

## Africa: the Great Plunder

### The Constitutional Disease: South Africa & the Wealth Gap

**P**OST-APARTHEID South Africa's new constitution was written while the African National Congress (ANC) was in power and Nelson Mandela was president. The constitution was the outcome of extensive public consultation. Grassroots participation in the formulation of the document was so intensive that the people could fairly claim to own the principles contained in it.

During its freedom-fighting days, the ANC adopted the principle (in its 1955 *Freedom Charter*), that "the land shall be shared among those who work it". The constitution reflected the spirit of this ideal by declaring that the land of South Africa belonged to all of its people. There is no clause in it which qualifies this statement in favour of a minority. But missing from the constitution was the clause that identified the rents of land as belonging to the nation. This omission would be the cause of the failure to unite the races in the

common cause – peace and prosperity for everyone.

A decade after the end of apartheid, on June 24, 2003, landless people marched on Parliament to voice their frustration at the rate at which land was being made available to them. The ANC government had adopted the formula of restitution based on the principle that the market price would be paid for land relinquished by white farmers for the benefit of the landless. It was calculated that, under the budgeted proposals, it would actually take 96 years to achieve the five-year target that had been adopted – in the reconstruction programme that began in 1994 – of redistributing 30% of farmland.<sup>1</sup>

The constitutional provision was meaningless for millions of people who were unable to till the soil. But in July 2007 the Department of Land Affairs announced that it was confident that the land restitution target set for 2008 would be achieved. There was, however, one problem: the steep increase in the price of land. That was why the government was anxious to accelerate restitution, to beat future increases in land prices. This tension between land rights and land prices illustrates the incompleteness of approaching tenure separately from taxation. Without integrating the two, the *inevitable* outcome is the continued migration of displaced people to the towns where they end up in slums searching for informal ways to keep themselves alive.

This problem is illustrated by Botswana, whose philosophy of tenure we acknowledged as remarkable (chapter 2). But despite the land rights provisions in its constitution, Botswana also experiences the migration of people out of the countryside. Slums have emerged around the towns, and in one notorious case the authorities demolished the dwellings of squatters who were deemed to be illegal occupants.

The squatters could not afford the high rents in the capital, Gaborone, so they occupied communal land in Mogoditshane. Such an outcome is inevitable, if society does not balance its revenue-raising system with its land laws (see box).

### **Neo-Colonialism and Spatial Encroachment**

URBAN policy in neo-colonised countries displaces people beyond the areas of high land value, to where they lack the infrastructure that is essential for high-density living.

Although governments consider themselves independent of their former colonial masters, spatial segregation – a defining characteristic of urban colonialism – ensures that the policies of the past prevail in the present. This irony has been noted by scholars.

- Bangalore, in India, has experienced “extensive evictions and demolitions of settlements, especially small business clusters in productive urban locations. The demolished land is reallocated by master planning to higher income interest groups, including corporations”.
- Mike Davis, an urban sociologist, notes that “post-colonial elites have inherited and greedily reproduced the physical footprints of segregated colonial cities. Despite the rhetoric of national liberation and social justice, they have aggressively adapted the racial zoning of the colonial period to defend their own class privileges and spatial exclusivity”.

Despite paying lip service to equality, laws protect property rights so that urban segregation may be likened to social warfare. Spatial boundaries are continually redrawn for the benefit of land owners. Examples of this process in the West range from Baron Haussmann’s redevelopment of Paris in the 1860s to Margaret Thatcher’s redevelopment of London’s Docklands in the 1980s.

\* Benjamin (2001) p. 4 \*\* Davis (2006)

But for policy-makers, the tax-and-tenure model requires them to understand how the market distributes income. Without that understanding, Africa will continue to be a nation plundered. A tragic example is offered by Zimbabwe.

## **Zimbabwe: Operation Clear Out the Trash**

ROBERT MUGABE wanted to steer a new course for his people. When white Rhodesians capitulated and agreed to a constitutional settlement, transferring political power to the black majority, a new era began. Or did it? They re-named the country Zimbabwe, and the capital became Harare. But would this post-colonial phase of Britain's ex-possession lead to a new prosperity for the people who had been dispossessed of their land?

Independence was sealed with signatures in 1979, at a conference in London. The Lancaster House Agreement set the terms for the rights that would be respected by the political parties. The West was satisfied with the settlement, and Mugabe was elected the first Prime Minister. There had been one major obstacle to the settlement: disagreement on land reform. But Mugabe was pressured to sign. The British and US governments offered to buy land from white farmers for allocation to landless peasants. At that point the whites, who made up 1% of the population, owned 70% of the most fertile land.

The first phase of redistribution in the 1980s was funded in part by the UK. About 70,000 people were settled on 20,000 square kilometres of land. The unfolding events

received the United Nations' seal of approval in 1994 for what it called "an impressive record on social integration". In its *Human Development Report*, the UN stated:

After independence, the government reassured the whites that their property would be respected. But it also concentrated public investment on basic social services – which directed resources to the poorer black community.<sup>2</sup>

What could go wrong? At the constitutional conference, Mugabe and his 'terrorists' had signed a treaty agreeing to end their civil war by not expropriating white farms. Furthermore, he honoured the undertaking to put whites in strategic government positions – including Minister of Agriculture and Minister of Commerce and Industry.

These measures reassured the white community that it was welcome to remain if it was willing to work within the new democratic framework.<sup>3</sup>

There was, however, one slight problem with this arrangement. The UN noted that the guarantees enjoyed by the whites "also perpetuated considerable inequality. They still own almost half the land and nearly all the investment capital in mining and industry". The UN added: "Although there has been no direct redistribution of land or other resources, the government has given priority in social spending to the communal lands that are home to most of the black community".<sup>4</sup> The black leaders honoured their deal with the whites, but unemployment rose. Private investment fell as a proportion of GDP. A crisis was growing, and the international financial experts would have to be consulted.

In 1991, Zimbabwe accepted the IMF's structural adjustment programme, a classic example of the Washington Consensus in action. It was to devastate the lives of the poor.

- The government was obliged to re-introduce school fees. Predictably, children of low income families were withdrawn from school.
- Health care charges were imposed on the poor.
- Infant mortality rates began to rise.

This was a bitter price to pay for political independence. Democracy had arrived, but the black population discovered that little had changed on the home front. Still, reported the UN,

Zimbabwe has made remarkable progress in social integration. Its major achievement lies in raising the human development levels of the black community without restricting opportunities for the white population – thus avoiding social tension.<sup>5</sup>

But the aspirations of the indigenous population were *not* being fulfilled. Mugabe tried it the British way and he tried it the IMF way, and both ways failed.<sup>6</sup> What was he to do now in response to the public demand for improved education and health for all the children of Zimbabwe? No constructive model of change was on offer that would make long-term sense to both black and white. One man who knew why, from the inside, was the former chief economist at the World Bank. Joseph Stiglitz understood the reasons why, in these situations, the recommendations coming out of Washington *excluded* proposals for land reform. He wrote: "Taxation, and its adverse effects, are on the agenda:

land reform is off....[L]and reform represents a fundamental change in the structure of society, one that those in the elite that populates the finance ministries, those with whom the international financial institutions interact, do not necessarily like".<sup>7</sup>

Mugabe, like a cornered animal, lashed out. The key was the land that had earned for Zimbabwe the accolade of being one of Africa's bread baskets. The Zanu-PF government decided that land would have to be expropriated from white owners. Thus began a land grab that had nothing to do with either economic efficiency or justice. Some of the most fertile farms were acquired by Mugabe's supporters, then not put to use, and the population began to starve.

Mugabe turned into a tyrant. Now, after the whites had fled the country, he turned on his own people. He launched one of the most disgraceful episodes in neo-colonial history. The dwellers of the slums in Harare were subjected to terror as the police demolished their shacks and expelled the dwellers out of the city. Their president called it Operation Clear Out the Trash. The slums were emptied with as much ceremony as people emptying their trash cans.

By 2007, hundreds of thousands of people were suffering a humanitarian crisis. Mugabe had claimed the government would build homes for the slum dwellers, but the rehousing programme provided dwellings for 3,300 families out of an evicted population estimated at between 700,000 and 1m people.<sup>8</sup> More than a quarter of the country's population fled Zimbabwe – about 3.4m people. Those that remained struggled to squeeze food out of the neglected soil. About 80% of able-bodied people were unemployed, and life expectancy was reduced to the lowest in the world.

Might it have been different? When the time came for “fundamental economic change”, as the UN put it, could the government have settled for a tax-led land reform? What if, instead of grabbing the land, the government had merely required farmers – black and white – to pay the rental value of their land into the public purse? And what if it offset this new source of revenue with corresponding cancellation of taxes on the wages of people – black and white – and on the profits from capital investment? Would this have encouraged people to grow more food? To invest more capital on the land? To attract foreign investors who would know that, by adding to the nation’s income, they would enjoy tax-free profits?

Some white farmers would have complained that the charges on rents were a confiscation, but they would still possess the title deeds. And they would not be paying more than the costs of the public services they were using. In other words, they would be paying for the benefits they received – as they willingly did when they purchased a combine harvester from a manufacturer or fertilisers from a chemical company. The principle is exactly the same when buying services from a public agency, to use public highways, enjoy the benefits of civil administration and police protection for property. This outcome would have been superior to the tragedy that befell Zimbabwe because of the absence of a sustainable programme of reforms that would deliver prosperity for everyone.

Post-independence, the extra rents which were created were significant, and they were available for investment in Zimbabwe’s future (see box facing). But nobody told Robert Mugabe that this strategy was a viable option. He was kept in the dark by the IMF and the World Bank, which were well



aware of this variant of 'structural reform'. They did not recommend the policy because it would confine the rents within Zimbabwe for the benefit of the whole population, black and white. The price of silence was that everyone lost – black and white. One measure of that loss is indicated by the collapse in exports. Just before the land grab began, commercial farmers earned US\$800m, 52% of Zimbabwe's export earnings. In 2007, that revenue had plunged to US\$4m.

#### **Pocketing the Peace Dividend**

IN times of trouble, the decline in the economy's productivity is immediately registered in the property market. Land values drop. With peace, they rise.

When Wilf Mbanga bought his home in Harare in 1980, he paid the equivalent of £23,000 sterling. As founder of *The Daily News*, he tracked the evolving post-colonial history. This brought him into conflict with the Mugabe government. When his newspaper was closed down in 2003, he went into exile in Britain. From Hythe, on the Kent coast, where he published *The Zimbabwean*, he was informed in 2007 by his insurance company that the property back home would have been worth £500,000. But in the market place, the Mugabe effect had reduced its value to £300,000.

Lonrho, with its history as an African mining conglomerate, knew that the peace dividend – following the demise of Mugabe's regime – would be appreciable. It established a £100m fund to invest in Zimbabwe's commercial property and infrastructure. Purchasers would benefit by buying real estate while it was cheap. But that would all change.

"As the economy does start to grow significantly, hotels are going to be one of the first big kick-off areas. There are some pretty under-valued properties in Zimbabwe at the moment," according to David Lenigas, the Executive Chairman of Lonrho.\*

\* Pfeifer (2007)

As the rate of death of hungry children accelerated, government ministers began to confess. Agriculture Minister Rugare Gumbo blamed the food shortages on black farmers who had taken over formerly white-owned land. He pointed to the theft of stock and irrigation equipment and the vandalism of infrastructure by the new farmers, as well as the underuse of land. Despite this record, however, Mugabe pressed on with the displacement of white farmers as the October 2007 deadline for their removal arrived.<sup>9</sup>

Zimbabwe, a nation that could have helped to feed the hungry of Africa, became a state relying on private welfare – including the US\$500m a year in remittances that flowed into the country from exiled Zimbabweans in South Africa.

The tragedy of this one country, however, was a metaphor for its continent's woes. As a measure of what Africa as a whole was losing, in 1990, according to one estimate, 40% of the continent's wealth was held abroad. Today for each dollar of aid that goes into Africa, at least five dollars flows out 'under the table' to tax havens such as Britain's Channel Islands, according to a former economic advisor to Jersey.<sup>10</sup> Most of that foot-loose money is the rent of the continent's natural resources.

In 2007, reports began to circulate that South Africa – acting as honest broker between Mugabe and the opposition – would propose reforms to the constitution. Did the country that had successfully abolished apartheid have the remedy for landlessness?

We have seen that there are reasons to doubt Pretoria's qualifications to offer advice to its neighbour. But we return to this issue in chapter 9, where we suggest that South Africa could be a pioneer for prosperity.

## **Nigeria: Oiling the Wheels of Corruption**

EVIDENCE FOR the mechanism that institutionalises corruption as a social process is to be found beneath our feet. All the information we need is strewn on the pavements of our cities. The anatomy of corruption in the making may be perceived as we go about our daily business. We shall recount one example.

Our story begins in Nyevsky Prospekt, the Fifth Avenue of St. Petersburg. Here, out of the ashes of Soviet communism, emerged the entrepreneurs ready to use what space they could find. The people could not wait for Russia to develop a commercial property market to accommodate retailers. Kiosks sprang up on the pavements. Traders came from Azerbaijan and Tajikistan to sell to a public that was hungry for their wares. From exotic regions of the east the spirit of the free market flowed in and ended up as deals outside the Metros of Moscow and the gates of the walled city of Novgorod.

Municipal governments, including St. Petersburg, issued licenses for the kiosks, and charged a few roubles as rent. Then came the mafia. They wanted 'protection money' from the traders. It might be wondered how the entrepreneurs could afford to pay. The answer was to be found in the locations occupied by the kiosks. Traders situated closest to Metro station entrances had the highest turnover. They paid the flat fee to the municipal government, but paid much higher sums to the mafia. Kiosks further along the highway, where the pedestrian footfall was lower, paid smaller sums for 'protection'.

Nobody taught the mafia and the kiosk traders about David Ricardo's theory of rent.<sup>11</sup> But this was the marketplace: the better the location, the higher the rent that the tradesmen were willing to pay. They *could* pay, and they *did* pay. The problem was that the money went to the bullies waiting to grab it.

The lesson is this: if government does not charge the full market rent for the benefits derived from a public space, the difference is not vaporised: it is privatised. In this case, hoodlums realised that there was spare cash on the pavements of Nyevsky Prospekt waiting to be picked up and pocketed. As for the traders, they settled for the easy life: it was all the same to them who collected the rents as long as they were free to transact their business and retain their wages and the profits from the sale of their stock.

The same reality exists on the pavements of India's cities. Migrants from the countryside stake out a few square metres and erect flimsy shacks which they call home. They choose locations close to where they can find work. Pedestrians are displaced on to the highways. The slum dwellers can and *do* pay the rents of these locations. But because the rents are not collected by the local government, the *dadas* – the local goons – pocket the money in return for 'protection'.

Here, then, is the choice offered by the market economy. Competition equalises the returns to labour and capital. Because wages and profits are privately earned, their owners make sure they claim what is due to them. But rent is public value. If the stewards of the community's interests fail to collect that revenue, others have no scruples about appropriating what is not theirs. Corruption as an institutionalised process originates with the failure of governance. In Africa,

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the losses are enormous. Nigeria bears witness to the fact that the poverty of that continent cannot be attributed to the malevolence of nature.

Over 90% of Nigeria's population live on less than \$2 a day, while civil conflicts are fuelled by the oil rents which government fails to collect for the public's benefit. Corruption pervades individual deeds, corporate strategies and government policies. From terrorist attacks by malcontents, to bribes paid into Swiss bank accounts and vote rigging at elections, all can be traced back to the failure of public policy in relation to oil rents.

Campaigners against oil-fuelled corruption argue that transparency in all deals involving rent would mitigate the damage. That is why Tony Blair, when Britain's Prime Minister, initiated the Extractive Industries Transparency Initiative (EITI). But the trouble is that the temptations are affordable, if the costs of corruption can be funded out of rent.

Even companies that would rather not pay bribes may feel compelled to as the price of access to that country. Competition between companies is thus no longer based on merit, but on the ability of a company to pay higher awards to well-connected public officials than its competitors: this is a situation which naturally favours more unscrupulous companies.<sup>12</sup>

The sums are huge. In one case in 2007, a US conglomerate (which was a subsidiary of Halliburton) was under investigation. It was alleged that it was paying \$170m in bribes for a natural gas contract in Nigeria. This corruption sprawls by osmosis.

Audited disclosure of resource rental payments is crucial for enhancing performance of the market economy, but it

is not sufficient to eliminate corrupt behaviour (see box below). The only way to remove corruption – in both its legal and extra-legal forms – is for resource rents to be drawn into the public purse for the benefit of everyone. Will Africa be able to separate rent privatisation from the interests of the political elites who now exploit the continent's natural resources?

**Good Governance: A Princely Price**

AN example of how governments conspire to enter into contracts that are apparently transparent but involve questionable payments is the £1bn disbursed by Britain under a weapons contract.

The government of Saudi Arabia paid £43bn out of its oil rents to a British firm, BAE, which in turn paid £30m a quarter, over 10 years, to a Saudi prince. Was this a corrupt deal? No, said the prince, who could honestly demonstrate that the payments to the bank account which he controlled in New York were sanctioned by both the British and Saudi governments. But the facts could not be tested in a British court, because the Serious Fraud Office investigation was terminated, reportedly under pressure from Prime Minister Tony Blair and the Attorney General, on the grounds that a prosecution would jeopardise Britain's national security.\*

\*Leigh and Evans (2007)

Models of good governance do exist which can guide governments that want to serve the common good. One is to be found in Alaska, where oil rents are collected for the future welfare of every state citizen. In addition, every eligible resident receives an annual dividend as high as \$2,000.<sup>13</sup>

Sach's Doctrine of the Resource Curse is nonsense. Nature's resources do not curse anyone. Rather, the curse flows from bad stewardship of the public domain.