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Development Policy Outlook

Learning from Failure: Property Rights, Land Reforms, and the Hidden Architecture of Capitalism

By Craig J. Richardson

Few countries have failed as spectacularly, or as tragically, as Zimbabwe has over the past half decade. Zimbabwe has transformed from one of Africa's rare success stories into one of its worst economic and humanitarian disasters. But while culpability for Zimbabwe's collapse is broadly attributed to the policies of President Robert Mugabe, the intricacies of the country's unraveling remain poorly appreciated—above all, the importance of property rights in the process. That is unfortunate, because the destruction of Zimbabwe, like that of Nicaragua two decades earlier, offers important, cautionary lessons for other developing countries—as grim natural experiments in the hidden architecture of capitalism.

Development economists like to study success: how to pull a country out of poverty, how to spur growth, how to improve living conditions. This emphasis on positive outcomes is even reflected in their vocabulary: "third world" countries are now "developing" countries, regardless of whether they are developing or not.

Yet what about a country undergoing a rapid and devastating economic collapse? Curiously, development economics has devoted little attention to studying this phenomenon, and there is scant research to explain how it happens.

Consider Zimbabwe—a state which, since 2000, has been in an economic tailspin. Today, it is shrinking faster than any other country on earth that is not at war. Zimbabwe's currency is nearly worthless from hyperinflation; its financial institutions are in disarray; its world-class farms sit idle; and its manufacturing, mining, and export sectors are declining steeply. The informal exchange rate for the Zimbabwe dollar is Z$150,000 to US$1; six years ago, it was Z$55 to US$1. With millions of people having fled the country and millions more out of work and close to starvation, the question arises: "What exactly went wrong in Zimbabwe, and how did it take place so quickly?"

Certainly Zimbabwe's problems have been the subject of scrutiny by the international community. By 2003, real output had already dropped by one-third, and the International Monetary Fund (IMF) was determined to know why. In its yearly Article IV report, the IMF produced a laundry list of potential culprits, including loose fiscal and monetary policies, a fixed exchange rate highly out of sync with "street prices," and price controls. The IMF blamed these "inappropriate economic policies" for the collapse. President Robert Mugabe's land reform program, along with the ongoing HIV/AIDS pandemic, were identified as "exacerbating" Zimbabwe's newfound poverty, but not the primary reason for it.[1] The IMF's recommendations were consequently macroeconomic in nature: they included freeing up price controls, as well as exchange and interest rates, and clamping down on the money supply.

Yet what the IMF's analysis never sufficiently addressed was how and why the rapid collapse of Zimbabwe's economy occurred in the first place.

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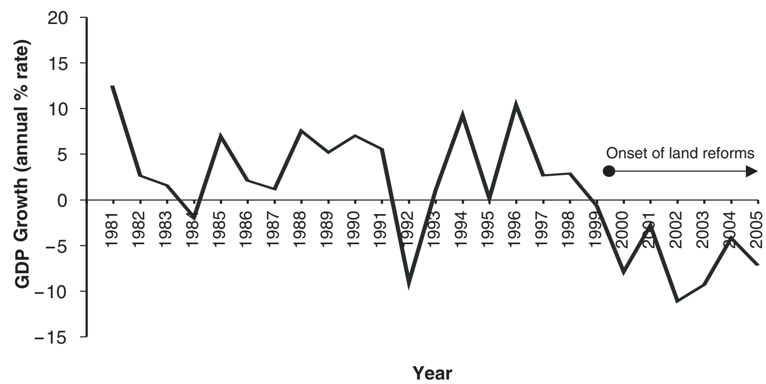
FIGURE 1
ZIMBABWE: CHANGES IN GDP GROWTH, 1981–2005



SOURCE: World Bank and IMF. 2005 is an IMF estimate.

The sharp upward pressures on prices and exchange and interest rates were the result of a swift increase in the money supply, to be sure. Yet since 2000, where had the pressure to print money—on a scale never before seen—come from? Why were previously sound banks failing by the dozens? And given the enormous foreign direct investment (FDI) in Zimbabwe in the late 1990s, why were investors suddenly jumping ship?

Given the breadth of Zimbabwe's problems, it is perhaps unsurprising that no one has attempted to put forward a comprehensive explanation for them. Reviewing the IMF's reports, Zimbabwe simply appears to be a country falling apart under the collective weight of countless bad policies. To an outside observer, it might seem difficult, if not hopeless, to tag any one factor with overarching culpability.

But while many problems cited by the IMF and others are important, they do not provide a full explanation for how a country can lose fifty years of economic progress in only five years.[2] In fact, Zimbabwe's collapse can be traced to a single policy: its fast track land reform program, under which the Mugabe government, beginning in 2000, seized thousands of white-owned commercial farms, leading to a sharp drop in agricultural output. The other "inappropriate" policies adopted by the Mugabe government exacerbated the damage, but they were not the underlying cause.

Although the introduction of Zimbabwe's land reforms coincided with its dramatic collapse (see figure 1), a puzzle remains: the farming sector was only 18 percent of the entire economy. Other sectors, such as banking, tourism, manufacturing, and mining, also shrank dramatically during this time, however. How, then, to explain the discrepancy?

In fact, the damage done to property rights by the land reforms caused a series of ripple effects throughout Zimbabwe's other economic sectors. Studying this "cascade failure" helps better reveal the framework of developing market economies—what economist Hernando de Soto calls "the hidden architecture" of capitalism. In this regard, the destruction of Zimbabwe represents a grim "natural experiment" that illustrates the tremendous negative consequences of ignoring the rule of law and provides a cautionary lesson for what other developing countries should *not* do in the future.

Unfortunately, the rebuilding of an economy after property rights have been revoked is likely to be contentious and slow, akin to rebuilding trust in a relationship after a serious betrayal. The case of Nicaragua is illustrative in this regard as a counterpoint to Zimbabwe, as its history of land expropriation under the Sandinistas, its resulting collapse, and its long and difficult struggle toward recovery provide useful clues for what a post-Mugabe future might hold.

The Debate about Land Reform

With its modern roads, strong education system, low crime rate, and diversified economy, Zimbabwe was once considered one of Africa's success stories. Economic growth from 1980 to 1989 averaged a robust 5.2 percent in real terms, and while it slowed from 1990 to 1999 due to questionable macroeconomic policies, it still averaged 4.3 percent during this period.[3] A major reason for the country's prosperity was its sophisticated commercial farming sector. Vast tracts of large-scale farms produced thousands of acres of tobacco, cotton, and other cash crops. About 4,500 white families owned these farms. In contrast, 840,000 black farmers eked out a living on small and relatively infertile plots in the communal lands, producing maize, groundnuts, and other staples.

By the late 1990s, a broad consensus had taken shape—including the Mugabe government, the IMF, the United Nations, the British government (the original colonial power in Zimbabwe), Africa scholars, and even many of Zimbabwe's white commercial farmers—that land reforms were needed. The purpose of these reforms would be to improve agricultural productivity and, simultaneously, increase wealth for the black majority. The sensitive issue was how to redistribute the land, since the commercial farming sector provided much of the country's foreign exchange, created thousands of jobs, and produced the essential staple of maize.

While the IMF and the British advocated that landowners be given adequate compensation, as dictated by Zimbabwe's own laws, the Mugabe government argued that these lands had been "stolen" from the country's black inhabitants and thus could simply be taken back. This claim ignored the fact that more than 80 percent of white-owned commercial farms in Zimbabwe had been purchased through the commercial real estate market since Robert Mugabe came to power in 1980, and less than 5 percent of the farmers could trace their ancestry back to the original British colonialists who arrived in the 1890s.[4]

At independence in 1980, furthermore, the government had passed a law that gave itself the right of first refusal on any rural land offered for sale. If the government did not desire a farm for resettlement purposes, a "certificate of no current interest" was issued, and the property went up for sale, with a title being issued. Buyers therefore trusted that their property was safe and secure from government expropriation.[5]

As late as 1998, in fact, the IMF predicted that the Zimbabwean government's land reform would unfold in a fair and legal manner:

> While the land reform program is still in the early design stages, the redistribution of land will proceed within the confines of the law and the pace of land acquisition will be governed by the availability of budgeting resources. Moreover, the land redistribution will be undertaken in an orderly and transparent manner to protect agricultural output and the welfare of workers on the farms to be acquired . . . Looking ahead, the implementation of a more comprehensive land reform program will directly assist the poorest and most deprived members of society, particularly those in high-density rural areas.[6]

As it turned out, however, the IMF—along with everyone else who trusted the Mugabe government—was soon proven wrong. Beginning in 2000, Harare began seizing control of white-owned farmland, with no compensation for its owners, and then redistributing it to political cronies in the ZANU-PF political party, rather than poor rural farmers. Because most of the new owners knew little about farming, agricultural production dropped sharply. Land titles were declared null and void, and all contracts and mortgages related to the farmland were suddenly worthless. The Mugabe government thus recast land reform into a tool of political patronage, with the renewal of leases left to the whims of the party leadership.

Debunking the Myths about Zimbabwe's Collapse

The Mugabe government, the United Nations, the IMF, international aid agencies, and NGOs have offered many excuses for Zimbabwe's precipitous collapse, all of them downplaying the impact of the land reforms and Harare's malfeasance. None are plausible as an alternative underlying explanation for the country's unraveling, however. Consider a few of the favorite bugaboos:

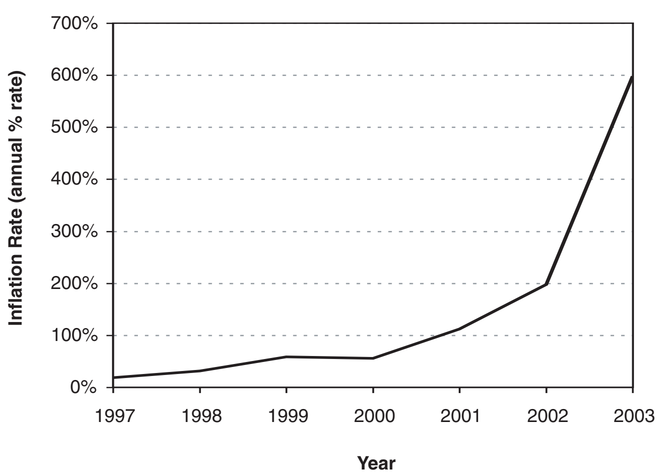
Persistent Droughts. Reports by the UN, the IMF, and the U.S. Department of Agriculture have argued that Zimbabwe's devastating food shortages since 2000 are largely attributable to "severe drought"—a line that President Mugabe and other government officials have been only too happy to parrot. However, the reports in question relied either on unreliable, secondhand information or on data from a small sample of rainfall stations. Data from all of Zimbabwe's ninety-three rainfall stations indicate that the "drought" of 2000–2001 was 22 percent below the country's fifty-year average, and that rainfall in subsequent years was much closer to the norm.[7] In addition, Zimbabwe has extensive irrigation infrastructure, including nearly 11,000 reservoirs, which should have given the country a tremendous cushion against droughts.

Foreign Sanctions. Zimbabwean government officials frequently cite international sanctions as the reason for their country's economic collapse. But while some narrowly tailored sanctions have been levied on specific high-level individuals and their families, these sanctions only impact firms connected to the regime's leaders. In fact, American companies are free to invest in Zimbabwe and trade with any person there, other than eighty-six senior officials.

Lavish Spending on Veterans. In 1997, the Zimbabwean government recklessly spent 9.7 percent of its budget on a payout to war veterans from the 1970s battle for independence.[8] This lavish expenditure has been widely cited as the beginning of Zimbabwe's economic downfall.[9]

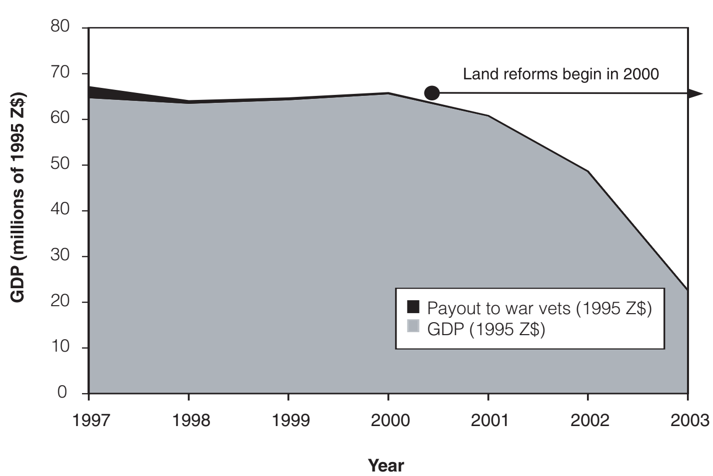
Yet while the payout caused a large, one-time jump in the inflation rate, a closer look reveals that prices, along with Zimbabwe's GDP growth, actually remained within a stable band for the next three years (see figure 2). In addition, the payout was not large when compared to Zimbabwe's total economic output; it consumed only 3.7 percent of GDP in 1997, and dwindled after that (see figure 3).[10] The rapid economic collapse occurred only after 2000 and was not the result of some mysterious multiyear lag, but because this is precisely when the government began rapidly printing money.

FIGURE 2
INFLATION RATES IN ZIMBABWE: 1997–2003



SOURCE: World Bank

FIGURE 3
WAR VETERANS' PAYOUTS AS A SHARE OF GDP (1995 Z$)



Source: Graphic by C. Richardson based on IMF data and information from Patrick Bond, "Political Reawakening in Zimbabwe," Monthly Review 50, no. 11 (April 1999).

Irresponsible Macroeconomic Policies. While the IMF has blamed Zimbabwe's post-2000 collapse on a host of bad macroeconomic policies adopted by the Mugabe government, many of these policies were already in place in the late 1990s, including "large and protracted fiscal deficits" and an "accommodating monetary policy."[11] Despite this, the country's economy grew by 3.7 percent in 1997, and 2.5 percent in 1998.[12] Zimbabwe was able to weather the Mugabe government's poor governance because the rule of law was still intact, keeping its underlying banking institutions relatively strong. Certainly lax macroeconomic policies nudged the economy in the wrong direction, but not enough to provoke an unprecedented collapse.

The Hidden Architecture Revealed

If the usual explanations for Zimbabwe's implosion are insufficient, why do the country's land reforms provide a better explanation? The argument here is straightforward: the expropriation of land without compensation destroyed property rights—the foundation of the economy—and led to a chain reaction, which was exacerbated by additional actions of the Mugabe government.[13]

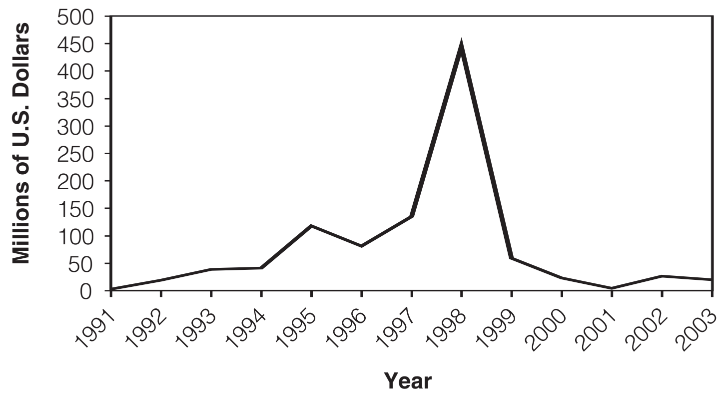
Property rights are analogous to the concrete foundation of a building: critical for supporting the frame and the roof, yet virtually invisible to its inhabitants. In fact, there are three distinct economic pillars that rest on the foundation of secure property rights, creating a largely hidden substructure for the entire marketplace. They are:

- *Trust* on the part of foreign and domestic investors that their investments are safe from potential expropriation;
- *Land equity*, which allows wealth in property to be transformed into other assets; and
- *Incentives*, which vastly improve economic productivity, both in the short and long term, by allowing individuals to fully capture the fruit of their labors.

How did Mugabe's destruction of property rights lead to the collapse of these three pillars, and with it, the country's economy? In sifting through the rubble, it is clear that the pillars were not of equal strength. Trust is the most fragile of the three pillars and was the first to disintegrate, followed by land equity, and lastly, producer and worker incentives. Watching Zimbabwe's economic unraveling is chillingly reminiscent of watching a building collapse in slow motion after a series of timed explosions. The case study also reveals how the hidden yet fragile architecture of capitalism can so quickly fall apart once its substructure is substantially harmed.

FIGURE 4

FDI IN ZIMBABWE: 1991–2003



SOURCE: World Bank.

Investor Trust. In 1993, the Zimbabwean Stock Exchange (ZSE) was opened to foreigners for the first time. Investors were bullish on Zimbabwe, and by 1996, Zimbabwe's equity markets were surging. More than half the growth in the top thirty-five sub-Saharan companies (excluding South African groups, which are listed separately) came from Zimbabwe. The number of Zimbabwean companies in the region's top thirty-five rose from nine to eleven in one year, but more importantly, their combined market capitalization more than doubled from $1.2 billion to $2.6 billion. Zimbabwe was one of the top performers in the world's emerging markets and a new favorite of investors.

Just before Christmas 1997, however, the government announced that 1,471 of the country's 4,500 farms had been earmarked for compulsory acquisition. This kind of rhetoric had been heard before from Harare, and consequently, the threat of land redistribution was largely dismissed as "callow promises by politicians intent on whipping up support for the next election."[14]

Yet by 1998, the government's language became even more heated. Speaking to prospective voters in the Matobo district in September of that year, President Mugabe attacked "rich farm lands in former white colonial hands" and argued that expropriation would "cure the economic and social ills bedeviling the nation."[15]

The ZSE began to plunge sharply soon thereafter. News reports indicated that investors were increasingly leery of the government's plans and losing confidence in its ability to govern. By the end of 1998, the value of stocks traded on the ZSE dropped by a stunning 88 percent.

As Christopher Dell, U.S. ambassador to Zimbabwe, has noted, "Nothing rattles investor confidence more than the prospect of expropriation. The [February 2000] constitutional amendment striking down the right to redress for victims of land expropriation sent a shockwave through the community of investors who keep an eye on the climate in Zimbabwe."[16] Between 1998 and 2001, foreign direct investment dropped by 99 percent (see figure 4).[17] In addition, the World Bank risk premium on investment in Zimbabwe jumped from 3.4 percent in 2000 to 153.2 percent by 2004.

It is hardly surprising that the stock market and FDI collapsed so quickly, and somewhat in advance of the actual farm seizures. After all, this type of wealth is the most fluid and therefore the most volatile. With a few keystrokes tapped out on a computer, investments can instantly move thousands of miles from Zimbabwe to a more promising country. These markets serve as bellwethers and at least partially explain why the economy began turning south prior to the land seizures. With little or no psychological bond to the country, foreign investors are usually the first to leave. Their trust is difficult to build, and easy to lose.

Access to Land Equity. As the Mugabe government began its program of land expropriation without compensation in 2000, the Zimbabwean Supreme Court declared the fast track land reform unconstitutional. It was then, for the first time in the country's post-independence history, that Mugabe openly ignored the rule of law. Prior to this point, the government had followed court orders and allowed the appeal process to run its course. Now, however, Mugabe replaced unfriendly judges with cronies, securing his desired ruling in December 2001. Land titles and private land ownership had become a thing of the past.

Before 2000, commercial farmers relied on their land as collateral to secure loans from banks, which they then used to purchase seeds for the coming season, along with tractors and other capital. Secure property titles thus served as a key insurance mechanism for banks and "were the cornerstone to stimulating the entrepreneurial spirit that developed the [farming] sector," according to Neil Wright, a Zimbabwean economist for the Commercial Farmers' Union.[18]

After the land reforms began in 2000, newly resettled Zimbabweans were assigned plots of former commercial farmland but were forced to lease it year to year from the government. With no means to borrow against their land, the new farmers could not obtain loans. Moreover, their knowledge of farming was often meager, resulting in yields that were a small fraction of previous harvests. As the farm seizures continued, banks became increasingly reluctant to lend to the remaining commercial farmers whose land had been listed for compulsory acquisition by the government or occupied by squatters.[19]

A vast constriction of borrowing occurred, which rippled from business to business, and sector to sector. With the Zimbabwean government declaring itself the sole owner of farmland, banks and other property owners now held worthless titles. The land became what Hernando de Soto calls "dead capital," because it was unable to be leveraged and used as equity. An estimated $5.3 billion worth of land value vanished as a result. In 2001 alone, this loss of financial equity in the farmland sector exceeded all of the World Bank aid ever given to Zimbabwe by a whopping 242 percent.[20] This drop in wealth also equaled 65 percent of Zimbabwe's GDP in 2003, which the World Bank estimated at $8.3 billion.[21]

With banks now holding worthless titles and unable to foreclose on properties, thirteen of Zimbabwe's forty-one banking institutions were in financial crisis by late 2004. The amount of credit sharply contracted, affecting all sectors of the economy. Gross fixed capital formation, heavily dependent on loans, fell by 43 percent, from $1.1 billion in 1999 to $0.6 billion in 2001.[22]

Prior to 1997, an average of 1,600 tractors was sold per year throughout Zimbabwe, with farmland typically used as collateral. By 2002, total national sales dropped to only eight tractors according to a 2003 IMF report.[23] The OECD reported that gross private capital formation, once a healthy 20 percent of GDP in 1995, fell to −6.7 percent in 2002, as farming equipment was looted, destroyed, or sold. New farmers saw little reason to invest in tobacco barns or tillage equipment without the security of property rights and faith in the rule of law.[24]

Zimbabwe's conversion from productive to dead capital was now nearly complete. Just as de Soto's work has shown how developing countries can harvest wealth by turning "dead" capital into "live" capital as a result of titling land and using that property as collateral for bank loans, the case of Zimbabwe shows that these ideas work in reverse as well—with grim results.

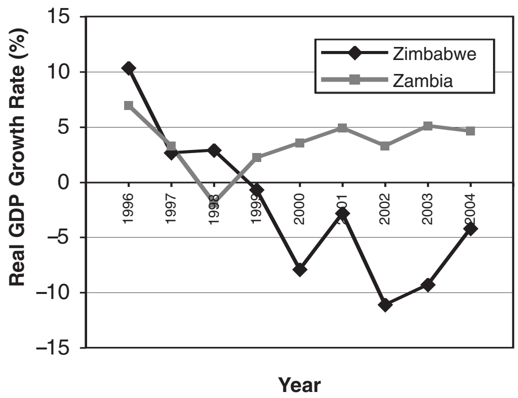
This, then, is the second "pillar" of the economy that crumbles when land reform movements destroy property rights. Bank investments are certainly less volatile than stock markets and FDI and have the ability to withstand greater shocks to the system, when secure rule of law is under threat. Their movements are defensive in nature: they strive to protect existing contracts and mortgages tied to physical property, but wait out the storm by sharply reducing their exposure to risk. Yet banks are not as tied to the land as the individual farm-holders, who may have put years into clearing out rocks, nourishing orchards, or laying irrigation pipes. Thus, banks' exit generally comes second, after the foreign investors.

Entrepreneurial Incentives and Knowledge. In her book *African Tears*, Zimbabwean commercial farmer Catherine Buckle describes the struggle of her family to stay on a farm that they had run for nearly a decade, in the face of land reforms. The purchase of the farm by the Buckles in 1990 was sanctioned by a government "certificate of no interest," which meant it was a farm that was supposedly not under threat of expropriation. For seven months during 2000, the Buckles watched as war veterans grew increasingly bold in their harassment, chopping down the farm's 3,000 gum trees and eventually burning their home to the ground.

> For 171 days our farm had been under invasion, our every move watched. For 171 days we had been living behind permanently locked gates, sleeping with car keys under the pillow. For 171 days we had not been able to farm the land that was ours, had made no plans for the coming season, had made no money and had lived off the capital realized from sold assets.[25]

What is most remarkable, however, is how long it took for the Buckles and others like them to leave. Even

FIGURE 5
DUAL FORTUNES: ZIMBABWE AND ZAMBIA



SOURCE: World Bank and IMF.

under threat of their lives, displaced commercial farmers took their cases to the Zimbabwean courts, property titles in hand, arguing that the seizures were unlawful. They lobbied the Commercial Farmers' Union for better representation in government and defended their property with firearms. Eventually, however, most pulled up their stakes and moved to places like Australia, Zambia, or Mozambique, taking their immense knowledge of farming with them. Ironically, they were welcomed with open arms in these countries, and agricultural yields have sharply increased where they settled. Zambia, for instance, has awarded ninety-nine-year leases to former Zimbabwean farmers, whose knowledge and investments have contributed to the country's recent "exceptional agricultural performance" and 5 percent annual growth rate, according to a 2005 OECD report (see figure 5).[26]

Zimbabwe, meanwhile, has experienced a tremendous drop in agricultural production. Maize, groundnuts, cotton, wheat, soybean, sunflowers, and coffee production contracted between 50 and 90 percent between 2000 and 2003.[27] While Zimbabwe once produced an export surplus of seed, it is now an importer, because most of the high-yield hybrid seed production skills have been lost. To make matters worse, the hard currency lost from commercial farming output has meant that the new farmers often have no money for inputs like seeds, fertilizer, spare parts, or gasoline.[28]

Zimbabwe thus demonstrates how entrepreneurial incentives often involve an emotional as well as physical investment in a tangible asset—in this case, land. Property owners have the most to lose and the least to gain by uprooting their livelihoods and moving to another country. Their departure signals the final stage of economic collapse.

Cascade Failure

The loss of Zimbabwe's 4,000 farms has impacted every aspect of the country's economy. Each of these farming companies employed 100 or more people, paid various taxes to the government, and generated incomes for others that also yielded taxes. In addition, the farms provided housing, clinics, and schools; more than a million Zimbabwean children, in fact, received an education from farm schools. Communal farmers also benefited from the farming companies, sourcing their demands for seed, fertilizer, chemicals, and expertise to them.[29]

Unsurprisingly, then, the destruction of Zimbabwe's farms has created massive social disruptions. It has thrown hundreds of thousands of black farm workers out of work, driving them to Zimbabwe's largest cities, Harare and Bulawayo, looking for jobs, or into neighboring South Africa and Mozambique. These newly homeless, newly poor refugees have set up makeshift shanties in Zimbabwe's cities in an effort to make ends meet—squatter settlements that were subsequently attacked and bulldozed by the Mugabe government in the summer of 2005.

Although agriculture was only directly responsible for 18 percent of the Zimbabwean economy, 60 percent of the country's non-farm enterprises directly or indirectly depended on commercial agriculture inputs. As a result, 700 non-farming companies had shut their doors by late 2001. In addition, the agricultural sector of the economy employed 60 percent of the entire population, which meant that millions of unemployed workers now had far less disposable income to purchase the nation's goods and services.[30]

Commercial tobacco and cotton farms also provided about 40 percent of hard currency in the country, necessary for imports like fuel, machinery, and medicine. With the collapse of the commercial agricultural sector, food and other basic goods disappeared from shelves, and widespread fuel shortages paralyzed the country's cars and planes.[31]

Without hard currency in its coffers, the Mugabe government turned to the Reserve Bank of Zimbabwe to pay its bills. Annual money supply growth rose from 57 percent in January 2001 to 103 percent by the end of the year, inaugurating a cycle of devastating hyperinflation.[32] According to the OECD, the acute food shortages caused by the land reforms meant that the country, which was once a net exporter of maize, had to print billions of Zimbabwean dollars to import food.[33] The government even ran out of hard currency to buy the imported ink needed to manufacture its own money; as a result, bills were only printed on one side. By March 2006, it took Z$60,000 to buy one loaf of bread, even as a new Z$50,000 note was being printed to "keep up" with the demands of higher prices.

"This country is upside down now," said one of Zimbabwe's newly dispossessed. "Once we had beef and tobacco and maize and now—look—we have to stand in line for petrol, for money, for mealie meal, for sugar. Soon there will be no country left at all."[34] Ox-pulled ambulances have returned to the countryside and once mothballed steam locomotives are being pulled out of retirement, as the country has no money for diesel fuel. Zimbabwe now vies for a number of depressing world records: most orphans per capita, highest number of AIDS cases per capita, and lowest life span, at thirty-eight years.[35] It was recently rated by the World Economic Forum as the world's worst place to do business out of 117 countries surveyed.[36]

Lessons from Nicaragua

The decline of Zimbabwe's economy is eerily similar to that of Nicaragua two decades earlier. Like Zimbabwe, Nicaragua was a country with strong economic growth and a rich landholding elite. By the late 1970s, the perceived failure of the Somoza dictatorship to address the country's economic and social inequities was exploited by Communist revolutionary Daniel Ortega and the Sandinista political party, which seized power in 1979 after three years of heavy fighting.

Like Mugabe's ZANU-PF party, the Sandinistas were especially interested in land redistribution. In July 1979, they authorized the first confiscations of property belonging to Somoza. The vague wording and lax application of the decree allowed officials from the newly formed Ministry of Agricultural Development and Agrarian Reform to confiscate property from any "follower" of the old regime. Other orders soon followed, allowing members of the party to take control of "abandoned" property, unused urban property, and companies whose management was thought to be "de-capitalizing" the enterprise. Eventually the Sandinistas seized 34 percent of all arable land.[37]

As in Zimbabwe, government officials rather than poor peasants were the principal beneficiaries of the redistribution. It has been estimated that more than 70 percent of the Sandinista land grants were legally suspect and thus they lost much of their equity value. While the Sandinista government ultimately confiscated approximately 170,000 properties during its eleven years in power, only 55,000 households received private titles, which were of questionable security.[38]

The seizing of assets did not end there. Between 1979 and 1981, decrees were issued by the government that allowed it to expropriate banks, insurance companies, mining companies, and other enterprises "working against the state." Promises were made to compensate the former owners, but this rarely occurred.[39] Through the next ten years, the Sandinista government nationalized 351 enterprises, which together accounted for nearly a third of the Nicaraguan economy.[40]

Although foreign direct investment in Nicaragua was minuscule at the outbreak of the revolution—only $10 million—it nonetheless served as a fledgling indicator of investor trust. By 1979, Nicaraguan FDI had plunged to zero, and almost none entered the country over the next decade.[41] Access to loans likewise dried up. Domestic credit provided to private businesses fell from 45 percent of GDP in 1979 to 18 percent in 1984, and to 13 percent in 1987.[42]

These conditions proved paralyzing. There is little point to improving productivity or planning for the future if the result of one's work may end up in the state's hands.

Not surprisingly, during the first three years of the revolution, from 1977 to 1979, per-capita income declined by more than 35 percent; by the end of Sandinista rule, per-capita income had fallen by half, just as it has in Zimbabwe.[43] Meanwhile, government spending soared through the 1980s, and the central bank printed money to cover the deficits. At its worst, prices grew at an annual rate of more than 14,000 percent.[44]

The Attempt to Restore Property Rights. By 1990, Nicaragua was in shambles. The Sandinista government agreed to hold democratic elections that year, and Violeta Barrios de Chamorro was subsequently elected as president. Through the next five years, her government attempted to reverse Nicaragua's economic slide with a strong emphasis on restoring property rights.[45]

In particular, the Nicaraguan government devoted tremendous resources toward properly titling land. It did this through the founding in late 1991 of the Nicaraguan Institute of Agrarian Reform (INRA), which served as a component of the National Program of Land Measurement, Titling and Registration. INRA provides technical support in the legal reconsideration of property titles that had been seized by the Sandinista administration from private individuals. Together, these holdings encompassed 615,000 hectares of land.

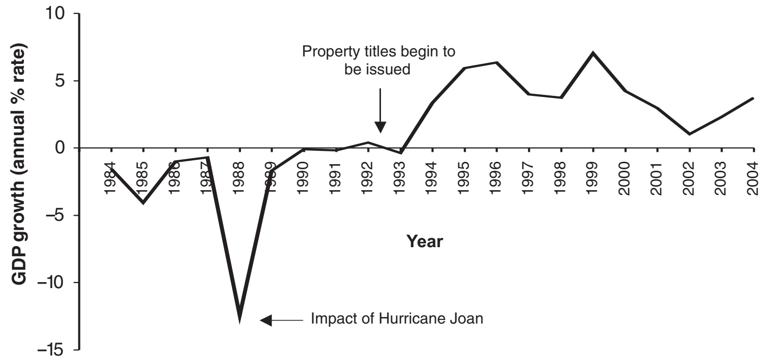
The work of INRA yielded tangible benefits, at least at first. Researchers Rikke J. Broegaard, Rasmus Heltberg, and Nikolaj Malchow from the Center for Development Research in Copenhagen found strong evidence in 2002 that where title deeds have been issued in Nicaragua, the economic productivity of the land has increased. Individuals with deeds invest in long-term land use, growing perennial crops such as coffee and managing their property more effectively.[46] These findings at least partially explain the economy's positive growth after 1993 (see figure 6). From 1995 to 2000, in fact, Nicaragua was one of the fastest growing countries in the world, with an average annual GDP growth rate of 5 percent.

Yet for those looking for clues on to how to rebuild Zimbabwe after Mugabe, the experience of post-Sandinista Nicaragua also shows just how difficult restoring property rights can be. Thousands of current and former property owners in Nicaragua continue to lock horns over property disputes, with no resolution in sight. In 2002 the country was engaged in more than 160,000 title disputes, and the government remains swamped with legal challenges.[47] For one of the poorest countries in the hemisphere, this represents an enormous diversion of resources. For every two people in a dispute, one is likely to walk away frustrated and without property, while the other is exhausted by the long and arduous process.

To try to settle these disputes, INRA first determines the value of the land, paying out the resulting compensation to former property owners in bonds that mature in fifteen years. The bonds trade for about twenty cents on the dollar, however, so former owners get far less than the value of their lost property.[48] Many Nicaraguans do not want to wait fifteen years to be paid—not surprising, given the country's experience with instability and hyperinflation—and sell their bonds immediately, getting what they can for their property.[49]

Since 2002, under President Enrique Bolaños, Nicaraguans have grown increasingly impatient with

FIGURE 6
NICARAGUA: GDP GROWTH RATES, 1984–2004



Source: World Bank.

the slow pace of economic growth and continuing land disputes—frustrations compounded by hurricanes, banking crises, fiscal imbalances, and commodity price fluctuations. Lino Hernandez, president of the Permanent Commission of Human Rights of Nicaragua, has stated that "if there is no solution to the property question, there will be no security or investment in this country. Ten years have passed and we feel powerless that we cannot find a solution to this problem."[50]

Conclusion

The prospect of land reform can be appealing, even seductive, to developing countries with large disparities in wealth—a simple matter of extracting resources from a "less deserving" rich minority and redistributing them to a "more deserving" poor majority. Yet as seen in both Zimbabwe and Nicaragua, the outcomes of fast track land reform have enormous potential to backfire, leaving everyone worse off than before.

Unfortunately, around the world, several countries continue to ignore this sobering lesson. In South Africa, President Thabo Mbeki expressed interest during his recent State of the Union speech in revisiting the "willing-buyer, willing-seller" principle for land redistribution. The government is expected to begin expropriating farmland at state-determined prices beginning this year—part of a broader attempt to address the economic inequalities inherited from apartheid.[51] Deputy President Phumzile Mlambo-Ngcuka agrees that the pace of land reform should be accelerated. "There needs to be a bit of oomph," she said in a 2005 interview. "That's why we may need the skills of Zimbabwe to help us."[52]

In Namibia as well, there are longstanding political disagreements over land reform. Like Zimbabwe, Namibia has approximately 4,000 commercial farms, the vast majority of them white-owned. The government has announced its intention to buy and redistribute 9.5 million hectares of farmland to 243,000 landless citizens, but there is little evidence that it can afford to do so at market prices.[53] In 2004, however, President Sam Nujoma announced his intention to expropriate 192 "absentee landlord" farms—owned mainly by German and South African nationals—which together comprise 2.9 million hectares. Unlike Zimbabwe, Namibia has pledged some form of compensation to farmers who lose their land, but it remains to be seen to what extent those promises are honored.

The initial results of Namibia's resettlement program are similarly discouraging. The Legal Assistance Center, a NGO based in Namibia, found in late 2005 that "most resettled persons had little or no knowledge of rotational grazing, livestock breeding systems, or financial planning and management skills. Instead, they simply continued subsistence farming on the piece of land they had been allocated." The research team did not find a single resettlement project to be sustainable beyond five years.[54]

Namibia, South Africa, and other countries considering land reforms should pay heed to the disastrous experiences of Zimbabwe and Nicaragua before plunging ahead. As the market's foundation, property rights serve many purposes: they bind together work and rewards, expand time horizons from days to years, allow wealth to be transformed into other assets, and encourage foreign investment. The speed at which an economy can develop ultimately depends on the ability of the government to inspire trust among citizens, banks, and investors that it will fairly enforce the rule of law. Other factors are important as well, such as free markets, stable money supply, good health care, strong educational systems, and ease of starting a new business, but none ultimately matter as much as the individual's ability to secure and retain property rights.

AEI research fellow Vance Serchuk is editor for the *Development Policy Outlook* series. AEI editor Scott R. Palmer worked with Mr. Serchuk to edit and produce this *Outlook*.

Notes

1. International Monetary Fund, *Zimbabwe: 2003 Article IV Consultation—Staff Report* (Washington, D.C.: IMF Country Report no. 03/224, July 2003), 3–5, available at www.imf.org/external/pubs/ft/scr/2003/cr03224.pdf.

2. Michael Clemens and Todd Moss, *Costs and Causes of Zimbabwe's Crisis* (Washington, D.C.: Center for Global Development, July 2005), available at www.cgdev.org/files/2918_file_Zimbabwe_Crisis.pdf.

3. This excludes the severe drought year in 1992.

4. Geoff Hill, *The Battle for Zimbabwe: The Final Countdown* (Cape Town, South Africa: Zebra Press, 2003), 102.

5. Ibid.

6. International Monetary Fund, "IMF Approves Standby Credit for Zimbabwe," news release 98/20, June 1, 1998, available at www.imf.org/external/np/sec/pr/1998/pr9820.htm.

7. See Craig Richardson, "The Loss of Property Rights and the Collapse of Zimbabwe," *Cato Journal* (Fall 2005). For detailed information on rainfall in Zimbabwe, see pages 546–547.

8. Calculation by Craig Richardson, based on IMF data and information from Patrick Bond, "Political Reawakening in Zimbabwe," *Monthly Review* 50, no. 11 (April 1999), available at www.monthlyreview.org/499bond.htm.

9. Sources that emphasize the 1997 payout to war veterans as a major contributing factor in Zimbabwe's collapse include: Tony Hawkins, "Ill-Judged Measures Spur Zimbabwean Decline," *Financial Times*, September 20, 2000; Philip Gourevitch, "Wasteland: Comrade Mugabe is Clinging to Power, and Taking His Country Down With Him," *The New Yorker*, June 3, 2002; and "Compensation Payments to Reward Ex-Detainees Launched Ahead of Elections," IRINnews.org, February 10, 2005.

10. Calculation by Craig Richardson.

11. International Monetary Fund, "IMF Approves Standby Credit for Zimbabwe."

12. International Monetary Fund, "IMF Concludes Article IV Consultation with Zimbabwe," public information notice 00/107, December 13, 2000, available at www.imf.org/external/np/sec/pn/2000/pn00107.htm.

13. I have presented the broad contours of this section's argument in two previous publications: *The Collapse of Zimbabwe in the Wake of the 2000–2003 Land Reforms: Studies in African Economic Development* (Lewiston, New York: Edwin Mellen Press, 2004), 4–5; and "The Loss of Property Rights and the Collapse of Zimbabwe," 548–554. Here I present a more nuanced explanation that considers the fragility of each of the three "pillars" of the marketplace, based on updated information.

14. Tor Skalnes, *The Politics of Economic Reform in Zimbabwe* (New York: St. Martin's Press, 1995), 64.

15. Electoral Institute of Southern Africa, *The Land Issue in Zimbabwe* (Auckland Park, South Africa: EISA, February 2002), available at www.eisa.org.za/WEP/zimland.htm.

16. Christopher Dell, "Plain Talk about the Zimbabwean Economy," (speech, Africa University, Mutare, Zimbabwe, November 2, 2005), available at www.swradioafrica.com/pages/dell021105.htm. Ambassador Dell is referring to the government-organized referendum in February 2000, which proposed that Zimbabwe's new constitution empower the government to acquire land compulsorily without compensation. This referendum was soundly defeated, but the damage was done in investor confidence nonetheless.

17. There was a significant spike in foreign direct investment in 1998, reflecting the purchase of a large platinum mine, the Hartley Mine Project. This was the single largest foreign investment ever made in Zimbabwe. Unfortunately there were innumerable tie-ups with the importation of technology, as well as disputes with local government officials, who claimed the mine owners were not hiring enough indigenous people. The investors got fed up and sold the mine to another company. Today Zimbabwe has nearly the lowest FDI confidence index in the world, although continued investment in mining remains a rare bright spot.

18. Neil Wright, e-mail message to author, October 28, 2003.

19. Organisation for Economic Co-Operation and Development (OECD), *African Economic Outlook 2002/2003—Country Studies: Zimbabwe* (Paris: OECD, 2003), 358.

20. Calculation by Craig Richardson using information from Zimbabwe's Commercial Farmer's Union and the World Bank. See Craig Richardson, "The Loss of Property Rights and the Collapse of Zimbabwe," 551–552.

21. Ibid., 551.

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23. International Monetary Fund, *Zimbabwe: 2003 Article IV Consultation—Staff Report*.

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25. Catherine Buckle, *African Tears* (Johannesburg and London: Covos Day, 2001), 181.

26. OECD, *African Economic Outlook 2003/2004—Country Studies: Zimbabwe*, 475–488.

27. Calculations made using data provided to the author by Commercial Farmers' Union, Zimbabwe.

28. Ibid.

29. Data provided by Zimbabwean economist John Robertson.

30. U.S. Department of State, *Zimbabwe: Country Reports on Human Rights Practices—2004* (Washington, D.C.: Bureau of Democracy, Human Rights, and Labor, February 28, 2005), available at www.state.gov/g/drl/rls/hrrpt/2004/41634.htm.

31. Craig Richardson. *The Collapse of Zimbabwe*, 81–82.

32. OECD, *African Economic Outlook 2003/2004*, 358.

33. Ibid., 361.

34. Duncan Campbell, "Homeless and Hopeless: Bulldozers Carve out a Bleak New Reality for Poor Zimbabweans," *Guardian*, July 5, 2005, available at www.guardian.co.uk/zimbabwe/article/0,2763,1521337,00.html.

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37. Mark Everingham, "Agricultural Property Rights and Political Change in Nicaragua," *Latin American Politics and Society* 43, no. 3 (Fall 2001), available at www.landnetamericas.org/index.asp?documentID=3880.

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40. Mark Everingham, "Agricultural Property Rights and Political Change in Nicaragua."

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42. Ibid.

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46. Rikke J. Broegaard, Rasmus Heltberg, and Nikolaj Malchow, "Property Rights and Land Tenure in Nicaragua" (working paper, Center for Development Research, July 26, 2002), available at www.econ.ku.dk/heltberg/Papers/landtenureNicaragua.pdf.

47. Mark Everingham, "Agricultural Property Rights and Political Change in Nicaragua."

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