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## How the Loss of Property Rights Caused Zimbabwe's Collapse

by Craig J. Richardson

For many years, Zimbabwe was known as the “jewel” of Africa. Rich in raw materials and productive farmland, it grew enough food to feed its people and export the rest. The farm sector supplied about 60 percent of the inputs to the manufacturing base—so agriculture was truly the backbone of the economy.

Yet, unlike most other African countries, Zimbabwe had a sophisticated manufacturing base as well. That sector employed thousands of workers who made things such as textiles, cement, chemicals, wood products, and steel. Zimbabwe also had a strong banking sector, vibrant tourism, and more dams than any other Sub-Saharan country except South Africa. Most people trusted the police and believed the court system would treat cases fairly; indeed, the low crime rate rivaled that of many European countries. Perhaps most important, the country had a secure rule of law, with a modern property rights system that allowed owners to use the equity in their land to develop and build new businesses, or expand their old ones. All that led to strong real GDP growth, which averaged 4.3 percent per year after independence in 1980.<sup>1</sup>

### The Disparity in Farmland

Despite those successes, the notion of land reform had political appeal prior to 2000, when President Robert Mugabe began seizing commercial farms. Anyone flying over Zimbabwe on a clear day would have seen huge differences in the farming regions, and perhaps better understood

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the country's long-standing concern with land reform. In some areas of the country, there were vast tracts of well-irrigated commercial farms, producing thousands of acres of tobacco, cotton, or other cash crops. In other regions, small, dusty communal farms were crowded together, typically suffering from a lack of water. Those farms produced maize, groundnuts, and other staple crops. About 4,500 white families owned most of the commercial farms. In contrast, 840,000 black farmers eked out a living on the communal lands—a legacy of colonialism.

More than 80 percent of white-owned commercial farms had changed hands since Mugabe came to power in 1980, and less than 5 percent of white farmers could trace their ancestry back to the original British colonists who arrived in the 1890s. Still, the disparities between blacks and whites fueled calls by Mugabe and others to return the fertile “stolen lands” to black Zimbabweans.<sup>2</sup>

However, what many observers missed was that the fertility of the land wasn't determined just by rainfall or quality of the soil. Although communal lands tended to be in drier areas, many were directly adjacent to commercial farms or in high-rainfall areas. In addition, there were commercial farms in very arid parts of Zimbabwe. Yet in nearly all cases, the communal areas were dry and scorched, whereas the commercial lands were green and lush.<sup>3</sup>

### The Disparity in Property Rights

Why the difference then? A good part of the answer lies in the difference in property rights between the two areas. Commercial farms had secure property titles that gave farmers large incentives to efficiently manage the land and allowed a banking sector to loan funds for machinery, irriga-

tion pipes, seeds, and tools. Those institutions developed the most sophisticated water delivery system in Southern Africa (excluding South Africa). Of the 12,430 dams in this entire region, an astonishing 10,747 are in Zimbabwe. Although Zimbabwe has only 7 percent of the land area of the region, it has 93 percent of all the reservoir water surface area.<sup>7</sup> That gave the country a tremendous cushion against droughts. Large commercial farms also employed about 350,000 black workers and often provided money for local schools and clinics. Small-scale commercial farms, run by about 8,500 black farmers, had access to credit and were also productive.

Communal lands, on the other hand, were typically plagued by tragedy-of-the-commons types of problems, as the land became overused and greatly eroded over time. In addition, without property titles, there was often squabbling over land use rights between village residents and the village chief, since each village had complicated use restrictions on how the land could or could not be used.

Unfortunately, the vital role that property rights played in underpinning the Zimbabwe economy was invisible to most people. What was immediately apparent to any observer was the enormous and tangible contrast between the vast and lush commercial farms and the small and dusty communal ones. War veterans saw the commercial farms as a just prize for having supported Mugabe during the independence movement 20 years earlier, and they continued to clamor for the commercial farmland prior to the 2000 parliamentary election. Nevertheless, Zimbabwe's constitution forbade the wholesale seizure of the land without proper compensation, and the law-abiding people of Zimbabwe supported that notion by and large. In early 2000, they rejected Mugabe's attempt to broaden the state's confiscatory powers in a voter referendum. In addition, in a 2000 poll by the South Africa-based Helen Suzman Foundation, only 9 percent of Zimbabweans said land reform was the most important issue in the election.

Some of Mugabe's advisers apparently knew better than to upend property rights. In early 2000, Mugabe was handed a confidential memo from the Reserve Bank of Zimbabwe, the country's central bank. The memo predicted that going forward with farmland seizures would result in a pullout of foreign investment, defaults on farm bank loans, and a massive decline in agricultural production.<sup>5</sup>

The memo would prove to be staggeringly prescient. Unfortunately, Mugabe ignored it. Between 2000 and 2003, his government went ahead and authorized the seizure of nearly all the 4,500 commercial farms. The official goal was to divide the farms into hundreds of thousands of small plots for traditional black farmers. In practice, most plots ended up in the hands of Mugabe's political supporters and government officials, whose knowledge of farming was meager.

### The Economic Implosion

The predictions of the central bank memo would come to haunt ordinary Zimbabweans. During the next four years, the economy began to implode with increasing speed. By 2003 it was shrinking faster than any other in the world, at 18 percent per year.<sup>6</sup> Inflation was running at 500 percent,

and Zimbabwean dollars lost more than 99 percent of their real exchange value.<sup>7</sup> Today the economy continues its extraordinary freefall. Here are some other things that have happened since 2000:

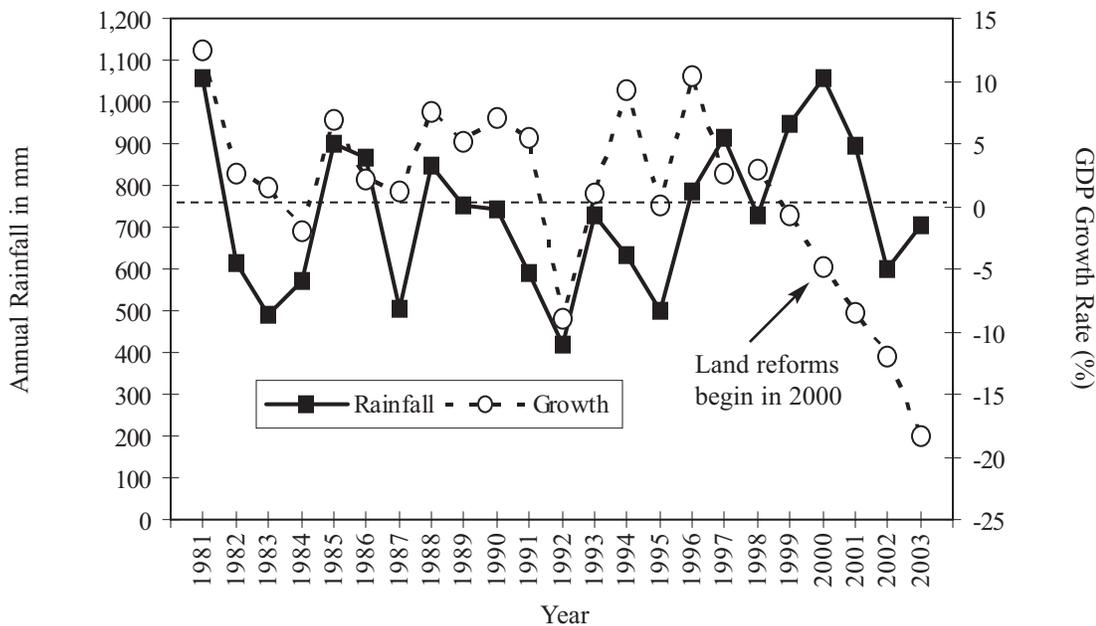
- Financial investors have fled, wondering if other businesses might be seized next. Foreign direct investment fell to zero by 2001, and the World Bank's risk premium on investment in Zimbabwe shot up from 4 percent to 20 percent that year as well.
- Because the government no longer enforced titles to land, there was far less collateral for bank loans. Dozens of banks collapsed; those that did not collapse refused to extend credit to farmers.
- Commercial farmland lost an estimated three-quarters of its aggregate value between 2000 and 2001 alone as a result of lost property titles. That one-year loss, by my estimates, was \$5.3 billion—more than *three and a half times* the amount of all the foreign aid given by the World Bank to Zimbabwe since its independence in 1980.<sup>8</sup> Without equity in the banking system, vast networks of economic activity collapsed across all sectors of the economy. Seven hundred companies closed by the end of 2001, as industrial production declined by 10.5 percent in 2001 and an estimated 17.5 percent in 2002.<sup>9</sup>
- The demise of the agricultural sector led to widespread famine, as the commercial farmers left for other African countries such as Zambia, Nigeria, and Ghana, taking with them their intricate knowledge of farming practices.

The Zimbabwean government has blamed the country's economic collapse on a variety of external factors, including Western conspiracies and racism. Mugabe's most potent excuse, however, proved to be the drought. As he reiterated at the United Nations summit in September 2005, Zimbabwe's economy is suffering because of "continuous years of drought."<sup>10</sup> In fact, dams in Zimbabwe were full throughout the economic downturn.<sup>11</sup> Unfortunately, irrigation pipes are no longer owned by anyone, so they are being dug up for scrap in a free-for-all. Some are even melted down to make coffin handles, one of the few growth industries left in the country.

Yet, some people seem to believe Mugabe. The 2001–02 drought, for example, was called one of the worst in the past 50 years by an IMF official.<sup>12</sup> In fact, after I analyzed the data from Zimbabwe's 93 rainfall stations, it turned out that the 2001–02 "drought" came in 13th in the past 50 years, with rainfall in the 2001–02 planting year only 22 percent below average. Indeed, as Figure 1 shows, the close relationship between rainfall and GDP growth sharply disconnected in 2000, the first year of the land reforms. Subsequent years show above-average or average rainfall, even as the economy continued to plummet.

My econometric estimates indicate that the independent effect of the land reforms, after controlling for rainfall, foreign aid, capital, and labor productivity, led to a 12.5 percent

**Figure 1**  
**Annual Rainfall and GDP Growth**



Sources: Meteorological Services Department, Zimbabwe; and World Bank, *World Development Indicators* (Washington: World Bank, 2002). 2003 is an OECD estimate.

Note: Average annual rainfall over 50 years = 754 mm, using data from 93 rainfall stations (shown by dotted horizontal line).

annual decline in GDP growth for each of the four years between 2000 and 2003.<sup>13</sup> The drop in rainfall in the 2001–02 growing season contributed to less than one-seventh of the overall downturn. Without above-average rains, Zimbabwe’s economy would have been in even worse shape, hard as that is to believe.

Zimbabwe thus provides a compelling case study of the perils of ignoring the rule of law and property rights when enacting (often well-intentioned) land reforms. We have seen how Zimbabwe’s markets collapsed extraordinarily quickly after 2000, with a domino-like effect. The lesson learned here is that well-protected private property rights are crucial for economic growth and serve as the market economy’s linchpin. Once those rights are damaged or removed, economies may be prone to collapse with surprising and devastating speed. That is because of the subsequent loss of investor trust, the vanishing of land equity, and the disappearance of entrepreneurial knowledge and incentives—all of which are essential ingredients for economic growth. I hope this lesson will not be lost on other countries that find themselves at the crossroads of land reform.

**Notes**

This bulletin is based on Craig Richardson, “The Loss of Property Rights and the Collapse of Zimbabwe,” *Cato Journal* 25, no. 3 (Fall 2005).

1. This excludes 1992, during which Zimbabwe experienced its

worst drought in 50 years, causing GDP to drop by 9 percent. There were no other years of negative growth during the 1990s, except 1999, in which GDP declined by 0.7 percent.

2. Geoff Hill, *The Battle for Zimbabwe* (Cape Town: Zebra, 2003), p. 102.
3. This can easily be seen in satellite photos of Zimbabwe that show the stark differences in the communal versus commercial lands, even when they are directly adjacent to each other. See <http://www.geog.umd.edu/LGRSS/Projects/degradation.html>.
4. Veliyil V. Sugunan, “Fisheries Management of Small Water Bodies in Seven Countries in Africa, Asia, and Latin America,” *FAQ Fisheries Circular, no. CMXXXIII, FIRI/C933, Section 2.3.1.*, 1997. See [http://www.fao.org/documents/show\\_cdr.asp?url\\_file=/docrep/W7560E/W7560E02.htm](http://www.fao.org/documents/show_cdr.asp?url_file=/docrep/W7560E/W7560E02.htm).
5. Hill, p. 110.
6. Organization for Economic Cooperation and Development, *African Economic Outlook 2003/2004—Country Studies: Zimbabwe* (Paris: OECD, 2004), p. 357.
7. International Monetary Fund, *Zimbabwe: 2003 Article IV Consultation—Staff Report* (Washington: IMF, July 2003), p. 28.
8. Richardson.
9. “Bankers Slam Zimbabwe’s Policies,” *BBC News Online*, September 4, 2001, <http://news.bbc.co.uk/1/hi/business/1524821.stm>.
10. “Let Them Eat Potatoes, Says Mugabe,” *The Star* (South Africa), September 19, 2005. See <http://www.thestar.co.za/index.php?fSectionId=128&fArticleId=2881963>.
11. For example, Andrew Natsios of U.S.AID reported at a foreign press briefing on August 20, 2002, that there was plenty of water in Zimbabwe’s dams at the height of the 2001–02 drought. Also,

Zimbabwe's *Daily News* reported on May 15, 2002, that, according to Peter Sibanda, Bulawayo's director of engineering services, dams in the province of Matabeleland were 74 percent full. See [http://www.zimbabwesituation.com/may16\\_2002.html#link14](http://www.zimbabwesituation.com/may16_2002.html#link14).

12. Ismaila Usman, "Statement by Ismaila Usman, Executive Director for Zimbabwe," International Monetary Fund, Article IV Report, Zimbabwe, 2003.

13. Richardson.

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### **Other Relevant Studies from the Cato Institute**

"Africa's Development Challenge: From Predatory to Accountable Government," by Robert Guest, Cato Institute Economic Development Bulletin no. 1, June 30, 2005.

"Bringing Capitalism to the Masses," by Hernando de Soto, *Cato's Letter* 2, no. 3 (Summer 2004).

"Property Rights and the Wealth of Nations: A Cross-Country Study," by Bernard Heitger, *Cato Journal* 23, no. 3 (Winter 2004).

"Property Rights: Key to Economic Development," by Gerald P. O'Driscoll Jr. and Lee Hoskins, Cato Institute Policy Analysis no. 482, August 7, 2003.