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From Corporatism To Liberalisation In Zimbabwe: Economic Policy Regimes And Political Crisis 1980-1997[1]

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Abstract

This working paper analyses the shift from corporatist to liberal economic policy regimes in Zimbabwe that led to the crisis of the late 1990s. It outlines the rationale for both regimes, the reasons for their introduction and major achievements and failures, and how they contributed to the subsequent adoption of the dysfunctional policies of the late 1990s. It argues that the failures of both these regimes were avoidable, and the outcome of 'political' rather than economic variables. It concludes by calling for economic policies that take more account of their political implications, and of the need to strengthen state capacity in weak states.

Corporatism, Liberalism and the African Crisis

Forty years after independence, Africa's capacity to maintain its political, economic, and social institutions and to provide for its people is in crisis, with many now governed by predatory political and economic elites that ignore the public interest in order to maximize "their returns on the state of confusion, uncertainty, and sometimes even chaos".[2] This article is concerned with the causes and consequences of this crisis, and, more specifically, with its relationship to the disfunctionality of the corporatist and neo-liberal policy regimes that have governed political and economic change during the post-colonial period.

Chabal and Daloz's attribution of the crisis to situations where people exploit a "political economy of disorder" for personal or group benefit does indeed provide us with important insights into the reality of countries locked into processes of cumulative breakdown. However, it does not explain the major differences in performance both between similar countries, nor within the same countries over time. For example, the Ivory Coast and Kenya were leading success stories in the 1960s and 1970s, Ghana and Uganda great disasters,[3] while these situations were reversed during the 1980s and 1990s. Hence the intensification of the politics of disorder in Africa is more likely to stem from the nature of the policy regimes

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[1] This working paper was published in January 2005 by the *International Political Science Review*, in a special issue that brings together seven articles written by the Crisis States research team concerning the political impact of globalisation and liberalisation. E. A. Brett is Associate Programme Director of Development Management a the Development Studies Institute (DESTIN), London School of Economics and Political Science, and also a Visiting Professor at the University of the Witwatersrand, Johannesburg. I would like to thank colleagues in the School of Social Science, the Sociology of Work Project, and the Development Studies Programme at Witwatersrand University, and especially Belinda Bozzoli. Eddie Webster and Tom Lodge. Sven Schwerzensky and the Frederick Ebert Foundation greatly facilitating my research in Harare. The paper also owes a huge debt to support from and discussions with Simon Winter, and to comments from James Putzel, and colleagues at a number of seminars at Wits.

[2] Patrick Chabal & Jean-Pascal Daloz, *Africa works: disorder as a political instrument*, Oxford: James Currey, 1999, p.xviii; see also J.-F Bayart, *et al*., *The criminalization of the African state*, Oxford: James Currey, 1998.

[3] Ralph Austen, *African economic history*, London: James Currey, 1987.

and the institutional arrangements through which these countries have been managed than with some particularly African set of values and experiences.

A concern with the effectiveness of competing policy regimes takes us back to debates that have dominated development theory since its nineteenth century beginnings. National policy agendas amongst 'latecomers' have constantly vacillated between what have been described as structuralist, neo-mercantilist or corporatist policy regimes on the one hand, and their neo-liberal alternative on the other. Left or right wing versions of the former were dominant during the 1960s and 1970s, but were then comprehensively displaced by market-based theories. The former were used to justify extensive state interventions and a high level of political authoritarianism; the latter, a demand for market competition and liberal democracy. Corporatists assumed that the new professional elites would use state institutions to deliver modern services to a 'traditional' and dependent citizenry. Liberals assumed that a rational citizenry would use its political authority to control the potentially predatory instincts of the political class, and its economic skills to provide cost-effective services in response to rational market-determined incentives.

Each of these approaches provides a critique of the other, as we shall see in the next section. Both assume that the outcome of any developmental strategy will be determined by the adequacy of the rules and incentives that govern resource allocation. However, corporatists argued that free markets would inhibit industrialisation and intensify uneven development,[4] and liberals that state controls would lead to inefficiency and, in the worst cases, to corruption and predation.[5] Corporatism was clearly in crisis in Africa by the end of the 1970s, producing an almost universal switch to liberalisation implemented through Structural Adjustment Programmes managed by international financial institutions (IFIs) over the following twenty years. More recently, however, liberalisation has also been increasingly discredited by its failure to generate sustainable political and economic reforms. This article will therefore take the ongoing debate on these problems forward by examining the impact of both corporatist and liberal policy regimes on the political and economic transformation of Zimbabwe.[6]

Zimbabwe adopted a highly corporatist programme between 1980 and 1990, before making a rapid switch to a liberal one that began in 1991 and terminated in disaster in the final years of the decade. This breakdown that began in the late 1990s, was driven forward by the exploitation of 'political disorder' by political and economic elites using the clientalistic processes described so graphically by Chabal and Daloz. However, the analytical importance of the policy experiments carried out in Zimbabwe lies in the fact that it was not always thus. The new regime inherited one of the most structurally developed economies and effective state systems in Africa, and decisions were more strongly influenced by policy theory rather than pure clientalism until the end of the 1990s.

As late as 1998 an independent report commissioned by the IMF acknowledged that Zimbabwe was not "a repressive one-party state", but a corporatist one that permitted "fairly active democratic participation" and that the opponents of the liberal agenda:

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[4] I will refer to corporatist rather than mercantilist theory since this encompasses the political as well as the economic aspects of interventionist policy regimes.

[5] I. M. D. Little, *Economic development: theory, policy and international relations*, New York: Basic Books, 1982; E. A. Brett, *The world economy since the war: the politics of uneven development,* Basingstoke: Macmillan, 1985.

[6] A policy regime refers to the complex of policies and the associated institutions and processes required to implement an economic system; a political regime refers to the senior politicians and officials that control state authority.

> were not a bunch of slogan-mongering ideologues …. but trained and committed intellectuals including the President himself and other senior members of the party leadership who simply did not share the reformers' belief in the efficacy of the market.[7]

During the whole period its policy agenda was actively debated with the donor community, while the transition in the late 1980s was not externally imposed in response to an irretrievable breakdown, but to strong pressure from indigenous economic groups,[8] and extended discussions with the IFIs.[9] Further, the original Project Completion Report of the Economic Structural Adjustment Programme (ESAP) that governed the new policy regime classified its outcome as "satisfactory", although this was subsequently downgraded to only "marginally satisfactory" in the subsequent Performance Audit report.[10] Thus responsibility for the ultimate breakdown cannot be solely attributed to the actions of a predatory ruling class, or to external imposition. Both mercantilist and liberal projects have succeeded elsewhere, and both produced successes as well as failures in Zimbabwe. We need to establish why, over time, they failed to generate positive results in Zimbabwe, and to use this evidence to suggest alternatives that can be invoked with more confidence to reverse the ongoing breakdown.

Economic Policy Regimes and Political Stability: The Management Problem

This review of the policy processes that preceded the current breakdown in Zimbabwe is designed to assess the impact of the shift to liberal institutional arrangements and policy regimes that has occurred at a global level over the past twenty years. This has produced a new era marked by the renewed dominance of the market principle, with economic and political decision-making processes subjected to the rule of globally determined prices in the economic sphere, and to multi-party elections in the political. This shift was expected to lead to dramatic improvements in economic efficiency and personal and political freedom. However, although it has had many positive effects, it has also coincided with a collapse into crisis and breakdown of more and more weak states across the world. This has become a major threat to the survival of the system itself, because it is clearly related to the nature of these new institutional arrangements, and more especially to the way they operate in the weak rather than the strong countries. The recent history of Zimbabwe provides us with important insights into the nature of this process, and more especially of how policy-makers might respond to it in a more effective way.

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[7] Kwesi Botchwey, *et al*., *From a group of independent persons appointed to conduct and evaluation of certain aspects of the Enhanced Structural Adjustment Facility*, Washington: IMF, 1998, pp.184-185.

[8] Jeffrey Herbst, *State politics in Zimbabwe*, Berkeley: University of California Press, 1990; Tor Skálnes, *The politics of economic reform in Zimbabwe: continuity and change in development*, London: Macmillan, 1995; Carolyn Jenkins & John Knight, *The economic decline of Zimbabawe: neither growth nor equity*, London: Palgrave, 2002.

[9] World Bank, *Zimbabwe: a strategy for sustained growth, WB Report, 9006-ZIM*, Washington: World Bank, 1987.

[10] World Bank, *Performance Audit Report: Zimbabwe: Structural Adjustment Programme (loan 3434-Zim and Credit 2331-Zim)*, Report No. 14751 (30 June 1995, p.13. However Patrick Bond and Masimba Manyanya merely report the Bank's favourable assessments during the programme (*Zimbabwe's plunge: exhausted nationalism, neoliberalism and the search for social justice*, London: Merlin Press, 2002, p.32); and the "highly satisfactory" Project Completion assessment (Bond & Manyanya, 2002, p.37). They fail to note the IMF decision to suspend support in 1994/5 or the Bank's subsequent downgrading in the Performance Audit Report in their references. This enables them to attribute the failure of ESAP to the nature of the programme, rather than to the failures of implementation identified by the IFIs.

Zimbabwe's recent history provides us with an important 'natural experiment' in understanding the impact of corporatist, as opposed to liberal policy, regimes on developmental trajectories in the Least Developed Countries (LDCs). Between 1980 and 1989, Zimbabwean officials used licensing, administered prices, subsidies, redistributive transfers, and protectionism to keep private firms under tight control. They then adopted a classical ESAP involving the removal of many restrictions on trade, credit, foreign exchange, investments, and labour. This generated a major restructuring, involving significant costs and losses, but by 1997 the country seemed to have completed a difficult transition that gave many grounds for optimism. In 1997 senior business leaders were confident;[11] the economy had grown by 7.3 percent in 1996; exports had increased from 23.9 percent of GDP in 1991 to 36.1 percent in 1996; foreign exchange reserves were high; and employment was beginning to recover after a sustained period of downsizing.[12] In June 1998, the IMF approved a Stand-By credit of $175 million in response to promises that the government would adopt "a package of corrective policy measures".[13] There was therefore good reason to believe that growth could now be sustained at the 6 percent level anticipated in the Zimbabwe Programme for Economic and Social Transformation (ZIMPREST) developed to succeed the ESAP in 1996, and therefore that "the worst was now behind".[14]

However, a series of counter-productive political decisions were taken from late 1997: large payments to war-veterans that undermined fiscal discipline, land appropriation, policy reversals on taxation and prices, and a decision to send the Zimbabwean army to the Congo. Corporatist controls over the exchange rate and many other prices were re-established that destroyed the viability of many firms and reduced the incentive to invest, and violent land expropriations followed. As a result, GDP fell by about 26 percent between 2000 and 2002,[15] and inflation was more than 600 percent by the beginning of 2004. Food production was less than 50 percent of a normal year in 2003, and is expected to decline further in 2004 as a result of shortages of fertilizers and fuel.[16]

This destructive shift clearly represents a break with the relatively disciplined and coherent decision-making processes of the previous 18 years, and requires explanation. It cannot be attributed to a major breakdown in economic capacity, given that the worst had seemed to be over, and business optimism had recovered. It therefore has to be sought in the nature of the changes in the relationship between the state and the economic system, in the political regime based on the hegemonic authority of ZANU and President Mugabe, and in civil society generated by the liberalisation process. This obliges us to address two key issues. First, we must recognize the nature of the risks and tensions confronted by weak 'late developers' obliged to manage structural change in an integrated and competitive world. Second, we have to develop an inter-disciplinary understanding of the tensions between the political and economic requirements of any viable economic policy regime.

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[11] Baum and Oppenheimer, interviews, March 2003.

[12] The Ministry of Labour claimed that 26,332 workers were retrenched by 576 companies between late 1991 and December 1995 (Zimbabawe, Ministry of Labour, *Retrenchment figures per industry as from 10.01.91 to 31.12.1995*, Harare: Ministry of Labour, 1996).

[13] IMF, 'IMF Approves Stand-By Credit for Zimabawe', Press Release no 98/20 (1 June 1998a), p.1.

[14] Clever Mumbengegwi & Ramos Mabugu, 'Macroeconomic and adjustment policies in Zimbabwe (1980-2000) an introduction and overview', in Clever Mumbengegwi (ed.), *Macroeconomic and structural adjustment policies in Zimbabwe*, London: Macmillan, Palgrave, 2002, p.8.

[15] Economist Intelligence Unit, *Country Report, December 2003,* Draft, London: EIU, 2003.

[16] Robertson, interview March 2004.

First, both corporatist and liberal theories not only make substantive claims about the efficacy of the institutional arrangements they support, but also provide us with a systematic critique of the inadequacies of their rivals. Thus corporatist theory provides some convincing arguments about the likelihood of market failure in 'late developers', but assumed that these states would have the capacity to manage the complex programmes required to overcome these problems. Liberals, on the other hand, reasserted the validity of market forces, but then produced equally convincing arguments about the likelihood of state failure because centralized controls would lead to irrational prices, monopoly rents and corruption. In the real world, as outcomes in Zimbabwe show, the critiques offered by *both* paradigms are as valid as their optimistic claims. As a result we need to be very careful about the demands that can reasonably be made on decision-makers in poor and marginalized countries, and far more open-minded about the potentialities of alternative policy regimes than is commonly the case.

Second, it is important to identify not only the inter-dependencies but also the distinctiveness of the economic as opposed to the political variables that drive the transformatory process in developing societies like Zimbabwe.[17] Political stability depends on an ability to sustain an economic process that can generate the fiscal and foreign exchange surpluses needed to finance the state apparatus and legitimate the regime. This does not impose determinate policy demands on the regime, since many solutions are compatible with long-term survival, if not with dynamic growth.[18] However, there must be some degree of symbiosis between the needs of the economic groups that produce these surpluses, and those of the political and administrative elites that are responsible for enforcing their property rights and providing them with essential services. Hence regime survival and the nature of the constraints governing economic decisions are not random, but determined by the nature of existing policy-regimes. These determine the conditions under which firms must operate in the economic sphere *as well as* the mechanisms that enable the regime to mobilise resources and maintain support. Any significant change in the nature of the policy regimes, like that involved in a shift from mercantilist to liberal institutional arrangements, is very likely to threaten the interests of one side or the other, and therefore to lead to resistance and aggravated conflict, thus increasing the risk of breakdown.

In the event it is clear that the major changes in rules, incentives, and power relations induced by the policy changes in Zimbabwe generated a major threat to the security of the ZANU-based political regime and to the viability of the state apparatus that sustained it. These threats were not only economic but also political. The existence of a de facto one-party state up to 1996 meant that the regime did not have to confront serious electoral threats, and therefore was guaranteed, at least a surrogate for, the 'embedded autonomy' that is said to have been the pre-condition for East Asian economic success.[19] The emergence of a major political threat to its authority after 1996 changed all of this and forced it into increasingly contradictory attempts to satisfy the demands of a growing number of stakeholders with very contradictory needs. In my view it was the culmination of these tensions that generated the breakdown that surfaced at the end of the 1990s, as I will attempt to demonstrate by looking more closely at the historical processes involved.

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[17] I owe this point to James Putzel.

[18] The Egyptian empires survived for thousands of years without access to IMF support or neo-classical economic theory.

[19] See, for example, Peter Evans, *Embedded autonomy: states and industrial transformation.* Princeton: Princeton University Press, 1995. Herbst (1990) and Skálnes (1995), describe the relationship between government and the major economic interests.

Crises, Policy Regimes And Breakdown In Zimbabwe

In 1980, the new ZANU government took over a corporatist policy regime that had been created by its settler based predecessor, and added some redistributive elements to it; it then made a rapid shift to liberalisation in 1991 that was effectively dismantled again in 1998/9. Thus recent Zimbabwean history provides a well-documented natural experiment in the effects of the neo-liberal policies that have dominated the past 20 years, while it also has many distinctive features. It was a settler rather than a peasant economy, and therefore emerged from its colonial phase with well-developed industries and capitalist firms, a modern proletariat, good state services and relatively high per capita incomes. It also suffered from higher levels of economic inequality and racist exclusion that had led to a violent struggle for independence, and to the emergence of an authoritarian political movement profoundly imbued with a sense of its exclusive right to rule.[20] These differences have given a specific complexion to the institutional arrangements and social relationships that existed during both periods, to the crises that they generated, and to their outcomes.

The Political Economy of Corporatism, 1980-1990

1. The Corporatist Policy Regime

The new ZANU government inherited the highly regulated system that was created by its predecessor to deal with sanctions imposed in 1965. This had produced rapid growth and diversification until civil war in the late seventies, so the new regime inherited a capitalist class that had not only demonstrated a capacity to grow rapidly, but also to sustain strong economic associations capable of effective negotiation with the state apparatus. The new ZANU government maintained most of the existing controls over prices, resource allocations and investment. It introduced a minimum wage and virtually removed the right to fire workers, increased expenditure on health and education by 10 percent, public sector employment by 60 percent and expenditure on the civil service by 12 percent per annum over the decade. Central government expenditure tripled and increased its share from 32.5 percent of GDP in 1979 to 44.6 percent in 1989,[21] while tax revenue increased from 24.4 percent of GDP in 1980-83 to 28.8 percent in 1988-91.[22] State ownership of utilities and agricultural marketing agencies continued, and a number of private companies were bought by the government in the early 1980s.[23] These operated far more efficiently than they did in most African states,[24] but subsidies increased from Z$155.9 to 205.7m between 1979 and 1990, as did their contribution to government debt.[25] The domestic financial sector was also obliged to

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[20] This was not confined to Zimbabwe, but shared by most "post-insurgent states" where "the insurgent movement could readily be transformed into the vanguard party, which expressed the movement's sense of representing the aspirations of the masses: any rival political movement which lacked this source of legitimation could properly be suppressed" (Christopher Clapham, *Africa and the international system: the politics of state survival*, Cambridge: Cambridge University Press, 1996, p. 242).

[21] Mudziviri T. Nzimramasanga & Minsoo Lee, 'Redistributive policies and economic growth', in Mumbengegwi (2002b), p.56.

[22] Jenkins & Knight (2002), p.134.

[23] John Robertson, 'Public Finance, in Simon Baynam (ed.), *Zimbabwe in transition*, Stockholm: Almqvist & Wiksell, 1992, pp.113-114. Oostendorp claims that the government owned "about forty parastatals" by the end of the 1980s ('Firm and product market characteristics', in Jan Willem Gunning & Remco Oostendorp, *Industrial change in Africa: Zimbabwean firms under structural adjustment*, London: Palgrave, 2002).

[24] Stoneman, interview February 2003.

[25] Nziramasanga & Lee (2002). According to Robertson (1992a, p.109) the external debts of parastatals increased from Z$37.6m in 1982 to Z$170.7 in 1988, and interest payments form Z$32.8m to Z$93.7 over the same period.

lend to the state and to borrow on international markets to fund deficits “that only once dipped below 10% in the 12 years following independence”.[26]

Corporatist systems of this kind are supposed to lead directly to rent-seeking, predation and economic stagnation, but outcomes in Zimbabwe were far less clear cut. Although the control regime generated a range of constraints that undermined economic flexibility and long-term growth, it was nevertheless managed with sufficient intelligence and integrity to generate many significant gains. Growth averaged 4.7 percent between 1980 and 1984 despite a serious drought in 1982, and 4 percent between 1985 and 1990.[27] Agricultural price controls gave commercial farmers cheap credit and cost-plus prices, while food subsidies reduced urban food prices. Tariffs protected domestic industry from foreign competition, financial regulations kept interest rates down, and wages were allowed to grow more slowly than inflation. Hence in 1989 Stoneman and Cliffe could claim that:

> Zimbabwean capitalism is … alive and well. Although in a rather tight state corset; it is also much more ‘efficient’ in orthodox terms than expected – hence the surprise of World Bank teams, which have been forced to accept that their expectations of discovering serious overall inefficiency have not been borne out in practice.[28]

Equally important, this was associated with a reduction in inequality as a result of improved social services and resources for the rural population.

Some 3.8 million hectares of land had been acquired for redistribution to Communal Area (CA) farmers by 1990, 2.2 million of this by 1983. Almost 40,000 households had been resettled by 1985, but only 8000 more by 1990 and a total of 71,000 by 1997.[29] This programme was severely criticized at the time, but subsequent evaluations have suggested that it was well organized and succeeded in generating both equity and growth, although its impact on over-crowding in the CAs was negligible.[30] However, it never came close to its initial targets of 162,000 households, and received almost no serious attention after 1985, even though the state retained a great deal of land that it failed to allocate. Far wider gains also accrued from improved education and health services, and the extension of market opportunities to African farmers in the CAs. Spending on education almost trebled (from Z$ 227.6m to 628m), as did spending on health (from Z$66.4m to 188.6m) between 1979 and 1990.[31] Rural communities received substantial food relief during the droughts of 1982-84 and 1987 when “more than a million people had to be provided with food from outside because of almost total crop failure”.[32] Discrimination against commercial agriculture in the CAs ended,

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[26] Robertson (1992a), p.106.

[27] Robinson, ‘Macroeconomic Performance under Structural Adjustment: An essay on Latrogenic Effects’, in Mumbengegwi (2002). Robinson notes that these figures, higher than those used for policy making at the time, were the result of a “major revision of the national accounts” published in 1997. These indicated higher growth and investment prior to 1991 and “lower than previously estimated during ESAP” (Robinson, 2002, p.25).

[28] Colin Stoneman & Lionel Cliffe, *Zimbabwe: politics, economic and society*, London: Pinter, 1989, p.120.

[29] Lionel Cliffe, ‘The politics of land reform in Zimbabwe,’ in Bowyer-Bower & Stoneman (2000), pp.37-38; Daniel Weiner, ‘Land and agricultural development’, in Colin Stoneman (ed.), *Zimbabwe’s prospects: issues of race, class, state, and capital in Southern Africa*, London: Macmillan, 1988.

[30] John Cushworth, ‘A review of the UK ODA evaluation of the Land Resettlement Programme in 1988 and the Land Appraisal Mission of 1996’, in T. A. S. Bowyer-Bower & Colin Stoneman (eds), *Land reform in Zimbabwe: constraints and prospects*, Aldershot: Ashgate, 2000; B. H. Kinsey, ‘The implications of land reform for rural welfare’, in Bowyer-Bower & Stoneman (2000).

[31] Nziramasanga & Lee (2002), p.56.

[32] Stoneman & Cliffe (1989), p.150.

and they received positive pricing, better access to marketing services, credit, and inputs. As a result:

> The tremendous communal farmer supply response especially for maize and cotton, made them the largest producers of these crops in the country within a relatively short period. Thus the agricultural control regime served producer interests reasonably well such that for several years, Zimbabwe was considered one of Africa's agricultural success stories at a time when Africa was facing its most serious food crisis.[33]

These gains were very unequally distributed,[34] but all of the redistributive changes undoubtedly improved rural welfare during the 1980s and sustained political support for the new regime.

The fact that the corporatist experiment in Zimbabwe performed reasonably well can be attributed to the relatively developed nature of both its state and capitalist institutions. The political class did not simply use its power to maximise rents and personal accumulation, and the private sector was able to negotiate deals with the state that enabled some firms (notably in import substituting industry) to do much better than they would have done under laissez faire, and many others to benefit enough from the relative stability of the controlled regime to sustain a comfortable life if not very high returns. These positive results are now used by critics of the neo-liberal experiment to argue that the ESAP was not essential, especially since the existing programme could have been significantly improved without so fundamental a shift.

However, most theorists and business leaders had come to the conclusion by the late 1980s that the control regime was inhibiting the dynamism of the domestic economy and generating structural problems that were systematically undermining its economic and political sustainability. They believed that the constraints imposed on investment and economic efficiency, the 'crowding out' effect of the fiscal deficit; and the technological and administrative costs of the foreign exchange shortage and the bureaucratic allocation system used to deal with it could only be overcome by a fundamental change in policy regimes. In order to evaluate the validity of these claims we must look at the specific way in which the corporatist system operated in Zimbabwe, and generated constraints on the way the system had been operating, and therefore on its capacity to sustain itself over the long term.

First, ZANU's 'socialist' ideology was not strong enough to lead to widespread nationalisations, but it did cast doubt on the motives of the capitalist class and subject it to rigorous constraints. Hence Herbst notes how socialism "acted as a fairly effective 'blocking ideology'" against the introduction of "pro-growth reforms" during the 1980s, so that major economic policy took the form of "damage control of an increasingly creaking structure".[35] These took many forms. The need to get permission and licenses for new investment and the dismissal of individual workers imposed heavy time and transaction costs. Repressed interest rates discouraged saving and the state's high propensity to borrow reduced the supply of capital to all but favoured borrowers. Protection sustained existing high cost companies, but

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[33] Clever Mumbengegwi, 'Macroeconomic policies and agricultural performance', in Mumbengegwi (2002b), p.240.

[34] Stoneman & Cliffe (1989), pp.133-134. This situation has now been reversed. Zimbabwe is performing worse than all but the worst 'failed states' in Africa.

[35] Jeffrey Herbst 'The consequences of ideology in Zimbabwe,' in Simon Baynam (ed.), *Zimbabwe in transition*, Stockholm: Almqvist & Wiksell, 1992, pp.54-55.

discouraged exports by raising the costs of inputs to exporters leading to a critical shortage of the foreign exchange needed to acquire imported technology. Foreign companies were not allowed to remit dividends,[36] and new foreign investment was actively discouraged. According to Robertson:

> In the belief that foreign investors dominate the … whole economy, government policy … has been designed to limit new incursions by foreign companies and, where possible, purchase shares in those already established…. The handful of exceptions does little to counter the assessment that investors from the outside world have had little success or encouragement in their efforts to enter Zimbabwe.[37]

Further, although many individuals in the political and bureaucratic elite did make use of their control over economic allocations to build privately owned companies, the regime did not encourage, and even suppressed the development of independent new African businesses because of the threat they were thought to offer to ZANU's political monopoly.[38]

Second, the rapid growth in civil service employment, and spending on social services, drought relief, and parastatals generated a chronic budget deficit, a high tax regime and a rapid increase in public debt. The high tax regime and shortages of credit stemming from the fiscal deficit, and the shortages of foreign exchange, associated with the inefficiencies of administrative allocations effectively 'crowded out' private investment leading to increasing government concern about "the persistence of low fixed capital formation" and even more concern about a serious growth in unemployment.[39]

Third, the overall effects of these constraints favoured existing capital intensive (and largely white) producers, who were also discouraged from taking on additional labour by the controls over wages and employment. This had two politically significant consequences. First, it suppressed the emergence of a genuinely entrepreneurial African business class and reduced the political support of those that did make their way despite these problems. Second, it turned unemployment into a major threat to the legitimacy of the regime, especially in the urban areas. Wages were actually allowed to decline over the decade, so the minimum wage probably did not discourage employment although controls over dismissal almost certainly did. According to Fallon and Lucas:

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[36] In 1980 Harry Oppenheimer told Robert Mugabe that Anglo American wished to increase their investment in Zimbabwe if they were able to remit their dividends, but Mugabe refused (Oppenheimer, interview March 2003).

[37] John Robertson, 'The economy: a sectoral overview', in Baynam (1992), p.69.

[38] For example, Taylor argues that "the govt. [sic] has intentionally co-opted indigenous economic actors and marginalized those that it is unable to co-opt." (Scot D. Taylor, *Race, class and neopatrimonial politics in Zimbabwe*, Mimeo, 1997, p.8). Wild provides a good history of African entrepreneurship in Zimbabwe, of the distinctions between clientelistic and market oriented sections of the emerging business elite, and of the threats posed by the patronage based origins of most of the new African businessmen (*Profit not for profit's sake: history and business culture of African entrepreneurs in Zimababwe*, Harare: Baobab Books, 1997). See also Sheila Nicholas, 'The state and the development of African capitalism in Zimbabwe', in Colin Leys and Bruce Berman (eds.), *African capitalism in African development*, Boulder: Lynne Reiner, 1994. These views were confirmed by Strive Masiyiwa and Jonathan Oppenheimer (Interviews, February and March 2003).

[39] Gunning & Oostendorp (2002), p.12.

> there is indeed quite strong evidence consistent with the job security regulations having diminished employment across a wide range of industries, compared to what it might otherwise have been. For many sectors the reduction is substantial.[40]

The upshot of all of these problems – many of which could have been mitigated had there been a more constructive relationship between political and economic elites – had produced a serious economic crisis by the end of the decade that even Mugabe was prepared to acknowledge. At the end of 1990 he said:

> Employment creation has averaged a mere 10,000 jobs per annum over the 10 years of independence, far short of the planned target of 144,000 per annum. Investment levels fell in real terms from 15.5% of GDP in 1980 to 10.7% in 1989.[41]

The crisis generated a new consensus amongst key business groups, the economic technocrats in government led by Bernard Chidzero, and the donor community who now accepted that the old control strategy was no longer sustainable. Up to 1987 agriculture and mining capital had supported liberalisation but manufacturing still supported protection. However, even the latter converted in 1987, helping Chidzero to persuade the Cabinet to accept the shift,[42] making it possible for the ESAP programme to be introduced in 1991. The new policy regime was largely home-made, and designed to encourage job creating growth by transferring the control over prices from the state to the market, improving access to foreign exchange, reducing administrative controls over investment and employment decisions, and reducing the fiscal deficit. It had wide local support, and was introduced before the economic problems had gone out of control. The prognosis should have been good, but the results were much less than satisfactory.

2. The Successes and Failures of Liberalisation

The liberal experiment in Zimbabwe produced far worse results than its predecessor. Growth, employment, wages and social service spending contracted sharply, inflation did not improve, the deficit remained well above target, and many industrial firms, notably in textiles and footwear, closed in response to increased competition and high real interest rates.[43] On the positive side, capital formation and the percentage of exports in GDP increased,[44] and urban-rural inequality fell since "exchange rate adjustment and marketing deregulation" ensured that "farmers gained almost all the share that wage earners lost".[45] These results are clearly crucial evidence for those involved in the current paradigm debate. Opponents of liberalisation use the case to challenge the strategy's role for long-term development in weak states, while supporters use it to emphasize the unsustainability of corporatist alternatives, and attribute failure to non-compliance with key elements in the programme. Let us first review the evidence that can be derived from the Zimbabwean experience.

[40] Peter R. Fallon & Robert E. B. Lucas, 'Job security regulations and the dynamic demand for industrial labor in India and Zimbabwe', *Journal of Development Economics*, 40 (1993), p.254.
[41] Cited in Herbst (1992), p.58.
[42] Gunning & Oostendorp (2002), pp.17-18; also see Skálnes (1995).
[43] GDP growth at 4 percent p.a. between 1986 and 1990, and 0.8 percent between 1991 and 1995; employment increased by 27,940 jobs p.a. in the first period and by 9480 in the second; inflation was stable at about 12.5 percent; the deficit at 8 percent as opposed to 8.3 percent (Robinson, 2002, pp.26-31). Official figures claimed that 576 firms retrenched 26,332 workers over the same period (Zimbabwe, 1996).
[44] Mumbengegwi (2002b), p.201.
[45] Botchwey, *et al*. (1998), p.180. The political implications of this shift are self-evident.

Three kinds of explanation for Zimbabwe's weak performance emerge out of what is now an extensive literature – the role of negative externalities, failures to implement programme demands, and failures resulting from actually doing so. The ESAP period was characterised by all three making it possible for both proponents and opponents to produce very plausible explanations for poor performance.

First, ESAP was undermined by extremely unfavourable conditions. Drought reduced agricultural output, exports, public revenue, and demand for local manufacturing. Growth during three drought-affected years (1992, 1993 and 1995) averaged 2.6 percent; during three good years (1991, 1994 and 1996) it was 6.5 percent.[46] Negative trends in the terms of trade during the first three years also "put severe pressure on the balance of payments situation and the exchange rate".[47] The new ANC regime in South Africa cancelled its trade agreement with Zimbabwe at the same time, and subjected its exports to punitive tariffs just as Zimbabwe reduced its own, contributing significantly to de-industrialisation.[48] On the other hand, transition in South Africa led to the cessation of the costly hostilities that had characterised relations with the apartheid regime in the previous decade.[49]

Second, there is now widespread agreement that the government's failure to bring the fiscal deficit under control undermined the effectiveness of those elements in the programme that were followed through: "Government failed to bring the financial performance of the budget under control, and spending cuts were made in 'softer' areas of the budget".[50] This led to growth in public borrowing, sharp increases in interest rates and upward pressure on the exchange rate just as local firms were exposed to intensified foreign competition. Many firms failed, many others were forced to restructure, and new investment was discouraged in both the formal and increasingly important informal sector.[51] The limited cuts that *were* made concentrated on the social services, and led to serious reductions in wages of teachers and health workers, and probable declines in quality, notably in health.[52]

The IFIs were deeply concerned about these failures, with the IMF withdrawing support in 1994. However, the Zimbabwe government was far less dependent on donor support than most African governments (and getting far less budgetary support as a result), so the Fund was unable to make much impact on the regime. In the event this decision, and that of other

[46] Gunning & Oostendorp (2002), p.14.
[47] Chandima Mendis, 'From liberalization to financial crisis', in Mumbengegwi (2002b), p.155.
[48] Colin Stoneman, 'Lessons unlearned: South Africa's one-way relationship with Zimbabwe', in David Simon, *South Africa in Southern Africa: reconfiguring the region*, Oxford: James Currey, 1998, pp.100-101. Padraig Carmody discounts the importance of this shift but his figures show that South Africa "absorbed around 20% [of clothing exports] in 1990, and just 5.4% in 1994" (*Tearing the social fabric: neo-liberalism, de-industrialisation, and the crisis of governance in Zimbabwe*, Portsmouth, NH: Heinemann, 2001, p.109).
[49] Stoneman, interview 2003; Joseph Hanlon, 'Destabilisation and the battle to reduce dependence', in Colin Stoneman, (ed.), *Zimbabwe's prospects: issues of race, class, state, and capital in southern Africa*, London: Macmillan, 1988.
[50] IMF, *Staff Response to External Evaluation of the ESAF*, Washington: IMF, 1998b, p.11. The Social Dimensions of Adjustment programme designed to offset the cost of adjustment for the poor was only introduced late, and at the behest of the World Bank, which also argued against the imposition of user charges in health (Davies, interview March 2003; Gunning & Oosterndorp, 2002, p.19).
[51] By the end of the 1980s unemployment was leading to a large expansion in the mainly subsistence oriented informal sector (GEMINI, 'Changes in the small-scale enterprise sector from 1991 to 1993: results of a second nationwide survey in Zimbabwe', *GEMINI Technical Report*, 71 (1994); Ralph Bradburd & Brian Levy, 'Zimbabwe's new entrepreneurs: an emerging success story?' Mimeo, Washington: World Bank, 1995).
[52] Botchwey shows that spending cuts were accompanied by an expansion of services, and that this probably undermined health outcomes, but not educational ones where government managed to shift the costs "to teachers rather than children" (Botchwey *et al*, 1998, pp.179-180).

donors to also withdraw support, only made "the difficulty of keeping the program anywhere near 'on track' … considerably greater".[53]

Supporters of the programme attribute almost all of the blame for poor performance to these negative externalities and failures of omission,[54] and there can be little doubt that they would also have seriously intensified the crisis already visible in the old regime had the reforms not taken place. However, the critics are also right when they claim that many of the problems that emerged can also be attributed to failures in the actual design of the programme, and the very real social and political costs involved in reducing the budget deficit as quickly as the programme demanded.

Thus, third, there were almost certainly serious 'errors of commission' by policy-makers. Botchwey and others in the IMF review team, and Gunning and Oostendorp, provide us with perhaps the most convincing critique of the difficulties associated with the attempt to impose an over-rapid liberalisation on a relatively weak and highly protected economy. They note that its large uncompetitive manufacturing sector made it look more like a 'transition economy' than most African countries. Hence the need to eliminate uncompetitive industries and reduce over-manning was bound to reduce output in the first instance and, with it, government revenue. They felt that these tendencies were seriously underestimated by policy-makers, leading to serious inconsistencies and failures. As a result:

> Early financial liberalization – at a time when fiscal adjustment was not yet complete – undermined the stabilization effort as the increase in the government interest bill offset fiscal retrenchment. This fiscal problem led to uncertainty about future economic policies, as agents were unsure how compatibility would eventually be restored. The resulting risk premium contributed to the very high interest rates in the early years of the programme. In any event, manufacturing investment was too low to generate the economic growth that was hoped for with the introduction of ESAP.[55]

These failures therefore made the costs of adjustment far greater than they need have been, while the scale of the fiscal adjustment was so great that it would have seriously undermined support for the regime and have far greater poverty-increasing effects than those actually experienced.[56] The IMF subsequently denied that changes of this magnitude would be required, but their brief response fails to address most of the issues that they raise.

On the other hand, their analysis does suggest that some costs of adjustment were inevitable, and that the worst should have been over by the end of 1995. Growth was 7.3 percent in 1996, and the strong improvement in the balance of payments had virtually eliminated the foreign exchange constraint.[57] The "major structural reforms [had] … now been implemented",[58] and, with improved sequencing and management of the next stage of the reform programme, the country could have moved onto a far more stable growth path. Unfortunately, as we know, the political costs of the programme turned out to be so large that this was not to be.

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[53] Robinson (2002), pp.45-46.
[54] This is true of most of the 'orthodox' literature cited throughout this article, and is also the view of John Robertson and Tony Hawkins, two of Zimbabwe's leading economists, and G.G. Johnson Resident Representative of the IMF (Interviews, March 2003).
[55] Gunning & Oostendorp (2002), p.15.
[56] Botchwey *et al*. (1998), pp.172-177.
[57] The importance of strong foreign exchange reserves in 1996/7 was emphasized by Philip Baum (interview, March 2003), then head of Anglo American in Zimbabwe.
[58] Botchwey *et al*. (1998), p.187.

Conclusions: The Economic and Political Consequences of Policy Failures

Both corporatist and liberal strategies therefore produced positive as well as negative outcomes in Zimbabwe, and could have delivered better results had they been managed with greater flexibility and skill. Thus this case does not demonstrate that state intervention or liberalisation must always fail, but that performance is always a contingent matter that will depend on the ideological orientation of the regime, the nature of its relationship with civil society, and the capacity of the state apparatus. The Zimbabwean state was not strong enough to generate the outstanding results of interventionist strategies in post-war Europe and East Asia. However, it was able to deliver a relatively successful programme during the 1980s that could have worked better without a major shift to full liberalisation had the regime offered foreign capital, white business, and the emerging African entrepreneurial class better incentives and fewer restrictions. Any subsequent transition to a market-based system could have been more gradual and less disruptive than it actually was.

Paradoxically, however, it was the excessive rigidity of their corporatist strategy that then generated the pressure for over-rapid liberalisation because of the scale of the investment and balance of payments crisis that it had created by the late 1980s. Liberalisation, like many other ‘big-bang’ experiences, actually met very few of its targets. Some commentators now blame this on the irresponsibility and incompetence of a corrupt regime, others on the premature exposure of domestic industry to foreign competition. In my view liberalisation, like corporatism, could also have produced better results given more attention to sequencing, to support for industry, and assistance to government in bringing down its deficit in a less damaging way. In particular, donors would have done well to give the country something closer to the budgetary and developmental support enjoyed by weaker African states like Uganda during their stabilisation programmes.[59] However, donor pressure for cuts was not combined with adequate support, so it is hardly surprising that Zimbabwe eventually became “a classic case of a reasonably strong national commitment to reform gone sour”.[60]

This evaluation of the economic performance of the two policy regimes therefore has emphasised the contingent nature of the outcomes recorded during both. This therefore brings us back to the centrality of political factors in explaining not only the failures of both, but also their impact on the capacity of the regime to generate long-term stability and sustainable growth. This is never a simple function of technical efficiency, but a function of the way in which any economic policy regime sustains or threatens political support from the ruling coalition and generates the resources required to maintain the state apparatus. Changes that reduce what it can offer to supporters, or the resources needed to finance the state, must intensify conflict and threaten existing agreements and institutions. It is one thing to generate a rational and consistent economic policy project, another to mobilise the class coalition and the organisational capacities required to make it work.

Thus the successes and failures of both projects can be explained by the changing nature of the ZANU regime, and of the terms on which it related to its supporters and opponents. In 1980 it was a centralised and formerly military organisation with no developed popular base inside the country. It could use the corporatist apparatus to allocate jobs, contracts, and rents to favoured supporters, and maintain a virtual political monopoly until the intensification of

[59] E. A. Brett, ‘Structural adjustment [in Uganda]’, in P. Engbert Pedersen *et al.* (eds), *Limits of adjustment in Africa: the effects of economic liberalization, 1986-94*, Oxford: James Currey, 1996; and ‘Responding to poverty in Uganda’, *Journal of International Affairs*, 52:1 (1998), pp.313-318.

[60] Botchwey *et al.* (1998), p.187.

the economic crisis at the end of the 1990s. Had it imposed greater discipline on the state apparatus and given the business community better incentives, as the ‘developmental states’ in East Asia had earlier done, it could have maintained its hegemonic political position without a major shift in strategy.

Liberalisation was a rational response to the economic crisis that was threatening ZANU’s ability to extract the resources required to maintain its patronage networks and support its popular base. It was also a response to the growing “embourgeoisement of the ruling elite”,[61] created by the success of the corporatist economy itself. But its continuing need to pay its political debts made it impossible for it to cut the budget deficit, and this, together with external factors and the complex and conflictual nature of the economic policy changes it had to make, produced unsustainable threats to its ability to buy political support.[62] Its adoption of the counter-productive policies described earlier can therefore be seen as the outcome of these complex and contradictory processes, rather than some particularly African preference for the ‘politics of disorder’.

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[61] Hevina S. Dashwood, *Zimbabwe: the political economy of transformation*, Toronto: University of Toronto Press, 2000, p.4.

[62] According to Botchwey, consumption declines during the programme caused the majority, not a minority, to loose from the reforms, and that there were bound to be many losers resulting from “liberalizing such a highly controlled economy” (Botchwey *et al*., 1988, p.177).

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