

# VERDICT ON GHANA

## *Rudderless revolution that needs a land tax*

MOST OF the millions of acres of unused farmland in Ghana are not monopolised by European-style private owners. They are owned collectively, on a tribal basis. Past attempts to relocate people on this land were met with resentment and resistance by the tribal owners, who feared that they were losing something that belonged to them.

FRED HARRISON describes

how this anxiety can be over-ridden by land value taxation, which establishes new use rights for landless farmers and unemployed urban workers without challenging traditional ownership rights. This fiscal model achieves the twin aim of forcing land into use while sharing out the benefits of the economic surplus among everyone – including the tribal owners.



**F**LIGHT LIEUT. Jerry Rawlings (Rtd) was guaranteed a good reception. His second coup was politically popular in Ghana; economically, however, the revolution lacked a guiding philosophy beyond some vague notions of socialism.

His first attempt at running the country was marked by nothing more than summary executions of corrupt politicians, and the destruction of the building in the market place as a mark of his disapproval of blackmarket food prices. He was succeeded by Dr. Hilda Limann on Sept. 24, 1979, whose People's National Party won a resounding victory at the polls.

When Rawlings rode back to power on the top of a troop carrier last December, he did not bring back with

him a programme of reform any more enlightened than his previous one.

It does not therefore seem presumptuous to offer him a blueprint for the survival of the Ghanaian economy. Although we will examine this one economy in detail, the lessons can be generalised for dozens of Third World countries that are in a similar state of financial bankruptcy and social disarray.

The model which ought to commend itself to Rawlings is underpinned by a fiscal reform: the taxation of the value of all of Ghana's land.

But can this one instrument really accomplish the major goals set by Ghana's statesmen? And can it be absorbed by the culture of the tribes that occupy the land of this West African country? The answer to both questions is a firm yes! And this proposition can be evaluated by examining in detail the major problems that face Ghana's 12m. citizens.



● Bananas – but food desperately short

**A** SUBSTANTIAL increase in food output is the single most urgent task. Ghana has to import food, and prices are astronomically high. It is more than 1,000 per cent more expensive for a Briton to eat in Ghana than in Britain, according to the latest international costs of living survey produced by Employment Conditions Abroad.

Yet Ghana cultivates only 3m. hectares, just 13 per cent of the arable land: 20m. hectares stand unused, waiting to be tilled.

In 1980, Limann's Government launched "The New Deal," a programme to solve the desperate food shortages. This aimed to bring land into cultivation by providing tools and seeds to farmers, but the focus was on the deployment of scarce capital and expertise from the centre. It fell far short of expectations, as it was bound to do.

How can a tax on land values deal with this problem? At present, farmers pay a nominal tax based on the size of their holdings. An effectively high tax on the annual rental value of land would force the land holders to release their unused acres.

# Bankruptcy: a Third World crisis

MANY Third World countries are as bankrupt as Ghana; they have to borrow money to pay the interest on existing loans.

These countries are racing against time to modernise their economies. Most are well-endowed in natural resources and labour, but very poor in capital.

The way forward is to tap those resources and invest the proceeds in the infrastructure which is a precondition of industrialisation. Land value taxation, while not the only instrument necessary to solve the complex problems facing these countries, is the single major innovation for rapid transformation.

This proposition is well-attested in the literature. Philip Raup, in his review of the role of land taxation in economic development, singles out some important virtues of the tax:<sup>1</sup>

*"With semi-subsistence production and primitive levels of trade, the most feasible base for local taxation is land and natural resources."*

The local population is able to identify the taxes that they pay with the benefits of developmental progress – the roads, health and education services and agricultural research stations that they finance through the land tax.

In most Third World societies the redistribution of land is necessary, but hitherto guerrilla movements inspired by socialism have opted for the nationalisation model.

While this may ensure the capture of the value of land for the social benefit, it also creates farming institu-

tions that defeat the main object of the exercise – the production of food.

ETHIOPIA after Haile Selassie is a case in point. In the past seven years, the Military Administrative Council – the Derg, as it is known – abolished private ownership of land and set about establishing collective farms. These have not alleviated the hunger of the masses.

And while peasants who acquired individual holdings are now eating more food than before (thanks to the elimination of the landlord class), insufficient food is being marketed for the urban population. The reason for this is simple. Marketing boards have fixed uneconomic prices for food – so the producers supply their produce to black marketeers, or do not produce cash-crops at all.

The economic rent of the land is retained by the peasant farmer (or not realised through optimum production, a fact recorded by one recent visitor to Addis Ababa, the capital of Ethiopia).<sup>2</sup> As a result, surplus income

over and above costs of production is not generated to finance social infrastructure. As Raup put it:

*"Failure to include tax reform in the land reform programme thus can prevent realisation of one of the principal capital-forming opportunities that a land reform can create."*

Thus, land reform without fiscal reform may improve the lot of a few more people, but it would not shift the economy onto a new level of dynamic activity; it would not sustain the benefits through the generations; and it ignores the rights of urban-based landless people.

1. P. M. Raup, 'Land Reform and Agricultural Development', in H. M. Southworth and B. F. Johnston, *Agricultural Development and Economic Development*, Ithaca: Cornell UP, 1967, pp.278-279.
2. James Buxton, 'Land reform troubles hungry Ethiopia', *Financial Times*, 6.1.82.

## EIGHT ON THE BANKER'S SICK LIST

	Total	Debt	\$	GNP	Debt/GNP ratio
Bolivia	2.1	bn	5.8	bn	36.4
Sudan	4.9	bn	8.3	bn	37.2
Madagascar	1.04	bn	3.2	bn	32.2
Cent. African Rep.	155.3	m	730	m	21.3
Zaire	4.2	bn	5.3	bn	78.5
Senegal	908.7	m	2.6	bn	34.9
Uganda	669	m	10.2	bn	6.5
Liberia	2.4	bn	4.6	bn	52.2

SOURCE: World Bank estimates (Dec. 1981).

The land tax scheme is not a theoretical proposal beyond the reach of an under-developed country.

The Limann government acknowledged the "weak enforcement of existing tax regulations, inadequate coverage of the tax net and the lack of national tax consciousness."<sup>1</sup> The government set out to rectify these shortcomings. In other words, Ghana recognised the need for (a) sweeping fiscal reform, and (b) educating the people on the subject of taxation.

The important point at issue, then, is the nature of the tax reforms that needs to be implemented to raise more revenue (to close the yawning budgetary deficit) and stimulate economic growth.

The Limann proposals – import duties and purchase taxes – were unwittingly designed to retard development and therefore narrow the tax base. The land tax, on the other hand, satisfies the twin aims of higher revenue and economic growth while at the same time expanding the tax base: progress means higher land values, which are then tapped for the exchequer's benefit to increase spending on socially-necessary infrastructure like roads (which have the cumulative effect of further increasing land values).

**T**HE LAND TAX also preserves the agricultural model which is preferred by Ghanaians and which is the most productive: the peasant family farm.

Limann, anxious to increase output, began experiments with socialist-style collective farms. In this, he was assisted by two communist countries, Yugoslavia and Rumania.

Rawlings, who has adopted a vague socialist philosophy, is likely to reinforce this trend. He has come under

the influence of President Ghadafi of Libya who has sent food aid to Ghana with the following advice from a member of his Libyan People's Bureau: sieze the revolutionary wind sweeping the nation.

It is true that Ghana's farms are small and inefficient. About 95 per cent of all production comes from farms smaller than 10 acres; 70 per cent is produced by farms that are smaller than three acres. So an enlargement of farms is necessary, to take advantage of economies of scale and enable farmers to produce more than subsistence for their own families.

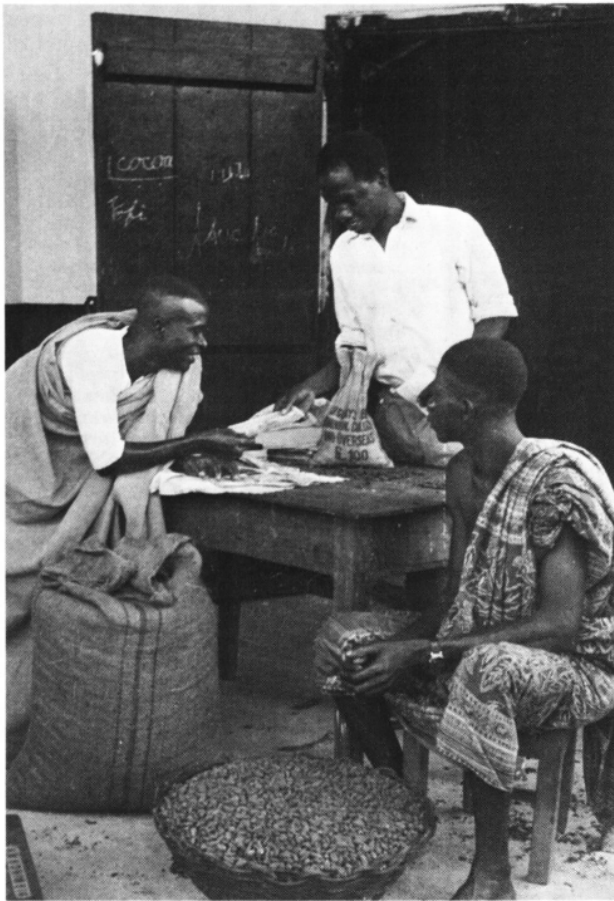
But experience in Africa and other socialist countries in Europe and the Far East has demonstrated time and again that the socialist farm is not as efficient as the holding operated by the individual farmer.<sup>2</sup> In Ghana, observers have noted that public sector farms are badly organised.<sup>3</sup>

The priority, then, is to enlarge peasant holdings and ensure that the land is used to its maximum potential: the land tax fits sympathetically into this strategy, and it has a direct influence on food prices:

*"An important effect of the land tax in the two-sector model is that it increases the supplies of agricultural products flowing to the urban area, and ceteris paribus, results in lower prices of food."*<sup>4</sup>

**W**HAT OF the level of rents? Limann acknowledged that these were high, especially in the towns. His Government commissioned a study of the problems of rents, but no detailed legislative proposals were produced before the coup.

The land tax would automatically reduce rental levels,



● Cocoa – a major produce

because it increases the supply (and therefore reduces the price) of land.

Rawlings has no idea what to do about rents. In January a member of his Provisional National Defence Council, Mr. J. A. Kwei, warned landlords to reduce them voluntarily:

"If the taxi driver has reduced charges for you the landlord to pay a reasonable fare, if the kenkey seller has reduced the price of a ball of kenkey to a reasonable price of one cedi for you to buy and feed yourself and your family, and if you're buying milk at the control price, then it stands to reason that you also reduce your rents to the poor masses who produce these services for you."<sup>5</sup>

Mr. Kwei warned that the military junta would "strike hard on those being difficult with their tenants. Therefore, if you have any association of landlords – which the tenants believe you have – you better restructure it and smoke out those difficult ones among you for us to pick on them easily when the period comes."

Such rhetoric flies in the face of economic laws: it is tilting at mills, Quixotic-style. Government price controls can reduce the cost of living (the average Ghanaian spends over 50 per cent of his income on food). This would initially leave wage earners with a larger net disposal income; but landowners – *unless they are terrorised or constrained by law* – will exercise their monopoly power and reap that surplus income in the form of higher rents.

Terror was never the basis for sound reforms. Intimidating the landowning class may work for a relatively short period, but it is guaranteed to fail in the end. And with the demise of the Rawlings junta, rents would immediately soar.

The land tax, however, takes care of the problem: if rents were to rise, the nation (through the exchequer) would be the beneficiary – not the land monopolists.

So it would not pay anyone to force rents above a level determined by the value of current output of goods and services.

**B**UT LAND VALUE taxation has an ethical dimension which is important when statesmen seek to educate their people to its economic virtues.

In Ghana, for example, the government has invested public money to create an irrigation system which benefitted 2,280 hectares of land at Vea and Tono. Irrigation is regarded as a cornerstone of agricultural policy, especially in the Savannah areas. The master plan encompasses projects covering 500,000 hectares (1.2m. acres).

Without land value taxation, the economic benefits of this investment are converted into higher rents and captured by land monopolists; but land value taxation shares out the benefits equally among the nation's population by financing the developmental process.

A further – critical – problem is a cultural one. The Military Council noted in 1977 that the complex land tenure systems were an obstacle to agricultural modernisation. Its five-year plan noted that "the prevalence of several different forms of land tenure systems . . . make it impossible for the application of any set of prescriptions for improving the present small-scale farming systems in the country."

The Military Council took comfort in the knowledge that under the Lands Administrative Act (1962) the government had the power to buy land and lease it to large-scale farmers. The Limann Government affirmed its intention to use the Capital Investments Board to help investors acquire suitable land for their projects.

But Ghana is so heavily in debt to the international banks that it ought to be developing a cashless solution to the reallocation of land. This is accomplished by the land tax, *which at the same time overrides the complexities of African land tenure systems.*

Customary land tenure rested on the principle that possession was justified on the basis of both need for and use of the land. The land tax can be levied on the current user – irrespective of who claims ultimate superior rights to the land – and it promotes the concept of sharing natural resources, which is a basic tenet of African tradition.

Thus, without the government spending one penny, land can be reallocated on the basis that its current holder is not using it (and therefore unwilling to pay rent for it in the form of a tax to the exchequer).

This mode of redistribution, far from being offensive to tribal culture, would be viewed with sympathy by the chiefs who have traditionally accepted the responsibility for ensuring that land is put to its best use, and made available to those in need.

Land value taxation, therefore, although a modern fiscal concept, is built on the traditional ethic of sharing natural resources *and of not denying land to those who can put it to good use.*

Land value taxation may not have the same popular appeal as the crusade against corruption which has been launched by Jerry Rawlings, but it would have a more substantial impact on the welfare of Ghana's citizens.

#### REFERENCES

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4. Stephen R. Lewis, 'Agricultural Taxation in a Developing Country', in H. M. Southworth and B. F. Johnston, *Agricultural Development and Economic Growth*, Ithaca: Cornell UP, 1967, p.466.
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