The Heritage Foundation Backgrounder

No. 903 | The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002-4999 (202) 546-4400

June 18, 1992

U.S. TO ZIMBABWE: NO AID WITHOUT FREE MARKET REFORMS

INTRODUCTION

For years American foreign aid policy unwittingly has helped to perpetuate poverty in Africa. Since 1960 the United States has funnelled approximately $30 billion in aid to Africa, yet the continent still suffers from mass poverty and underdevelopment. A prime example is the southern African country of Zimbabwe, known until 1980 as Rhodesia. Despite some $360 million in U.S. aid since 1980, Zimbabwe remains mired in economic disarray. This is primarily because of the misguided socialist policies of President Robert Mugabe, who plans to undertake a massive land confiscation and resettlement program that will further harm Zimbabwe's faltering economy. Yet the U.S. plans to give $37 million in development aid to Zimbabwe this year alone. There is no reason why American taxpayers should be asked to subsidize such harmful economic policies. George Bush should threaten to cut off this aid unless Mugabe agrees to drop his land confiscation and resettlement program.

Mugabe's 1992 Land Acquisition Act, passed by the Parliament in March, will confiscate, albeit with compensation, 13.6 million acres of productive, privately owned commercial farmland. The purpose is to resettle some one million Zimbabweans currently living on government-owned communal farmland. The stated goals of the program are to reduce the population of the communal farm areas and to make Zimbabwe's land distribution more equitable.

Forced Resettlement. There are, however, many problems with Mugabe's Land Acquisition Act. Land transactions will be imposed by government decree, and not negotiated freely on a voluntary basis. This land distribution scheme is thus highly coercive. But it also is politically motivated. In addition to concerns about overpopulation in the communal areas and the supposed inequity of land distribution, Mugabe apparently wants to use land resettlement as a means to shore up the popularity of his Zimbabwe African National Union-Patriotic Front (ZANU-PF) party in Zimbabwe's countryside. Since Zimbabwe achieved majority rule in 1980, the resettlement of Zimbabwean communal area families through a program in which commercial farmland is bought from willing sellers has fallen short of ZANU-PF promised goals. Mugabe hopes that by forcing resettlement, he can make good on his promise to put some 162,000 native African families onto commercial farmland.

Zimbabwe's aid donors, including the U.S., tacitly are endorsing Zimbabwe's confiscatory land resettlement program by planning to provide Zimbabwe with around $1 billion in development aid in 1992. These funds are part of a World Bank-approved structural adjustment program, which is a package of economic reforms designed to move Zimbabwe toward a free market. Zimbabwe's aid donors, including the Bush Administration, ignore the fact that confiscating massive amounts of private property contradicts the World Bank's self-proclaimed goal of using aid to encourage the growth of the free market in Zimbabwe.

The U.S. needs to ensure that American aid better promotes economic development in Zimbabwe and other African countries. After years of destructive socialist policies, Africans have begun to see the virtues of free markets. Progress toward free market economic reform in Africa, however, is tentative. If Zimbabwe's economic reforms fail because of a misguided land resettlement program, then America's foreign aid to Zimbabwe will have been wasted. More important, however, the free market, which is Zimbabwe's best hope of rising out of its poverty, will be discredited in the eyes of other Africans.

To avoid these pitfalls, the Bush Administration should:

- **Denounce publicly Zimbabwe's Land Acquisition Act and land resettlement program as an attack on private property.** Washington has complained about the fairness of the compensation and appeal processes of the 1992 Land Acquisition Act. It also has criticized the land settlement program as harming agricultural production and as an obstacle to foreign investment. However, U.S. objections have overlooked Zimbabwe's most egregious act: the massive confiscation of private property.

- **Eliminate bilateral development aid and oppose multilateral development aid to Zimbabwe if it proceeds with its land resettlement program.** Zimbabwe cannot move toward the free market while proceeding with its confiscatory land resettlement program. Private property rights are the bedrock of a free market economy. Therefore, Zimbabwe does not warrant American development aid should it begin confiscating privately owned commercial farmland.

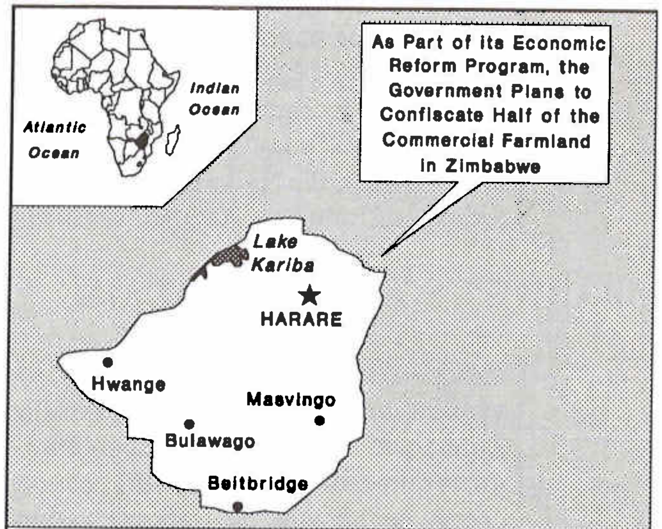
- **Transfer Zimbabwe's bilateral aid to Zambia if Mugabe proceeds with the land resettlement program.** Neighboring Zambia will be moving toward a free market much faster than Zimbabwe if Mugabe proceeds with his land resettlement program. Zambia would warrant additional U.S. aid under these circumstances.

- **Assist fewer African countries with foreign aid and give higher priority to those that score high on the Index of Economic Freedom.** The U.S. Agency for International Development (AID) is reviewing the process by which it dispenses foreign aid to such African countries as Zimbabwe. The sentiment seems to be building inside AID to limit the number of African countries receiving aid. This is a good idea. Fewer recipient countries will enable the U.S. to choose more wisely which African countries should receive aid. The best method for choosing which African countries should receive

U.S. aid is by applying the Index of Economic Freedom, a quantitative gauge of a country's progress in developing a free market economy. Developed by Senator Connie Mack of Florida, the Index of Economic Freedom should be used to ensure that all African recipients of American aid are moving rapidly toward establishing free market economies.[1]

ZIMBABWE OUT OF RHODESIA

Zimbabwe was once a part of the British Empire. British explorer Cecil Rhodes obtained in 1888 a mineral rights concession from tribal chiefs in the territory of today's Zimbabwe. Three years later, the territory was formally named Southern Rhodesia (today's Zambia was Northern Rhodesia), falling under the administration of the British South Africa Company. Following the abrogation of the Company's charter in 1923, Southern Rhodesia became a member of the British Empire.



Economic Reform, Zimbabwe Style: Talking Change, But Seizing Land

After lengthy and unsuccessful negotiations between the British government and Prime Minister Ian Smith of Rhodesia, Smith issued a Unilateral Declaration of Independence (UDI) from the United Kingdom in 1965. Smith wanted to block greater native African participation in the political life of Rhodesia. Smith's Rhodesia met with worldwide isolation because of its discriminatory practices against native Africans. Also a civil war broke out between the government and native African guerrillas, lasting from the late 1960s until 1979. Throughout this period, Smith claimed independence for Rhodesia, which the British and the rest of the world refused to recognize. The UDI thus began a fifteen-year period of economic, diplomatic, and political isolation for Smith's Rhodesia.

1 The 1992 Foreign Aid Authorization bill, if it had been enacted, would have required AID to develop criteria for evaluating and comparing recipient countries' progress in adopting economic policies that foster individual economic freedom. The Index of Economic Freedom, cited in this bill's report, should be used by AID to develop a series of criteria, such as the protection of property rights and the extent of regulations and wage and price controls, to make this comparison for the purpose of further concentrating American development aid on fewer African countries. See Thomas P. Sheehy, "Up From Poverty: Advancing Economic Development in Zambia," Heritage Foundation *Backgrounder* No. 884, February 27, 1992.

This isolation ended in 1979 when the British brokered the Lancaster House independence agreement between Smith's government and native African guerrillas. This agreement called for new elections, a transition period under British rule, and a new constitution implementing majority rule while protecting minority rights. British-supervised elections held in 1980 were won by Robert Mugabe's ZANU-PF party, which represented one of several guerrilla groups combating Smith's government. The new nation of Zimbabwe claimed its independence from the United Kingdom on April 18, 1980.[2]

Zimbabwe today is essentially a one-party state ruled by Mugabe's ZANU-PF, which used to be a stalwart socialist party formally committed to one-party government. It now espouses free market rhetoric and accepts, at least in theory, multi-party elections. The national elections held in April of 1990 left Mugabe's ZANU-PF party with 147 out of 150 parliamentary seats. These elections, however, were tainted by several factors, including the intimidation of opposition political parties by government security forces. Today's opposition political parties, such as the Zimbabwe Unity Movement (ZUM), the National Progressive Alliance (NPA), and the Reverend Ndabaningi Sithole's Zimbabwe African National Union (ZANU) are weak and poorly financed.

ZIMBABWE'S SOCIALIST MALAISE

After Zimbabwe's independence, Mugabe steadily increased his government's intervention into the largely state-controlled economy inherited from Smith's regime.[3] Zimbabwe's public sector expenditures increased from 29 percent to 53 percent of gross domestic product (GDP) between 1981 and 1989. This money was spent on education, health care, the military, and industrial and agricultural subsidies. Zimbabwe established new state enterprises, such as the Nuanetsi Cattle Ranch in south central Zimbabwe, while the government took on an expanded role in most of the enterprises existing at the time of independence. The government also added to the wide range of regulatory activities it assumed from the Rhodesian era. Regulatory policies now affect all aspects of Zimbabwe's economic life, including employment, wages, investment, and pricing decisions. The Employment Act of 1980, for example, requires an employer to obtain the government's permission before dismissing a worker.

This increased state intervention has burdened Zimbabwe's economy. This year the economy will shrink by an estimated one percent.[4] While possessing one of Africa's most sophisticated industrial and agricultural infrastructures, Zimbabwe nonetheless has seen its per capita GNP decline by an average of 0.8 percent per year from 1980 to 1989. Zimbabwe's state enterprises on the whole have performed poorly, requiring massive government subsidies.[5] Higher levels of public spending have produced large

2 Slightly larger than Montana, Zimbabwe borders Botswana, Mozambique, South Africa, and Zambia.

3 Smith's UDI regime played a heavy role in the country's economy. This is attributable to the economic sanctions and other trade restrictions placed against Smith's regime, as well as economic policies designed to benefit the country's white elite.

4 Southern Africa's drought is a factor contributing to the terrible condition of today's Zimbabwean economy.

5 According to the planned 1991-1992 government budget, subsidies to state enterprises are estimated at $156 million. *The Economist Intelligence Unit*, Zimbabwe, Malawi, No. 4, 1991.

government deficits. The 1992 deficit is projected to amount to $381 million, or about 7.6 percent of GNP. These deficits have diverted funds from more productive private sector investments. High tax rates and restrictive limits on the repatriation of profits have made foreign investment in Zimbabwe almost negligible.[6] Corruption, an inherent problem of state-dominated economies, also is common among government officials. And perhaps most damaging, Zimbabwean entrepreneurship has been stifled by such government regulations as wage and price controls.

Zimbabwe Statistics

Official Name: Republic of Zimbabwe
Capital: Harare
Area: 151,000 square miles
Head of Government: Robert Mugabe
Population: 10,392,160

Gross Domestic Product:	$5 billion
Manufacturing	26.4%
Transport and distribution	19.0%
Agriculture	12.9%
Mining	8.2%
Public administration	7.5%
Other	25.8%

Per Capita GDP: $640

Sources: *The Economist Intelligence Unit* "Zimbabwe, Malawi, No. 2," 1991; and from other sources. Population and economic statistics are from 1990.

The government's mismanaged distribution of foreign currency has been particularly harmful to Zimbabwe's economy. Zimbabwe's exporters are allowed to retain very little of the foreign currency they earn. Instead, foreign exchange is funneled through the government-controlled Reserve Bank of Zimbabwe to enterprises and individuals importing goods and services. Besides producing massive red tape, this system has proven to be economically inefficient. The reason: It depends on the government, and not the market, to determine where Zimbabwe's precious foreign currency can be most productively allocated.[7]

Zimbabwe's important agricultural sector also has been hurt by burdensome government regulation.[8] Until reforms of the last couple of years, the prices of virtually all agricultural and agricultural-related products were set by the government, while the activities of traders, transporters, and processors in the agricultural sector were strictly regulated. Not surprisingly, the performance of Zimbabwe's agricultural sector has been lackluster, despite receiving high levels of public investment. The average annual growth rate of agricultural output between 1980 and 1990 was a disappointing 2.4 percent.[9]

6 Foreign investment in Zimbabwe from 1980 to 1990 amounted to a paltry $150 million to 180 million.

7 Zimbabwe, like most African countries, is chronically short of foreign exchange. This is a major hindrance to economic development.

8 Although its contribution to the country's GDP is approximately 11 percent, the agricultural sector is crucial to Zimbabwe's economy. About half of the country's manufacturing sector relies upon agricultural products, such as cotton, tobacco and hops, while the agricultural sector consumes a large percentage of Zimbabwe's industrial products, such as fertilizer, chemicals, stock feeds, spare parts, and liquid fuels.

9 The World Bank, *World Development Report 1992, Development and the Environment* (New York: Oxford University Press, 1992), p. 220.

Since independence, Mugabe has claimed that his government's increased economic intervention has benefited Zimbabwe's native African majority. As proof of his success he has pointed to higher spending on social services. Very few Zimbabweans, however, benefited because the overall economy is in such bad shape. Economic growth, and not public spending, should be the true measure of economic progress.

DONOR-SUPPORTED REFORMS IN ZIMBABWE

Despite Mugabe's claims that his economic policies have been successful, he has been forced to adopt economic reforms by the World Bank, International Monetary Fund (IMF), and other international donors. Desperately wanting foreign aid, the Mugabe government presented a reform plan—called the Framework for Economic Reform (1991-1995)—to its aid donors in March 1991. This plan aims to stimulate Zimbabwe's economy and create employment by liberalizing trade, deregulating the economy, and promoting both domestic and foreign investment. In short, it aims to repair the damage done by Mugabe's past socialist economic policies.

According to the government's plans the budget deficit will be reduced from approximately 10 percent to 5 percent of GNP by 1995. This will be done by increasing charges for social services, cutting the civil service by 25 percent, and by making state enterprises profitable. The system of allocating foreign exchange also is to be reformed. Zimbabwe's exporters will be allowed to retain more of the foreign currency they earn. Zimbabwe's five-year economic reform plan will require an estimated $16 billion in financing, $12.5 billion of which is to come from within Zimbabwe. The remaining $3.5 billion will come from foreign aid and commercial borrowing.

After a February 1992 donor coordination meeting held in Paris, the World Bank announced that Zimbabwe's bilateral and multilateral aid donors had pledged $1 billion to meet the country's financing needs for 1992. These donors include Britain, France, Germany, Japan, Norway, Sweden, the World Bank and the African Development Bank. Much of the $1 billion will be used to supply Zimbabwe with the foreign exchange it desperately needs. This amount includes an IMF loan for up to $484 million over the next three years as well as a $175 million World Bank loan. At the Paris meeting, some of Zimbabwe's donors expressed concerns about the government's planned confiscation of commercial farmland, and its harm to Zimbabwe's economy.

ZIMBABWE'S LAND RESETTLEMENT PROGRAM

Zimbabwe's commercial agricultural sector is modern and efficient. It also is crucial to Zimbabwe's economy, generating 40 percent of the country's scarce foreign exchange from exports of tobacco, cotton, sugar, and other commodities. Zimbabwe's tobacco industry, for example, has taken advantage of the recent rise in tobacco prices on world markets by producing an all-time record crop of more than 160,000 tons in 1991. Indeed, the high productivity of the tobacco sector was the main factor that allowed Zimbabwe to maintain its estimated 4.3 percent economic growth rate last year.

Zimbabwe's approximately 4,500 large, privately owned commercial farms are situated upon much of Zimbabwe's most fertile lands, and produce 68 percent of the country's gross agricultural output. Established by white settlers, all but about 500 of the farms are still owned by whites. These commercial farms, on 27.5 million acres of land, or approximately one-third of Zimbabwe, have been targeted by the government for confiscation and the resettlement of native Africans now living in government-owned communal farmland.

Falling Short. The government began resettling native Africans on willingly sold white-owned commercial farmland immediately after independence. Hoping to increase the pace of resettlement, the Mugabe government in 1985 passed its first Land Acquisition Act, which included the provision that all private land for sale must be offered first to the government. The Mugabe government since 1980 has managed to purchase, largely with international donor assistance, 8.15 million acres of commercial farmland. The extent of this resettlement, however, has fallen well short of ZANU-PF land resettlement goals stated in 1980. Some 162,000 native African families were to have been resettled by 1985. So far only 60,000 African families have been resettled.

The Mugabe government has stated that a second Land Acquisition Act, passed in Zimbabwe's Parliament on March 19, is needed to redress once and for all the supposed inequities of land distribution in Zimbabwe.[10] Under this law, the government plans to confiscate approximately half of Zimbabwe's commercial farmland, or 13.6 million acres, in order to resettle approximately one million native Africans. This resettlement will be done, the government claims, without harming Zimbabwe's commercial agricultural production. In order not to disrupt productive commercial farmers, says Minister of Land Witness Mangwende, the government is looking to acquire farmland that is underutilized or derelict. However, the government also will target farmland owned by absentee landlords, foreigners, speculators, and by people who own more farms than the government feels it is right for one person to own.

Damaging Consequences. There is little doubt that removing 13.6 million acres from the commercial agricultural sector will damage Zimbabwe's economy. The government lacks the resources required to keep the farmland it plans to confiscate commercially productive. And 13.6 million acres is far too much land for the commercial agricultural sector to lose and still maintain its existing levels of production. The land resettlement plan, moreover, already has deterred important investment by commercial farmers increasingly insecure about the future of their own property.[11] Others are leaving the country. Fearing the confiscation of their property, several Zimbabwean commercial farmers have purchased farms in neighboring Zambia.

The land resettlement plan also already has hurt the government's effort to attract foreign investment to Zimbabwe. Too many other countries have attractive investment climates for Zimbabwe to confiscate private property and win investors already leery about Zimbabwe's history of hostility toward foreign investment. As a result, Zimbabwe has attracted no more than $400 million in foreign investment since it began its economic reform program in 1990.

---

10 The government repealed the provision of the Zimbabwe Constitution that prohibited government confiscation of land in 1990.

11 This assertion is based on the author's discussions with Zimbabweans in the commercial farm and financial sectors.

World Bank Recommendation. Even the World Bank recognizes some of the dangers associated with the resettlement program. Aware of the government's limited capabilities to engineer a massive resettlement, the World Bank has suggested that resettlement not be accelerated. Rather, it should be maintained at its current pace, which has been slowed by the government's refusal to buy commercial farmland offered by willing sellers. To bolster Zimbabwe's agricultural production, employment, and exports, the World Bank maintains that the introduction of better technology such as irrigation and other mechanized equipment into the communal and resettlement areas should take precedence over the resettlement of Zimbabwean peasants.

Mugabe's land resettlement scheme also would increase unemployment. Zimbabwe's current annual unemployment rate stands at 30 percent and is worsening. Since large-scale commercial farms provide employment and livelihood for some 250,000 Zimbabwean workers and their families, confiscation of their land potentially would throw hundreds of thousands of people out of work.

MUGABE'S ECONOMIC WAR ON THE MARKET SYSTEM

Were it not for Mugabe's socialist policies, the two ostensible reasons for Zimbabwe's land resettlement program would be better addressed today: Population pressures in Zimbabwe's communal farm areas would be less severe and farmland would be more equally distributed among Zimbabweans if Mugabe had not constrained the free market with socialist economic policies.

Zimbabwean industrial employment in particular has been needlessly depressed by Mugabe's socialist policies. If the market had been allowed to flourish, Zimbabwe's industrial sector would have drawn more Zimbabweans away from the communal farm areas for jobs in the cities. Moreover, farmland in Zimbabwe would have been more widely distributed today if the government had not prohibited the subdivision of commercial farmland.[12] This prohibition has prevented potential commercial farmers from buying land from willing sellers. Despite what his government's economic reform program suggests, Mugabe has not shown that he respects the free market, particularly the importance of private property.

None of the approximately 60,000 Zimbabwean farmers resettled since independence enjoy ownership of the land they till. Neither will Zimbabwean farmers resettled on confiscated commercial farmlands. Rather, resettled farmers will continue to depend upon government permits to cultivate what will become government-owned commercial farmland. Moreover, the activities of the resettled farmers, including their choice of which crops to grow, probably will continue to be regulated tightly by the government, under threat of expulsion.

Zimbabwe's farmers strongly desire title to the land upon which they live and work. Communal area farmers are no exception. Yet the Communal Land Trust Act of 1982 vests ownership of the communal lands in Zimbabwe's president, while assigning their administration to district councils.

---

12 Laws against the subdivision of farmland originate in the Rhodesian era.

Enhanced Production. The benefits of private land ownership for any country are considerable. Private ownership enhances agricultural production because only farmers who feel secure in the possession of their land make the long-term investments required to maximize production. Moreover, private ownership of farmland is the best means of assuring that farmers conserve their land. Lacking the sense of responsibility engendered by ownership, too many of Zimbabwe's farmers overcultivate and overgraze land. Under the communal grazing system, with no economic incentive to limit the size of their herds, Zimbabwean cattle farmers are responsible for overgrazing and the destruction of a considerable amount of land. In other words, without private ownership, the incentives for maintaining the long-term economic and environmental viability of the land are weak.

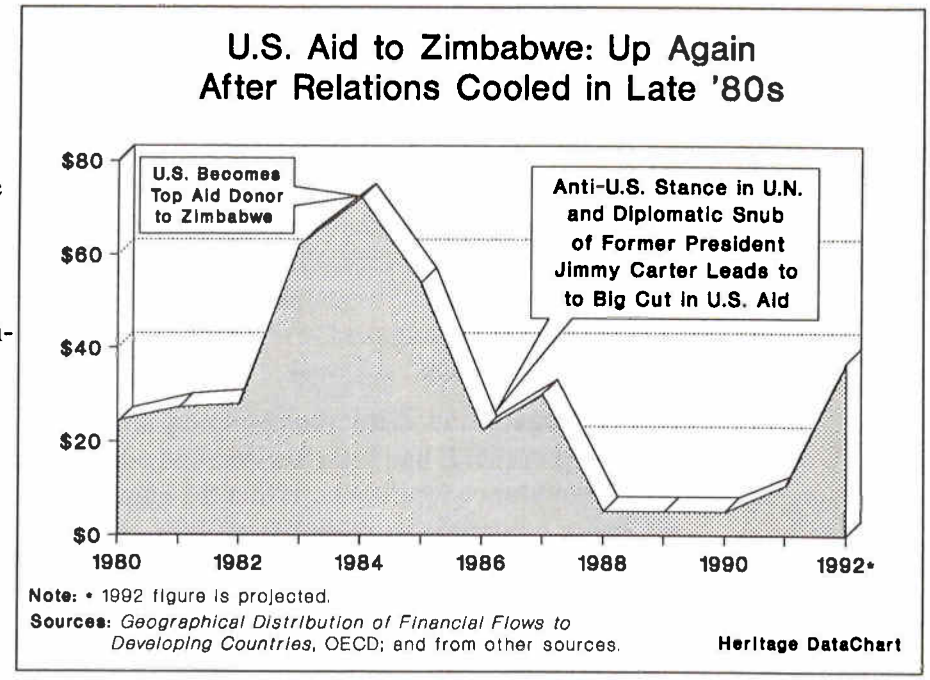
Mugabe's land resettlement program not only is bad economic policy. It also is anti-democratic. It has been devised and will be implemented by a one-party state with little tolerance for dissent. While the commercial farmers, aware of the government's poor human rights record, have been tempered in their opposition, they nonetheless are wary of trusting Mugabe's government to administer a land resettlement program. Their skepticism is warranted. As many as a dozen government officials allegedly have "acquired" commercial farms as part of the resettlement program. This type of corruption will certainly get worse once the program is underway.

NO U.S. AID WITHOUT FREE MARKET REFORMS

With the exception of a few years in the mid-1980s, America has continuously provided Zimbabwe with generous development aid. In fact, the U.S. contributed approximately $280 million to Zimbabwe, mostly in grants, from 1980 to 1986. This high level of aid made the U.S. Zimbabwe's single largest bilateral donor to that point. This aid included projects to purchase farm equipment and build housing.

U.S. aid to Zimbabwe, however, was severely curtailed in 1986. This was because of Zimbabwe's anti-American votes in the United Nations over the previous couple of years as well as numerous anti-American statements. These statements included a 1986 verbal attack on America's Angolan policy by a government minister on behalf of then Foreign Minister Witness Mangwende, which led former President Jimmy Carter to make a celebrated walkout from a U.S. Embassy reception in Harare, Zimbabwe's capital. But by 1988 the U.S. had resumed its development aid programs in Zimbabwe. By 1991, the U.S. had given Zimbabwe approximately $360 million in direct aid.

During Mugabe's July 1991 visit to Washington, President Bush praised Zimbabwe's structural adjustment program as the key to market-led economic prosperity. But he also expressed concerns about Zimbabwe's land resettlement plans in a private meeting with Mugabe. Since that time State Department and AID officials have expressed concerns about the 1992 Land Acquisition Act's compensation and appeal processes as well as the land resettlement program's impact on Zimbabwe's agricultural production and ability to attract foreign investment. U.S. officials want to assure that dispossessed Zimbabwean commercial farmers will receive a fair compensation from the government. They also want to assure that the land resettlement program does not damage Zimbabwe's economy at this critical time when Harare has accepted the need for long overdue economic reforms. These are continuing American concerns.[13]



The U.S. will spend approximately $37 million this year on private enterprise development, family planning, housing assistance, and grain market reform programs in Zimbabwe. Washington also voted this January to support Zimbabwe's $175 million World Bank loan and $484 million IMF loan. At least $220 million of American aid will support drought relief efforts throughout the southern African region. The ongoing drought, called the worst in living memory, has wiped out some 80 percent of Zimbabwe's current corn crop. Zimbabwe, usually self-sufficient in food production, is thus left almost completely dependent upon food imports that are largely provided by aid donors.

It is in America's and Zimbabwe's interest that Africa reduce this dependence on foreign donors. With some 30 years of evidence available, it is clear that the free market is the sole means to help countries raise themselves from poverty. The U.S. and Africa's other donors have played too great a role in perpetuating poverty with well-intentioned yet destructive foreign aid policies. To encourage free market reforms and economic growth in Zimbabwe, the Bush Administration should:

- **Denounce publicly Zimbabwe's Land Acquisition Act and land resettlement program as an attack on private property.**

Washington's complaints about Zimbabwe's 1992 Land Acquisition Act and land resettlement program have been too timid. To be sure, the Bush Administration is right to be concerned that these measures will weaken agricultural production, discourage foreign investment, and not properly compensate dispossessed landowners. However, Washington should oppose the Land Acquisition Act and resettlement program on

13 Changes in the 1992 Land Acquisition Act's process of appeal were made between its introduction into Parliament and its becoming law. The U.S. and other donors played a role in bringing about these changes. However, there are serious concerns about how the appeal process actually will work, as well as significant shortcomings in the compensation process as it is written.

more fundamental grounds: they attack private property. U.S. development aid should be used to promote the growth of free market economies, which are the best means of assuring rapid economic development. The Zimbabwean government's land resettlement program dangerously undermines the bedrock of the free market economy—private property. This should be sufficient reason for American policy makers to warn the Mugabe government as well as Zimbabwe's multilateral aid donors that if Harare wishes to receive U.S. aid, it must not confiscate private property.

- **Eliminate bilateral development aid and oppose multilateral development aid to Zimbabwe if it proceeds with its land resettlement program.**

Zimbabwe's World Bank-imposed structural adjustment program is intended to bring market-driven economic prosperity to the country. Yet Zimbabwe cannot move towards the free market while proceeding with its massive, confiscatory land resettlement program. Even if the Mugabe government were to abide rigorously by the World Bank's rules—which it is not doing—its efforts to create a free economy would be undermined by the planned confiscation of privately held commercial farmland. Were the government truly interested in economic prosperity, it would permit commercial farmland to be sold freely to create more commercial farms and allow farmers to own the land they cultivate. Doing this also would go a long way toward addressing inequities of Zimbabwe's land distribution, one of the main justifications for Zimbabwe's land resettlement program. The reason: As more land is sold freely, it will be distributed more equally among a growing class of landowners.

Unfortunately, the U.S. tacitly is endorsing Zimbabwe's confiscatory land resettlement program. By increasing Zimbabwe's bilateral development aid to approximately $37 million this year, while approving of Zimbabwe's access to World Bank and IMF development aid this past January, Washington sends a signal that basic market reforms do not matter. The Bush Administration need not compromise its principles on free market reform. The U.S. has cut its aid to Zimbabwe in the past, and American interests would not be damaged if aid ceased entirely. Only those African countries undergoing meaningful free market economic reform warrant American development aid. A freee market cannot emerge in Zimbabwe if it proceeds with its land resettlement program.

For these reasons, Washington should eliminate its bilateral aid and vote against future IMF and World Bank loans for Zimbabwe if Mugabe continues his disastrous land resettlement program. Doing this would avoid wasting the money of American taxpayers. It also would remove the U.S. from any association with Zimbabwe's structural adjustment program, which is bound to fail if its land resettlement program proceeds. Nevertheless, regardless of Zimbabwe's land policies, the U.S. should provide humanitarian aid, bilaterally and through international organizations, for drought relief in Zimbabwe. Washington's current effort of at least $220 million to minimize the suffering throughout southern Africa is entirely consistent with America's humanitarian tradition.

- **Transfer Zimbabwe's bilateral aid to Zambia if Mugabe proceeds with the land resettlement program.**

Zimbabwe is but one of many countries competing for American development aid. Several of these countries, including neighboring Zambia, are moving faster than Zimbabwe toward free market economies. Zambia, in fact, is recruiting potentially displaced Zimbabwean commercial farmers with attractive tax rates. Thus Zambia, not Zimbabwe, should be rewarded for progress toward free market reform. If Harare proceeds with its confiscatory land resettlement program, then the $37 million allocated to Zimbabwe's bilateral aid account should be transferred to that of Zambia. Zambia is slated to receive $20 million from Washington this year.[14]

- **Assist fewer African countries with foreign aid and give higher priority to those that score high on the Index of Economic Freedom.**

AID is reviewing its allocation process. In doing so, it should undertake reforms to further institutionalize its trend toward concentrating American development aid on fewer countries.[15] The Index of Economic Freedom, a quantitative index for monitoring a country's progress toward free market reform, should be an essential tool for assuring that AID's "priority" countries are moving toward free market-led economic prosperity.

A smaller number of aid recipients should enable the U.S. to focus more on ways to use U.S. aid to stimulate the growth of free markets. Moreover, by assisting fewer countries, the U.S. reduces the risk of aiding countries that refuse to learn from the failures of state-controlled economies. The U.S. for too long has wasted economic aid on states that refuse to make badly needed economic reforms. American aid should be given selectively and only to those countries progressing toward free market economies.

CONCLUSION

Zimbabwe plans to confiscate 13.6 million acres of productive, privately owned farmland and resettle peasants on it. This is a potentially disastrous economic idea. By undermining Zimbabwe's productive commercial agricultural sector, the plan will only hurt Zimbabwe's struggling economy. The damage to the economy will be all the greater because the confiscated commercial farmland will be owned by the state. Moving toward greater economic involvement by the state will only perpetuate Zimbabwe's poverty and hamper economic growth. Zimbabwe's best hope for eliminating its poverty is for it to allow the free market to produce wealth and a better living standard for all Zimbabweans.

14 See Sheey, *op. cit.* "Up From Poverty: Advancing Economic Development in Zambia," Heritage Foundation *Backgrounder*, No. 884, for how U.S. development aid can best assist Zambia.

15 The U.S. General Accounting Office reports that, "The share of U.S. development assistance funds for the 23 African countries where AID has been concentrating its efforts grew from 67 percent in fiscal year 1987 to 86 percent in fiscal year 1990," *Progress in Implementing the Development Fund for Africa*, GAO/NSIAD-91-127, April 1991, p. 4.

This fact is not fully appreciated by the World Bank and other international donors that provide aid in exchange for structural changes in Zimbabwe's economy. The World Bank, for example, is giving Zimbabwe $175 million in development aid in return for a reform plan liberalizing trade, deregulating the economy, and promoting both foreign and domestic investment. However, these donors are not demanding that the Mugabe govenment abandon the practice of confiscating private property. If Zimbabwe proceeds with its resettlement plan, this will sabotage the international donor reforms and the prosperity they promise. Failure of these reforms will discredit the free market in the eyes of all Africans.

Fostering Free Markets. The U.S. should not follow the short-sighted policies of other donors. Rather, Washington should lead the opposition to Mugabe's plan. Washington should publicly denounce Zimbabwe's 1992 Land Acquisition Act and land resettlement program as an attack on private property. It should eliminate bilateral aid and oppose multilateral aid if Mugabe's government proceeds with its resettlement plans. U.S. bilateral development aid to Zimbabwe is planned at $37 million for this year. If Zimbabwe proceeds with its land resettlement program, Washington should transfer its bilateral development funds from Zimbabwe to Zambia, an African country that is making progress toward a free market economy. To improve its aid policy to Africa in general, the U.S. should assist fewer African countries with development aid and give higher priority to those that score high on the Index of Economic Freedom. Doing this would ensure that American foreign aid goes only to those countries that are moving rapidly toward a free market system.

Thomas P. Sheehy
Policy Analyst