THE ECONOMIC PUZZLE:
LAND POLICY, STRUCTURAL TRANSFORMATION, AND A VISION FOR ZIMBABWE

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SUMMARY

This final article examines the importance of land policy for broad-based economic growth and the structural transformation of the economy. The puzzle is how the various pieces of an economic model of structural transformation fit together to generate growth and build the wealth of nations. The pieces are the fundamental economic principles and 'growth laws' that apply to create a competitive economy. Inevitably, the article turns to the example of China's economy to illustrate its picture-perfect structural transformation process and its dramatic impact on reducing poverty. What we learn, though, is that land reform is a key policy requirement to protect poor smallholder farmers and the smooth transition from a rural way of life to urban living. The question is whether Zimbabwe can build an inclusive, fast-growing and sustainable economy for the 21st Century. Given that all things are possible, a tentative 'yes' depends on whether Zimbabwe can reinvent itself. For a start, it will need a bold new leadership to adopt a completely different economic model to pave the way to prosperity. Above all, Zimbabwe must cast off its grasping, mean-spirited and predatory mindset and embrace a new culture of inclusive politics based on goodwill, trust and integrity.

The Economics of Structural Transformation

What has a country's land policy got do with its exchange rate? Their interrelationship with economic growth is probably hard to discern, yet both are pieces of a single economic jigsaw puzzle. Economists call these jigsaw puzzles 'models'. In this paper I try to explain how each of the pieces fit together to make a model of sustainable economic growth. Because economic models represent systems, it is hard to know precisely where they start or, indeed, end. So I begin with the picture of two economies: a developed economy, such as Norway, and a less developed economy, like Zimbabwe. Looking at these two economies, it is easy to forget that

just over a century ago, Norway was predominantly a nation of fishermen and, as this painting by Stenersen depicts, farmers. How then did Norway make the transition to the top table of rich countries? The answer is that it slowly but steadily evolved from a producer of low value primary products, mainly fish, to the producer of higher value products and services. It evolved from a country of seafarers with deep rural roots, to a country where the vast majority of its citizens live in cities. This process of families moving out of agriculture and into manufacturing and services is described by economists as structural transformation. It is one of the most robust stylised facts of economic development. Every developing country must make this transition to become developed. In this article I present this economic process as both a strategy and a vision for Zimbabwe's growth and development in the 21st Century.

I argued in my previous article that land reform is necessary for the commercialisation of smallholder agriculture. Why is this so important? First, it is because, unlike Norway, about 70 percent of Zimbabweans earn their living from the land. It means that land reforms that generate increased farm output would translate into immediate benefits for the poorest sections of the community. The second reason is that these increases in agricultural production will allow Zimbabwe to become food secure, earn foreign exchange by exporting surplus production, and – crucially for the process of structural transformation – feed raw materials into agro-industrial processing enterprises. It is this symbiotic relationship between agriculture and manufacturing, where the growth of one sector stimulates the growth of the other, which is fundamental to structural transformation. The third reason is that by unlocking the value to land and making it transferable, the poor are able to rent or sell their land. This enables families to reinvest their rural assets in towns where they take up jobs in the manufacturing and service sectors. The movement of people from the countryside to cities is another fundamental feature of structural transformation.

What economic factors drive this process of structural transformation? If we look back, we see that technological innovations made the industrial revolution possible in 18th and 19th Century Britain. As factories began to replace cottage industries, it was not just people that moved into bustling cities to find work. The building of railways, bridges, canals and roads made it possible to transport raw materials into burgeoning industrial towns. It was these technologies and industrial production that famously put paid to Malthus' gloomy predictions that population growth would outstrip food supplies and cause widespread poverty and famine. Instead, subsistence farmers became wage earners. They bought food, not produced it. But with fewer farmers, who produced the food? Again, technical innovations came to the rescue. New agriculture equipment and new processing methods vastly increased agricultural productivity. Each farming family or estate began producing much more food with far less labour. Agricultural capital equipment and inputs replaced the labour that now toiled in the factories. And, furthermore, as some families moved to the towns, those remaining had more land on which to make a better living from farming.

Laws of Economic Growth

There is also another economic factor at work. Adam Smith, the father of economics, noticed that,

> "The desire for food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary."[1]

He meant that as a person or family became wealthier, they spent less on food as a *proportion* of their income. This is known in economics as the *income elasticity of demand* or Engels' Law (named after the 19th Century German statistician, Ernst Engels). It also means that as the standard of living of a country's population rises, it will consume *proportionally* less food and more manufactured goods and services. It is because people's demand for manufactured goods grows much faster than their demand for agricultural products that the manufacturing sector becomes the driving force behind an economy; drawing in capital, creating jobs, and attracting families from the countryside.

Verdoorn, a Dutch economist, noticed something else. As manufacturing towns grew, they generated additional and unexplained productivity gains, creating still more momentum for industrial growth. Industrial hubs seemed, as it were, to create centrifugal economic forces, drawing in more capital and keeping up the inflow of migrants from the rural hinterland. The explanation lies in 'agglomeration effects' where similar types of firms cluster and network within a symbiotic industrial hub. With multiple suppliers, greater specialisation, and by realising economies of scale, firms' production costs decline significantly. With decreasing costs, firms become more competitive. This, as we shall see later, is critical for economic growth.

Nicholas Kaldor, a Cambridge economist who coined the term 'Verdoorn's law' to explain these agglomeration effects, also formulated other propositions or 'growth laws'. One of these was that, "The productivity of the agricultural sector is positively related to the growth of the manufacturing sector."[2] In other words, as manufacturing becomes the engine of growth, it also boosts agricultural production. Why is this? Because powerful forward, backward and consumer economic linkages are created between manufacturing and agriculture. Just as manufacturers improve the technical quality and range of agricultural equipment and farm inputs to sell to farmers, so farmers respond with higher production that is sold to industry. As productivity and incomes rise in both the agricultural and industrial sectors, so demand for consumables rises in the economy generally. This gives yet another demand stimulus for industrial output. It is at this point that the economy reaches sustainable economic growth.

[1] Adam Smith (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations* (para. 58) http://geolib.com/smith.adam/won1-11.html

[2] A.P. Thirlwall (1983) A plain man's guide to Kaldor's growth laws. *Journal of Post-Keynsian Economics*, Vol 5, No.3.

Trade

So far, we have considered the relationship between agriculture and manufacturing within a closed economy. To make our model more realistic, and to bring in other 'growth laws', a country must trade. We can then speak of an open economy. Ricardo's law of comparative advantage, for example, means that countries will specialise in producing or making goods where they have a competitive advantage on world markets. Zimbabwe's history of tobacco production and exports speaks for itself. Trade is an essential piece of our economic puzzle for three reasons. First, if each country produces what it does best and then trades with others, everyone is better off. This is the principle that lies behind attempts by the World Trade Organisation to reduce import tariffs and other trade barriers. The second is that a country must export to pay for its imports. Initially, a country will trade its agricultural products for finished manufactured goods. However, if a developing country fails to add value to its agricultural produce and does not start exporting manufactured goods, it will remain at a trade disadvantage. It is easy to see why. According to Thirwall's law, a developing country's exports of agricultural products have a lower elasticity of income than the finished goods it imports from developed countries.[3] A country's growth strategy must therefore be founded on continually moving towards exporting those products that have higher income elasticities.[4] The third reason, which falls under another of Kaldor's economic propositions, is that the limited size of a country's internal market will constrain growth.[5] Expanding exports is therefore essential to maintain growth, especially to generate the foreign exchange to import the necessary inputs for manufacturing and other sectors of the economy. It is no coincidence that the fastest growing economies – first Japan, then the Asian tigers, and now China – have all been founded on strong export-oriented strategies.

Competitive exchange rates

So, at last, we come to the exchange rate which plays such a fundamental role in trade. If a government keeps inflation under control, a country's exchange rate should remain relatively stable and roughly similar to its main trading partners. Problems arise when governments overspend – such as populist measures at election time – creating budget deficits that fuel

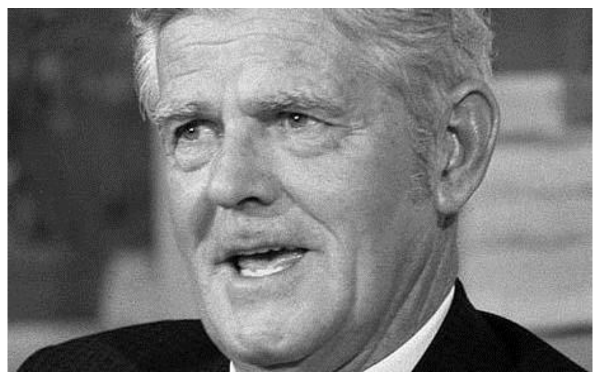
[3] Mark Setterfield (2011) The remarkable durability of Thirlwall's Law. *PSL Quarterly Review*, Vol. **64** No. 259

[4] Remember that products with high income elasticities are those whose demand increases more than proportionately when incomes rise.

[5] A.P. Thirlwall (2013) *Economic Growth in an Open Developing Economy: The Role of Structure and Demand:* Edward Edgar

inflation. The problem is worsened if a country then maintains a fixed exchange rate while the currency's real value depreciates against other currencies. Why does this matter? It is because it artificially strengthens a country's currency, thus making its exports relatively more expensive than its imports. If this trade imbalance persists, exports decline as imports rise, which eventually results in foreign exchange shortages. Without foreign exchange to purchase new equipment, spares and inputs for manufacturing, economic growth slows markedly. The cardinal economic rule, therefore, is to constrain government spending to control inflation and maintain a floating exchange rate to keep the country's currency competitive.

Keeping inflation under control and maintaining competitive exchange rates are therefore central planks in an economic policy to boost exports and stimulate the economy. But there is an added bonus for maintaining a competitive exchange rate. As labour is a derived demand, the expansion of exporting firms will create an increasing numbers of jobs and accelerate the transformation process. What is more, competitive exchange rates actually favour labour intensive production, creating still more jobs. This is because a competitive currency makes exports slightly cheaper, while imports, including capital assets, become slightly more expensive. When making investment decisions, therefore, a firm will lean towards employing more domestic labour rather than importing capital equipment.

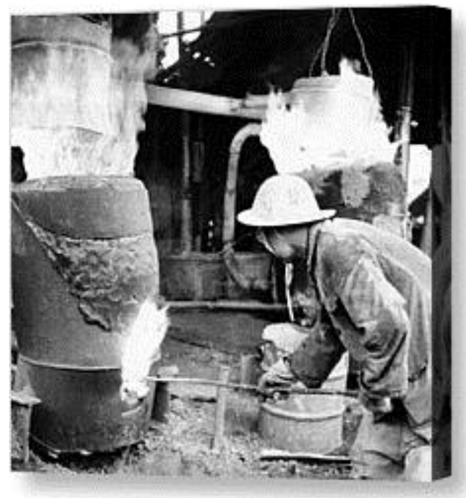


There is one more piece of the puzzle left. Many readers may be aghast at the thought of attracting thousands upon thousands of rural migrants to urban areas. Where will they live and how will we house them all, you may ask? They will point to the vast shanty towns and millions of lives blighted by urban poverty, without proper shelter, schools, or clinics, and without basic water supplies or sanitation. But imagine if these were not the rural destitute and footloose, but families whose breadwinners found formal employment in dynamic and growing enterprises. These migrants would not present a problem, but an opportunity, and none greater than the backward (supply) linkages into industry created by housing. Sir Garfield Todd once mooted the idea of building one million homes in Zimbabwe. He understood that every house built would require brick and mortar, roofs and piping, trusses and doors, furniture and fitting. They would require both direct labour in their construction, but also indirect labour in factories that provided all the materials that go into building a house. The stimulus to the economy and jobs would be enormous and nearly every family would have a decent home.

China's Rise

Is all this too much to hope for? It certainly seemed a bridge too far for China during Mao's Great Leap Forward in 1958. Mao exhorted peasants to leave their agricultural collectives to smelt every strap of metal in backyard furnaces to forge tools for his industrial revolution.

Within two years everything useful had been reduced to lumps of unusable metal and a horrifying famine had cost the lives of 30 million of his countrymen. While covering up the catastrophe, Mao handed over economic management to 3 top aides, including one Deng Xiaoping. When Deng took power 20 years later, in 1978, he called his radical economic reform programme *Gai Ge Kai Feng*, which roughly translates into 'change the system, open the door'.[6] The system was private enterprise and the door opened to international capital—bringing with it the technology and management skills to stimulate rapid growth. The door was also opened to international trade as China deliberately undervalued its currency to give itself a competitive edge, and then aggressively pursued its export-oriented strategy. Deng set China on a fantastic journey of unparalleled economic growth and structural transformation, *par excellence*.



In 1978, China was largely a rural country in which 80 percent of its vast population lived in the countryside. Today, only 60 percent do so. Sucked in by an industrial sector that was growing by 10 percent annually, an estimated 200 million people packed up and left the rural areas to take up jobs and live in newly emerging cities. Another 100 million people are expected to move to cities by 2020. China's mesmerising industrial growth also fed back into a reformed agricultural sector which grew more slowly, but still at an impressive 6.3 percent annually between 1991 and 2005. It was this productivity differential between agriculture and industry that created the centrifugal force that pulled rural families into towns and cities across China. Never in history have so many of the poor been salvaged from poverty so quickly. In 1978 the annual average income was $200 a person; today it is $6,000.[7] The share of the population living beneath the poverty line in China declined from over 60 percent at the beginning of economic reforms in 1978 to just 7 percent in 2007.[8] Incredibly, despite this flood of migrants, Chinese cities have not been afflicted by vast slums witnessed in other major cities of the developing world.

Yet, for all its success, there is at least one piece of the puzzle that China has misplaced. The Chinese government had disbanded its inefficient agricultural collectives and granted farmers renewable 30-year land-use leases in 2007. However, control of the farmers' land remained firmly in the hands of local government officials. Without sufficiently secure rights to their land, Chinese farmers soon fell prey to the machinations of ambitious Party bureaucrats and property developers. Large-scale expropriations soon dispossessed millions of smallholder farmers of their land to make way for the construction of housing and factories. While officials

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[6] Dollar D. (2008) *Lessons from China for Africa*. Policy Research Working Paper 4531. The World Bank: Washington D.C.

[7] *The Economist,* 'Go on, bet the farm'. 2 November 2013 (p.13)

[8] The World Bank's 'cost of basic needs' poverty line is based on the minimum consumption that a person needs (2,100 calories per day) plus other basic necessities of life.

and developers prospered, the poorest peasants were paid a pittance in compensation. According to one estimate, 6.7 million hectares of rural land were expropriated over a 20-year period, paying farmers $326 billion *less* than the true market value.[9] Unsurprisingly, land disputes sparked thousands of protests across China by destitute farmers who were outraged at the expropriation of their land for negligible or no compensation. *The Economist* called for would-be migrants to be given the right to sell their rural plot of land to give them a deposit for their new urban life:

> "If they could sell their land, tens of millions of underemployed farmers might find productive work. Those who stay on the farm could acquire bigger land holdings and use them more efficiently. Nor will the new law let peasants use their land as security on which they could borrow and invest to boost productivity."[10]

Change could be in the offing after China's new leader, Xi Jinping, unveiled his 'master plan' for a 'profound revolution' – to match Deng's in 1978 – at a Party plenum in November 2014. Demarcation of farmers' plots and homes has already been mooted in a Chinese land policy paper last year. There is also hope that its household registration system, or *hukou*, which discriminates against poor rural migrants' access to urban social services, will soon end.

Lessons for Zimbabwe

So what lessons can we learn from Norway and China? Perhaps the most important is that economic growth and structural transformation depend on embracing markets, both domestically and internationally. Whereas China's Communist Party spoke in the past of market forces as 'basic' to economic growth, it now refers to them as 'decisive'. In Norway, which is a social democracy, markets have always played a fundamental role in its economic growth. It is now ranked 11th out of 152 countries in terms of global competitiveness. China ranks 29th, while Zimbabwe straggles in a lowly 135th position.

Another important lesson is that strong rural property rights unlock the economic value of farmland and allow for a more socially just process of structural transformation. Norway has had more time to develop highly secure property rights along with its exemplary record of human rights, democracy and the rule of law. China's headlong pursuit of economic growth and global power has left behind a poor record on rural property and human rights. In the words of one prominent Chinese businessman, "Farmers cannot be said to enjoy human rights unless they enjoy property rights."[11] These rights, though, seem set to improve. The new Chinese leadership has committed itself to unifying the urban and rural property markets to allow farmers to mortgage their homes. Zimbabwe should nonetheless avoid the mistakes made by China and rather follow the example of its neighbours. Namibia and Malawi have already begun the process of empowering smallholder farmers by providing them with secure rights to their land and giving them the freedom, like their urban counterparts, to rent or sell their land.

[9] *The Economist*, 'Some are more equal than others', I June 2013 (p.56)
[10] *The Economist*, Leader: 'China's next revolution', 8 March 2007. (p.11)
[11] *The Economist*, 'A world to turn upside down', 2 November, 2013 (p.23)

Realising a dream

Is the promise of a better tomorrow just day-dreaming? For the present, yes it is. Yet, like China during the darkest days of the Mao era, change is possible. What then are the preconditions to realise this change?

The first is a change in leadership. Zimbabwe is saddled with aged leaders who remain shackled to long-outmoded economic precepts that date from the liberation era. Like Mao Zedong, Robert Mugabe successfully led a struggle for liberation. But like Mao, he has also been responsible for the disastrous mismanagement of the economy. Today, Zimbabweans have a lower standard of living than at independence and suffer the ignominy of not even having their own currency. Nothing less than a bold and revitalised leadership is required; one with a firm grasp on economic fundamentals of economic growth and structural transformation; and with the confidence to chart a new direction for Zimbabwe and its people.

Second, Zimbabwe needs a new political culture based on values that foster economic development. We need to renew the very fabric of a broken society. We must move away from the politics of patronage, privilege and populism that allows the predatory instincts of parasitic elites to gorge themselves on the nation's and others' wealth. This applies also to a growing number of ordinary Zimbabweans who exploit every opportunity, by fair means or foul, to gain a private advantage over their fellow citizens and at the expense of the wider public good. We must end our supine sense of victimhood and entitlement in the hope of pity and payouts. We must stop cloaking incompetence and ingratitude with arrogance, or let belligerence and an ugly racism pass for empowerment. We must stop interminably blaming others for Zimbabwe's own ruinous economic policies.

If Zimbabwe is to succeed economically we have to reclaim our national dignity and self-esteem, take responsibility for our own actions, and chart our own destiny. It means becoming warriors – both men and women – who defend the weak and poor. It means fighting for fairness, tolerance, human rights, and property rights. It is to build an inclusive national identity that allows for every Zimbabwean, of whatever ethnic group or race, to contribute to the well-being of all. We must create a new political culture based on trust and integrity that seeps into everything we say and do. We need a new breed of citizen and a different type of hero: those who, through their thrift and discipline, make an honest day's living; and who sometimes, with ingenuity and by sheer hard work, make it to the top. They are the Strive Masiyiwas and the Beatrice Mtetwas, they are the Wilfred Mhandes and the Jacob Ngarivhumes, the Ben Freeths and the Rejoice Ngwenyas. They, and those like them, are our hope and inspiration. They are our role models for the future.

Third and finally, we need the patience and perseverance of Stoics. At Independence, Zimbabwe was blessed with one of the most advanced economies in Africa and its best education system. As Tanzania's President Julius Nyerere told Robert Mugabe at Independence, "You have inherited the jewel of Africa. Keep it that way."[12] History tells us, however, that Mugabe squandered Zimbabwe's inheritance. Over three decades he brought nothing but ruin and misery to his people, bludgeoning them into submission. Millions fled his rule, their homes, and their country. It will now take decades of clear-headed economic policies, careful management of the public purse, and an unwavering commitment to rebuild our infrastructure and restore our nation to economic health. We must draw inspiration from the reconstruction of post-war Germany and Japan, and China's Phoenix-like rise from destitution to modernity. Zimbabweans must now chart a new economic strategy to realise their shared vision.

1. Strive

[12] Godfrey Mwakikagile (2010) *Nyerere and Africa: End of an Era*, New Africa Press, Dar es Salaam (p.272)