THE ZIMBABWE PAPERS

A Positive Agenda For Zimbabwean Renewal

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Executive Summary

Zimbabwean citizens have had a hard time over the last decade. Life expectancy has declined, the majority of the people are unemployed, nearly half the people do not have enough food to eat, and the children have suffered terribly from malnourishment and illness.

The suffering of the Zimbabwean people is not the consequence of historical or external factors. It is entirely due to policies adopted, decisions made, and actions taken by the government of Zimbabwe. Many people have been the victims of violence perpetrated by the government, the institution that was supposed to protect them and provide them with an institutional environment in which they could lead happy and productive lives.

African friends of Zimbabwe, who have observed the suffering of its people with helpless concern for many years, wish to assist in the best way they can. Schooled in political economy, they have prepared documents that offer proposals for policy changes that can be used to bring about reforms to transform Zimbabwe: reforms that can restore it to its rightful place as one of Africa's most thriving, peaceful and prosperous countries.

When the opportunity for change arises, the people of Zimbabwe will need to act quickly to put policies in place that will change their lives for the better, and dramatically improve the prospects of future generations. High economic growth is a matter of choice, not destiny. It depends on the nature of the policies, laws, and institutions that are put in place by the people of a country to ensure that they have good governance and economic and social conditions that lead to peace, economic opportunity and prosperity.

Ideas for Reform

The ideas for reform that are listed below are not comprehensive. They are those that from all accounts appear to be most essential and urgent:

1. Stopping Inflation

Zimbabwe's hyperinflation has crippled the country, led to political unrest, a massive “brain drain” to other countries, and produced an 80 percent decline in living standards over the last 10 years. Ending hyperinflation will require a tremendous commitment from the new leadership. It is difficult but it is also necessary if Zimbabwe is to be able to recover and step on to a path that leads to widely shared prosperity. People need to know that the money in their purses will retain its value over time otherwise they cannot plan effectively for the future, cannot make investment decisions, and have no incentive to save.

As other countries have shown, with the right policy changes hyperinflation can be eradicated and the country put on the road to stable money. Given the loss of confidence in the Zimbabwe dollar this will probably mean choosing to utilise the currency of a major trading partner, for internal and external transactions, to restore economic transactions to normality.

2. Tax reform

If Zimbabwe is to attract investors back to the country and give its citizens incentives to rebuild the economy, the country will have to adopt a less burdensome tax system. In the African arena, Zimbabwe will be competing for foreign investment with Mauritius, whose corporate and individual income tax rates will be reduced to 15 per cent from 1 July 2009.

Zimbabwe's lack of economic freedom is due, in part, to its high tax rates and complicated tax laws. The tax burden for the average Zimbabwean has been rising because of Zimbabwe's uncontrolled government spending and hyperinflation. Tax reform in Zimbabwe must be sweeping and substantial. Taxes must be reduced and the tax laws simplified. Then, Zimbabweans will be more likely to engage in formal economic activity,-- expanding the overall economic pie and increasing government revenue.

3. Trade

Restrictions on international trade such as the imposition of tariffs and quotas prevent voluntary transactions and undermine competition. As a result, countries whose governments impose such restrictions, such as Zimbabwe's, tend to suffer from more expensive and lower quality goods and services and their economies grow less fast.

When countries lower their trade barriers, they grow more quickly. As more products and people move across geographic borders, a greater inflow of ideas, entrepreneurial talent, and technology results. Greater integration in the global economy also leads to better relations with neighbouring countries, as well as greater political stability. Developing countries whose governments deliberately lowered their trade barriers in the 1990s grew three times faster than developing countries in which trade policies were left unchanged.

The potential for improvements to the general welfare of Zimbabwe's citizens as a result of lowering trade barriers, improving infrastructure, and streamlining customs are enormous. Zimbabwe has much to gain from embracing free trade and the sooner it does so the better.

4. Property Rights

Well-defined, readily enforceable and transferable private property rights are crucial for economic development; a strong property rights framework underpins all flourishing economies. The transition from extreme poverty to higher levels of income, in countries as diverse as Botswana, Chile, China, Estonia, and India, has included the strengthening of the system of private property.

Until the mid-1990s, most people considered the property rights system in place in Zimbabwe legitimate. The courts upheld the rule of law and the legal system proved to be more than adequate at resolving disputes. But that legitimacy has been eroded. The new leadership of Zimbabwe should seek ways to empower the people through a credible system of property rights that is respected, considered fair, and is consistently upheld. The leadership should also seek an equitable way to redistribute state owned assets. Much can be learned from the experience of post-communist countries in Eastern Europe and the former Soviet Union. The most successful of these countries, such as the Czech Republic, are those that most rapidly auctioned off resources held by the government.

5. Mineral Rights

Zimbabwe has abundant natural resources and in the past few decades its economy has been dominated by extraction of minerals. It is essential that the new leadership create a framework for the allocation of mineral rights that is respected by the people of Zimbabwe and, as far as possible, alterable only through voluntary transactions not subject to the whim of whichever group of people holds political office.

To start this process off, the Indigenisation and Empowerment Act should be repealed and current mineral rights holders should be allowed to continue to operate and profit from mining. Reinforcing the existing set of rights is the least disruptive reform option, and it allows mineral rights to be allocated to the owners who place the highest value on them. Resources will then be extracted more efficiently, ensuring that mining remains a viable source of income generation and employment for years to come. Leaving mineral rights in the hands of their current owners will also benefit Zimbabweans in other sectors of its economy.

6. Water

Water is a necessity of life. But that does not mean it should be provided by the government. Under the current politically-controlled water-allocation system, people must resort to lobbying politicians and bureaucrats for special favours in order to receive the water that they need and want. The creation of clear ownership rights and markets for water promises to level the playing field between rich and poor. When water rights are clearly defined, enforceable and transferable, people can buy the water rights they need instead of begging or bribing the government for such rights.

If the new Zimbabwean government is serious about ensuring that the people have access to adequate supplies of clean water to drink, as well as abundant water for farming, mining and other uses, it should immediately eliminate price distortions. As soon as possible, it should enable individuals (people and companies) to own and trade rights to water. And it should transfer ownership and control of the existing water abstraction, cleaning and distribution system to the private sector, preferably by breaking up the existing Zinwa into smaller, competing entities and then auctioning these individually through open and transparent processes.

7. Healthcare

Good health is a pre-requisite for human flourishing. Deadly and debilitating diseases prohibit such flourishing. Government's role is to enable people to live healthy and productive lives. That does not necessarily mean that government should provide healthcare (anymore than it should provide food or shelter). Rather, it means that government should create conditions within which the maintenance of good health is possible.

Many of Zimbabwe's health problems are related to its other problems especially the lack of access to adequate nutrition and clean water. In the field of healthcare, doctors, nurses and pharmacists have skills that are much in demand in other parts of the world, so in the context of widespread violence and economic uncertainty, it is unsurprising that many have emigrated from Zimbabwe. Only when the government addresses the underlying causes of Zimbabwe's current economic and social problems will these people choose to return and make their lives in Zimbabwe. In addition, efforts must be made to lower healthcare costs by eliminating barriers, such as taxes, tariffs and regulations on medicines, which make such medicines less affordable and lead to an increase in the use of counterfeits.

8. Reducing Unemployment

Zimbabwe currently suffers very high levels of unemployment. In large part this is a consequence of the general economic problems facing the country. But the situation is exacerbated by regulations intended to 'protect' employees. If it is difficult to fire employees, firms will be less likely to hire people. There are two main reasons for this: first, the skills and job fitness of potential employees are not well known prior to employment, so if it is difficult to sack an employee, employers will only hire ideal candidates; second, once a candidate is hired, he or she will be discouraged from doing their best if they know that they cannot be fired.

Reformers, in addition to normalising the economy by stopping hyperinflation and carrying out other essential reforms, must remove barriers to entry into the labour market. The most important of all is to ensure that the contractual rights of employers and employees are restored to them: they must not be prevented from entering into voluntary agreements with each other on mutually acceptable terms.

9. Communications

Telecommunications are of fundamental importance to the modern world. Societies in which citizens can communicate freely and inexpensively with one another tend to be freer and benefit from more rapid economic growth than societies in which communications are restricted and costly.

The shortcomings in Zimbabwe's telecommunication systems could largely be addressed through a combination of privatising services and minimising government control of and intervention into the industry. While it will still take many years for Zimbabwe's telecommunications systems to reach the levels of other more developed country's systems, the process will be speeded up greatly if private industry takes over. This would result in lower costs to consumers, ensure greater access for people in rural areas, encourage innovation, and promote economic growth.

10. Freeing enterprise

In any country, the degree to which enterprise is able to flourish and therefore the degree to which the economy as a whole grows depends upon the laws in that country. Good laws, such as protection of property rights and enforcement of voluntary, contractual agreements, facilitate the flourishing of enterprise. Bad laws, such as overbearing regulations and arbitrary or discriminatory enforcement, promote corruption and undermine enterprise.

Business regulations in Zimbabwe are currently confusing, arbitrary and costly; they inhibit business start-ups, repel foreign investment, reduce productivity, and depress wages. Worse, most entrepreneurs choose to avoid the regulations by operating in the unregulated, untaxed, and thus illegal informal economy. Reformers must as a priority make substantial changes to the climate in which entrepreneurs and businesses operate if Zimbabwe is to attract entrepreneurs back into the formal sector and thereby kick start the process of economic growth, not to mention improve the state of the Government's coffers.

11. Limiting State Power

Limiting the power of the state and of its executives is an essential prerequisite of peace, stability, the establishment of civil society, and rapid economic growth. The ancient Munhumutapa Empire of Great Zimbabwe was a confederacy in which the elite's powers were limited, governance was shared, and decision-making was deliberative and focused on consensus. Under that constitution, the economic system was open and citizens enjoyed a high level of political freedom. Zimbabwean renewal depends on recovering that heritage and introducing a constitution that limits state power.

The specific contents of a new constitution cannot be dictated by outside advisors. If it is to be trusted and effective it must derive from the kind of deliberative and consensual process that underpinned the

Munhumutapa Kingdom. Nevertheless, it is worth observing that the following constitutional constraints have been found to be more or less effective in limiting state power in other countries: transparent budgetary processes, clear fiscal rules, a commitment to the rule of law applied by a judiciary that is independent of other branches of government, term limits for the executive, and legislative veto power over military actions.

12. Controlling violence

If given the choice, few people would live in a society rampant with violence. Life in such places is characterised by almost constant fear. Preventing violence should thus be the highest priority of any government. In addition to allowing and facilitating self-protection, constitutional reforms that strengthen the rights of the accused should be introduced in order to protect private citizens from abuses by the police. The rights of *habeas corpus* and due process, which have disappeared in modern-day Zimbabwe, must be returned. For a Zimbabwean renewal to succeed in reducing violence, crime, and arbitrary violations of people's rights, re-establishing such safeguards for individuals is necessary.

The government will also need to work to reform the police force. The old police force will be widely viewed as corrupt, but reforming them will present serious reform challenges. Looking at post-communist transitions in Central Europe and former Soviet countries may be helpful for reform of the Zimbabwean police force. Many communist police officers remained employed by the new reform governments. It was made clear, though, that there would be zero tolerance for corruption and crime. Offences were punishable with prison time and removal from the police force. Zero tolerance, combined with stiff penalties for officers, improved conduct in Eastern Europe and could work in Zimbabwe.

13. Free Speech and the Media

Few rights are more fundamental and more crucial to our well-being than the right to free speech and free expression. When people feel secure in exercising their rights to free speech and expression, a diversity of ideas and experiments in ways of cooperating are able to blossom. Moreover, freedom of speech and expression also guarantees citizens the right to question their governments. The freedom to raise concerns about government policies acts as an important constraint on governments because those policies will be made public and politicians held accountable.

Freedom of speech and expression, including freedom of the press and other media, freedom to receive or impart information or ideas, and academic freedom, must be guaranteed in the new Zimbabwe constitution.

The media should be privatised completely, meaning the state cannot retain ownership nor have representatives involved in running newspapers, radio networks, or television stations. When the mass media are free from state influence, there will be an incentive to provide people with accurate information about government policies, since media outlets will compete for customers by providing the most up-to-date and detailed information.

These reforms are not comprehensive, but they represent the best chance Zimbabweans have for a future of stability, peace, freedom, and prosperity.

A
Positive Agenda
for
Zimbabwean Renewal

Over the past decade, nearly every country in the world has experienced economic growth. Deep in the heart of sub-Saharan Africa, however, Zimbabweans have watched their per capita incomes decline by more than two-thirds. Conventional economic indicators suggest that, over the last decade, Zimbabwe has had the worst economic performance of all countries for which comparable data exists.

The decline in income has led to a tremendous amount of suffering. For example, since 1998, the average life expectancy for Zimbabweans declined from 55 years to 35 years. More than 80 percent of the adult population is unemployed. Nearly half of all Zimbabweans are at risk of malnutrition and starvation. Compared to sub-Saharan African averages, Zimbabwe's children face higher rates of mortality, suffer more malnourishment, and experience the worst from stunted growth. The children who make it to adulthood are more likely to suffer from disease and face constant threats of politically motivated, State-sponsored violence.

Zimbabwe's poor economic performance has also resulted in political instability. Protests have turned deadly; opposition activists have been imprisoned and murdered; and some of the most taken for granted freedoms have been curtailed with partisan legislation. Despite the growing frustration of ordinary citizens, the corrupt ruling elite in Harare clung to power by imposing martial law, controlling and censoring the media, and banning all expressions of dissent.

While many claim that Zimbabwe's faltering economy is the result of sanctions imposed on Zimbabwe by Western governments, there is little evidence for this claim. In fact, the claim is patently false: Zimbabwe's economic decline and corrupt rule preceded sanctions by several years, which suggests that sanctions could not have possibly caused the crisis. Rather than point fingers at the West, we think Zimbabwe's leadership needs to look in the mirror and accept that most of their problems are the result of misguided internal policies. Reversing bad policies and the perverse incentives created by these policies therefore requires looking inward and finding ways to reform the domestic economy.

At some point the dominance of Robert Mugabe's ZANU-PF in the government of Zimbabwe will evaporate and make way for sustainable reform. When this opportunity comes, Zimbabweans will have to move quickly to rediscover the rule of law, constrain government, and grant their citizens important economic and political rights.

This manuscript attempts to offer Zimbabwean reformers a blueprint for reform. It is based on the idea that for Zimbabwean renewal to occur, reformers must be committed to reduce government intervention, so that individuals have greater economic, personal, and political freedom. The notion that a more limited government will allow for more rapid development and greater political stability is now widely accepted in all branches of economics and in the political sciences. This new consensus is based on sound theory, actual experiences where other countries liberalized and grew, and a growing body of statistical analysis. The new consensus maintains that limited, transparent governments committed to the rule of law contribute positively to overall well-being.

In this manuscript, we address some of the areas of Zimbabwean life most desperately in need of reform. In Sections I-III, we discuss the key economic reforms needed in monetary policy, fiscal policy, and trade. Zimbabwe's inflation has arguably been the single biggest contributory factor in Zimbabwe's collapse; we argue that Zimbabwe's government needs to cut spending and quit printing money. Zimbabwe's taxes are high and opaque; we recommend a flat tax and argue for reducing the total number of different taxes. Zimbabwe's trade barriers are also high, and customs processes hamper trade flows.

As the country moves towards Free Trade Areas (FTAs), we recommend lowering trade barriers and improving incentives for customs officials. Sections IV and V discuss the role property rights could play in Zimbabwe's renewal. In Section IV, we recommend widespread privatisation of *de facto* rights as a way to empower the poor. In Section V, we argue that lower taxation on mineral rights and the elimination of the Indigenisation and Empowerment Act could encourage greater foreign direct investment in mining. Sections VI-VII argue for the liberalisation of water markets and the health care sector. Zimbabwe's water shortages could easily be eliminated if ownership rights to water were assigned and prices deregulated. Zimbabwe's health care system could be improved by reducing import taxes on pharmaceuticals and cutting regulation. Sections VIII through X explain why deregulation of labour markets, business, and communications are necessary for Zimbabwean renewal. Costly labour laws cause unemployment and raise employer costs; we argue that many of the laws are unnecessary and should be eliminated. In terms of regulatory delays and licensing processes, Zimbabwe is one of the worst places to start a business; we recommend a streamlining of business regulations and the establishment of a one-stop business start-up office. Zimbabwe's communications systems are out of date and highly centralized; they should be privatised and foreign entrants should be granted access to Zimbabwe's markets in order to generate efficiency-inducing competition. In the final three sections (Sections XI-XIII), the manuscript focuses on political and legal reforms. Steps must be taken to limit the state's power by upholding the rule of law; violence must be reduced by increasing state transparency and allowing for more individual self-protection; and free speech must be guaranteed to all Zimbabweans as an ultimate check on state power.

Economic reform requires careful planning and public participation in the process. This manuscript provides Zimbabwean reformers with a plan for their renewal and the brave Zimbabwean citizens, who dared to stand up against illegitimate, immoral leadership, the information they need to put their country back on a path to peace and prosperity.

I. Stopping Inflation

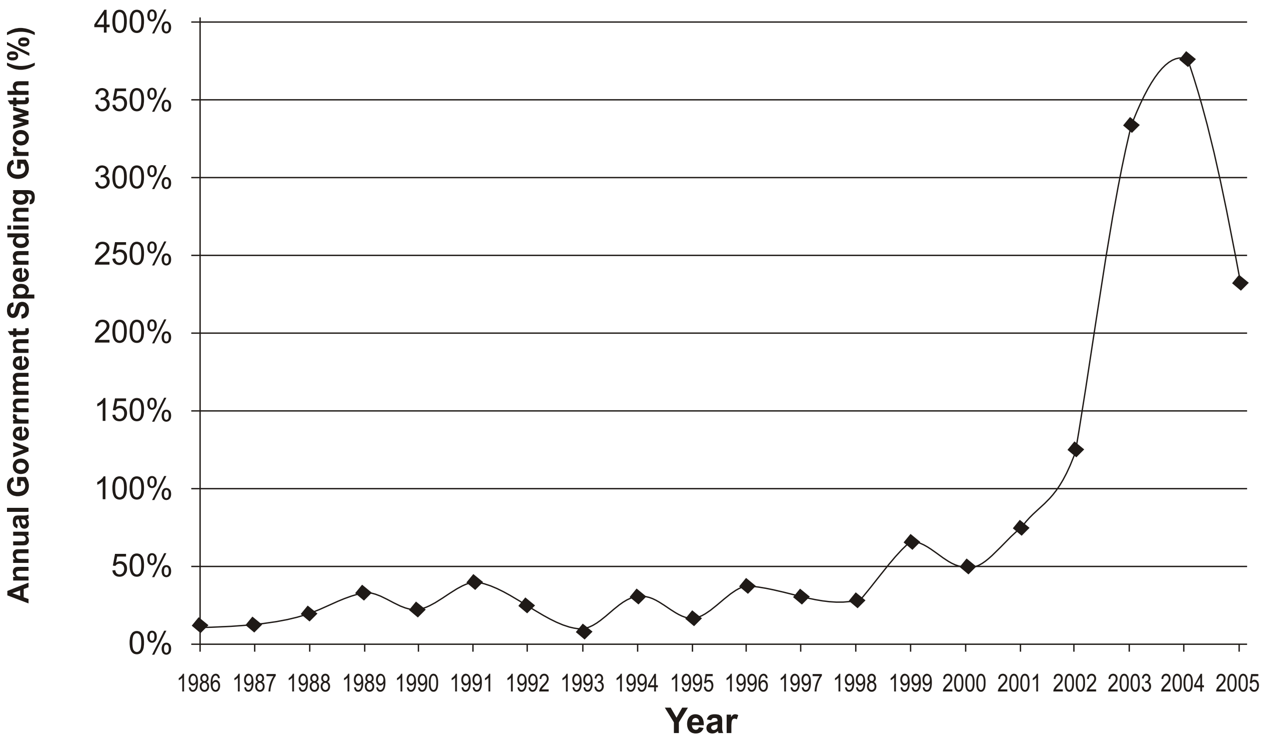
Inflation destroys people's purchasing power. It destroys their savings and undermines their incentives to make investments. It encourages people to use all their cash to purchase "real" goods, such as food or gold. It makes long-term loans less profitable for lenders because the money due to be paid back on loans is expected to be worth less than the money originally lent. Erratic inflation compounds the situation by making it extremely difficult to establish fair rates of interest.

Inflation harms both consumers and producers. It increases business uncertainty and makes business accounting more difficult because firms have trouble determining whether or not the higher prices for their products are the result of higher demand or part of a general price rise.

Under hyperinflation (when inflation rates exceed *50 percent per month*), consumers and firms encounter more extreme inflationary costs. Interest rates rise rapidly and make borrowing unattractive to firms. In spite of the rise in interest rates, people do not save because they expect future inflation to wipe out any returns on their savings. With high past inflation, people come to expect high future inflation, so they rush to use up their local currency to buy harder currencies or "real" goods.

Since 1997, Zimbabwe has experienced a 3.8 billion percent cumulative increase in prices. The cause of Zimbabwe's hyperinflation is that the Reserve Bank of Zimbabwe (RBZ) has printed too much money. The RBZ printed so much money because they were ordered to do so by the ZANU-PF so that party programs could be financed without raising funds. Government spending as a percentage of gross domestic product (GDP) in Zimbabwe increased from 20.7 percent in 2002 to 53.5 percent in 2006 and was estimated to have reached 67 percent by 2007, according to UBS Warburg. As the size of the pie has declined in Zimbabwe, government's share has grown and, as we can see in Figure 1, total government spending growth in Zimbabwe has been quite rapid. The apparent decline in government spending between 2005 and 2006 is illusory because the graph is measuring annual percent changes in government spending; the fact that Zimbabwe's government spending slowed from a rate of 350 percent in 2005 to more than 200 percent in 2006 is hardly cause for celebration. The current rate is still far too high.

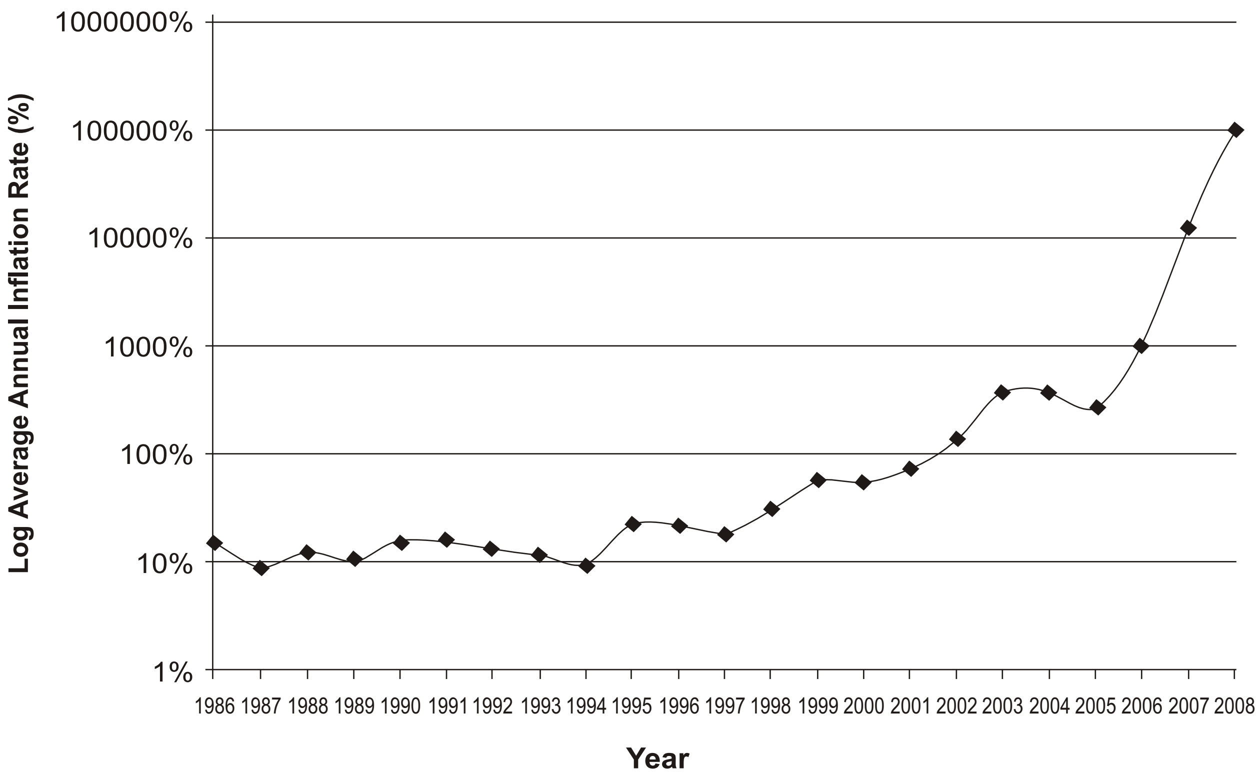
Figure 1: Zimbabwe Annual Government Spending Growth, 1986-2005 (Current Local Currency Unit, %)



Source: ***World Development Indicators, 2008***

The large fiscal deficits and rapid increase in government spending have been the result of escalating interventions into the Zimbabwean economy, from the so-called "land reforms", to unpredictable and predatory taxes. A vicious circle has been created: harmful policies have reduced economic activity, which has caused government revenues to fall and led the government to impose higher taxes. But at the same time, the government increased spending in an attempt to secure support among key political constituencies. The final result was that incomes have declined even more. Over time, the only option left for Zimbabwe's government was to take charge of the RBZ and order it to print money, thereby reducing the value of debts owed by the government (this is known as "monetizing" the fiscal deficit).

Figure 2: Zimbabwe Average Annual Inflation. 1986-2008



[Source: John Robertson]

Figure 2 puts Zimbabwe's hyperinflation in perspective. Inflation has been high in Zimbabwe for many years, but previous price increases pale in comparison to the price increases since 2006. Hyperinflation has crippled the country, led to political unrest, massive “brain drain” to other countries, and produced an 80 percent decline in living standards over the last 10 years.

Ending Zimbabwe's hyperinflation will require a tremendous commitment from the new leadership. Such reform is difficult but it is absolutely necessary if Zimbabwe is to be able to recover and step on to a path that leads to widely shared prosperity.

If Zimbabwe's Government of National Unity (GNU) is committed to reform, it must, first and foremost, stop printing new money. At the same time, it must curtail quasi-fiscal activities of the RBZ and introduce fiscal reforms in order to address the catastrophic economic and public finance problems the country faces.

Historically, hyperinflations have only come to an end when governments have stopped printing money and introduced fiscal reforms. Take, for example, the Central and Eastern European hyperinflation of the 1920s. After enduring a hyperinflation that, at one point, saw price levels rise more than 30,000 percent in one month, each country went about retiring their old currency. After retiring their old currency, a new currency was created and serious fiscal reforms were introduced.

The governments of Central and Eastern Europe reduced public spending, thereby generating fiscal surpluses. These surpluses enabled the government to pay off existing debts without printing new money. The disastrous cycle of printing money to cover deficits, falling revenues, and more printing of money was stopped. In turn, the improved fiscal condition helped to re-establish the independence of each central bank. Monetary reform did not occur in isolation in Central and Eastern Europe but, rather, was accompanied by more widespread fiscal reform.

Similarly, monetary reform in Zimbabwe cannot occur without fiscal reform. The leaders and the people of Zimbabwe should look at how other countries have ended their hyperinflations and take note of the straightforward steps they must take to end their inflation. First, cut public spending. Second, stop printing money. Other economic reforms that will also help improve public finances include tax reforms, regulatory reforms, labour market reforms, and legal reforms; these are discussed in Sections II, VIII, IX, and XI.

II. Tax Reform

The purpose of taxation is to raise money for public goods and services whose provision is properly the province of government. Examples include funding the growth of infrastructure, such as roads, and "public goods," such as defence. When government spending is limited to core areas and tax levels kept low, predictable, and transparent, countries tend to enjoy high rates of economic growth. Lower taxes allow workers to keep more of their incomes, encourage savings and investment, and entice more entrepreneurial behaviour. Low taxes also lead to more philanthropy, a richer civil society, and more social capital.

In Zimbabwe, taxes tend to be high and extremely unpredictable. That creates distortions in the economy and hampers savings and investment decisions. Zimbabwe's high tax rates are not a result of government officials trying to promote the public good but are, rather, a result of government officials trying to change the distribution of wealth and income, punishing groups they dislike, and serving other political purposes. When governmental officials use tax policy to pursue their own particular ends, the rule of law is compromised and market distortions are created. Moreover, the high tax burden causes people to grow cynical about government and leads them to focus much of their productive time on figuring out ways to evade taxes.

Compared to other sub-Saharan African countries and compared to other developing countries, Zimbabwe's tax rates are quite high. The top income tax rate is 47.5 percent, and corporate profits are taxed at 37 percent. Other taxes include a 3 percent AIDS surcharge on all taxes, a value-added tax (VAT), and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 32.6 percent.

Zimbabwe's high levels of taxation are partially a result of a vicious circle. Government expropriation of productive enterprises (such as farms), combined with arbitrary and discriminatory regulations, have made formal, taxed, economic activity unattractive. This declining tax base, reinforced by declining incomes per capita has led to declining tax revenue. But, rather than cutting spending, the government has responded by raising taxes and monetizing its deficit through the printing of money. This has led to even less government revenue as entrepreneurs and workers have moved to the informal market to avoid transacting in worthless Zimbabwean dollars and paying taxes that would otherwise make their work profitless.

Zimbabwe's rising levels of taxation are compounded by the country's hyperinflation. During normal economic times, high marginal tax rates on income discourage investment and entrepreneurial activity. Zimbabwe's high marginal tax rates are having more severe effects because hyperinflation is causing all prices, including wages, to rise; as nominal wages rise, more and more people are subject to the 47.5 percent tax rate. Of course, the apparent income increases are nothing more than the result of inflation; they are not what economists call “real” increases in one's earning power. Taken together, then, the hyperinflation and high marginal tax rates act as a double taxation on people's earnings.

In addition to the high rates of taxation, Zimbabwe's tax code imposes costs on Zimbabweans due to its complexity. According to the World Bank, a typical company in Zimbabwe has to spend 216 hours per year complying with tax regulation, and it must make 59 separate payments to tax agencies. With many different taxes being collected, one might expect Zimbabwe's government to be enjoying large budget surpluses; instead, the complex tax code has the opposite effect because most economic activity goes unreported. Combined with unrestrained government spending, Zimbabwe's bewildering tax policy causes large deficits to persist.

In the past decade many countries have moved from high and complex tax rates to simpler, lower tax rates, with the result that government revenue has increased. And that is almost certainly what would happen if the incoming leadership in Zimbabwe were to do the same. The reason is simple: when tax rates are low and tax laws are easy to comply with, more businesses enter the formal economy, more economic activity is recorded, and fewer tax exemptions are claimed. Good incentives are created for businesses to move “above-ground” and enjoy the security of the formal market economy, in which property rights and contracts can be enforced: the payment of low and simple taxes is a worthwhile trade-off for such security, whereas the payment of high and complex taxes is not.

Zimbabwe has several options for reforming its tax code. One option is a low and flat income tax; such a tax would encourage people to work and small businesses to produce. Another option is to create a flat consumption tax, such as a value added tax (VAT); a VAT could be applied to all goods and services, with exemptions or rebates for extremely poor consumers. Though the distributional effects of the two taxes vary, they are both vast improvements over Zimbabwe's current tax policy in that they are easy to understand, easy to comply with, and easy to enforce. They are also “fairer” in the sense that people will pay similar rates of taxes on similar levels of income or consumption.

In addition to flattening and lowering tax rates, the Zimbabwean government must eliminate special treatments and exemptions from the tax code. Special treatments for certain companies or sectors of the economy result in fewer people “buying-in” to tax reform. Issues of equity arise, as people rightly wonder why some individuals are not paying the same rate as others. Tax policies applied equally to all are broadly consistent with the rule of law and eliminate potential corruption, which could come about from an environment in which exemptions are common and people may be granted exemptions through lobbying.

Efficiency gains may also be enjoyed by improving tax collection services and allowing for more electronic transmissions of tax forms. Automated payments and electronic filing significantly reduce the time people must spend complying with tax codes. Automation also eliminates another potential point at which corruption may arise, since computerized transactions are easier to standardize and check than those done using paper submissions. While automation of tax filing processing may not be plausible for rural areas in Zimbabwe, it would certainly be an efficiency enhancing policy that would benefit urban residents and businesses generally.

Beyond simplifying and standardizing the tax code and collection, Zimbabwe's government must allocate government revenue more efficiently. If the government must tax, people should be able to see their money being used to improve their economic and social situations (see section on limiting state power). Tax reform in Zimbabwe must be sweeping and substantial. Zimbabwe's lack of economic freedom is due, in part, to their high tax rates and a complicated tax code. The tax burden for the average Zimbabwean has been rising because of Zimbabwe's uncontrolled government spending and hyperinflation.

For Zimbabwe to enjoy a renewal, efforts must be made to simplify the tax code and allow Zimbabweans to have more resources to pursue their own goals. Cutting taxes and allowing individuals to keep more of their income allows the overall economic pie to grow, thereby creating a win-win situation for both Zimbabweans and the new government.

III. Trade

Voluntary exchanges between people are mutually beneficial, regardless of where those people are in the world. Such transactions enable specialisation, so that people and companies can focus on producing one or a few goods and services, while buying from others the additional goods and services they want or need. Over time, most goods and services become subject to competition with several entrepreneurs offering similar goods and services, each competing with one another to produce the best and/or least expensive. The resultant increase in productivity and output leads to increased wealth and is what we see as 'economic growth.'

Restrictions on international trade such as the imposition of tariffs and quotas prevent voluntary transactions and undermine competition. As a result, countries whose governments impose such restrictions tend to suffer from more expensive and lower quality goods and services and their economies grow less rapidly.

When countries lower their trade barriers, they grow more quickly. According to the World Bank, those developing countries whose governments deliberately lowered their trade barriers in the 1990s grew three times faster (5 percent average annual growth) than developing countries in which trade policies were left unchanged (1.4 percent average annual growth). In much of sub-Saharan Africa, however, trade reforms have stalled or been blocked

As an example of how lack of trade reform hurts sub-Saharan Africa in general, the World Bank notes that sub-Saharan African products ready for export are usually delayed by an average of 40 days. Export delays in sub-Saharan Africa are the longest of any region in the world, and these delays point to the tremendous disadvantage African countries face when trying to compete in global markets. Delays, tariffs, administrative fees, and other obstacles to trade impose significant costs on producers. These costs cause domestic prices to rise and give businesses less of an incentive to produce for world markets. Table 1 summarizes some of the monetary and time costs incurred at different points in the trade process; these trade costs are high when compared to world and sub-Saharan African averages.

Table 1: Zimbabwe's Export and Import Procedures for Traded Goods

Nature of Export Procedures	Duration (days)	US$ Cost
Documents preparation	30	50
Customs clearance and technical control	4	150
Ports and terminal handling	4	198
Inland transportation and handling	14	1481
Totals:	52	1879

Nature of Import Procedures	Duration (days)	US$ Cost
Documents preparation	42	50
Customs clearance and technical control	4	150
Ports and terminal handling	9	220
Inland transportation and handling	12	2000
Totals:	67	2420

Source: Doing Business Report, 2007

When experts compared the time it takes to trade goods and services with different countries, they found that Zimbabwe ranks 168th out of 175 countries surveyed. Zimbabwe's poor overall ranking results from a series of different problems. For example, Zimbabwe's system for recording goods and services clearing customs is outdated, and there are frequent allegations of corruption surrounding customs officials.

Before goods even reach customs, though, they must survive long journeys over bumpy roads that occasionally become impassable. However, compared to many sub-Saharan African countries, Zimbabwe's roads are in relatively decent shape; a large fraction of them are paved and, until recently, they were well-maintained. The real roadblocks for Zimbabwean producers trying to bring goods to market are political ones: many roads have checkpoints. The checkpoints delay or completely block the transportation of goods to market. While some of the blockades target livestock and other agricultural products out of a genuine concern about disease and health risks, many goods are halted simply because the transporters lack necessary permits, licenses, or are unwilling to pay bribes to officials.

If transporters are fortunate enough to reach one of Zimbabwe's borders (usually South Africa), they are greeted with even greater obstacles. Xenophobia towards Zimbabweans is at fever pitch. Zimbabwe's neighbours are afraid of Zimbabweans “dumping” their labour and merchandise on their markets and thereby contributing to higher unemployment and a weaker overall economic environment for them. While these concerns are spurious (since trade with Zimbabweans for goods or labor would undoubtedly bring mutual benefits), they impact negatively on the policy environment. When merchandise does reach the border, it is subjected to many additional bottlenecks, which raise the costs to producers, delay the products' export, and put Zimbabwe at a tremendous disadvantage.

Thus, geography and poor luck have played some role in Zimbabwe's difficulties: it is a landlocked country far from good trading routes, and its neighbours have xenophobic attitudes. But, there are many things Zimbabwe can do to help itself. According to the Office of the United

States Trade Representative, Zimbabwe has some of the highest tariffs in the world, with simple most-favoured nation tariffs in excess of 20 percent and weighted average tariffs above 15 percent. It also has a number of non-tariff barriers, which impede foreign imports. Other permits and regulatory hoops put Zimbabwe at a serious comparative disadvantage when trying to compete with the rest of the world. Zimbabwe could benefit greatly from customs reform, infrastructural improvements, and lowering of trade barriers.

The easiest, most immediate trade policy reform Zimbabwe's government should introduce is a system that more effectively measures the time it takes for goods to clear customs. It is important for reformers to have some sense of how long it is taking for goods to clear customs and to identify the locations of serious bottlenecks. In addition, introducing systems of measurement will initiate the process of making customs officials more accountable. When effective measurement techniques are introduced, customs officials can be rewarded for speedier, higher-quality work. In the current environment, there is no way of monitoring service times, and there is a strong incentive for workers to shirk and demand bribes.

An even more effective measure would be to sub-contract trade facilitation to a private company, which would have incentives to introduce all manner of efficiency-enhancing procedures and technologies. Mozambique did just that and the speed and effectiveness of its customs procedures improved enormously and corruption was practically eliminated.

In addition to customs reforms, upgrading the road network and removing blockades are necessary steps in cutting down on delay times. Blockades can be reduced immediately by revising regulations related to the movement of goods. On the other hand, upgrading roads is expensive, which means that Zimbabwe will need to grow more economically and make infrastructure upgrades a bigger budget priority. According to the IMF, less than 7 percent of government expenditures in Zimbabwe in 1997 were allocated to "economic affairs," which include infrastructure expenditures. Since 1997, the share of resources going to "real" economic affairs appears to have declined, succumbing to an obsession with political scoring in so-called "turn around plans." Given Zimbabwe's poor trade scores, focusing more on infrastructure and less on other budget items, such as defence and militarised policing, makes good sense.

The most important thing that Zimbabwe can do to become more competitive in the global market is to reduce the level of its tariffs and the number of imports that are taxed. Ideally, they would take a lesson from Estonia, Singapore, or Hong Kong, which are the only three countries in the world to have abolished all tariffs (though Estonia subsequently had to reintroduce some tariffs in order to join the EU). Tariff reforms are not easy, though, and there is no precedent in sub-Saharan Africa for zero tariffs. Interest groups will dig in and try to keep tariffs that help their industries, even though they harm everyone else. For instance, the collapse of Zimbabwe's once sophisticated motor vehicle manufacture industry is due more to poor national governance than to an influx of Japanese used cars. Thus, imposing foreign currency denominated tariffs on motor vehicles can in no way resuscitate Willowvale Motor Industries. The August 18, 2008 introduction of the Southern African Free Trade Area, which includes Zimbabwe, is an important step towards harmonizing tariffs across sub-Saharan Africa. Harmonization is not the same as elimination, however, and Zimbabwe's reformers must consistently push for lower tariffs and more transparent processes in this larger regulatory environment.

Government officials will argue that tariffs provide valuable revenue to the government. Yet this argument is probably incorrect: current trade restrictions are above optimal levels; as a result, many goods enter the country illegally, make their way to the informal markets, and subsequently evade taxation. Other goods do not enter because of the high tariffs. If tariffs were lower (but not zero) more revenue could actually be collected. It is even possible that zero tariff rates would increase revenue because Zimbabwe would grow more quickly, so revenues from other taxes would more than compensate for the decline in revenues from tariffs.

Meanwhile, in order to address the concerns of people employed by the vested interests who would be adversely affected by trade liberalisation, it is perhaps worth considering providing money for worker retraining programs and temporary unemployment relief. Although such support may not be economically rational, it is a pragmatic means of driving forward the process of trade liberalisation: in the absence of some compensation, liberalisation might simply not take place.

The potential for improvements to the general welfare as a result of lowering trade barriers, improving infrastructure, and streamlining customs are enormous. As more products and people move across geographic borders, a greater in-flow of ideas, entrepreneurial talent, and technology ensues. Greater integration in the global economy also leads to better relations with neighbouring countries, as well as greater political stability. The benefits of trade are unambiguous: countries that are open to trade and which thereby allow for production based on comparative advantage, flourish; countries that are not open to trade flounder. Zimbabwe has much to gain from embracing free trade and the sooner it does so the better.

IV. Empowering the Poor Through Improved Property Rights

Well defined, readily enforceable and transferable private property rights are crucial for economic development. All flourishing economies are underpinned by a strong property rights framework. The transition from extreme poverty to higher levels of income, in countries as diverse as Botswana, Chile, China, Estonia, and India, has likewise been underpinned by the strengthening of the system of private property.

To be effective, private property should be well defined; for example, by mapping and registering the boundaries of individual pieces of land. It should also be readily enforceable: any dispute over the boundary of a property should be capable of being resolved quickly, simply and inexpensively through arbitration or the courts. When property is well defined and readily enforceable, ownership is secure and the owners have stronger incentives to use that property in ways that add value compared with property that is owned by the state. For example, when land is owned privately, the owners have incentives to invest in improvements to that land, such as soil conservation, irrigation, and the use of fertilizer and other inputs, in order to increase the productivity of the land.

In addition to being secure, private property should also be capable of being transferred. Only when property can be transferred will it be possible to ensure that it is put to the highest valued use. In addition, transferability enables property to be used as security against loans, thereby providing owners with the possibility of obtaining capital at relatively low rates of interest.

When property rights are not secure and transferable, economic transactions become less certain, resources are used inefficiently because people fear that the rights will be expropriated, credit markets evaporate, the economy stagnates, and the people suffer.

Of course, Zimbabweans already know the benefits of property rights. Their economic history is one in which property rights were respected and title registrations took place. During that time, Zimbabwe prospered. Over the last 25 years, however, Zimbabwe went from being one of sub-Saharan Africa's richest nations to an ordinary sub-Saharan African nation. According to the World Bank, in 1980, Zimbabwe's income was about US$1,300 per capita, which was similar to China's. Since 1980, China's income per capita has grown to US$6,500 and Zimbabwe's has declined to US$950. (All figures adjusted to take account of differences in the domestic buying power of a US dollar). Even in sub-Saharan Africa, much of which has suffered from slow or stagnant growth over the past quarter century, a real decline in economic output of more than 25% over a 25-year period is quite remarkable.

It is common in ruling party circles to blame colonial oppression for Zimbabwe's current woes. While colonialism certainly led to horrendous violations of human rights, including murder and theft of property, it is difficult to see how it can be directly responsible for the current problems. Indeed, since most of the economic decline has occurred in the past ten years, it seems more likely that it was caused by the persistent violation of property rights (of both black and white Zimbabweans) and erosion of the rule of law carried out during that period by the executive branch of Zimbabwe's government.

There had previously been attempts to resolve some of the historic injustices caused by the pre-independence regimes. For example, in 1981, the United Kingdom gave the Zimbabwean government 630 million British pounds. The money was supposed to be used to buy out the white farmers, so that land could be returned to the descendants of pre-colonial owners. Most of these farmers had purchased their land in good faith, albeit at a price that was reduced because of the apartheid policies, and it was felt that expropriation without compensation would create a bad precedent, undermining the stability of the property rights system.

Notwithstanding any historic injustices that may have remained unresolved, the property rights system in place in Zimbabwe, until the mid-1990s, was considered legitimate by most people. The courts upheld the rule of law, and the legal system proved to be more than adequate at resolving disputes. Even though the courts frequently encountered issues related to the scars of colonialism and Ian Smith's illegal and oppressive post-colonial apartheid tenure, they always took a pragmatic approach to racial issues by adhering to the rule of law and seeking precedent when intervening.

Then, starting in the mid-1990s, faced with dwindling political fortunes, the executive branch of Zimbabwe's government began to implement a populist policy of expropriating (mainly white) landowners without compensation. The courts pushed back against these early efforts, insisting that established legal procedures be followed. However, the government responded, not by adhering to the rule of law and adjusting the initiatives, but by initiating greater violations of legal rules. The courts remained determined to put the law above the executive; in spite of growing pressure from the executive, they consistently ruled against land confiscations between 2000 and 2003. But, over time, law and justice were replaced by violence, and many judges opposed to the executive were forced to resign and flee the country.

By 2003, more than 4,500 commercial farms had been seized. Though these "land reforms" were ostensibly an attempt to address past racial injustices, the consequences have been terrible for most Zimbabweans. Between 2000 and 2001, the value of commercial farmland fell by seventy five per cent. With values collapsing and less land available as collateral, banks were unable to securitize loans and a banking crisis ensued. As banks closed and investment declined, many firms could not remain in business and unemployment surged. The tragic, but predictable, consequences have been a massive decline in incomes, political instability, and widespread hunger.

Part of the problem is that Zimbabwe's processes for registering property rights are among the most costly and time consuming in the world. According to the World Bank, formal registration costs on average 24 percent of a property's value. In addition, Zimbabwe's Ministry of Land and Agriculture has made the allocation and recording of land rights incredibly confusing. As a result, only a small fraction of properties in Zimbabwe are officially registered and Zimbabweans have given up on formal titling. But armed with informal titles bestowed by frivolous “Offer Letters” and “99-year Lease Agreements”, the new “owners” of recently confiscated land have been unable to sell their holdings. Since these new owners for the most part were not experienced farm managers and since the plots of land they now owned are generally inefficiently small, the lack of ability to sell the land has prevented good management and re-aggregation into efficient farming units.

These problems must be addressed as a matter of urgency. In addition to transitional justice and redress for those farmers who unfairly lost their properties, the new leadership of Zimbabwe should seek ways to empower the people through a credible system of property rights that is respected, considered fair, and is consistently upheld.

First and foremost, the leadership should seek to reduce the number of procedures required to register property and take immediate steps to speed up the process. Currently, Zimbabweans must go through four separate steps to register their property and wait an average of 30 days. Bottlenecks could be eliminated from the registration process by improving technology, eliminating redundancies in registration, and waiving tedious signature requirements on many titles and deeds.

The most effective way to achieve this would be to codify existing de facto rights and create a framework for resolving disputes over rights claims. The reformers should attempt to allow property rights to be created where no titles currently exist. If reformers look closely at the existing system of property rights in Zimbabwe, they will find a sophisticated set of rules and dispute resolution mechanisms already in place. Rather than creating a new set of rules, they should simply work on codifying the already existing norms and rules. Once formal titles are established, people will begin to grow confident in their rights and they will be empowered to act on them. If, on the other hand, reformers assume that they know best and impose new rules on stakeholders with little concern for the *de facto* rights, reform will undoubtedly fail.

In addition to making registration swifter and less costly, the leadership should also seek an equitable way to redistribute state owned assets. Currently, many of these assets are a drain on fiscal resources but if sold off in a suitable manner could become (through both the sale and subsequent taxes) sources of revenue. Much can be learned from the experience of post-communist countries in Eastern Europe and the former Soviet Union. The most successful of these countries are those that most rapidly auctioned off resources held by the government. Direct auctions are the most effective method of privatisation because they allow resources to be distributed immediately to the highest-valued uses.

V. Mineral Rights

Zimbabwe has abundant natural resources and in the past few decades its economy has been dominated by the extraction of minerals. In 2005, nearly 25 percent of Zimbabwe's merchandise exports came from ores and metals. During the 1990s, more than 50 percent of Zimbabwe's gross domestic product came from the extraction and sale of copper, gold, nickel, and metallurgical-grade ferrochromite. While the minerals sector is a source of employment, its effect on the Zimbabwean economy has not been unambiguously positive. Indeed, there is reason to believe that it has exerted a negative influence. In large part this stems from the way in which rights to extract minerals are currently allocated. Reforming the allocation of such rights is a pre-requisite for peace and prosperity in Zimbabwe.

Zimbabwe is not unique. Countries whose economies are dominated by natural resources tend to suffer from slower growth than countries with few natural resources. This “natural resource curse” can manifest itself in a number of different ways. In some countries, an abundance of natural resources causes the government to become too dependent on a steady stream of mineral revenues; when the revenues begin to decline, governments have a difficult time adjusting spending. In other countries, such as Nigeria and the Democratic Republic of Congo, serious conflicts have emerged over the ownership of oil and other minerals. But the natural resource curse is not inevitable: many countries, including neighbouring Botswana, have successfully overcome, avoided, or minimized the curse.

Mineral rights in Zimbabwe have historically been allocated by the government on short term leases to mining companies. In addition, these leases have been subject to constant renegotiation. The combination of short-term leases and uncertainty has encouraged mining companies to focus on short-term profits: the attitude was, “let's get the minerals out of the ground as fast as possible before the lease expires or the government changes its mind." This led to unnecessary waste and excessively rapid resource depletion.

The allocation of mineral rights in Zimbabwe prior to 1980 was highly inequitable, with rights frequently obtained from the indigenous people by deception and coercion. Some way of addressing this iniquity was necessary, however it is not clear that the "solutions" implemented to date have actually improved matters. For example, the rules governing mineral rights in Zimbabwe were altered again in March 2008, when Parliament passed the controversial Indigenisation and Empowerment Bill. That bill, which legally should not have been tabled until the new election results were in, requires any foreign mining operation in Zimbabwe to transfer at least 51 percent of local holdings to "indigenous Zimbabweans". The government then voted itself 25 per cent of those holdings for free.

Although these policies might be aimed at addressing equity issues, they are doing Zimbabweans far more harm than good. They transfer both rights and responsibilities from professional managers and investors to politicians and politically favoured individuals. The new owners of the majority stake must make decisions about corporate governance, optimal extraction rates, and future capital investments. But since they typically have little experience in such matters, their decisions are likely to lead to lower profits and generally less efficient use of the mineral resources. The situation is made worse by the political uncertainty that now bedevils Zimbabwe, since the new owners will be wary that they might be dispossessed at some time in the near future.

There are many reasons why the policy fails. First, the lease revenue goes to the government not the people who have legitimate claims. Second, even if the government had in place a scheme for providing restitution to individuals and groups whose minerals had been obtained by deception or coercion (which it does not), it is not clear that the existing scheme would best serve that purpose, since government revenue is likely to be reduced because of the inefficiently run mining operations. If the government really had restitution in mind, then it should instead have created a special tax on the profits of minerals companies, revenue which would go towards individuals identified by clear criteria to have been the subject of unjust expropriation.

There are signs the policy is already backfiring. Since March 2008, several mining firms have begun to sell off assets to meet the new legal requirements. Many new mining projects have been suspended as a result of the new act, and some foreign investors have discussed exiting Zimbabwe altogether. Given the many potential mining opportunities around the world, the new rules are just too great a burden and risk for investors to choose Zimbabwe over other countries.

The process of designing a new, equitable mineral rights policy for Zimbabwe is complex. While mineral rights were in many cases originally acquired in unjust ways, the owners of mineral rights immediately prior to the Indigenisation and Empowerment Act had presumably acquired their rights by purchasing them in good faith. If these owners are to have any incentive to continue to invest in Zimbabwe, they will require very clear assurances that their investments will not be expropriated. Meanwhile, there is an urgent need to ensure that the Zimbabwean people are able to benefit from the minerals extracted on their territory. Squaring these two concerns in a way that minimizes conflict is the challenge that lies ahead.

Any new mineral rights policy is vulnerable to political opportunism. Whenever the current leadership needs revenue, they will turn to the mines and renegotiate the mining taxes and the ownership rights of natural resource investors. Such interventions undermine the rule of law, reduce incentives for efficient, prosperity-maximizing investments and resource use, and encourage investors to shorten their time horizons and focus on quick profits: if you don't know how heavily you'll be taxed in the future or whether your rights will be protected, why make long-term capital investments?

To avoid these problems, it is essential that the new leadership in Zimbabwe create a framework for the allocation of mineral rights that is respected by the people of Zimbabwe and, as far as possible, alterable only through voluntary transactions not subject to the whim of whichever group of people holds political office.

To start this process off, the Indigenization and Empowerment Act should be repealed and current mineral rights holders should be allowed to continue to operate and profit from mining. Reinforcing the existing set of rights is the least disruptive reform option, and it allows mineral rights to be allocated to the owners who place the highest value on them. Resources will then be extracted more efficiently, ensuring that mining remains a viable source of income generation and employment for years to come.

Leaving mineral rights in the hands of their current owners will also benefit Zimbabweans in other sectors of its economy. When entrepreneurs are free from harsh regulations and high taxes, they are able to allocate more resources towards productive activities. In turn, improvements in productivity are central to higher wages for Zimbabweans.

By contrast, if contractual agreements with foreign investors were once again to be renegotiated, it would set a dangerous precedent, since by doing so the government demonstrates disrespect for property rights. Such policies make the country a less attractive place for future foreign investment in any sector. If the new leadership in Zimbabwe fails to remedy such violations of property rights and the rule of law, it will be sending a powerful signal to potential investors to stay away.

Having repealed the Indigenisation and Empowerment Act, the new leadership should create enabling legislation under which mining companies can, for a clearly defined fee, convert existing leases into permanent freehold ownership that is fully transferable. This would extend existing owners' time horizons and encourage further investment. Meanwhile, all new sales of mineral rights should be in similar freehold form.

Finally, politicians must determine a way to address past injustices without undermining the incentives for current and future entrepreneurs and investors to generate wealth and employment. A time-limited tax on the profits of mineral extraction, with revenues hypothecated into a fund administered by highly respected pillars of the community (not elected representatives or their appointees) and subject to clear rules (for example, that individuals be able to demonstrate that they or their ancestors were expropriated) might be one way to achieve this. But whatever solution is chosen, it is absolutely essential that the current generation is encouraged to focus on being entrepreneurial today and discouraged from dwelling excessively on the wrongs of the past.

VI. Water

Clean water is, literally, the stuff of life. Without it, we die. People in rich countries take for granted the pipes bringing them plentiful supplies of clean water. Yet, in most poor countries, people struggle daily to access clean water. Often, they fail. Each year, over a million children die from diseases that result from consuming dirty water. This situation is not merely deplorable, it is wholly unacceptable.

In Zimbabwe, most urban areas previously had adequate, if not necessarily always clean, piped water. Even in rural areas, access rates were around 70 per cent - high by African standards. But these systems, run by the government, have like most government-run services in the country broken down. With rates of water-borne diseases exploding, it is absolutely crucial that water provision be returned in urban areas and that clean water be made available in rural areas. The question is: how?

It is unrealistic to expect the government directly to provide clean water to everyone. Government simply doesn't have the right incentives to manage water storage, abstraction, cleaning and delivery efficiently. Nevertheless, in many parts of the world, governments are heavily involved in all aspects of water supply. One reason for this is the popular belief that water is something every individual needs to survive and nobody should be profiting from meeting our basic needs. But such objections to profit being made from the sale of water are only valid if an effective profit-free alternative exists. When millions of people do not have adequate access to clean water, clearly something has gone wrong with the profit-free alternative.

What went wrong? When a good is provided by government, decisions about who has access to that good and how much it costs are made by politicians, who are always eager to please their most important constituents. In the case of water, the Zimbabwe National Water authority

(Zinwa) typically charges prices well below the cost of delivery. Some people get water essentially for free (on July 8, 2008, Zinwa was charging $2 million Zimbabwean dollars for five drums of water less than 1US cent at the then prevailing exchange rate). But by under-pricing water and failing to invest in new supplies, Zinwa has been draining its key reservoirs, several of which are at risk of being depleted completely. As a result, a growing number of Zimbabweans do not have access to piped water and must rely on alternative supplies.

Zimbabwe's water crisis was exacerbated by its 2000-2003 land reforms. Since 2000, nearly 500,000 Zimbabweans have relocated to land that was previously (mainly white-owned) commercial farmland. The new inhabitants have put a tremendous strain on the existing water system and Zinwa has been unable to keep up with the high levels of demand. Zimbabweans have had to resort to untreated sources of water, drawing directly from rivers and reservoirs. As thousands of residents simultaneously draw from the same untreated source of water, contamination is a huge risk, and access to quality water in rural areas has declined from 73% in the late 1990s to less than 40% today.

There is now an urgent need to improve access to water in Zimbabwe. In the short term, distortions in the supply of water and rapid depletion of reservoirs can to a degree be stemmed by setting prices at a level that covers the costs of production. But merely changing the pricing system will not be enough to eliminate persistent shortages. A sustainable long-term solution entails the creation of clearly defined, readily enforceable and tradable rights to water. Meanwhile, the existing infrastructure for abstraction, cleaning and piping water should ideally be sold in an open and transparent process, such as through an open auction. Ideally, the system would be split up into smallish, competing entities.

Recognition of definable, defendable, and divestible ("3D") rights over water and the creation of water markets are necessary to making water available to Zimbabweans. Once property rights are in place, the trading of water rights will allow water to flow to its most highly valued uses. Water owners would have incentives to invest in better infrastructure and technology, thereby increasing available supply, reducing losses from leaky pipes, and reducing the number of disruptions to supply.

To address concerns that private water companies would not have incentives to supply to the poorest neighbourhoods, the government might consider providing the poor with direct handouts or with water vouchers (though the sale of such vouchers would need careful consideration -an issue beyond the scope of this document).

Experience from other countries suggests that private operators will supply even the poorest areas. In many parts of Africa, including Zimbabwe, private informal providers supply water to millions of people whom the governments have failed to supply. But informal supply inherently occurs in violation of the law (mainly because the state has aggregated to itself the monopoly on the supply of water, so the "informal water" is taken illegally from government-owned reservoirs); it also tends to be expensive and suffers other problems, such as lack of reliable quality and variability in supply. Establishing tradable water rights and removing restrictions on who may supply water would enable these informal suppliers to operate formally. This would increase both the quality and quantity of supply, while at the same time leading to more effective competition, thereby driving down costs.

In Chile, access to clean water increased dramatically following privatisation because the companies had incentives to expand the network of pipes into any neighbourhood where they believed a profit could be made. The government ensured that this included even the very poorest neighbourhoods by providing the poor with vouchers. 99 percent of Chileans in urban areas and 94% of those in rural areas now enjoy access to potable water 24 hours per day; this is a stark improvement over the 63 percent urban rate and 27 percent rural rates of the 1970s. In Buenos Aires, Argentina, poor areas where water companies were privatised in the 1990s experienced more rapid reductions in the incidence of water-borne diseases than similar areas where the water supply remained in the hands of the state.

If full privatisation is not politically feasible, then an alternative would be to invite bids from private companies to operate the infrastructure subject to a universal service obligation. However, this is a less desirable option for several reasons, not least of which is the potential for such supply contracts to be gamed by politically connected individuals. For example, Argentina's successful water privatisation was, to some extent, compromised by the universal service obligation. The special treatments inherent in the universal service obligation caused farmers to overuse the subsidized water and the Argentinean water company to endure substantial losses on some investments.

At first glance, private ownership and distribution of water might seem to benefit the rich at the expense of the poor, but it is actually far more equitable than government provision. Government bureaucrats tend to favour densely populated areas and rich constituents at the expense of the rural poor. Without tradable rights to water, poor rural farmers are unable buy water at any price. When, instead, markets are allowed to operate, some small farmers are able to buy water (including in some cases by pooling resources); others choose to sell their water rights to larger farmers and, though they may end up exiting the agricultural market, their ability to sell water rights makes them better off.

The creation of markets for water promises to level the playing field between rich and poor. Moreover, privatizing the provision of water will eliminate political considerations from water allocation. Under the current water-allocation system, there are strong incentives for people to "rent-seek" in order to acquire rights to water; with no market system in place, people must resort to lobbying politicians and bureaucrats for special favours in order to receive the water that they need and want. When water is allocated by markets, on the other hand, people may buy the water rights they need instead of begging or bribing the government for such rights.

If the new Zimbabwean government is serious about ensuring that the people of Zimbabwe have access to adequate supplies of clean water to drink, as well as abundant water for farming, mining and other uses, it should immediately eliminate price distortions. As soon as possible, it should enable individuals (people and companies) to own and trade rights to water. And it should transfer ownership and control of the existing water abstraction, cleaning and distribution system to the private sector, preferably by breaking up the existing Zinwa into smaller, competing entities and then auctioning these individually through open and transparent processes.

VII. Healthcare

Good health is a pre-requisite for human flourishing. Deadly and debilitating diseases prohibit such flourishing. Government's role is to enable people to live healthy and productive lives. That does not necessarily mean that government should provide healthcare (anymore than it should provide food or shelter). Rather, it means that government should create conditions within which the maintenance of good health is possible.

Most Zimbabweans now have no access to healthcare and a resultant low quality of life. In the past ten years, there has also developed a greater reliance on traditional, faith and spiritual healers as Zimbabweans widen their base of coping mechanisms to the critical shortage of organised health care. According to the World Health Organization (WHO), 15 percent of adults in Zimbabwe are infected with HIV/AIDS. The HIV/AIDS rate, coupled with declining incomes, has resulted in declining life expectancy for the average Zimbabwean. In 2004, life expectancy for the average Zimbabwean was just 36 years (compared to 48 years for the WHO's African Region), and 85 percent of the adult population (ages 15 to 60 years) will die before age 60.

The story is similarly gloomy when we turn our attention to Zimbabwe's children. Again, according to the WHO, nearly 13 percent of children die before reaching the age of 5 (129 children per 1,000 live births). Of the children under age 5 who die, nearly half of them die from easily preventable neonatal causes and pneumonia. For Zimbabwean children who survive the early years, more than 6 in every 1,000 are born into a family in which the mother dies during delivery, while many more die sometime during their childhood from HIV/AIDS. Malnutrition is a widespread problem and, as a result, 13 percent of the Zimbabwean population is underweight, while there is evidence of stunted growth in 27 percent of children under the age of 5 (suggesting that the problem has worsened recently).

In addition to being at risk of contagious diseases and malnutrition, the vast majority of Zimbabweans suffer from a lack of access to healthcare. A vital part of treatment for disease is simply having a doctor nearby, but the WHO estimates that Zimbabweans only have 16 physicians for every 100,000 people (compared to 56 in South Africa and 270 in the United States). Even when a physician is able to diagnose a patient, the essential drugs needed for treatment may not be available. To compound matters, 20 percent of Zimbabwe's infants under the age of 1 do not receive immunizations for measles, diphtheria, and hepatitis B deadly diseases for which simple, cheap vaccines are readily available and can be administered by a nurse.

Many of Zimbabwe's health problems are related to its other problems. Doctors, nurses and pharmacists have skills that are much in demand in other parts of the world, so in the context of widespread violence and economic uncertainty, it is unsurprising that many have emigrated from Zimbabwe. Only when the government addresses the underlying causes of Zimbabwe's current economic and social problems will these people choose to return and make their lives in Zimbabwe.

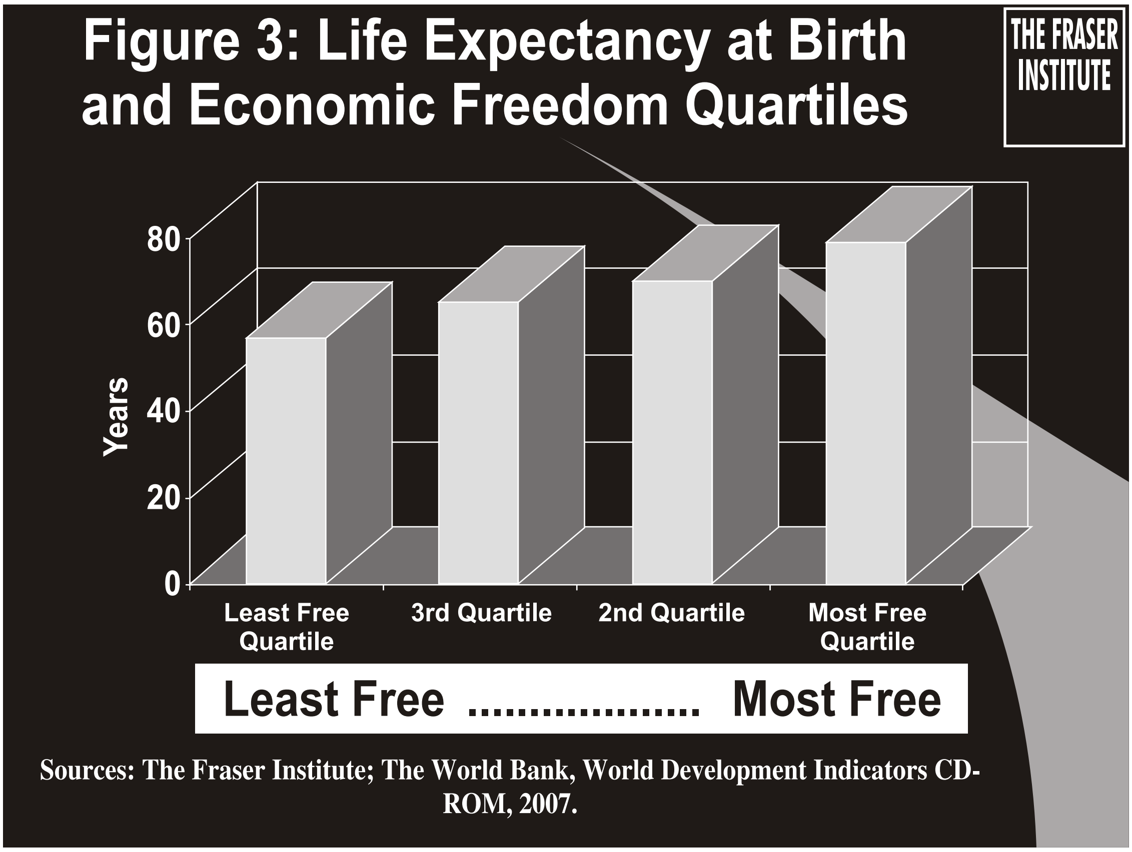


Figure 3: Life Expectancy at Birth and Economic Freedom Quartiles
THE FRASER INSTITUTE
Years
80
60
40
20
0
Least Free Quartile
3rd Quartile
2nd Quartile
Most Free Quartile
Least Free .... Most Free
Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2007.

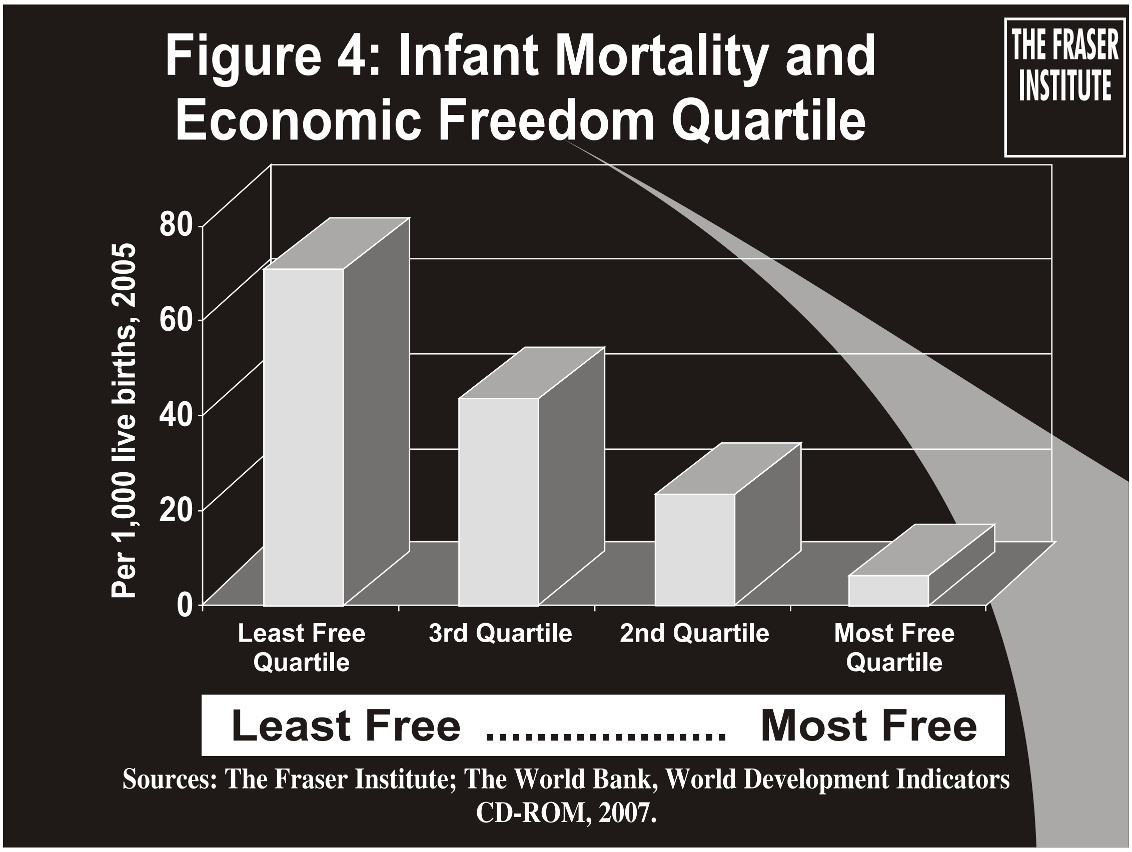


Figure 4: Infant Mortality and Economic Freedom Quartile
THE FRASER INSTITUTE
Per 1,000 live births, 2005
80
60
40
20
0
Least Free Quartile
3rd Quartile
2nd Quartile
Most Free Quartile
Least Free .... Most Free
Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2007.

Improvements in the overall economic environment should be accompanied by improvements in contract law and better protection of property rights. As Figures 3 and 4 make clear, freer states are healthier states. Without well-functioning property rights systems, it is difficult for insurance markets to emerge, which allow for the pooling of risk and reduction of health care costs. As evidenced by the high level of private health care financing (55 percent compared to 60 percent for sub-Saharan Africa), Zimbabweans have demonstrated a willingness to pay for health care. However, more than 70 percent of their health care expenditures are out of pocket payments, rather than "pre-paid plans" (i.e., insurance payments). When compared to having insurance to cover health expenses, paying out of pocket for health care increases uncertainty and places greater strains on Zimbabweans. Health insurance cannot be forced, however, and will only develop when concomitant improvements in the legal structure also occur.

In addition to economic and legal reform, there are also more direct actions that Zimbabwe's new leadership can take to improve healthcare for its citizens. First, Zimbabwe's government should make access to healthcare a greater priority; it should eliminate taxes and import tariffs on healthcare products, including medicines. Such taxes and tariffs raise the price of drugs and make it more difficult for Zimbabweans to afford treatment. Without treatment for serious conditions, such as TB and malaria, people are, obviously, more likely to die. They are also more likely to need costlier medical intervention at some future point. And they are also less productive members of the work force. Thus, while the health impact of taxes on medical products may be substantial, the overall fiscal effect is ambiguous: taxes paid raise some revenue for the government in the short-term, but the government will lose tax revenue when untreated

Zimbabweans become unable to work and may be saddled with additional state expenditures if they are subsequently treated in a government healthcare facility.

Taxes on pharmaceuticals are not the only governmental barrier contributing to high prices and restricted access to medicines. Zimbabwe's government also forces pharmaceutical companies to pay registration fees for drugs they introduce in the country. The drugs, which have usually already been approved by regulatory agencies in other countries, go through another round of lengthy inspections. The inspections are costly for pharmaceutical companies, and they also delay revenue streams for the companies. To cover the additional costs, the pharmaceutical companies must charge higher drug prices than they would if there were fewer regulations. The regulations also discourage competition and entry, which allows the drug companies to charge higher prices.

While it is of course of paramount importance that the drugs used by Zimbabweans are safe and effective, requiring companies to submit clinical data or, worse, perform additional tests, is neither necessary nor sufficient to achieve that goal. One reason is that the high price of legitimate drugs has led to a thriving industry in counterfeit medicines sold from street corners, flea markets and kitchen pantries, which often have little or no active ingredient. Many people die from consuming counterfeit medicines, either directly because the pills contain toxic substances, or indirectly because the pills do not cure them. In addition, counterfeits containing insufficient quantities of active ingredient are leading to resistance, making even legitimate medicines ineffective.

Instead of requiring drug companies to go through additional regulatory hoops when they market their medicines in Zimbabwe, the government should instead simply permit medicines to be sold if they have obtained regulatory approval by one of the many stringent regulatory agencies around the world (e.g. those of the US, Europe, or Japan). By reducing the cost of medicines, this policy would reduce the proportion of counterfeit medicines that are used by Zimbabweans. Meanwhile, the Ministry of Health can focus its activities on preventing other instances of counterfeits, for example by working with pharmaceutical companies, pharmacists and others to improve the security of the medical supply chain.

In sum, two main fronts must be attacked when attempting to improve healthcare access in Zimbabwe. First, Zimbabwe needs to solve its underlying economic and social problems: medical practitioners will only remain in or return to Zimbabwe if the violence is reduced considerably and the economy is put into better shape. Second, efforts must be made to lower healthcare costs by eliminating barriers, such as taxes, tariffs and regulations on medicines, which make such medicines less affordable and lead to an increase in the use of counterfeits.

VIII. Reducing unemployment

A lack of formal employment opportunities has many causes but is fundamentally linked to the degree to which people are free to engage in entrepreneurial and other income-generating activities. Paradoxically, regulations intended to protect employees often have the effect of discouraging entrepreneurs from employing people. As a result, they also undermine productivity and have the effect of forcing people to work in the informal sector, where there are essentially no protections -- not even those available through the law of contract, which would be available to any formal employee with or without statutory regulations.

In countries with 'stronger' labour market regulations, fewer people are employed formally and those who are employed tend to have lower wages. If it is difficult to fire employees, firms will be less likely to hire people for two reasons. First, the skills and job fitness of potential employees are not well known prior to employment, so if employers are not able to evaluate employees on the job, they will only hire ideal candidates and there is likely to be too few of these to go around. Second, once they get hired, even the ideal candidates will be discouraged from doing their best if they know that they cannot be fired.

By contrast, in countries with fewer restrictions on employment, the rate of unemployment is lower and wages are higher. If it is relatively easy to sack employees, firms are much more likely to hire people, even those that do not appear ideal. They are also likely to offer higher wages because they know that they are not locked into paying such wages indefinitely and, in a competitive environment, they know they have to incentivise people to retain them.

A large proportion of Zimbabwe's skilled and unskilled workforce lacks formal employment. Its (formal) unemployment rate is somewhere between 80 and 85 percent, which is high both in absolute terms and in comparison to other sub-Saharan African countries (unemployment is 25 percent or less in South Africa and Botswana, and less than 50 percent in Zambia). Most of these people are not unemployed per se, but are, rather, engaged in economic activities that are not protected by or regulated by the state. The main cause of this informality is not employment regulation, but, rather, many other restrictions on economic activity that have been created by Zimbabwe's government, not least of which is the hyperinflation created by politically-inspired printing of money by the Reserve Bank of Zimbabwe.

When people are trying to survive a hyperinflation, it is difficult to accept long-term contracts with employers; because of the rapid increases in prices occurring in Zimbabwe, one's real earnings on the job might be completely eroded by the end of a day's work. When formal markets pay workers in worthless Zimbabwean dollars, there is little incentive to work, so the only option left for many Zimbabweans is to exit the formal market and engage in subsistence production or enter the informal sector where payment can be demanded in stronger currencies. Thus, it is more important to reform fiscal and monetary policies than to mend any particular labour market regulation. However, we will not address such issues further in this section, since they are addressed elsewhere.

Rather, this section focuses on the specific regulations pertaining to employment. Once Zimbabwe's incoming leadership has addressed the most important fiscal and monetary reforms, it can focus its attention on reforming the regulations that more directly affect employment decisions. Zimbabwe's regulatory policies, such as safety codes for buildings and machinery, are constantly being revised, imposing substantial costs on employers, who must comply with the regulations in order legally to operate their businesses. According to the World Bank, such regulations impose a per employee cost on Zimbabwean business equivalent to approximately 14 times the average salary! When time, energy, and resources are allocated to regulatory compliance (including the often considerable time it takes to understand what compliance implies), there are fewer resources available to employ workers and offer competitive wages.

Business owners also deal with high costs imposed by government-mandated wage controls and sectoral compensation scales. Business owners are also prohibited from testing potential employees for HIV/AIDS in advance of their employment; yet, they are required to provide benefits to all employees suffering from HIV/AIDS. Mandating the terms of employee remuneration may seem desirable and may even provide politicians with short-term gains. But the effect is to discriminate against more productive employees, thereby reducing productivity: if more productive employees are not rewarded commensurate with their output, then they will have less incentive to be productive and may even find alternative employment (in extremis, such employees may migrate to countries where compensation is more commensurate with their potential value added). As a result, fewer people will be employed and their real wages will be lower.

In addition to imposing substantial financial costs on the private sector, Zimbabwe's government imposes substantial time costs on entrepreneurs looking to start new businesses. According to the World Bank, it takes 96 days to start a business in Zimbabwe, 481 days to comply with licenses, and another 30 days to register a property. Making it artificially difficult to start a new enterprise makes it harder to offer employment.

If Zimbabwe's politicians were to reduce the regulatory burdens facing employers, unemployment rates would decline and wages would rise. Moreover, as a larger proportion of people became formally employed, official, reported incomes would increase, which would lead to an increase in tax revenue. As tax revenues increased, fiscal deficits would decline, reducing the pressure on the Reserve Bank to issue currency in order to monetize the deficit. In sum, a virtuous circle would be created in which labour market reforms lead to macroeconomic stability and the resultant macroeconomic stability leads to further improvements in the labour market.

Bad policies have caused the formal economy and with it formal employment in Zimbabwe to collapse. As a consequence, Zimbabweans are fleeing their own country in search of food and work. More than 2,500 Zimbabweans legally enter Botswana each day, but hundreds are turned away. A similar situation exists in South Africa. In both countries, and especially in South Africa, this inflow is leading to resentment, discrimination, and even xenophobic violence.

Zimbabweans will stop exiting the country when conditions improve in their homeland. That depends on stopping hyperinflation and allowing employers and employees to make voluntary agreements with one another. Those policies can be implemented almost immediately. There is no need for further delay. Indeed, delay would undermine the process by enabling vested interests to mount a campaign to maintain the status quo. Rapid reform would also send an important signal to consumers, investors, and workers that their efforts to create prosperity will be rewarded. Reform is not a luxury, it is a necessity.

IX. Communications

Telecommunications are of fundamental importance to the modern world. Societies in which citizens can communicate freely and inexpensively with one another tend to be freer and benefit from more rapid economic growth than societies in which communications are restricted and costly.

Telecommunications in most poor countries are controlled and regulated by the government. The government regulates rates, handles upgrades to infrastructure, and allocates new services in an arbitrary and often discriminatory way. The bureaucracy inherent in government-run telecommunications results in poor service and long delays for people waiting to receive service. In many countries, the only way to get service is to pay bribes or engage in other rent-seeking behaviour. In rural areas especially, the command and control approach to telecommunications has left the poor unconnected to markets. Without the ability to easily communicate with others, it is difficult for individuals, such as farmers and small business owners, to know how much to produce, for whom to produce it, and when to deliver the product to market.

Deregulation and privatisation of telecommunications networks is important for economic development because it lowers costs to consumers, provides greater access for people in rural areas, and encourages new innovation in the telecommunication industry.

Zimbabwe's telecommunications network is nationally controlled and operated by the Posts and Telecommunications Corporation (PTC). It is the sole provider and operator of telecommunications and postal services in Zimbabwe. PTC's infrastructure is decades behind Western countries and many other African countries. The poor technology and long delays inherent in the traditional phone system have caused many Zimbabweans to opt for mobile phone service as their primary medium of communication. But mobile phone service is also controlled by the PTC, which struggles to keep up with mobile phone demands, and the quality of service throughout the country is spotty. Tariff controls, compounded by rampant hyperinflation and electricity outages, also make it difficult for the two private networks to expand base stations. Licensing systems for alternative fixed network providers have been frozen by corruption and partisan tender procedures. According to the World Bank, mobile phone penetration in Zimbabwe is just 10 percent, compared to 40 percent for many other sub-Saharan African countries (where typically service providers are private companies). In addition, Internet service is slow, and the content Zimbabweans are allowed to view is routinely monitored by the state.

The obvious solution to Zimbabwe's telecommunications troubles is to get the government out of the way by deregulating prices and privatising assets. Surprisingly, though, multiple attempts to privatise the telecom industry have already been made by Zimbabwe's government and have generally failed. Foreign investors, including those from Zambia, have been concerned about the weak overall political and economic environment in Zimbabwe and have declined to bid for Zimbabwe's telecommunications system. In addition to concerns about the weak economic environment, entrepreneurs are concerned by the fact that the government is allowed to intercept calls and monitor phone transmissions without judicial approval. Since privacy is one of the main benefits private telecommunications companies seek to offer their customers, the inability to guarantee Zimbabweans privacy explains why they would rather not bid for telecom rights in Zimbabwe.

As we can see, even when Zimbabwe's government wants to privatise a state-owned asset, more than privatisation is required because Zimbabwe's government has interfered so heavily with the country's business environment. Thus, privatisation of telecommunications must be accompanied by legal and regulatory reforms. New rules, which prohibit the government from intercepting communications between people without “probable cause” and approval from the courts, must be introduced immediately. The burden of proof for invading one's privacy must always be on the government, and constitutional constraints protecting individuals from invasion when they are communicating with one another must be introduced.

If Zimbabwe can successfully keep the state away from telecommunications, the prospects for other reforms and for economic development in general will be significantly improved. The state-run telecom system can then be auctioned off. Just to be clear: such an auction does not include monopoly rights. New entrants will immediately be allowed to compete with the privatised entity and revenue foregone in the resultant sale will be rapidly recovered in the form of taxes arising from increased economic efficiencies and direct taxes paid by competitors.

For the telecommunication rights to end up in the hands of the most highly valued investors, the auction should be open to both domestic and foreign investors. All revenue raised should go back to Zimbabweans in the form of tax rebates or the paying down of national debt. Any state-owned enterprise found to be unattractive to investors should be shut down and liquidated immediately; they are failing the market test.

In addition, the government must refrain from imposing excessive regulations on the new telecommunications companies. The telecommunications companies should be given the freedom to charge the prices they want to charge, and cumbersome regulations should be eliminated. This will ensure that prices are not distorted and that telecommunications services are provided in as efficient a manner as possible to those customers who value them most.

The shortcomings in Zimbabwe's telecommunication systems could largely be addressed through a combination of privatizing services and minimizing government regulation of the industry. While it will still take many years for Zimbabwe's telecommunications systems to reach the levels of other more developed country's systems, the process will be speeded up greatly if private industry takes over.

X. Freeing Enterprise

In any country, the degree to which enterprise is able to flourish and therefore the degree to which the economy as a whole grows depends upon the laws in that country. Good laws, such as protection of property rights and enforcement of voluntary, contractual agreements, facilitate the flourishing of enterprise. Bad laws, such as overbearing regulations and arbitrary or discriminatory enforcement, promote corruption and undermine enterprise.

Business regulations that are confusing, arbitrary and costly result in fewer business start-ups, lower levels of foreign investment, lower levels of productivity in existing firms, and lower wages. When the regulatory costs reach a certain threshold, entrepreneurs will choose to operate instead in the unregulated, untaxed, and thus illegal informal economy.

While the decision to operate within the informal economy is in most cases a rational response to circumstances, there are substantial costs associated with being informal. Informal entrepreneurs are unable to benefit from the protections afforded by the state such as enforcement of property rights and contracts and often must pay bribes to officials in order to keep them off their backs. Such an outcome is doubly counterproductive, since the government loses revenue that would otherwise be paid in taxes. Entrepreneurs who are currently in the informal market would likely choose to operate legally if the costs of so doing were reduced, with consequent benefits to the Zimbabwean economy.

It is difficult to identify a suitable epithet to describe Zimbabwe's current business environment. Appalling does not quite capture the true awfulness of the conditions in which entrepreneurs are trying to operate. Depending on the type of business, long before a formal business can be started in Zimbabwe, the prospective entrepreneur is expected to have a high level of capital in-hand. This requirement, onerous at the best of times, is now almost impossible to fulfil because of the impact of hyperinflation on savings.

Lenders typically require some form of collateral as security against business loans such as a piece of immovable property or a lien against a mortgaged property. In Zimbabwe, such collateral is hard to come by because of the difficulty in accumulating property and the cost of establishing title; of course, there is also the discrepancy between perceived value by the individual seeking a loan and disposability by the financial institution. However, the government-imposed capital requirements, ostensibly aimed at protecting lenders from themselves, are counterproductive: They prohibit the formation of formal business enterprises that would not require substantial start-up capital, and they thereby prevent the creation of capital

Zimbabweans with enough capital to satisfy the minimum capital requirements then go on to face endless regulatory hoops. It takes 96 days for the average entrepreneur to start a business in Zimbabwe; during that time, people looking to start new businesses must pass through ten different procedures, such as name searches, certificates of incorporation, licensing and reporting the new business to tax agencies. With the high cost of doing business in the formal economy, it is easy to understand why many Zimbabweans turn to the informal market.

In order for Zimbabwe to rejuvenate its economy, the government must reduce the costs of doing business by freeing enterprise from excessive regulation. For a Zimbabwean entrepreneur, the most daunting impediment is the minimum capital required to start a business. Government regulations related to capital for start-up companies should be eliminated. Private lenders should be free to determine for themselves how much and what form of capital a borrower must have in order to receive credit from them.

In addition to removing capital requirements for new businesses, the new leadership in Zimbabwe should eliminate unnecessary registration procedures and consolidate others, where possible. Centralizing all registration procedures in one department, on a sort of 'One Stop Registration' basis, would also make sense. New businesses should, at most, be required to notify government that they are commencing operations they should not require advance consent. In Mauritius, for example, even health certificates do not have to be obtained in advance the requirements are simple and clear and a new business is merely required to abide by them but is penalized if, on inspection, it is found to have ignored the requirements

Taxes should be made simpler and less onerous. Zimbabwe currently has too many different taxes, making the tax system difficult to comply with for entrepreneurs. Zimbabwean entrepreneurs are far more likely to operate their businesses in the formal economy if taxes are low and can be complied with easily. The rates on Zimbabwe's tax charges should be cut, and many taxes, such as the 3 percent AIDS surcharge on all goods, and capital gains taxes on investment income, should be eliminated completely. As the tax code is simplified and reformed, businesses will have more time and resources available to focus on production and will spend less time worrying about confusing tax laws and how to evade costly taxes.

Finally, bankruptcy laws are in desperate need of attention. On average, it takes a bankrupt business in Zimbabwe more than 3 years to close. When it is finally liquidated, most remaining revenue has been absorbed by high liquidator and court costs, with little remaining for creditors. As a result, banks and other potential creditors have less incentive to lend to some businesses in the first place. Business practices that are common around the world and which help smaller businesses to operate with less capital, such as deferring payment to suppliers, are made more difficult with suppliers often demanding payment in advance. Bankruptcy law reforms should make administrators more accountable and impose time limits on the courts when dealing with bankruptcy cases. Improved bankruptcy laws will actually make it easier for small businesses to get money initially because creditors will feel more confident about being repaid if the business fails.

Eliminating unnecessary red tape has obvious benefits for existing businesses and for entrepreneurs looking to start new businesses in Zimbabwe, as well as for creditors. At the same time, cutting regulatory costs and freeing up enterprise is also in the government's interest. Not only will it reduce the costs of regulatory oversight freeing up resources to be spent in more important areas but it will also lead to increased revenues, as more businesses choose to operate in the formal economy and pay fair taxes.

The rule for reformers is simple: simplify, simplify, simplify. Simpler, less burdensome regulations mean more business start-ups, higher levels of employment, and less corruption. The benefits of an improved, simplified system are clear, and they are among the things that Zimbabweans need most desperately.

XI. Limiting State Power

For millennia, people across the world have fought to be free from oppressive rulers. From America to India to Turkey to Zimbabwe, freedom movements have stressed the importance of liberty and autonomy. As Vesta Sithole says of her husband, the founder of ZANU, “Reverend Ndabaningi Sithole was a freedom fighter, through and through. He believed that people should be free in their homelands, and that no tribe should be made the elite ahead of another." Once liberty is obtained, however, it is essential to keep the power of the new rulers in check. If such checks are not in place, the cycle of oppression, dissent, and defiant resistance begins again as has happened in Zimbabwe since the late 1990s.

Limiting the power of the state and of its executives are essential prerequisites of peace, stability and the establishment of civil society. In addition, a strong correlation exists between such limited government and rapid economic growth. When governments respect the rule of law and comply with constitutional limits on executive power, their economies grow more quickly. Governments that behave arbitrarily and/or discriminatorily, over-riding constitutional limits on the power of the executive, cause their economies to stagnate. As Figures 5 and 6 suggest, countries that are economically free tend to have less corruption and higher incomes per capita.

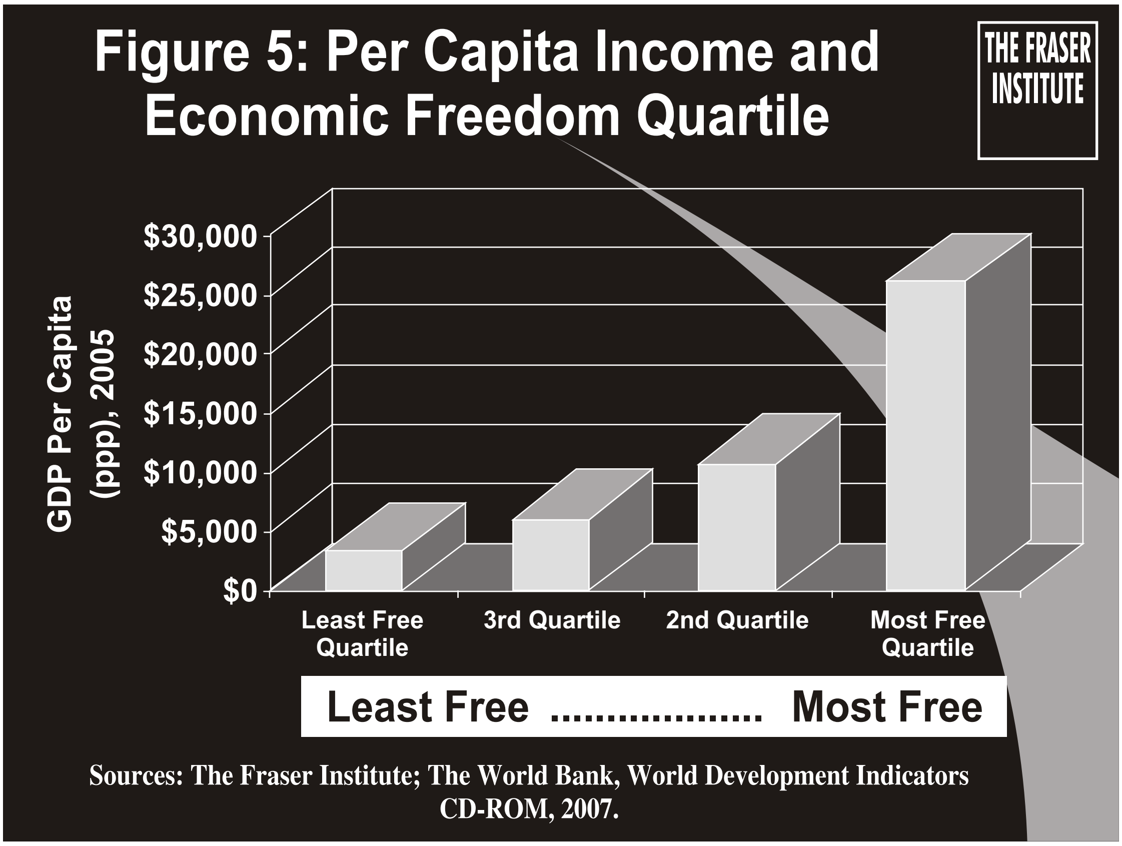


Figure 5: Per Capita Income and Economic Freedom Quartile
THE FRASER INSTITUTE
GDP Per Capita (ppp), 2005
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
Least Free Quartile
3rd Quartile
2nd Quartile
Most Free Quartile
Least Free .... Most Free
Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2007.

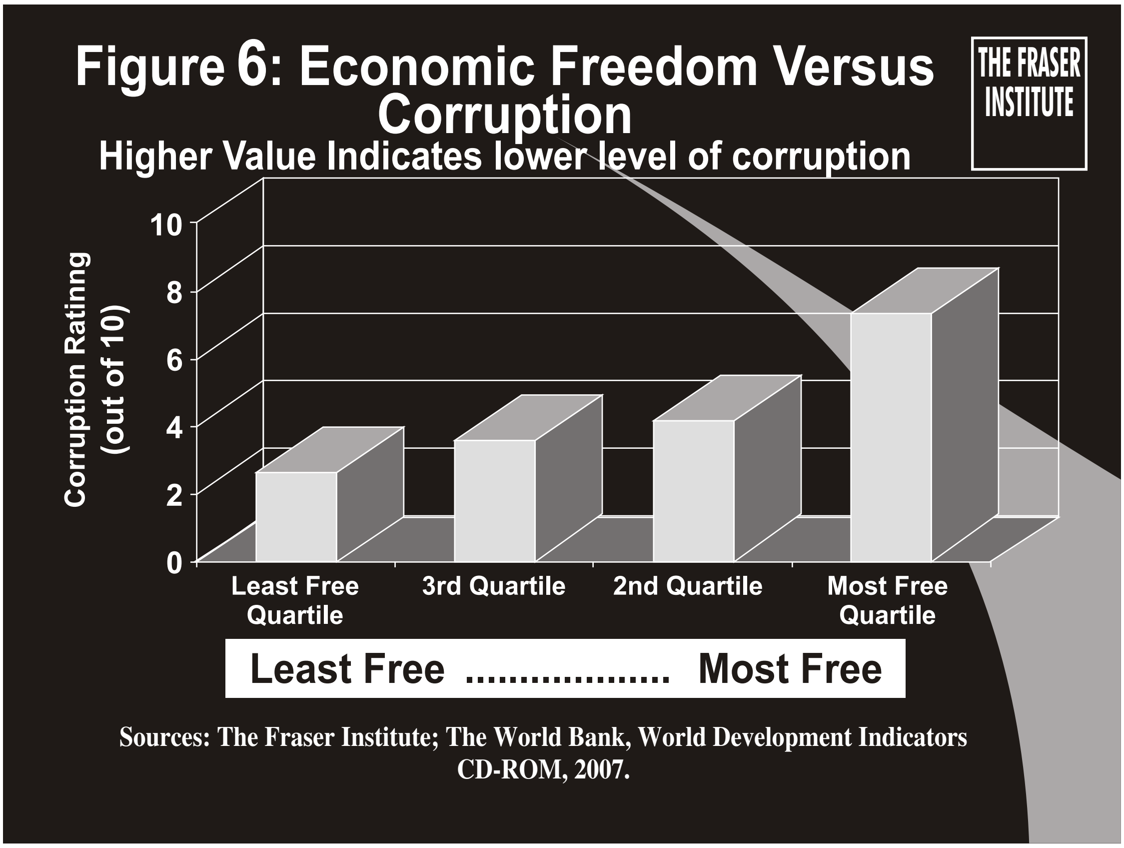


Figure 6: Economic Freedom Versus Corruption
Higher Value Indicates lower level of corruption
THE FRASER INSTITUTE
Corruption Ratinng (out of 10)
10
8
6
4
2
0
Least Free Quartile
3rd Quartile
2nd Quartile
Most Free Quartile
Least Free .... Most Free
Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2007.

Zimbabwe is a multi-party state with a bicameral legislature. Its constitution, let alone the 15 September 2008 Government of National Unity (GNU) agreement, places clear limits on the authority of the executive and on state power more generally. An independent judiciary in principle provides a further check on the executive and legislature's powers. Thus, in theory, Zimbabwe has the necessary political institutions to constrain elites and uphold the rule of law.

In practice, though, Zimbabweans have endured autocratic and oppressive leadership in the executive office since they became an independent nation in 1980. The executive office has managed to consolidate power through a series of constitutional amendments. Further, the executive office and the ruling party have been able to limit political opposition to their rule by controlling public funds and limiting access to the media. In addition to controlling the airwaves, government forces have deployed harassment, imprisonment, and torture of opposition members; for example, the land seizures between 2000 and 2003 resulted in thousands of beatings and deaths, and the 2008 elections were fatally flawed by violence and intimidation.

The executive office has worked to consolidate its power using various other legislative and police tactics, too. In 2002, the National Assembly made it illegal to openly raise criticisms against the president. Bills banning independent observers from monitoring Zimbabwe's elections, silencing the privately owned media, and forbidding unions from striking were also passed in 2002. Zimbabwe's independent judges, many of whom took a firm stand against the 2000 land policy by ruling it unconstitutional, have been ignored by the police, military, and executive; further, in response to the High Court's consistent resistance to land reform, the executive office has packed the court with loyal ruling party members and forced many judges to resign.

By amending, ignoring, and weakening constitutional and judicial constraints, Zimbabwe's ruling elites have opened the door to serious infringements on people's economic and personal liberties. In 2005, for example, “Operation Murambatsvina” was introduced. The operation evicted residents and demolished homes with a promise to rebuild better housing. Since May 2005, however, more than 700,000 people, most of whom were considered unsympathetic to the ruling government, have been evicted from their homes. Few have received new housing, and most have been denied aid from the United Nations. Peaceful protests by student activists and union leaders have also been broken up, sometimes violently. In September 25, 2006, for example, 500 activists in Harare were forced to disband and were beaten by police; 24 people suffered injuries. Human rights groups have also reported that many Zimbabweans in detention are being denied basic rights and have endured brutal torture. The cumulative effect of refusing to respect basic liberties in Zimbabwe is now easy to observe as Zimbabwe has devolved into a kleptocracy that has presided over rampant inflation, fed corruption, and created an unpopular failing state.

Zimbabwean renewal depends on constitutional renewal. After reformers stop inflation and implement emergency measures to stabilize the economy and stop the free fall caused by current policies, a process of constitutional consultation and renewal must be initiated. A constitution must, first and foremost, limit state power. While the new constitution may preserve some of the spirit and institutions of the previous constitution (e.g., bicameralism and an independent judiciary), the designers should focus on codifying the underlying, *de facto* norms, values, and institutions already in place in Zimbabwe. To avoid the perils of excessive rationalism, the creators of the new constitution must engage in a decidedly empirical enterprise in which the constitution emerges from the bottom up, with many different voices contributing to the design of the new constitution.

The new constitution must be focused less on centralizing power and more on providing Zimbabweans with as much local autonomy as possible. Allowing for local autonomy in the constitution makes the constitution more legitimate and better reflects the “will of the people.” For example, consider Zimbabwe's current political system and contrast it with the country's history. Zimbabwe has since 1980 been run as a one-party system, with a strong ruler in charge of most political decisions. This system is entirely inconsistent with Zimbabwe's indigenous institutions and history. The ancient Munhumutapa Empire of Great Zimbabwe was a confederacy in which the elite's powers were limited, governance was shared, and decision-making was deliberative and focused on consensus. The economic system was open and citizens enjoyed a high level of political freedom. A new constitution that comes from the bottom up should aim to incorporate Zimbabwe's indigenous institutions into its new rules of conduct. Zimbabwe's long tradition of direct democracy suggests that any constitutional reform should also focus on decentralized sources of authority.

Since the constitution should be generated with the help of various stakeholders throughout the country, it is difficult to predict the specific institutions and rules with which Zimbabweans will choose to live. That said, when it comes to protecting liberties and promoting prosperity, some rules and institutions work better than others. At least some of the following rules should be incorporated into a Zimbabwean constitution: transparent budgetary processes, clear fiscal rules, a commitment to the rule of law applied by a judiciary that is independent of other branches of government, term limits for the executive, and legislative veto power over military actions.

Transparent budgetary processes are central to limiting state power because they require the government to provide reliable information about its policy objectives and projected revenue. The public should be aware of the government's budget priorities and expected revenue sources, so that citizens can evaluate the performance of their elected officials and give them input regarding specific spending plans. In other words, transparent budgetary processes allow regular citizens, as well as politicians, to serve as a check on government spending and taxation. In Botswana, for example, budgetary processes are transparent and projected in five-year "National Development Plans"; these development plans impose ceilings on spending and make it more difficult for the executive or legislature to manipulate budgets to serve their own purposes.

Along with transparent budgetary processes, the new constitution should constrain the government by introducing strong fiscal rules. Governments are constrained when, by law, they are unable to tax and spend as much as they would like. A balanced budget requirement, for example, would discourage excessive public spending by tying the level of government spending to the amount of revenue the government takes in: When the economy is weak, the government would be legally obligated to cope with lower revenue by reducing government spending. This would also reduce the burdens on entrepreneurs, enabling them to invest more in productive economic activities, generating jobs and improving the government's finances.

Another possible fiscal rule that would complement the balanced budget requirement would be a prohibition on Zimbabwe's central bank from financing government deficits. Such fiscal rules mean that instead of relying on individual politicians to "do the right thing" because they are somehow inherently "moral" a risky practice -- politicians and government officials would instead be prevented from doing very bad things through regulations which must be obeyed when creating costly government programs. While it is not our place to say precisely which fiscal rules should be included in the constitution, it is important that whichever ones are chosen, they must be kept simple, must be easy to understand, and must be widely agreed upon if they are to be successful.

The effectiveness of budgetary transparency and other fiscal reforms depends, crucially, on the legal environment in which politicians and citizens interact. Politicians must be constrained by the rule of law, just as are ordinary citizens. In addition, policy must be insulated from the lobbying efforts of party loyalists and interest groups. When politicians ignore the rule of law and grant political favours to their cronies, other citizens are disenfranchised and the market economy is hampered.

When politicians are allowed to provide favours to their cronies, entrepreneurs are forced to become cronies, seeking profits through the political process, instead of identifying and acting upon opportunities to produce goods and services for willing buyers. Such politically derived profits come at the expense of genuine entrepreneurship, which is stifled by rules and regulations that rig the market in favour of the cronies. They thus come at the expense of the economy, which grows more slowly, and of consumers, who are denied goods that would be available but for the rules, regulations and distortionary taxes. And they come at the expense of government revenues, which are reduced because entrepreneurs exit the formal economy and don't pay taxes.

By contrast, when rules are simplified, regulations streamlined, and the government's involvement in the economy scaled back, Zimbabwe's rule of law will once again be placed on a more solid footing. Some individual politicians and their cronies may make less money, but overall the people of Zimbabwe will benefit. In order to bolster these constitutional constraints on the power of the legislature and executive, it is of paramount importance that the judiciary be independent of either branch of government. Without autonomous judges, the rule of law cannot function well and be upheld. Until recently, Zimbabwe had a relatively independent judiciary. Bringing back its principled judges and guaranteeing their independence from coercion or intimidation will protect the rule of law, a vital element in the success of any country.

Transparent budgetary processes, fiscal constraints, and the rule of law are the most important and effective institutions for limiting the state's power in Zimbabwe. In addition to those major constitutional reforms, Zimbabwe should consider at least two additional measures. First, term limits should be introduced for all politicians but especially those seeking executive offices. Term limits encourage politicians to focus more on the general public's interests, since they make it impossible for any individual to maintain control of an office indefinitely. For example, term limits would prevent the executive from becoming an office run by a career politician most interested in maintaining power and a lavish lifestyle.

Second, civilian control of the military is essential for Zimbabwean renewal. So, the legislative branch should be given some control, including veto power over military actions. Parliamentary checks on the executive's use of the military discourages the executive from ordering military interventions for his own interests and allows military decisions to be guided by public debate and consultations, rather than the whims of one leader, or of the military leadership itself.

XII. Controlling Violence

If given the choice, few people would live in a society rampant with violence. Life in such places is characterised by almost constant fear. People of course attempt to prevent muggings, car-jackings, robbery, vandalism and other violence, so they spend time and money on security measures, thereby reducing the amount available to invest in more productive economic activities. Meanwhile, entrepreneurs choosing places to invest will be discouraged by the prospect of having to pay high costs for such security measures, while still facing the danger of violence. So, on top of the misery caused directly by violence, countries with high levels of violence therefore tend to have low rates of economic growth, and so have fewer resources to deal with other problems, such as disease. Preventing violence should thus be the highest priority of any government.

Zimbabwe is riddled with violence. Part of the problem is that in the absence of legal means to earn an income, many people have become desperate and have turned to theft. But that is not the main cause of violence. More important is the violence carried out by the state itself. For example, according to the Zimbabwe Human Rights NGO Forum, since 2001 more than 20,000 human rights violations and 3,000 reported acts of torture have occurred in Zimbabwe. The Forum points out that a majority of those acts were carried out by Zimbabwe's police force.

Instead of acting to protect the public from acts of violence, Zimbabwe's police force mainly acts to protect the ruling elite. So, even when the state is not directly the cause of violence, its malfeasance in failing to protect the public contributes to the acts of violence that are committed.

As in most other countries, Zimbabwe's police force has been granted a monopoly on the use of force to protect its citizens. However, while other states give their police incentives to perform by promoting the best officers and punishing corrupt ones, Zimbabwe's current government is itself corrupt and uses the police to strengthen its grip on power, meaning it has little desire to take steps to reduce corruption in the police force. Thus, there are no strong incentives for police to respond quickly to a crisis; in fact, there's a personal incentive for the police to avoid harm and wait until incidents resolve themselves unless the incident involves a powerful official or well connected crony. The police force is a bureaucratic arm of Zimbabwe's government that is slow to respond to change and has little incentive to reduce violence.

In principle, police exist to prevent the violation of people and their property and to identify and bring to justice those who succeed in engaging in such acts. In Zimbabwe, however, the failing state has corrupted the police force, allowing and frequently ordering it to violate both people and their property. In environments in which the government and its police force are failing, one of the few options available to citizens is to protect themselves and their property. In other words, when we look at the level of violence in Zimbabwe, the anarchy we see is actually, in some cases, an attempt by private citizens to remedy the state's failure. These attempts at self-enforcement, while they add to the general sense of lawlessness at present, may actually hold the key to a future resolution of the problems created by Zimbabwe's lack of a reliable police force. Allowing citizens legally to protect themselves and their property fully from violence and threats of violence would limit abuses by the police. It would also reduce the burdens on the police freeing up police resources to be spent on the more difficult task of identifying criminals and bringing them to justice. If given the opportunity, individuals and businesses would likely employ the services of private security companies. Of course, such security companies would be subject to the rule of law, enforced through the (independent) courts. The state police force would still be needed to ensure that such private companies were not abusing their powers.

Giving citizens the ability to protect themselves either directly or through security companies will involve a number of specific policy measures. For example, it will be necessary to allow people to legally own and use lethal weapons, including guns. This right was, for all practical purposes, taken away from them by the Mugabe regime. At the moment, only government officials (police and members of the armed forces) and a select group of citizens possess guns in Zimbabwe.

In addition to allowing more rigorous self-protection, constitutional reforms that strengthen the rights of the accused should be introduced in order to protect private citizens from abuses by the police. The rights of habeas corpus and due process, which have disappeared in modern-day Zimbabwe, should be returned. For a Zimbabwean renewal to succeed in reducing violence, crime, and arbitrary violations of people's rights, re-establishing such safeguards for individuals is necessary.

The government will also need to work to reform the police force. The old police force will be widely viewed as corrupt, but getting rid of them will present serious reform challenges. Looking at post-communist transitions in Central Europe and former Soviet countries may be helpful for reform of the Zimbabwean police force. Many communist police officers remained employed by the new reform governments. It was made clear, though, that there would be zero tolerance for corruption and crime. Offences were punishable with prison time and removal from the police force. Zero tolerance, combined with stiff penalties for officers, improved conduct in Eastern Europe and could work in Zimbabwe.

Legal reforms that grant more rights and freedoms to individuals should be supplemented with widespread economic reforms, as argued in other sections. Policies such as price controls on groceries have not only created shortages but also encouraged additional conflict, black market dealing, and competition for the scarce goods. When people cannot buy goods because attempting to sell them at the government-controlled price would result in losses, some people resort to methods other than trade in order to obtain products they desperately desire. In other words, Zimbabwe's ill-advised economic policies have actually *caused* people to become more violent.

There are plenty of experiences similar to Zimbabwe's in which the pattern was the same: when things got out of the control of a corrupt, authoritarian leader, crime became rampant; when the leader was removed and markets were opened, crime rates dropped, black markets disappeared, and a relative calm returned to the country. Many former members of the Soviet Union, for example, have all experienced substantial declines in crime and increases in transparency with the collapse of communism. A similar experience took place in the United States when laws prohibiting the sale of alcohol were lifted in the early 1930s: when alcohol was banned, crime escalated; when the market was reopened, crime fell drastically.

Zimbabwe may appear to be in a state of anarchy but most of the violence can be explained as a rational response to the incentives created by bad policy. If prices were allowed to adjust to address shortages of supplies, if the power of the police were checked by limits on government and application of the rule of law, and if individuals were able effectively to protect themselves and their property, violence would decline.

XIII. Free Speech and the Media

Few rights are more fundamental and more crucial to our well-being than the right to free speech and free expression. When people feel secure in exercising their rights to free speech and expression, a diversity of ideas and experiments in ways of living are able to blossom. Moreover, the freedom of speech and expression also guarantees citizens the right to question their governments. The freedom to raise concerns about government policies acts as an important constraint on governments because those policies will be made public and politicians held accountable.

History is filled with examples of leaders refusing to respect free speech. Whether it was the Soviet Union downplaying Chernobyl or the Bush Administration censoring content related to the Iraq War, the common and, perhaps, natural reaction of leaders to crises is concealment. In sub-Saharan Africa, many leaders have tried to conceal or downplay civil wars, disease, famine, HIV/AIDS, and suppression of minority groups. Though true and accurate information in the long-run always manages to escape, many sub-Saharan African leaders have gone to great lengths to try to prevent or slow the flow of information. Their efforts usually involve suppressing dissenters, censoring the media, and even taking over the media to silence criticism. Their intolerance of criticism and alternative viewpoints has resulted in corruption and human rights violations, as well as political, cultural, and economic stagnation.

In Zimbabwe, the ruling party, the ZANU-PF, has gained monopoly power over the mass media. They have used their power to squelch criticism and have denied opposition parties, such as the Movement for Democratic Change, access to the media. In addition to grabbing control of traditional media sources, Zimbabwe's current government has little tolerance for free expression and intellectual and press freedom.

Thousands of activists protesting the government's policies have been arrested, beaten, and killed. Union groups protesting their falling wages have been prohibited from organizing. And external monitoring agencies have been given false information about the recent elections and human rights violations. The desire to control information and prevent bad news from escaping has turned Zimbabwe into a police state.

However, accurate information has a natural tendency to chase out false information. Accurate information always finds a way out of even the most repressive regimes. This was true for the most repressive communist regimes, and it is even truer today, since technological advances and cost reductions in electronic communication have made it much easier for ordinary individuals to share information. Dispersed sources of information sharing, such as web logs (blogs) and cellular phones, have prevented the public from being manipulated as easily as used to be the case by the government and have raised awareness about the Zimbabwean plight. For many Zimbabweans, accurate information about the crisis is only a click or text message away.

When attempting to instigate widespread change, however, dispersed information sources are not enough. Zimbabweans who are daring enough to spread information critical of their government through electronic media, such as cell phones and blogs, must do so anonymously and in relatively informal networks in order to avoid persecution by the government. Further, many Zimbabweans do not have access to these informal networks because they do not have access to cell phones or computers. In order for Zimbabweans to be empowered to change their country through the sharing of information, dispersed information networks must be supplemented by reformed and reorganized traditional media sources, such as newspapers, radio, and television operating without interference from government.

In particular, traditional media sources that are controlled by the state must be returned to the people in an open and transparent process. Ideally, the state would be legally prevented from controlling or otherwise interfering with the media. When the government has any level of control over the media, there is too great an incentive for the media to misrepresent stories and engage in governmental apologetics.

In addition to laws granting freedom of the press, the media should be privatised completely, meaning the state cannot retain ownership nor have representatives involved in running newspapers, radio networks, or television stations. When the mass media is free from state influence, there will be an incentive to provide people with accurate information about government policies, since media outlets will compete for customers by providing the most up-to-date and detailed information. Privately run media also provide forums for exchanging ideas and coming up with solutions to current problems.

In addition to the privatisation of mass media, schools, universities, and other intellectual institutions must firmly recommit to freedom of expression. Students should not be viewed as instigators but, rather, be given a fair hearing, and intellectuals must no longer be afraid to express their ideas in an open discourse. Such a commitment to freedom of expression can be made through the wording of school charters or mission statements, which should reflect the wording of the country's proposed constitutional commitment to free expression; universities can then appoint internal committees to review and remedy any possible violations of the freedom of expression within their institutions. Further, through their hiring policies, universities should take steps to recruit a diverse set of voicesvoices from both inside and outside of Zimbabwe to facilitate the development of a marketplace of ideas.

Beyond the necessity of laws protecting people within the specific institutions of the media and academia, Zimbabwe must adopt and commit to freedom of speech laws that protect all citizens. These laws must include protections of a variety of types of speech, including the use of the internet, the right to protest publicly, and the right to form groups, such as unions, to take collective action. An independent judiciary is necessary to uphold these laws when individual freedom of speech comes into conflict with government interests.

Many of the changes described above will likely occur slowly. Civil society, which is the by-product of openness, may take a long time to recover from corrupt and intolerant regimes. But, even though it takes time, our hope is that the prospective GNU will fulfil its commitment to establishing a culture of openness and a tolerance of free speech and free expression, as these are some of the most important initial steps in Zimbabwe's renewal.

The suffering of the Zimbabwean people is not the consequence of historical or external factors. It is entirely due to policies adopted, decisions made, and actions taken by the government of Zimbabwe.

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