

# The Rise & Fall of Michael Manley

JAMAICA AND  
LAND TAXATION

WHEN Prime Minister Michael Manley announced that Jamaica's elections would be held on October 30, he triggered off one of the most violent campaigns ever to be staged in a Parliamentary democracy.

Victims of the political murders included a Member of Parliament; Manley narrowly missed a bullet while touring his Kingston constituency; there was an attempted coup, and the CIA was popularly believed to be seeking to subvert Manley and his People's National Party (PNP) in favour of Edward Seaga's conservative Labour Party.

The voters were asked to pronounce a verdict on the record of one of the most controversial leaders in the Third World. They turned him down by an overwhelming majority.

Manley's hotch-potch political philosophy has been a mixed blessing for Jamaica.

On the one hand, he created a unique chance for a developing country to prove that the destruction of land monopoly (through the device of land value taxation) can free people and open the way to economic prosperity.

On the other hand, however, Manley's infatuation with socialism destabilized the economy, so the beneficial effects of land value taxation were distorted.

THE Land Valuation Act introduced the system of taxing land values in 1957. It was initially applied to rural land only.

The measure was introduced by Manley's father, Norman, who led a reforming party in the pre-independence days of Jamaica's history.

His land tax was largely shaped by the Australian experience with site value rating (an essential difference being the use of current annual values rather than capital values).

The rise to power of the Labour Party in 1962 threatened the fiscal

reform — interest waned in response to the pressures from the landowners who supported Labour.

The value of urban land spiralled during the 1960s, by as much as 25% to 30% per annum, causing political embarrassment as the government was forced to abandon important investment programmes.<sup>1</sup>

The return of the PNP in the 1972 election, however, revived the fortunes of those who campaigned for a reformed system of taxation. The valuation programme that was started in 1956 was revived, and a system of computer-based records was established for the island's 500,000 parcels of land.

## MICHAEL MANLEY

**BORN** in St. Andrew, Jamaica, December 1924.

**EDUCATED** London School of Economics.

**PROFESSION:** journalism, and active in trade union affairs, notably in sugar industry.

**POLITICS:** President of the People's National Party since 1969, Prime Minister of Jamaica since 1972.

**PHILOSOPHY:** social democracy; championed Third World countries against the West.

**ECONOMICS:** challenged the IMF's strategy; when he broke off negotiations for new loans, he turned to Moscow and Cuba's Fidel Castro for help.

By 1974, urban land — the value of which constituted over half of the total — was valued and ready to be taxed.

THE JAMAICAN version of land value taxation differs from the pure model prescribed by Henry George in that it is not a uniform tax on all land capable of yielding an economic rent.

Politicians, responding to political pressures, instituted a tax which took a little less than 1% of annual site value to about 4.5% at the upper end of the scale of values.

Furthermore, a part of the tax liability can be legally avoided. Agricultural land receives a 75% "discount," i.e. landowners are only required to pay a quarter of their tax assessment. Hotel properties receive a 25% reduction.

These concessions raise serious equity issues. Nearly 50% of the potential yield of the tax has been eroded by reliefs of one kind or another. This shifts an unnecessary burden onto wages and capital, which retards the development prospects of a country seeking to raise living standards and to industrialise through fresh capital formation.

This criticism, however, is of the way in which the tax is administered; it does not expose an intrinsic weakness of the tax itself.

WHAT happened to the land values which were formerly an obstacle to capital investments?

In the first six years of the full operation of the tax, up to 1980, the prices of vacant sites fell by as much as 50% in some cases.<sup>2</sup>

The dramatic increase in the cost of holding land vacant, linked with the capitalisation of the land tax, led to a downward revision of prices.

This effect is consistent with economic theory, but it is not possible to argue that the whole of the decline was due to the introduction of the tax.

For the last six years have been a period of severe political and economic turbulence. Manley's socialist proclamations scared many middle class people. Talk of nationalising banks, for example, encouraged money to flow out, along with many people from the skilled and managerial classes, who took refuge in the USA.

Borrowings from the IMF in 1977 were associated with devaluation and a cutback in public sector spending, which hammered living standards. The economy failed to respond to the Fund's satisfaction, and Manley

FRED HARRISON DESCRIBES THE DOWNFALL OF A REFORMER

MICHAEL MANLEY's socialist side-kick in the bid to challenge the IMF's economic policies has been Julius Nyerere of Tanzania.

Nyerere has also just placed himself before the electorate. But in a one-party state in which he was the only candidate, he had no chance of losing: he won with 93% of the votes!

The people did have the opportunity to express themselves forcibly, however: 50% of the sitting Members of Parliament were thrown out at the election on Oct. 26.

This was a clear thumbs down for the way in which the economy has collapsed. And at the heart of the failure has been the *ujamaa*, the economic model cherished by Nyerere.

LAST AUGUST the President's office issued a strong reply to published criticisms of *ujamaa*, the collectivised rural villages that Nyerere has vigorously promoted as the way forward for developing countries.

This socialist experiment in agricultural economics was launched with the Arusha Declaration in 1967. It captured the imagination of people right round the world, elevating Nyerere into something of a global guru.

In the early '70s, millions of people were moved from their settlements into villages that were supposed to be structured along *ujamaa* lines. And according to official figures, there were 5,628 *ujamaa* villages in 1973.

*Food production slumped.*

During the recent election, Nyerere sought to shift the blame for his country's problems onto external factors, such as OPEC price rises. But, as one observer put it:

*"Oil does not explain the declining production of such export crops as coffee, sisal, cashews, cotton and timber."*

The decline began in the early '70s, and escalated through the decade. The *ujamaa* experiment failed. For Africans, despite their traditional communal bonds, were well aware of how to arrange farming activities to get the best possible output from land. At least 95% of all land is now farmed by individual peasants and their families.

The collectivised farms were given a clear birth by those who could avoid them. But the migration of large sections of the rural population – partly at least under official compulsion – disrupted the agrarian sector, and so output slumped. By last August, of the country's 8,229 villages, fewer than 20 could be counted as true *ujamaa*.<sup>2</sup>

THE VERDICT on the *ujamaa* experiment has not been pronounced by IMF officials with a bias for western economics, however.

None other than Professor René Dumont, the French agronomist and socialist who sympathises with Nyerere's political philosophy, produced a damaging indictment of the village economic system after an extensive tour of the country at the request of the government.<sup>3</sup>

Dumont criticised bureaucratic misjudgments, which had contributed to the decline in output. And he noted that, for a variety of reasons, peasants put more effort into their private plots so that the yield from the communal farms was generally poor. *Ujamaa* villages "were not successful," he declared.

The professor, a strong critic of the free market model of economic activity, cited an example. State-owned sisal farms need to be "more carefully planned, managed and implemented." Their record was poor compared with private producers. And he added: "It is easy to nationalise but much more difficult to maintain or improve production."

THE PHILOSOPHY underlying the *ujamaa* experiment was strongly moralistic in tone. The decline in expectations has been paralleled by a rise in racketeering, and corruption among officials in the middle and lower levels.<sup>4</sup>

*Ujamaa* has been replaced by a new 'in' word: *magendo*, which means smuggling. As the shelves in the shops emptied, so private entrepreneurs took to blackmarket economics in an effort to get round the bureaucratic red tape. *Magendo* prices are three or four times the official rates.

Despite Nyerere's fighting talk against the IMF (he and Manley organised an international conference designed to add weight to their demands for a "reform" of the Fund), before the election he settled for a £100m. loan – complete with strings attached. One of the conditions is that government spending should be reduced.

In recent years, Nyerere's "self-help" socialist philosophy has been under-pinned by millions of pounds in Western aid. The President has not noted the irony of this contradiction.

But this is not to say that the self-help principle is wrong. On the contrary, the Tanzanian peasants have proved in a measur-

## Michael Manley: Cont. from P.3

broke off negotiations in March 1980 rather than submit to further deflation controls which he felt were incompatible with his socialist creed.

Manley left Washington in no doubt about his attitudes when he staged well-publicised visits to Moscow and Havana in his bid to reduce his dependence on the West – a move that merely served to aggravate the political scene, which Seaga exploited to his Party's advantage.

Entrepreneurs were deterred from opening up new urban-based manufacturing companies. These avoidable domestic problems were not helped by the OPEC-induced rise in imported energy costs. The overall result was a rapid rise in inflation, and unemployment rose to nearly a third of the workforce by mid-1980.

Thus, the demand for urban land declined, and this contributed to the decline in prices.

Agricultural land values, however, remained fairly stable. This reflected the favourable tax treatment as well as the emphasis on an agrarian solution to the problem of rural poverty.

About 25,000 small farmers received land for the first time, and cooperatives replaced the old sugar estates. Unfortunately, however, Manley's socialism was inconsistent: it did not extend to socialising the whole of the economic value of rural land for the benefit of the urban as well as rural citizens!

JAMAICA'S Commissioner of Valuations, Mr. O. St. Clare Ridsen, has offered his assessment and some predictions.<sup>3</sup>

- It seems unlikely that the holding of vacant land as a hedge against inflation will ever regain its former popularity;
- Premature subdivision of land for speculation has virtually disappeared;
- Larger agricultural properties are tending to be divided into smaller holdings.

These are results that can have fundamental consequences for an economy. But will they be allowed to operate effectively in Jamaica? For Henry George's fiscal prescriptions contained in *Progress & Poverty*<sup>4</sup> were designed for a free market economy of the capitalist kind – not the socialist model favoured by Manley.

For example, people are hardly likely to speculate in land if they can see a mass exodus from their country of prospective house buyers!

Manley's enlightened land policy was not incorporated within an appropriate economic framework.

*Jamaican blood has been spilt, and the prospects for creating material wealth destroyed, by the attempt to fuse contradictory philosophies that cannot be made to coexist.*

Manley made a significant contribution towards eliminating the old monopoly of land in Jamaica, but he reduced the beneficial impact of this commendable action with his

# socialist ideal

ANALYSIS by IAN BARRON

able way their wish to help themselves – and, in the process, increase aggregate output.

The problem for the President, however, is that the citizen's perceptions of how best to help himself – employing the individualistic ethic of family-based farms – contradicts the official philosophy of state socialism.

Now, if Nyerere realistically agreed to ditch the collective approach to farming, he need not abandon the ethic of communal land ownership. What he needs to search for is an alternative framework, one that serves the dual purpose of preserving the social interest in nature's resources while at the same time releasing the energies of the individual peasant, permitting him to benefit directly from his own labours.

Nyerere could do worse than to consult his friend Michael Manley, who is now out of a job and hopefully a wiser man. Manley would tell him that the solution is a fiscal one: an annual tax on the *ad valorem* value of all land. But in adapting the Jamaican experience to Tanzania's needs, they would need to do two things.

● The income-distribution effect of the land tax needs to be applied in a fair and consistent way, so that the opportunities between people in the rural and urban sectors – and between peasants working on soil of different fertility – were equalised.

● The land tax works best when applied within the free market framework, which would wipe out *magendo* – and raise living standards by removing the structural frictions caused by bureaucratic inefficiencies and private sector monopolies.

This would be a truly challenging experiment for these two Third World leaders: one that was worthy of their personal talents and humanistic aspirations. And if, as we would safely predict, the results were good, Manley would be able to use them to reclaim the Premiership of Jamaica.

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● Tanzanian President Julius Nyerere greets Cuba's Fidel Castro

desire to create new systems of monopoly in the form of centralised political power working through state-controlled economic institutions.

**M**ANLEY had no doubts about the unpopularity of his policies with certain sections of Jamaican society. He offered his diagnosis just before the people cast their votes:

"Faced with the social programme of the Government, the land reform, the reform in taxation, and the clear determination to end a century of oligarchic rule, elements of the professional classes reacted very savagely."

They were, he said, unpatriotic: "Some of them migrated, took their money out of the country, refused to expand their business despite every kind of incentive to the private sector, so there has been an additional internal impact on the economy."

Manley campaigned on his record, but Seaga reacted by arguing that, instead of spreading wealth, Manley had been "spreading the poverty."

The war of words was supplemented with bullets: about 500 people died.

And when the day came to put the X on the ballot paper, Manley found that he was no longer Prime Minister. Although he had pushed through a programme of fundamental reforms, he had failed to carry the people with him.

**S**EAGA is now in power with 51 Parliamentary seats out of 60. He has promised a pro-Washington/"moderate" set of policies.

Will he tamper with the country's system of land value taxation? It is too early to say, but observers feel that he will initially have his hands too full with the debt of Jamaican \$3,677m (£849m) to worry about this part of fiscal policy.

*Guardian* correspondent Greg Chamberlain predicts:

"More likely, against a background of 33% unemployment and escalating violence he will use Mr. Manley's solid work of reform in land, taxation, health, education,

the increase in workers' and women's rights, and the reorganisation of the bauxite, sugar and tourist industries, to his own advantage."

Few people doubt that Manley will make a comeback. Hopefully, however, a few years in the political wilderness will give him time to reshape his philosophy into a radical system that can work.

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