

# The Georgist Remedy for the Nations of Africa: Promises and Pitfalls

by Lindy Davies

In the last ten years, more and more HGI students have come from various nations in Africa, most notably Nigeria, Ethiopia, Mali, Zambia and Zimbabwe. In general these students have been very enthusiastic — wanting to learn more and spread the ideas. It makes sense that Africans would see the cat. They have been spectacularly failed by economic paradigms of both the right and the left. Generally, no economic policy they have undertaken, as post-colonial sovereign nations, has worked. Across the continent, standards of living have worsened, life expectancies have decreased, production has declined, debt has risen and infrastructure has decayed.



It is important to speak of “nations”, because at this stage of history, the national level is where meaningful reform has to start. It is true that the nation-state in Sub-Saharan Africa (for example) is a far less secure entity in the international pecking order than, say, the West European nation-state. African national boundaries were drawn by an entirely different process than European boundaries, and *not* to benefit either the people of Africa or the land of Africa. Nevertheless, the nation-state is the sovereign entity that the world deals with. Laws about currency, foreign exchange, immigration, environmental policy, etc. are enacted at the national level.

That’s an important thing to remember in this time of the WTO and the Bretton Woods Institutions. It is sometimes said that national sovereignty is being usurped by WTO rules — but that is not strictly true. Any nation is free to enact its own safety or pollution standards — even, perhaps, in defiance of WTO rules — *as long as it is willing to accept the consequences: not being allowed to play in the WTO’s game.*

This is even more dramatically true in the area of international debt. In many cases, a nation’s debt was contracted by a regime that is no longer in power; but in *every* case these foreign debts were not contracted by anything remotely resembling a democratic mandate. (For example, the estimated foreign debt of the Democratic Republic of the Congo was estimated at \$12.3 billion, back in 1997, when it was still called Zaire.) So who should pay them back? Of course, the citizens of the nation will be

called upon to pay them back, which they cannot do, for many good reasons. These debts cannot be paid back, and they are not just. So why do national governments not simply exercise their sovereign prerogative and refuse to pay them?

In short, they could refuse to play by the IMF's rules, but the IMF would throw them out of their game. And without that continued infusion of foreign capital, how could they meet their public sectors' existing commitments — much less form capital, create infrastructure, provide safe drinking water, build new schools, on and on and on?

In their efforts to secure debt restructuring and partial relief, nation after nation has submitted structural adjustment plans under the HIPC (Heavily Indebted Poor Countries) program to the IMF, detailing how they plan to open markets, stabilize currencies, buy lots of Western goods and totally integrate into the global economy — and nobody believes these documents.

They are prepared by teams of highly trained specialists, submitted, evaluated, revised and resubmitted, and meanwhile the debt grows and the national economy moves not one iota closer to meaningful development.

At first glance, the Georgist remedy seems utterly ideal for a nation in such straits. It would (theoretically) enable them to get the debt monkey off their backs. It would give a country a chance to unilaterally default on its foreign debt, and still be in a position to say, "Go ahead, cut off our line of credit. Impose trade sanctions. Boycott our country if you must. We are still able to form capital and increase our people's prosperity, because our people will have access to land, and their production and commerce will not be burdened with taxation!"

But, as an economist friend of mine is fond of saying, "It's a little more complicated than that." The brutal fact is that today's "globalization" policies are being welcomed by a small elite in each country that stands to benefit from them. This small elite is in control of the banking system, the government, and nearly all of the economically valuable land. But the crazy thing is — as Hernando de Soto points out in his recent book *The Mystery of Capital* — that although these elites hold, probably, 100% of the assets in these countries, they may *not* hold the majority of the wealth. Most of the buildings, farm machines, merchants' inventories, etc. are owned in a manner that is recognized and supported by a local community according to its own rules, but *not* codified in the legal framework of the country. Hence, the wealth that people create, and, importantly, the *saving* they undertake, is not held in a form that is fungible. It cannot be transferred outside the community that recognizes local property-rights customs, and it cannot be borrowed against. This is a huge disadvantage

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— possibly an insurmountable impediment to economic development.

But although ownership and tenure is not formalized in a Western sense, it is real. De Soto keeps returning to the “barking dogs” image: traveling in Indonesia, he had no idea where the property lines between farms were — but he heard the dogs barking every time he crossed a boundary. He says that the boundaries exist, informal but very real. The laws have already been written.

This is exactly, de Soto argues, how property law was created in the United States. Settlers in the midwest, and later in California at the time of the gold rush, created *ad hoc* arrangements for ordering property rights

#### **No Second Mortgages in Ethiopia**

The Council of Georgist Organizations invited Kidane Hiwot, our colleague from Ethiopia, to address this year's conference in Pittsburgh. But, alas, it proved impossible for Kidane to get a visa to come to the United States. After he waited in line for three days to speak with them, US embassy officials plied him with questions about his employment history, his bank account and his personal habits, before denying his request. Because they had been grilling him about assets, I asked him (over the phone) whether he owned his own house. “Yes,” he answered, sounding rather puzzled, “but that doesn't help me here.” — L. D.

and settling disputes. In many cases these arrangements were contrary to Federal laws (which favored the interests of land speculators). But, Washington's law couldn't be enforced. Settlers filled the vacuum with legal arrangements of their own. In order to avoid outright rebellion, when the national government asserted jurisdiction over those lands, it had to incorporate these arrangements into the formal legal system. In other words: a

legal system must recognize and honor the “folk-legal” conventions of property ownership that people have created on their own. If it does not, its laws cannot be enforced. If it does (and to the extent that it does) its laws will be essentially self-enforcing.

So, de Soto argues, simply allow people legal tenure to the land and wealth that they already own in a *de facto* sense, and then turn the economy loose! Prosperity will follow.

Georgist readers will quickly seize upon the flaw in de Soto's argument. Although he is mostly talking about real estate, he writes as though all property is equal, acknowledging nothing special or distinct about land. Georgists understand that a failure to understand this crucial distinction undermines and ultimately incapacitates any economic reform program. Land is not produced by human labor; it is fixed in supply; it is the gift of nature; it is fundamentally different from the wealth that is produced by labor; these are essential truths that I wish de Soto understood. But for the moment, let us avoid the easy path of criticizing this writer for not seeing

the cat, and let us try to learn from what he does see in the Rest of the Picture.

If we simply plop down the single tax in, say, a typical West African nation, what will happen? The export-oriented plantation owners, exploiters of slave labor, will scream bloody murder. The small minority of urban real estate owners who are blessed with secure title to their real estate (many of them foreign) will, probably, benefit somewhat, and support the reform. What middle class there is (there is very little) will be concerned with preserving their precious toehold on prosperity, and not be interested in any sort of reform. But how about the majority of the people in the nation?

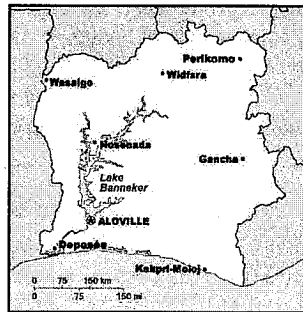
Being relieved from taxes will mean little to them, because they are not part of the formal, legal economy in the first place — they are not taxed! Being “taxed” on land — or paying “rent” for it — sounds threatening to them, because (officially) they are squatters, and any formalization of land tenure threatens what little autonomy they have managed to eke out. Becoming integrated into the “formal” economy is anathema to them; it smacks of IMF austerity, and corruption. In such a context, the single tax begins to sound more like a part of the problem than any sort of panacea.

## The News from Alodia

Seeking plausibility above all else, the tellers of the Alodia story have envisioned the probable response of the rest of the world to Alodia’s experiment. Led by the Bush administration, the Western powers have imposed the strictest possible trade sanctions. Alodia has, however, lucked out in the aspect of its currency; because it uses the French African Franc, or CFAF, its currency could not be declared invalid without penalizing other uninvolved nations; therefore, day-to-day transactions could still be made. But, denied its accustomed export markets, the regime was sweating out its need for foreign exchange. In the nick of time, China agreed to buy certain of Alodia’s exports (possibly to thumb its nose at the US).

A highly public fracas arose in the Aloville market between a Mr. Jobe, a member of a team charged with formulating a new constitution for Alodia, and an outspoken woman, Monique Sassafras, who criticized the “Westernization” of the Alodian economy. In the fallout of this highly publicized “debate”, Jobe was fired, and Sassafras was hired by the interim government, in the post of “Undersecretary for Non-formalized Economic Affairs”.

The regime is hanging on; if it can weather the storms of the coming year or two, it envisions a bright future. Point your Web browser to <http://www.henrygeorge.org/alodia> to read the latest news — or to create some, yourself!



But I believe we have found the outline of a workable solution to this problem! It was just this sort of question that led the HGI to embark on its “simulated nation” project on the world-wide-web. We set up a fictional West African nation called Alodia, in which a junta had taken control, stating its intention to implement a Single Tax economy: assessing and collecting the rental value of land, eliminating tariffs and other taxes, and (although this last is not, of course, part of George’s remedy), unilaterally refusing to continue payments on its foreign debt.

Our goal was to make our simulation as realistic as possible — and in that context, we had to figure out how the Alodian assessment team (staffed, of course, by prominent Georgists) went about creating the national cadastre. We had to come up with land valuations, in many places where records were conflicting or nonexistent. Given the informal nature of land tenure documentation, how was the assessment team to figure out who owned what pieces of real estate?

In essence, they listened to de Soto’s barking dogs. The Army sent out foot soldiers into the field to collect data. They were sent to localities where they knew the people, the customs and the language, and they were told to figure out who owned what pieces of land. They were given maps and tasked with piecing together, as in jigsaw puzzles, who owned what parcels. Then, a Georgist assessment team determined the rental values of those parcels, and the land cadastre was published.

After the allotted time period for appeals was past, any improvements on the land parcels, *as delineated in the national cadastre*, became the absolute legal property of the landholders, who were issued legal documents to that effect. Furthermore, this deed entitled them to secure tenure on the land that they occupied, provided that they paid their land rent (if any) to the local government. (In rural areas, where traditional models of land tenure still held some influence, this decree amounted to a policy of non-interference with tribal and village traditions.)

Now, in Alodia, individuals could not collateralize their land value (as Hernando de Soto would want), because the state would be collecting something approximating the full economic rent of the sites they occupied. However, they did, now, possess secure legal title to the *improvements* on these sites. The people of Alodia suddenly, magically, had a significant asset base of formally codified wealth, where none had existed before!

Thus, the process that we have envisioned of practically administering a new single tax regime in a West African nation has accomplished much of the reform that Hernando de Soto sees as essential for development. But, it has done so *without* giving away the wealth — the nation’s land rent — that truly belongs to the entire community and, therefore, provides the just and efficient basis for its public funds. G