratic Republic of Congo, at vast expense to the country (but to the profit of many in Mugabe's inner circle). The economic slide naturally led to political agitation, with sporadic strikes spreading across the country. The country's main trade union, together with its allies in civil society, formed a political party, the Movement for Democratic Change (MDC). Faced with the threat of an insurgent MDC, Mugabe embarked on a bloody and reckless land reform program. His government seized thousands of farms and turned them over to ZANU–PF loyalists, decimating Zimbabwe's once vibrant agricultural sector and triggering the kind of economic collapse rarely seen outside of a war zone. By 2008, government debt was unserviceable, social services had disintegrated, and life expectancy had plunged to 32 years for women and 34 years for men.

Not surprisingly, the economic crisis precipitated a political crisis. In the March 2008 general election, the MDC won more parliamentary seats than ZANU-PF and Morgan Tsvangirai, the MDC's presidential candidate, delivered Mugabe a resounding defeat. The Southern African Development Community (SADC), a regional bloc that played a mediating role in the crisis,

acknowledged that Tsvangirai had won, but claimed that he had not cleared the 50-percent-plus-one threshold for a first-round victory—this despite the fact that the Zimbabwean government refused to release the official results for another five weeks.

SADC decreed that a runoff election be held in June, but by then the government had unleashed a horrific wave of violence aimed at intimidating the opposition and its supporters ahead of the planned second round of voting. Security forces and ZANU–PF-linked militias, popularly known as the Green Bombers, killed hundreds of people and displaced thousands of others. As the secretary-general of the MDC at the time, I was arrested on treason charges and accused of having unlawfully declared Tsvangirai the winner. Eventually, SADC forced Mugabe and Tsvangirai into talks that led to the formation of a unity government.

CLEANING UP MUGABE'S MESS

When I became minister of finance in the unity government, it was my job to tame the hyperinflation and repair the wrecked economy. By the time I took office in February 2009, there was no escaping dollarization, which meant recognizing the U.S. dollar as legal tender in Zimbabwe. The market had already jettisoned the Zimbabwean dollar and its cousin the bearer check, both of which had become little more than instruments of arbitrage for politicians with privileged access to hard currency. There would be a long-term cost to dollarization, as we knew from other countries that had been forced to take this step. The experience of Panama, El Salvador, Peru, Argentina, and other Latin American countries showed how difficult it is to resurrect an abandoned currency. Those countries that have succeeded in doing so, such as Mexico, Pakistan, and Sierra Leone, have been forced to use the dollar as a peg. The truth is that currencies are only as strong as the public's trust in them, and where a foreign currency has supplanted the local one, trust can never be salvaged.

Dollarization solved the immediate issue of hyperinflation, but I knew it wouldn't be enough to restore macroeconomic stability. For that, Zimbabwe needed to slash its budget deficit and begin paying down its burgeoning public debt. Through a carefully managed process of cash budgeting, my team oversaw fiscal surpluses from 2009 until 2012, the last full year of the unity government. At the same time, we lifted cumbersome regulations, including price controls and a minimum-wage regime that had inhibited growth. By December 2009, inflation had fallen to negative 7.7 percent, and for the first time in 12 years, Zimbabwe recorded a positive growth rate, in this case 7.5 percent. The average real growth rate during the unity government's tenure was nine percent, peaking at 11.9 percent in 2011.

Regrettably, ZANU–PF seemed to forget the lessons of the unity government as soon as it regained power in 2013. After winning an election marred by intimidation and manipulation of the voter rolls, among other electoral swindles, Mugabe's government reverted to its default setting and embarked on a reckless spending spree that swelled the budget deficit to 25 percent of GDP. To fill the gaping hole in the budget, the government borrowed some $4 billion from the Central Bank over the next four years, far beyond the limits allowed by law. In addition, between 2013 and 2016, it issued over $7 billion in treasury bills, despite being effectively broke. And so it was that by November 2017, when the military toppled Mugabe and installed former Vice President Emmerson Mnangagwa in his place, Zimbabwe was once again on the brink of economic collapse.

LEARNING THE HARD WAY

The 2018 general election offered a golden opportunity to reverse course. But instead of the free and fair election that Mnangagwa promised, Zimbabweans got one that international observers called "deeply flawed [2]" and that was followed by a brutal crackdown on opposition politicians and their supporters. Facing threats to my life, I briefly sought refuge in Zambia, from where I was deported back home to face charges of "falsely and unlawfully" announcing the election results—this time, in favor of MDC leader Nelson Chamisa.

Mnangagwa has tried to strike a more business-friendly tone than his predecessor, but his government hasn't charted a meaningfully different fiscal course. Finance Minister Mthuli Ncube refused to cut the bloated government wage bill, even though it accounts for 95 percent of total expenditure and employs an estimated 200,000 "ghost workers" whose real job is to keep ZANU–PF in power. Instead, he has attempted to increase revenues by imposing regressive taxes on money transfers and increasing fuel levies. Even with these measures, Ncube anticipates a budget deficit of at least four percent of GDP for 2018.

Mnangagwa is also playing a dangerous game with Zimbabwe's unwieldy currency regime. Back in 2016, following the binge budgets of the post-unity government years, the country began to experience severe shortages of hard cash. To ease the currency crunch, the government introduced a quasi-currency known as the bond note, which was pegged one-to-one to the U.S. dollar. Along with the real-time gross settlement dollar (RTGS dollar), another artificial currency that the government used to repay bondholders, the bond note immediately began to trade at a discount in the black market.

Soon after the election, Mnangagwa's government tampered with the currency regime again, first requiring separate accounts for U.S. dollars and bond notes (despite maintaining an official one-to-one peg) and then merging the RTGS dollar and the bond note into a single electronic currency, also called the RTGS dollar. It then proceeded to partially liberalize the exchange rate, adopting a new peg of 2.5 to one for the new currency—although its value on the black market quickly fell below that. In June 2019, the government recognized the RTGS dollar as legal tender and rechristened it the new Zimbabwean dollar, while at the same time barring the use of the U.S. dollar. Today, the Zimbabwean dollar is worth around ten cents, and inflation is roaring back, having hit 175 percent officially [3] in June and closer to 300 percent unofficially.

Although these quasi-currencies were ostensibly introduced to provide liquidity, their real value to ZANU–PF elites stems from the arbitrage opportunities they create. Paired with preferential access to hard currency, bond notes and RTGS dollars fuel the patronage system that has kept the party in power for nearly four decades. For the rest of Zimbabwe's 16 million people, de-dollarization has made things much harder, slashing salaries once earned in U.S. dollars, spurring inflation, and slowing growth. For the second time in Zimbabwe's post-independence history, most people have had their savings wiped out overnight.

Sadly, the International Monetary Fund has gone along with this strange brand of economics. In May, it issued a staff report [4] that all but endorsed Harare's attempt to de-dollarize. The report claimed that "significant economic reforms are underway," even though the promised reforms have yet to materialize. It also turned a blind eye to rising inflation, burgeoning shortages of basic goods, and huge currency distortions. It whitewashed Mnangagwa's record and glossed over his extralegal path to power, noting that he "headed the transitional government following the resignation of former President Mugabe in November 2017," despite the fact that he came to power through a military coup. Finally, it claimed that the 2018 elections "were viewed by international observers as mostly peaceful, free, and fair," which was certainly not the view of the opposition supporters who were brutalized or the international observers who expressed grave reservations [5]. In May 2019, the IMF approved a staff-monitored program for Zimbabwe, which, if the government plays its cards right, could lay the groundwork for a program of debt relief or debt cancellation in the future.

For Zimbabwe, the indicators are stark. The economy is reeling. Underemployment and unemployment are widespread (roughly 95 percent of Zimbabweans work in the informal sector). State utilities have all but collapsed, and electric power cuts out frequently. Lately, the blackouts have lasted for more than 18 hours a day, even as the country suffers shortages of fuel, water, food, and medicines. More than 40 percent of the population—some seven million people—survives on emergency aid from the international community.

POLITICS IS THE ANSWER

Ten years ago, forming a unity government offered a political solution, albeit a temporary one, to the crisis of hyperinflation. A solution to today's economic crisis must be similarly political. More precisely, it must address the legitimacy deficit of the current administration, which stems from the military coup that brought it to power and the disputed election that kept it there.

A political deal must also provide a framework for the reforms needed to right the economy. Most urgently, it must offer a path away from the multiple quasi-currency regime and back to the U.S. dollar. The government must halt its compulsory appropriation of the U.S. dollar export proceeds, which constricts the supply of foreign currency and hurts Zimbabwe's export economy, especially in the mining and agricultural sectors. Eventually, the country should transition to the South African rand, which is weaker than the U.S. dollar and would help make Zimbabwean exports more competitive.

Once the monetary environment is stable, the government can focus on cutting costs by reforming the public-sector wage bill and curtailing expenditures that are wasteful or corrupt. These cuts would help pay down the country's $22 billion public debt, half of which arose from overzealous borrowing from the Central Bank. Zimbabwe needs to pay back its creditors both within the country and outside it: the country is currently $2.6 billion in arrears to international financial institutions such as the World Bank.

Corruption is both a cause and a consequence of Zimbabwe's economic difficulties, and no reform program can succeed without tackling it. The ruling party and the military still dominate Zimbabwe's economy, as do vested interests connected to both. Profiteering and rent-seeking on virtually everything with a price tag, from commodity exports to petrol imports, define the country's economic life. Foreign exchange, fuel, minerals (particularly diamonds, platinum, and chrome), and agriculture have all become citadels of arbitrage and loot. To begin to change all this, the government must liberalize the market and eliminate the need for import permits, which for years have been used to reward party loyalists. To attract foreign investment, Zimbabwe needs to show that it respects the rule of law, including by strengthening property rights and guaranteeing that profits can be repatriated outside Zimbabwe.

The current government cannot be trusted to undertake such a program. That is because ZANU–PF stands to lose from serious reforms, since they would inevitably eliminate the party's traditional sources of finance, patronage, and control. A transitional government arrangement, akin to the unity government of 2009–13, has to lead the reform effort. To bring one about, the IMF and other major multilateral organizations should offer ZANU–PF incentives to come to the negotiating table—not reward it prematurely as the IMF did with the staff-monitored program. Zimbabwe needs help from its international partners, as well as from neighboring countries and regional blocs, to stave of total economic collapse. First, however, it needs to get its own politics right.

Source URL: https://www.foreignaffairs.com/articles/africa/2019-08-20/history-repeats-itself-zimbabwe

Links
[1] https://www.hurstpublishers.com/book/democracy-works/
[2] https://freedomhouse.org/report/freedom-world/2019/zimbabwe
[3] https://www.france24.com/en/20190715-zimbabwe-inflation-rate-soars-175
[4] https://www.imf.org/en/Publications/CR/Issues/2019/05/31/Zimbabwe-Staff-Monitored-Program-Press-Release-and-Staff-Report-46952
[5] https://www.ndi.org/sites/default/files/2018-10-29%20Final%20ZIEOM%20Report%20%288MB%29.pdf