

Hawkins interview, Part 1: Leading economist queries Dell's claims on Zimbabwe collapse

On SW Radio Africa's 'Hot Seat' program, journalist Violet Gonda interviews leading Zimbabwean economist Tony Hawkins, and poses the question whether US Ambassador Christopher Dell is right to say President Robert Mugabe will be forced to quit by record inflation of over 1,5 million percent by year end.

Violet Gonda: Many are predicting a total collapse of the Zimbabwean economy by year-end. Now last week the world's press described the Zimbabwe dollar as collapsed, crashed, and plummeted. Is this true? What does this mean in practice?

Tony Hawkins: Essentially it means that trade in the so called parallel market which is allegedly legal, is allegedly because the Reserve Bank is the main dealer in this market and therefore it can hardly be illegal. But in that parallel market the exchange rate did dive last week, very sharply from about Z\$200 000 to the United States dollars to various numbers as high as Z\$ 400/450 000. However, since that event we are told that the rate has stabilized somewhat and in fact even strengthened. So it appears there was a bit of over reaction or over shooting as we call it in the business.

Violet: But what caused that in the first place. What really is causing the crash?

Tony Hawkins: Well essentially it's being caused by there being more sellers than buyers. Nobody really wants to hold Zimbabwe dollars because Zimbabwe dollars are increasingly worthless as a result of the very high rates of inflation. We have inflation of – at the last count which was in May of 4 500% a year – and going up very sharply. Clearly nobody wants to hold the currency like that which is losing its value by the day by the hour and in that situation there has been a scramble for anything else.

Violet: And what about people in the Diaspora are they adding to the inflation woes?

Tony Hawkins: Not really, no. The people in the Diaspora in fact are helping to stabilize it to the extent that they are sending back money, which helps to strengthen the exchange rate. In that sense, they are contributing clearly. At another level what is happening is that the money that the Diasporans are sending back is in fact being spent in Zimbabwe for people to stay alive. That adds to the pressure on the prices for goods, everyday goods that are increasingly in short supply and therefore prices go up. Shops are putting up their price, withholding stocks and so on.

Violet: And what about the regime itself, is it being affected at this stage? You said earlier that the Reserve Bank trades on the parallel market. Now is the government receiving preferential rates because last week also heard from one journalist who said Mugabe can actually change every pound sterling of his and get over 100 000% for that. So is the regime getting preferential rates?

Tony Hawkins: Well there are many accusations of this. The fact is the government claims that the official rate of exchange is Z\$250 to the US dollar. Now in fact in the parallel market you can get ZW\$250/300 000 to the US dollar. So in theory if you can go to the Central Bank and buy foreign currency at ZW\$250 to the US dollar and then go around the corner and sell it on the parallel market for ZW\$250 000 or ZW\$300 000

or whatever number you care to use you can become a millionaire – a United States dollar millionaire very, very quickly indeed. And there are lots of accusations that this is happening. That certain people are able to get this kind of preferential treatment. I have no knowledge of whether this is the case or not but one does hear these accusations.

Violet: Now I was going to ask that from your observations is this crisis of any benefit to the regime?

Tony Hawkins: Well, I think there is no doubt in my mind that certain members of the government are benefiting from the crisis. I think we have seen it over the period going back to 2000 and before, where people in government were given preferential treatment in terms of access to loans, in terms of access to land, access to farms, access to fuel. They have it; I don't think there is any doubt about that. The big question is the balancing act for the government is to see whether it can spread the patronage net widely enough to make sure it keeps all its supporters happy and that becomes harder and harder.

Violet: And what happens when retailers refuse to accept local currency, as what's happening right now, you know even though there is a black market exchange rate of \$420 000 to the pound sterling?

Tony Hawkins: Well I think that the story there is that if you are a retailer and you sell a product – let's say you sell a box of cereal, bran flakes or something – for ZW\$200 000, and you do not know when you sell it what it is going to cost you to buy a replacement box of cornflakes. It might be \$400 000, it might be \$500 000 and so on. So retailers are in this very difficult position of being concerned that they are going to sell what product they've got and end up with increasingly worthless dollars that they then have to use to try and buy a replacement 2, 3, 4 times the price at which they sold their product for.

Violet: So how sustainable is this? A tenant in Belvedere told the news agency IRIN that his landlord had given him notice that from July his rent should not be paid in Zimbabwean dollars but in fuel – of all things. And fuel is currently selling at about Z\$220,000 a litre, I understand. Now IRIN reports that his monthly rent will now cost him 80 litres of petrol or about Z\$17million. How sustainable is this?

Tony Hawkins: Well you know I don't think it is sustainable but so far people have managed to make a plan and to get by, one way or another. To some extent families increasingly are dependent on money from outside, Diaspora money and various other kinds of support that they have been able to draw on – savings offshore or whatever case it may be.

But it's becoming harder and harder for people who rely on a Zimbabwean dollar income to survive in this situation. And when you hear the kind of story you are telling me about, it's clearly a gift to the government.

The government will say, "It's obviously outrageously illegal for anyone to try and charge for rent in a product like petrol, fuel and so on. Clearly that is illegal but I have had, and I can't give the details here, but I had an experience this morning when I had to pay for something and was given a piece of paper that said it was so many US dollars converted at \$250 000 to the US dollar and I had to pay X-million Zimbabwean dollars. Now that is the way the world works and you either survive and pay or you do the other things. And I think increasingly we are getting to the stage of this lot not becoming sustainable.

And this is the point I have been trying to make; that the government for months has been paralyzed – remains paralyzed – it seems to believe by propaganda, by making statements about social contracts, threatening to use draconian price controls, by claiming that people have signed the social contract when in fact they haven't and so on; that these announcements will somehow check the situation. There's been no

single sensible policy move to address the crisis. All there is - is talk and threats, the brain drain and the western illegal sanctions etc but nobody has actually turned around and said; "this is the policy, this is what we are going to do and we are going to do it." Start doing it. Nothing has happened.

Violet: I will come to that issue just now on what options Mugabe has to deal with the economic crisis. But back to the issue of how long the country can continue to run on these levels especially when you hear the inflation is between 4500% and 9000% and probably more. How long do you think the country can continue to run on these levels?

Tony Hawkins: There are countries that have gone on for a long time with hyperinflation on these sorts of levels and I think it is impossible for anybody to stand up and say it's going to be three weeks or three months or three years or whatever figure you'd like to say. I think that the people who are making these kind of statements – and we have had the outgoing United States Ambassador, we have had various Aid Agencies and NGOs talking about six months and so on. Why six months and not two months? Who knows?

But you have to ask the question. How do you define collapse? When does the economy collapse? What examples do we have of a collapsed economy? Did the DRC economy ever collapse? Did the economy of Somalia ever collapse and so on? The answer is that African economies tend to grind on at very low levels of activity – subsistence levels of activity for long periods of time. It's only when you get civil unrest or some kind of move of that kind or the government itself decides to change, either because the president or the cabinet or whatever loses the support of their followers or because there is some kind of radical shift in policy. It's only when those things happen that you get a change in the situation otherwise it can drag on.

Violet: That's what I wanted to ask you, is there such a thing as an ultimately collapsed economy because already so much is not functioning? You know the health sector, educational sector, food shortages and fuel shortages.

Tony Hawkins: Well there may well be I have never encountered one. I draw parallels between Zimbabwe today and say Mozambique in the early 1990s and at that time when you were in Maputo you could hear the artillery, the guns from not too far away and the taxi that picked you up from the airport stopped halfway from town because it had run out of petrol and so on. But we haven't gotten to those stages yet and the Mozambican economy never collapsed. It continued and I tend to use that as a parallel to say I don't see the Zimbabwean economy collapsing.

Before that happens I see some kind of political change taking place. How that change takes place, what form that change takes place I couldn't tell you. But I do think that in real life this is what will happen. It seems to me that in the events of the last couple of weeks must be forcing people in government to think about what they should do now. And they must be running options like price controls or freeing the foreign exchange market through their minds.

I doubt that they have accepted yet the need for political or regime change. But there is no doubt in my mind that without that political change the economy will never, will not recover.

Violet: But let's just analyze or try to analyze the remarks that were made by the US ambassador Christopher Dell you mentioned earlier on. He predicted that inflation would have reached 1.5 million and that runaway inflation may result in an early exit for Robert Mugabe. Now some may say these are bold prophetic statements from the diplomat. Did his remarks spark the crisis last week, in your view?

Tony Hawkins: No I don't think so, the crisis was there anyway. I don't know if many people have taken his remarks that seriously. I don't know how you can predict in this situation where inflation will go. His guess is just as good as anyone else's. His statements were laced with comments about what businessmen say the inflation rate is. But how do businessmen know what the inflation rate is?

The only accurate measure of inflation or the nearest thing we have to an accurate measure of inflation are the actual figures prepared by people who do the task on the ground – that's the government central statistical office.

There are others like Price Waterhouse Coopers who have their own numbers, which are subject to a fair number of technical criticisms. So a lot of this is dancing in the dark. You don't really know what numbers you are playing with. You don't really know what is happening on the ground. There are no numbers or evidence to be able to tell you what is happening and a lot of it is simply what we would call anecdotal. Now anecdotal evidence is sometimes very useful, I am the first to admit it, but at the same time I don't think you can project forward from one month's inflation figure or two months inflation figures where it would be in July let alone December.

Violet: Well he is not the only one who has made these predictions and just a couple of weeks ago the Heads of Agencies Contact Group also announced that inflation may reach 500 000% by December or in months time. And a memorandum that was sent by the consultants for this Aid Agencies was talking about a situation where there is no functioning government or a total breakdown.

Tony Hawkins: Well there is a functioning government at this stage as we know, the fact that the NGOs at the Agencies are saying 500 000% and the US ambassador is saying 1.5million% just shows how great the discrepancies are when you make these kinds of projections. I mean everyone is peering into the dark, everyone is peering into the unknown. Nobody knows and people are making prophetic statements and some prophecies turn out to be right and some turn out to be wrong. I think that's all that one can say. All I would say is that there is no scientific basis or evidence for making these projections. They are gut-feeling projections. They may turn out to be right and so on but there is no scientific basis for them.

Violet: Right. And on the issue of finding ways of dealing with this crisis - would it be possible to achieve a stable currency by pegging the Zimbabwe dollar to the Rand? If so what would be the implications of this step?

Tony Hawkins: It wouldn't be possible to do that because if you peg to a currency like the Rand – the Rand has inflation of at the last count 6% a year and we have inflation of 4 500% a year. So there is no way you can have a peg in that situation, it's just physically impossible.

For a currency to be pegged as for example within the European Union they will have to have pretty similar rates of inflation and when you get to a situation where you have got huge, massive, grotesque discrepancies like this, you can't peg to anything and therefore I think the only solution really is to freeze the currency and hope that as a result of that you get inflows of foreign exchange that will enable you to stabilize things.

But this does imply doing very tough and very difficult things that if this government were to do it would precipitate its demise, its collapse because it stays in power by operating a patronage system, by printing money, by spending money, by giving money to its cronies, to its supporters and so on. But when you say you mustn't print money, you must stop giving money away; operate a tight fiscal monetary policy then goodnight the government. Their supporters will get fed up pretty quickly.

Violet: But while the political parties are talking about talks in South Africa there, observers say there is a real risk that the talks will be eclipsed by the economic collapse. What are your thoughts on this?

Tony Hawkins: Well if we were going to get an economic collapse then it would lead to an escalation of whatever accommodation that may possibly be reached in these talks. It seems to me the faster the economy deteriorates the greater the pressure for political change, which is what Mr. Dell was very rightly saying and therefore in that sense you get to the point of some kind of political accommodation sooner rather than later.

But I think you have to look at that in the context of the people involved – namely the government. There are two things hanging over their heads. One, of course is the point I am making about them being able to work the system financially to their own advantage – and some of them have done that extremely efficiently. We all know that just by looking at their visible wealth and so on. The second is a number of them are facing unpleasant prospects of being dragged off to International Courts at the Hague and places like that and they are going to hang on to offices as long as they can or to use some kind of formula to try and avoid that unlikely or that undesired outcome as far as they are concerned.

Violet: And then of course Mugabe is planning to nationalize everything and some say he can easily take over the private mines for example. If he does this could this pay his bills for years and prolong his rule?

Tony Hawkins: No I don't think so at all. I think that will in some ways even accelerate it because he does have the capacity to operate the mines. He doesn't have the capacity to operate the businesses he is threatening. I think a lot of this is sheer talk. If you think that in 2000 the way to win the elections was to promise to give people land and it worked, what about this time? In 2008 you promise to give people shares in companies but no-one has thought through – you just have to look at the documents and read the statements of government ministers – none of them have thought through how this can be done, what the implications would be and so on.

The South Africans have had a long experience of black empowerment and it's been a slow, painful and in some cases not terribly successful experience but they have made some progress. Now in Zimbabwe where black empowerment is the takeover of foreign property – because there are not enough whites here left to take over much of their property, so it's taking over foreign owned property and most of that foreign property is owned by South African companies. And what new investment there has been in recent years has come from the Chinese companies or Asian companies it doesn't really make sense that the government would want to alienate those people by taking over their assets.

Violet: What do you think Mugabe will do though because many believe he is faced with this unsustainable situation?

Tony Hawkins: Well if you read or watch the debate on the BBC that was held by the World Economic Forum in Cape Town just a fortnight ago, there were two Zanu PF spokesmen there. Simba Makoni who is the preferred choice for president of the British and South African governments and Mr. Ibbo Mandaza whom you interviewed on your program and both of them who appear to be arguing that Mugabe would leave sooner rather than later and this would provide the catalyst for change in the economic situation. Personally I doubt his being prepared to quit but I am not a political analyst or commentator I have no basis to make these kinds of judgments.

Violet: But what do you think will bring Mugabe down first the economy or Mbeki's initiative?

Tony Hawkins: I don't really see how Mr. Mbeki's initiative will make headway unless the economic pressures are so great on Mugabe that he is forced to make concessions. I don't believe it is possible to have an agreement between the MDC and the government without major concessions, massive concessions by the government by the government. I also don't believe the people of Zimbabwe are willing to be governed by a reformed Zanu PF because I think Zanu PF has gone way beyond the point of no return in respect of re-branding and so on. When you have done as much harm as they have done it is very hard to believe that voters if they are given a free and fair opportunity would vote for a continuation of this party regardless of who is leading it.

Violet: And what about the economic pressure?

Tony Hawkins: I think the pressures are intense but when you are faced with the kinds of options that the top people in the government are faced with you know I think they must be doing their calculations. There is nothing we have seen as yet to suggest that they are facing up to reality instead they seem to be stating - \ had the minister of information over the weekend stating that the economic situation was getting better by 1 day or words to that effect. Now whether he is foolish enough to believe that I don't know.

But that seems to be the party line and you just have to read the Herald newspaper everyday to be told the social contracts or price controls or whatever are going to make the situation work and improve the situation. And I think that as long as that mentality is there it's hard to see the government giving in and saying we admit that what we have been doing for the last ten years has been a disaster and step down. The only advice is to make sure you don't vote for these people again, you are not intimidated into supporting these people again that is the only advice I would give.

Violet: And the final word?

Tony Hawkins: The final word is really that there has to be some kind of political resolution of this crisis. In this there is no economic solution that is the argument I am trying to put forward. There is no magic plan no martial plan nothing that can turn this situation around without first there being a political solution.

I think it is true that the greater the economic pressure the sooner the political accommodation will come. For neither I nor any other economist could give any scientific ground for saying when that tipping point or whatever word you want to use would come it could be three months it could be six months I don't know and neither does anybody else. That's all I can really say.

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