

Political development & policy



Reminder: Essay due next week

Pick a developing country or weak state today. Which 3-5 forces of globalization and imperialism do you think influenced its current economic and political development the most? Elaborate why, and what you see as the long run consequences. The best answers will draw on the assigned readings. But you can also feel free to draw on forces of globalization and imperialism that we did not discuss in class, citing appropriately.

- Recommended strategy:
 - Pick 2-3 of the readings (required or not)
 - Review the lecture slides
 - Apply some of the theories or arguments from these reading, explaining why they do not fit
 - Bring in your own independent ideas as you see fit

Last day

- One reason so many states and societies were weak by the late 20th century was profound destabilization by the first 400 years of intensive globalization and imperialism
- Colonial and imperial policies endowed many societies with a stronger state and public goods than they might otherwise have had
- But colonial and imperial policy also did little to strengthen society or broaden power in society
- Instead it fostered “decentralized despotism”
- Leaving in haste, most societies not only faced political instability after decolonization, but also highly concentrated political and military power

Our goal today is to understand the dysfunction and crisis we observe in so many countries in the late 20th century

- Why did post-colonial governments reject democracy and centralize power?
- Why did they develop highly controlled, state-led systems of economic control?
- Why was there a massive economic and political crisis in the 1980s?
- Were “neoliberal reforms” such as structural adjustment worse than the disease?

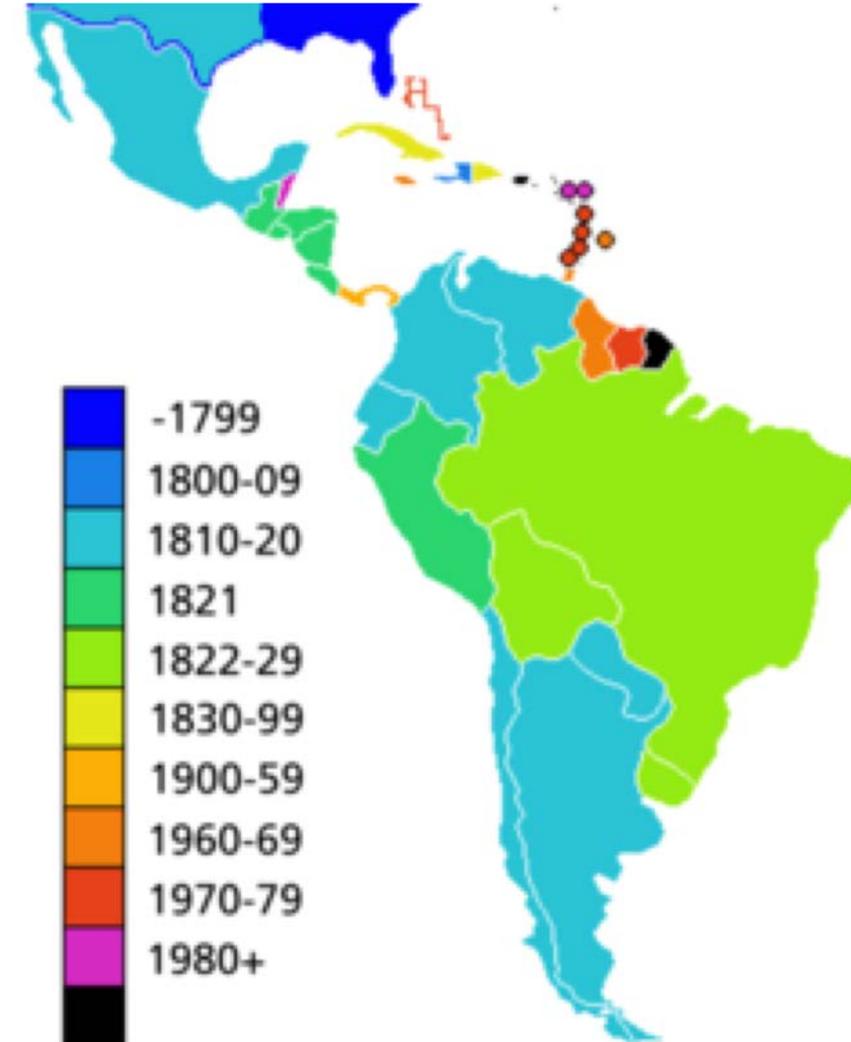
Two broad answers, one that emphasizes local agency and one that does not

1. Globalization and imperialism shaped incentives and constrained choices
2. But important not to underestimate the decisions taken by local elites to preserve or expand their power & the power of their group

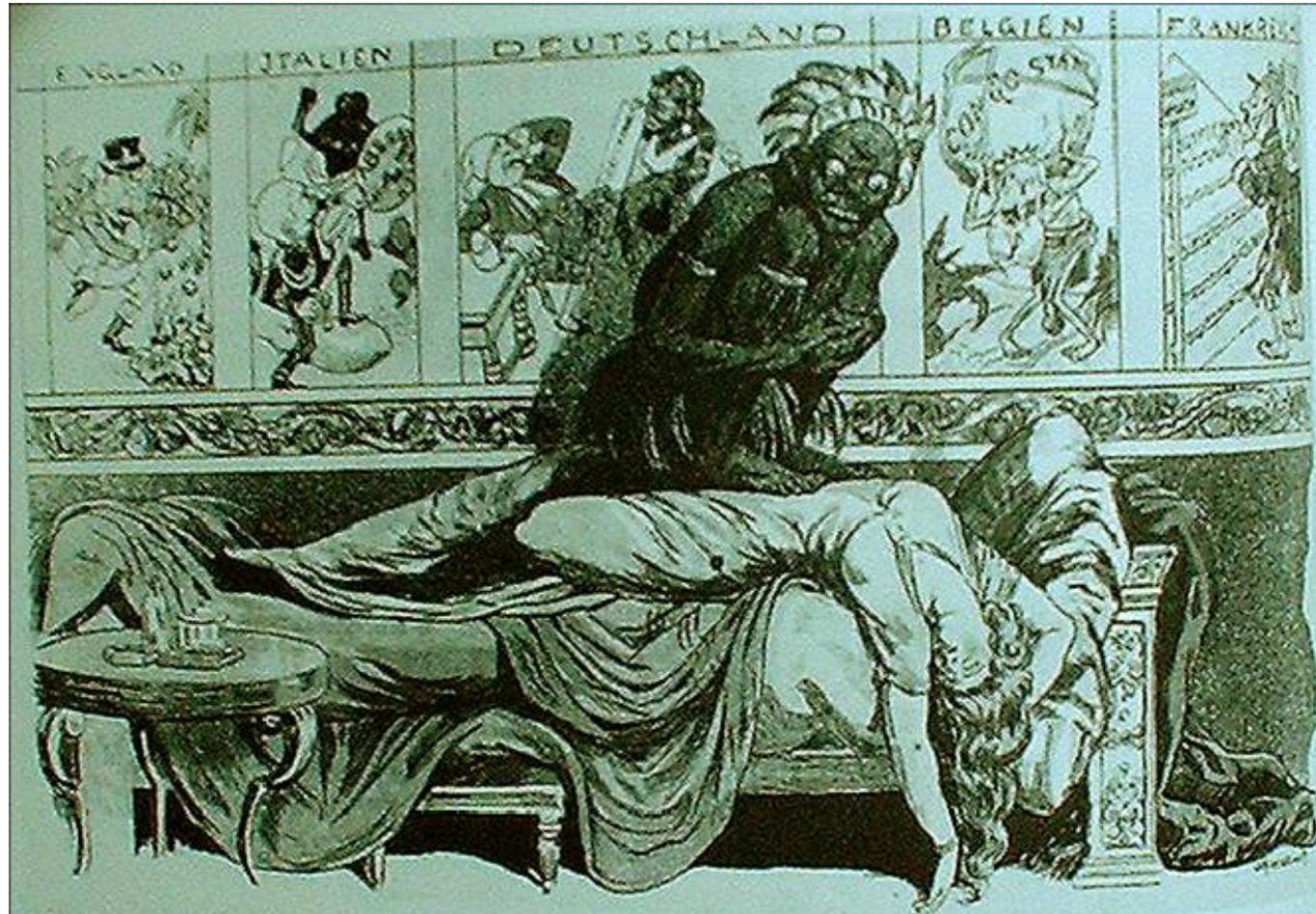
How globalization and Western imperialism shaped order and institutions in late developing states

1. Trade and globalization disrupted traditional orders
2. The mixed effects of Colonialism
 - Increased state organization and public goods
 - But promoted highly centralized power
 - Over frequently arbitrary and hard-to-govern territories
 - And departed abruptly
3. Cold War politics insulated rulers from the rule of law and accountability
4. Introduced promising yet problematic development ideologies

2(d) Abrupt departures



Colonies were commonly viewed as a burden in Europe



Like a succubus Africa weighs on Europe's rest. One of the numerous malaises (but perhaps the heaviest) which now burden the old continent. Each European power has here its obstacle...

—Le Rire (18.iv.1896)

Rather than repress domestic Independence movements, the British and French made a hasty exit

- In 1950s, envisioned a slow transition to self-rule over decades
 - Began to install parliamentary systems
- But could not hold back tide of independence
 - Costs and risks began to exceed benefits
 - Britain and France did not have the strength to hold the empire and rebuild after WWII
- Advantages?
 - Avoided development of broad-based, militant nationalist movements
 - Allowed them to maintain good relations and avoid disorder
- Independence
 - **British:** case by case, mainly between 1957 and 1963
 - **French:** all at once in 1960 (except Guinea and Togo)
 - **Portugal and Southern Africa:** chose to fight it out

Consequences of rapid decolonization = Economic and political instability

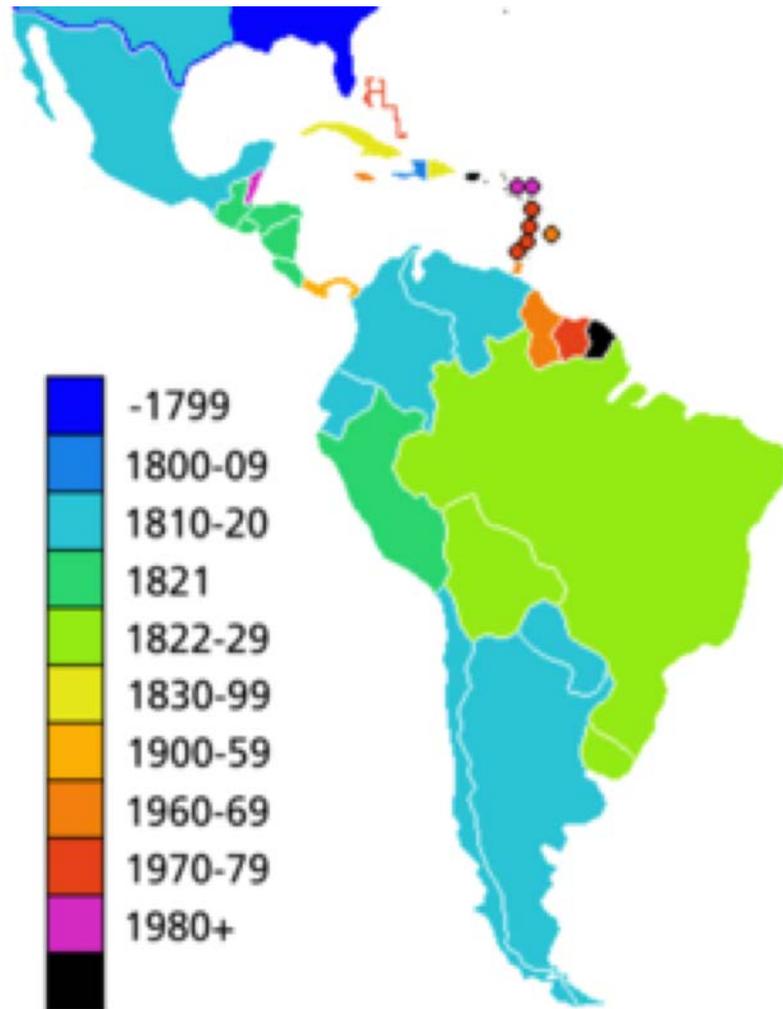
- Had not permitted or enabled the development of enough human capital to man bureaucracies
- Only close to the end of the colonial period did they begin to staff the bureaucracies with locals
- Colonial powers made only limited public investments
- Few national traditions, symbols or consciousness
- Parliamentary systems had little history or popular legitimacy
- “Power was personalized because it was never properly institutionalized” (van de Walle)

Likewise, the end of Spanish colonialism in the Americas was abrupt



Spanish officials surrender Madrid to Napoleon. Antoine-Jean Gros, 1810

Rapid and relatively unexpected decolonization destabilized the political equilibrium



- Nations fought to establish international borders
- Elites competed to capture the new republics, often violently
 - Conservatives fought to preserve their colonial limited-access privileges
 - Liberals sought to commercialize, free markets somewhat, and extend some equality
- Weak societies excluded from power
 - Nominal democracies with limited voting rights, no secret ballot

How globalization and Western imperialism shaped order and institutions in late developing states

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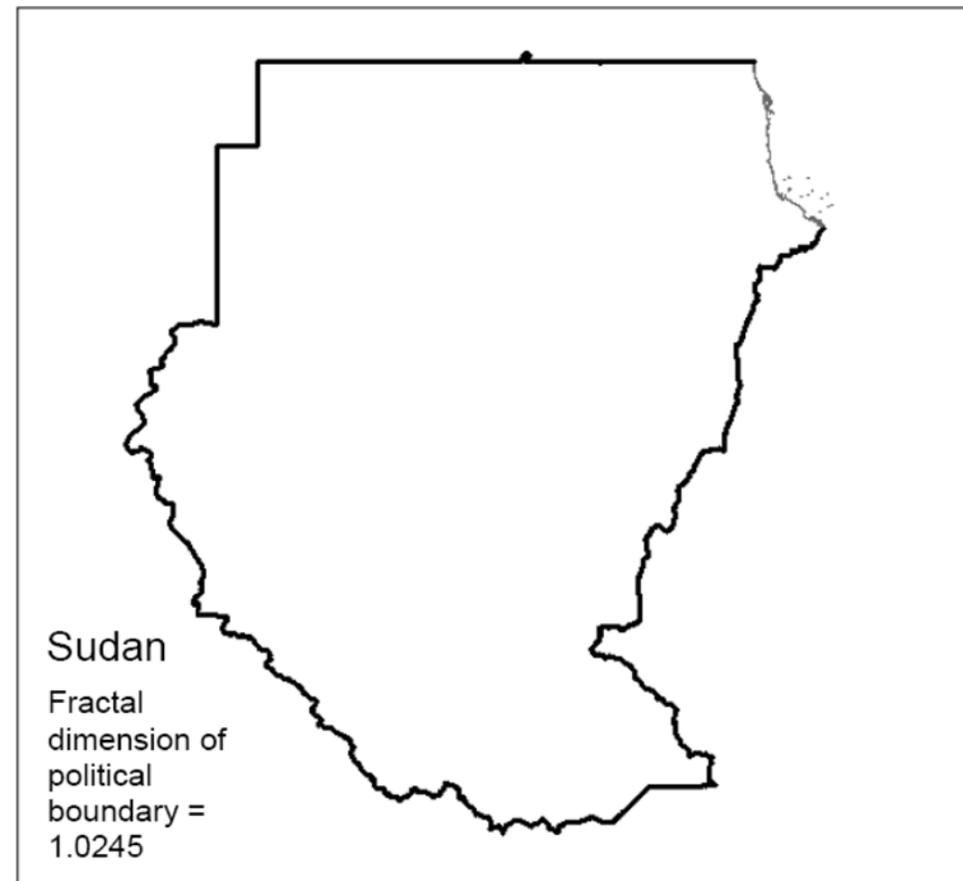
How the Cold War shaped the international system: Freezing an unstable political equilibrium

- Small transgressions threatened fragile peace
- US and USSR want a system that contains conflicts in the periphery
 - Fear is that small wars escalate to nuclear war
- Developed rules, norms and institutions that would preserve peace
 - Non-interference
 - Populations the victims of their leader's cruelty and incompetence
 - Territorial integrity
 - Frees state from need to control periphery

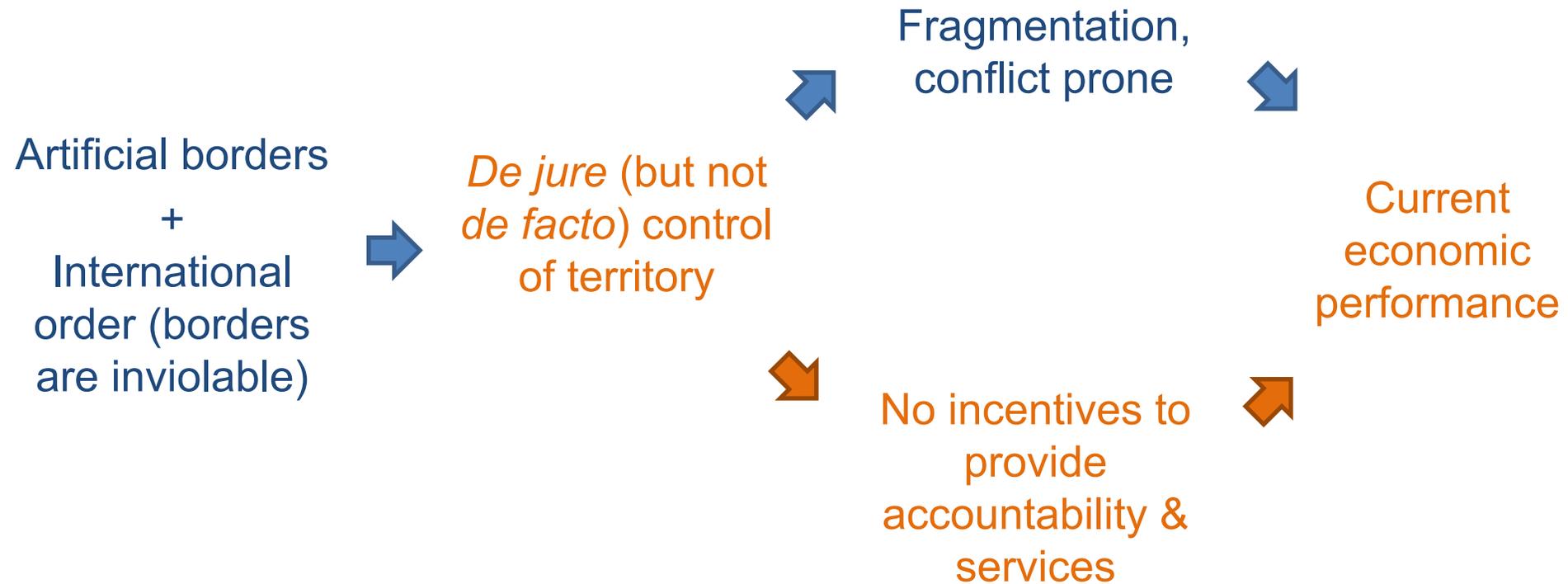


This froze relatively arbitrary, artificial states

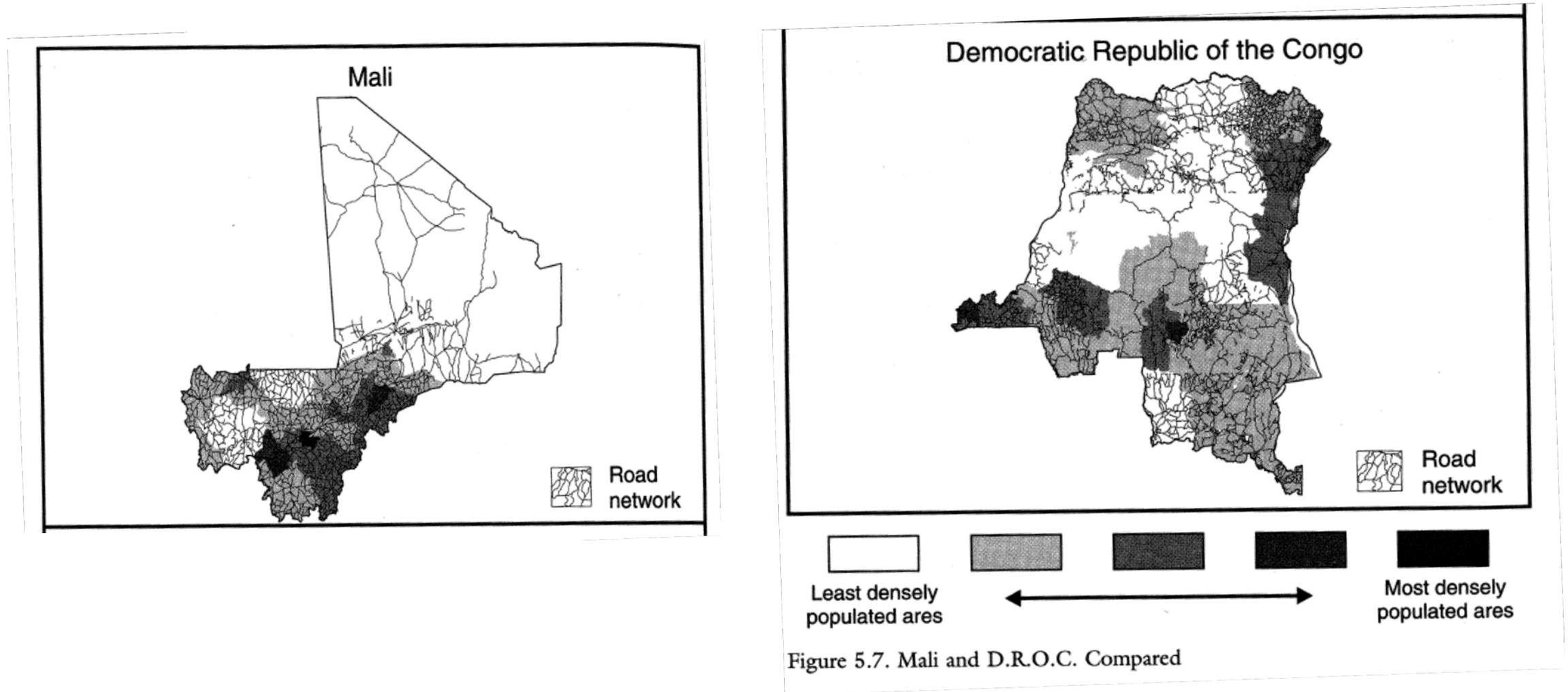
- 80% of non-coastal African borders follow latitudinal and longitudinal lines
- Political borders do not coincide with the division of nationalities desired by the people on the ground
 - Gave territories to one group ignoring claims of others
 - Drew boundaries lines splitting “nations” (ethnic/linguistic groups) into different countries, frustrating national ambitions of some groups
 - Combined independent groups into one country
- Central power only tries to rule in ‘core’ areas
 - Beyond the core, weak systems of formal rule



Alesina, Easterly & Matuszeski: “Territorial states” insulate African leaders from state-building and public accountability



Jeffrey Herbst: Some arbitrary borders are worse than others



How globalization and Western imperialism shaped order and institutions in late developing states

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The export of ideology

Some examples:

1. Liberalism and democratization

- We will talk about the spread of democratic norms in Week 9

2. Free market economics

- We will talk about the “neoliberal” agenda later when we discuss structural adjustment

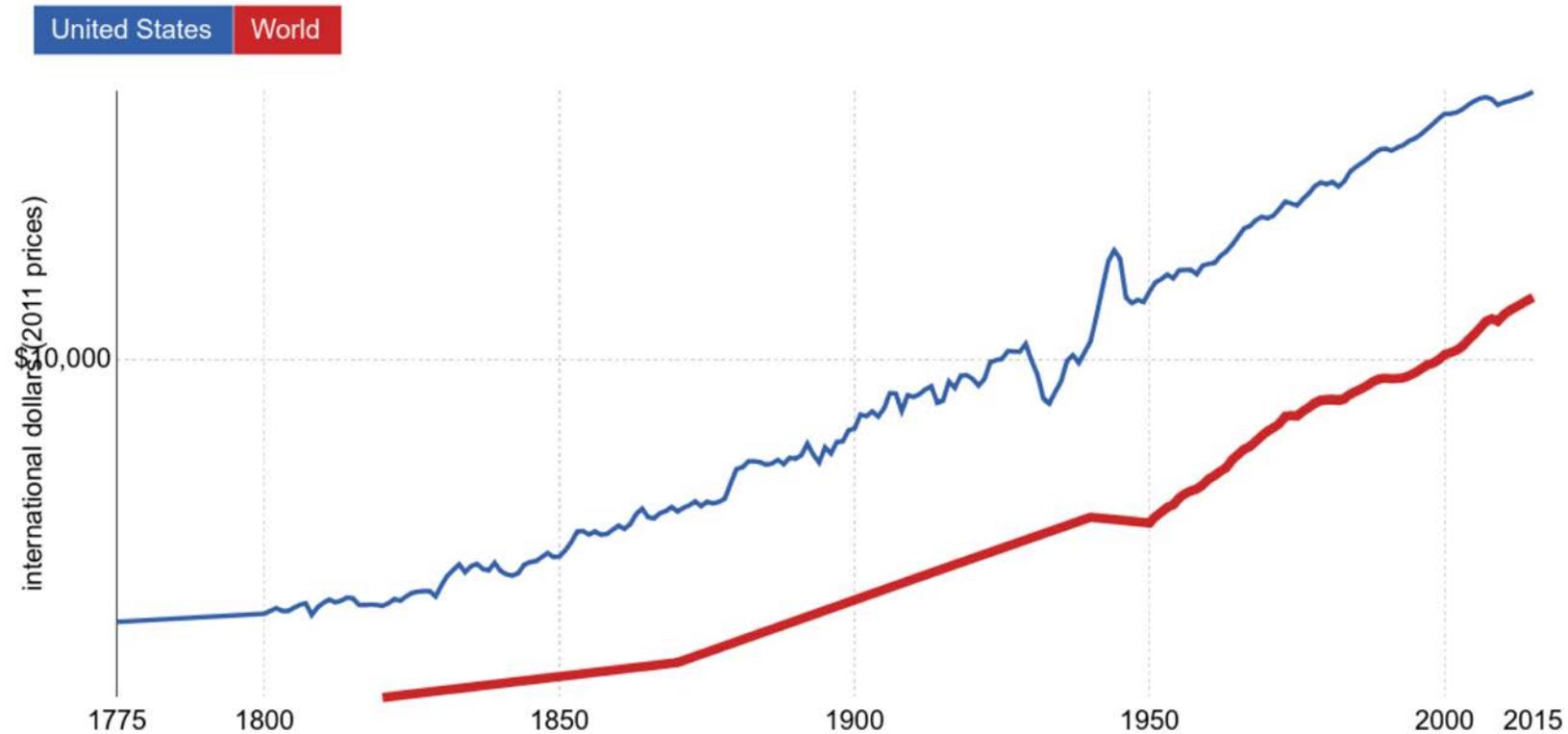
3. 1950s, 60s: The developmental state

- The belief that planned, centralized investment and economic management coordinated by the state can produce catch-up

The final wave of decolonization coincides with the greatest crisis of confidence in capitalism and democracy, and the global zenith of state-led development

GDP per capita in the USA, 1775 to 2015

Observations and reconstructions of GDP per capita are adjusted for inflation.



Data source: Our World In Data (based on Maddison Database and World Bank)

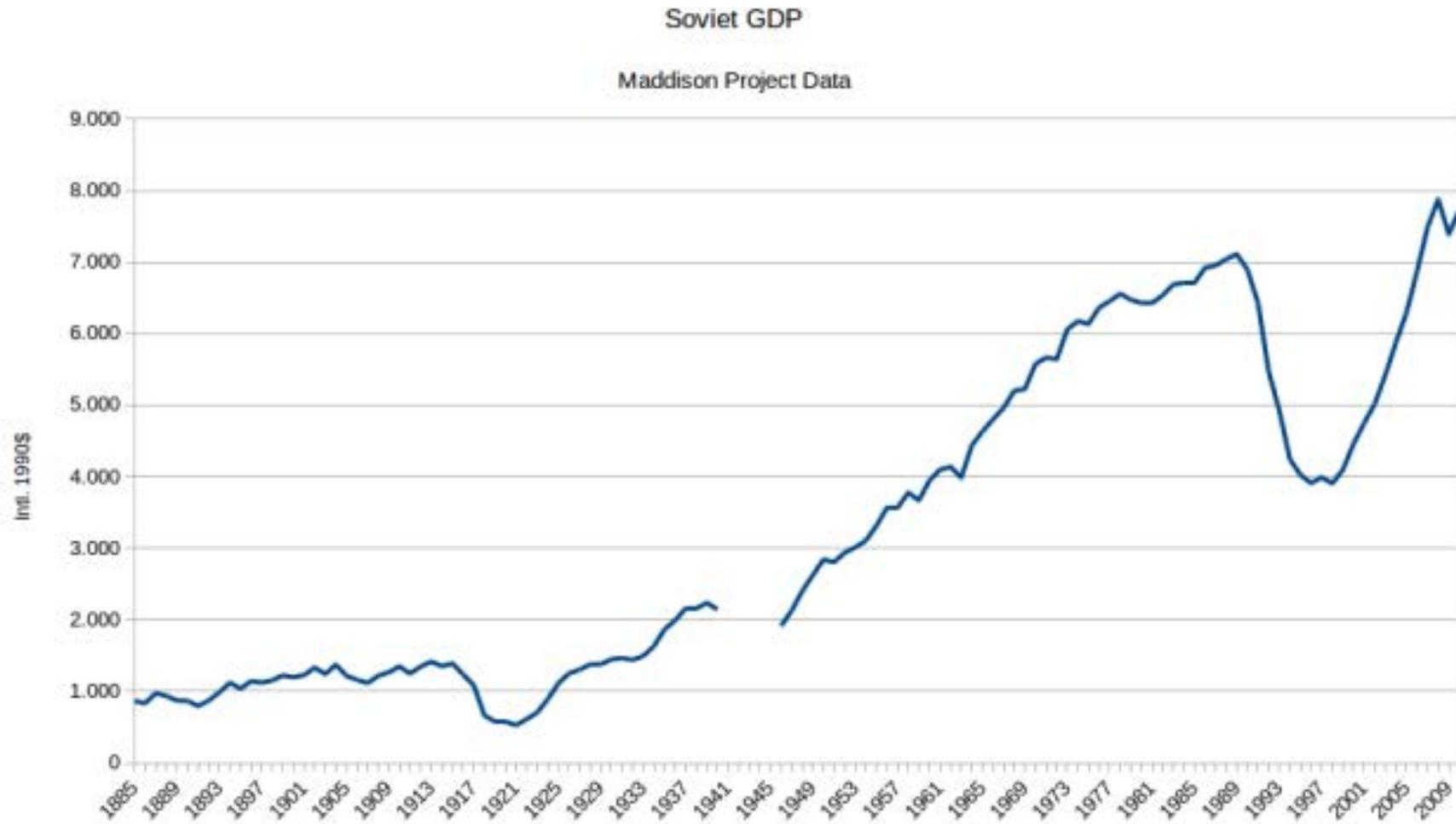
OurWorldInData.org/economic-growth • CC BY-SA

Belief in the ability of the market to coordinate economic activity is severely shaken by the Great Depression

Nobody in Europe believes in the American way of life--that is, in private enterprise; or rather those who believe in it are a defeated party--a party which seems to have no more future.

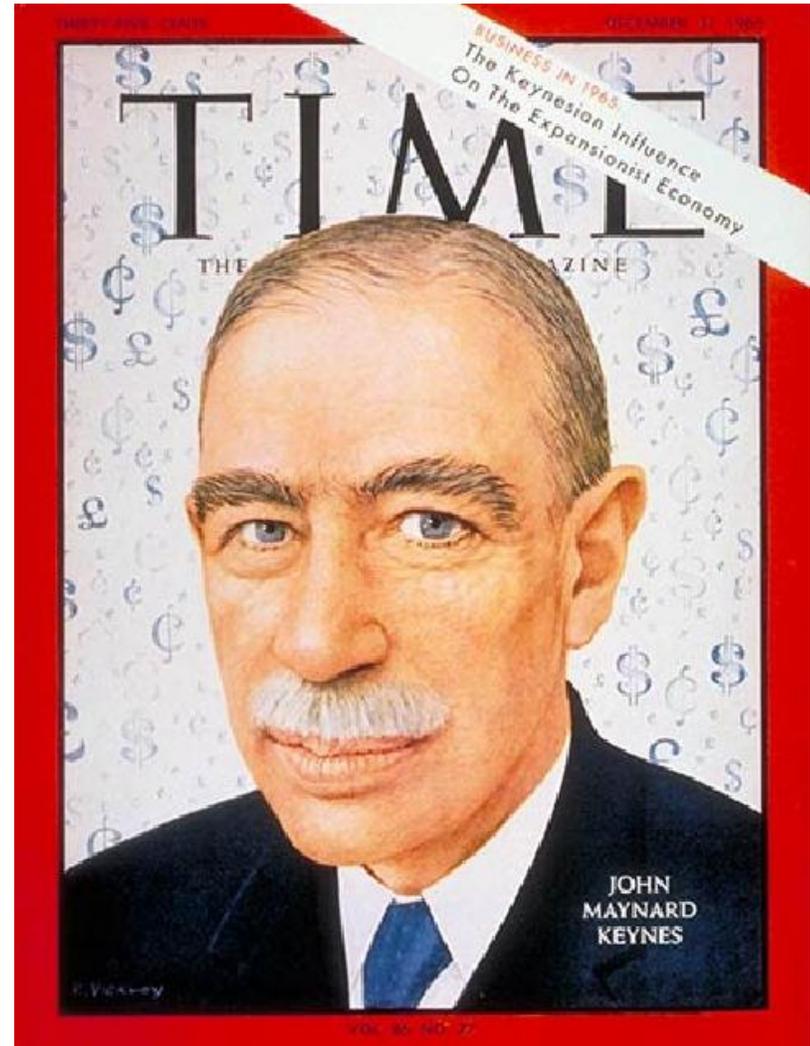
—British historian A.J.P. Taylor, 1945

Meanwhile, planned economies and state-led development won the war for the U.S. and drove rapid Soviet modernization and catch-up



In the West, the search for a “third way”

- Opened a middle ground between fascist-style regimentation and socialist-style national planning.
- Social democracy and the welfare state offered Europe and the US a way to salvage the market economy and capitalist order



In many developing countries, this third way took the form of a developmental state

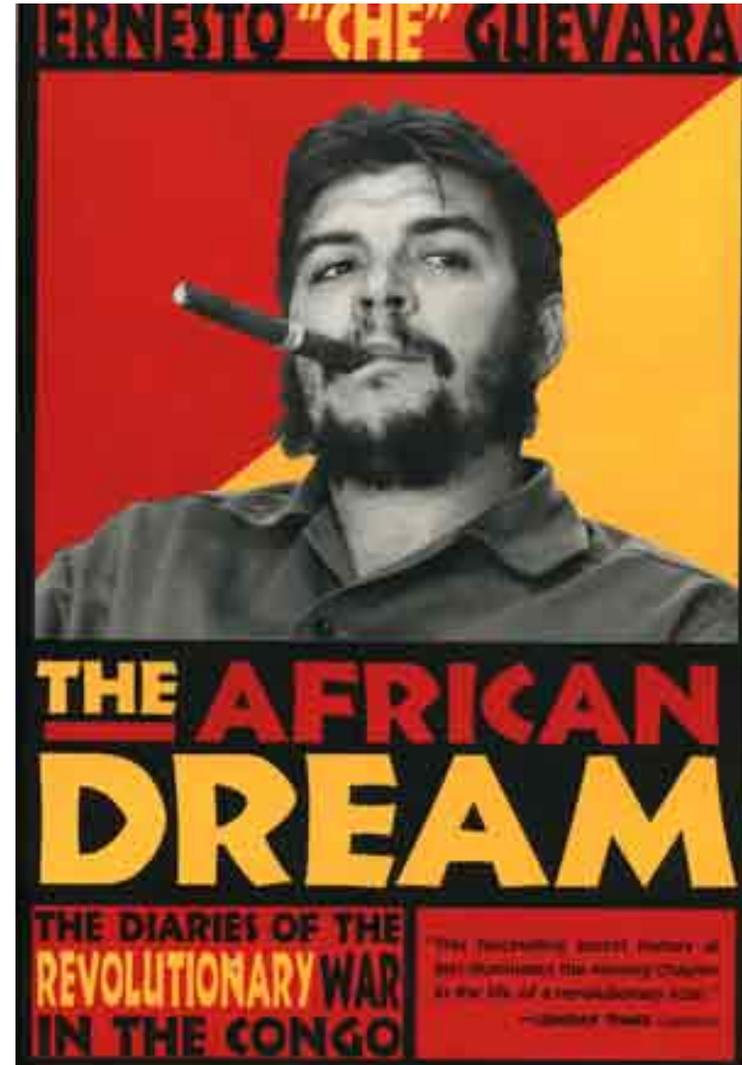
Most of our development so far has had to be carried out by the Government itself. There is no other way out...

We'll transform the Gold Coast into a paradise in ten years...

- Kwame Nkrumah, President of Ghana (1962)



The left also gained credibility from having been staunchly anti-colonial



We've largely discussed external forces. What internal forces are relevant?

- Why did post-colonial governments reject democracy and centralize power?
- Why did they develop highly controlled, state-led systems of economic control?
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How likely is it that parliamentary democracy would take root in such limited access orders?

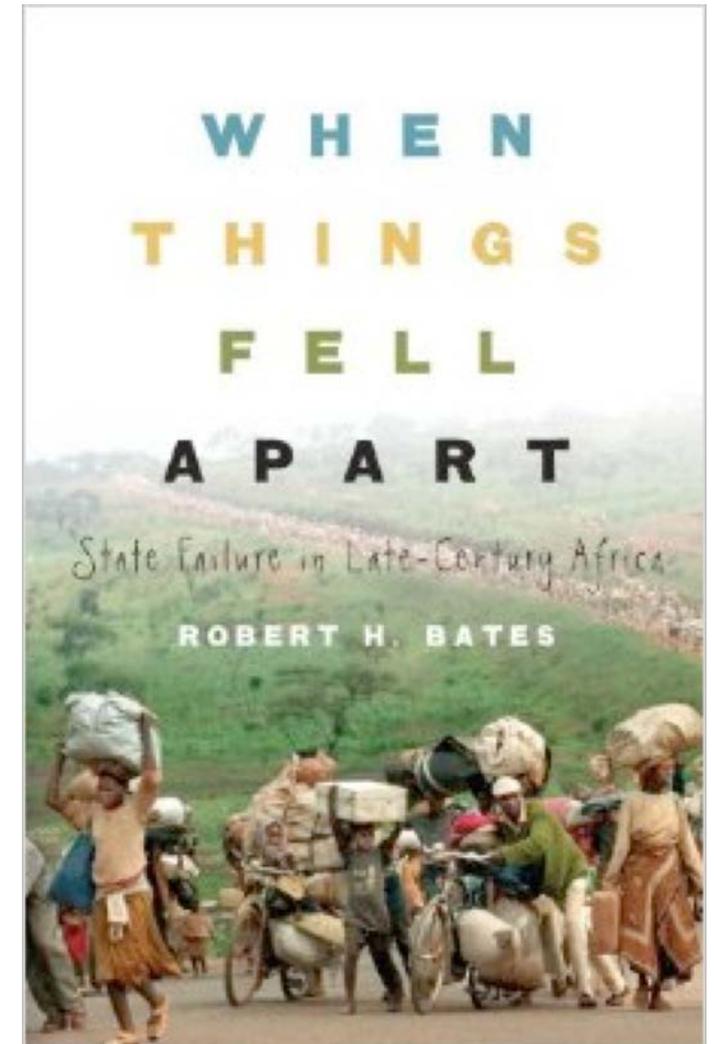
- Recall Mamdani: Colonial rule fostered a system of decentralized despotism
 - Elites inherited centralized systems of taxation, regulation and military rule
- The British and French made weak attempts to bestow parliamentary democracy:
 - Parliamentary systems outnumbered presidential systems 4 to 1 at the time of independence
 - Several colonies had 2-3 rounds of National Assembly elections before Independence, granting some familiarity with the institutions
 - Within a decade, all but 3 African nations switched to centralized presidential systems
 - Botswana, Mauritius, South Africa
- Statist ideologies and disillusionment with capitalism and democracy undoubtedly played a role
- But based on everything we have learned about politics, should we be surprised about the centralization of power?

One of the under-appreciated features of authoritarianism:
Political control requires economic control.

- What does economic control mean?
- Why does it happen?

Limited access orders sought to limit access: They sought to control the entire economy to: reduce threats to power, distribute rents to elite coalition, and pacify urban unrest

- Manipulated markets
 - Erected barriers to foreign firms
 - Encouraged monopolists
 - Nationalization of banks, resource extraction, transport, etc.
 - Restricted access to foreign exchange
- Distorted prices
 - Subsidized urban food and fuel
 - Lowered prices to rural producers
- Used state resources as patronage
 - State banks “lent” money to insiders
 - Explosive growth of public sector jobs



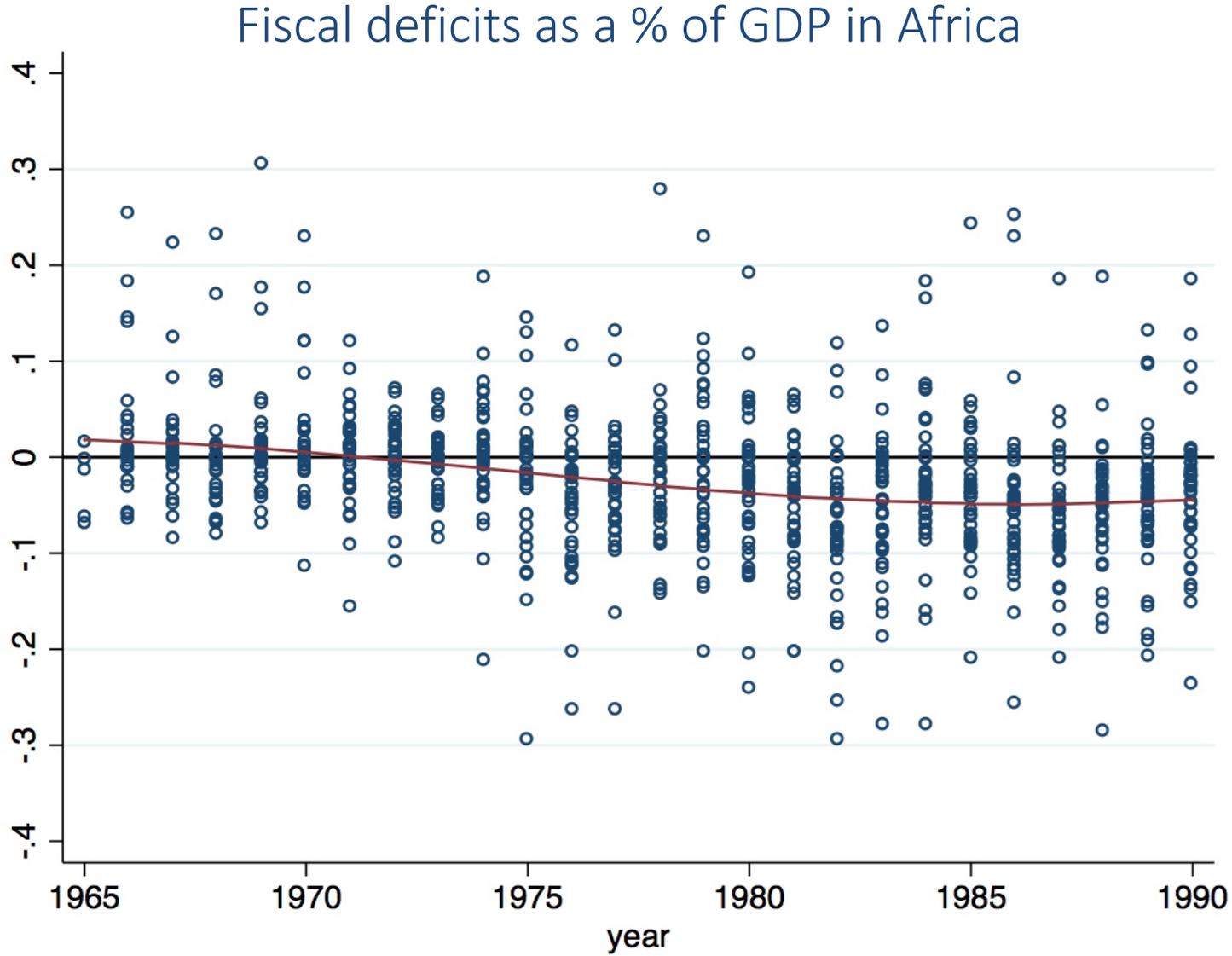
One of the under-appreciated features of authoritarianism: Political control requires economic control. Why?

- A free economic order threatens elite rents
 - There is a reason NWW called it *a limited access order*
- New states in the late 20th century developed control economies:
 - To achieve development goals
 - Out of political expediency
- It's a common mistake to see corruption as simply personal enrichment or the centralization of power as simply ego
- Control, distortion, corruption, and patronage were the political glue that held these polities together
 - Patron-client ties are means of control in a young, multi-ethnic, poorly integrated territory
 - Patronage is a substitute for repression, nation-building, and service delivery

This control, inefficiency, corruption and patronage was a growing fiscal strain

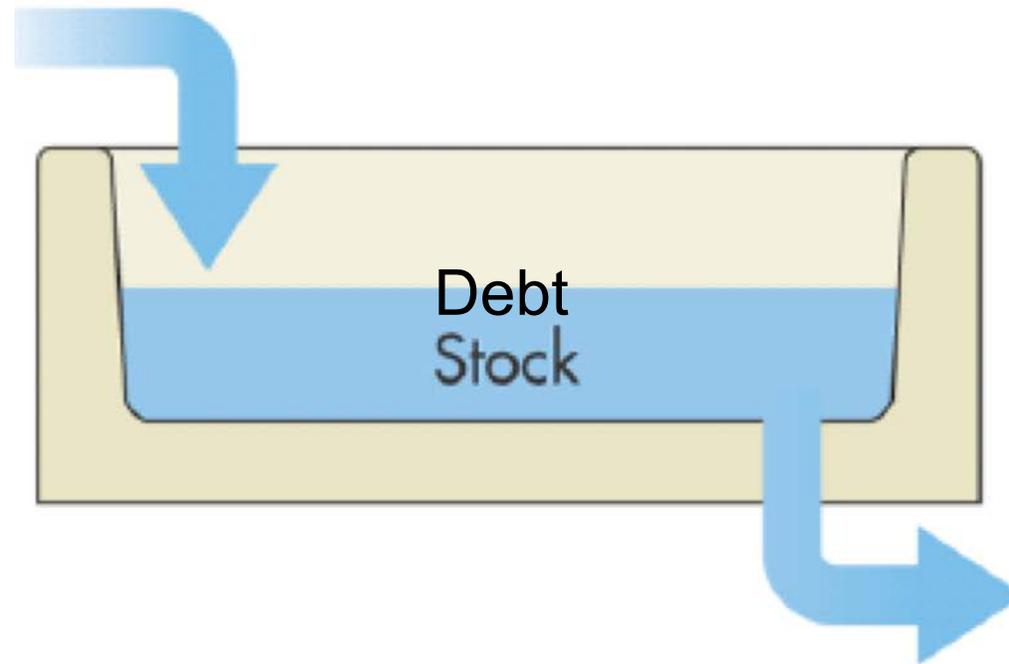
- Social spending was growing faster than tax plus aid
- Food and price subsidies were draining resources
- Theft and corruption diverted funds
- State firms were losing money at increasing rates
- State banks were growing insolvent from unpaid loans
- Rural producers were becoming stifled by marketing boards, and reduced output
- Foreign currency was being sold on black market and government had hard time getting hands on it

One result was growing and persistent fiscal deficits



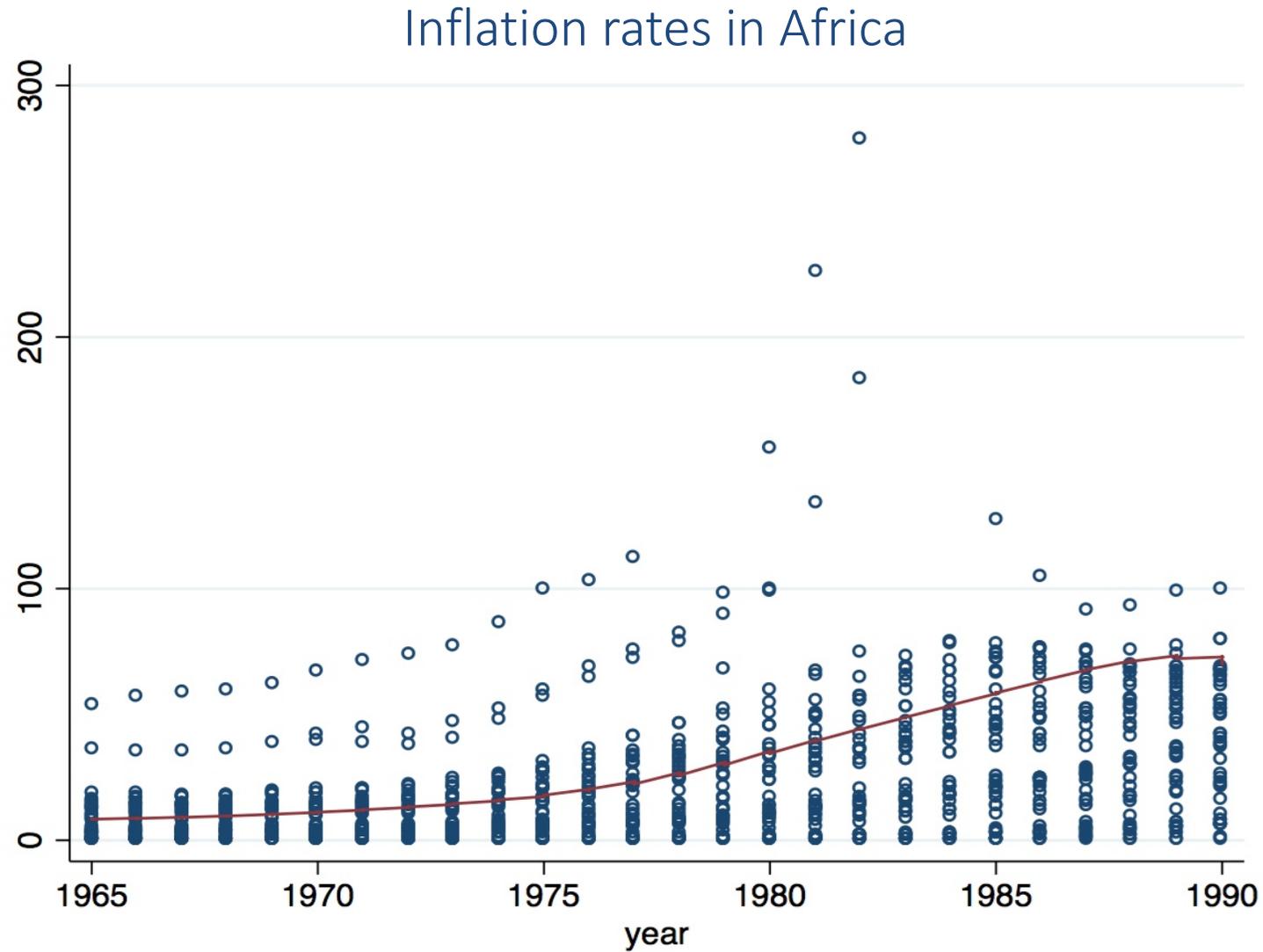
Persistent deficits mean mounting levels of debt
(and growing debt payments)

Deficits (including
interest payments)

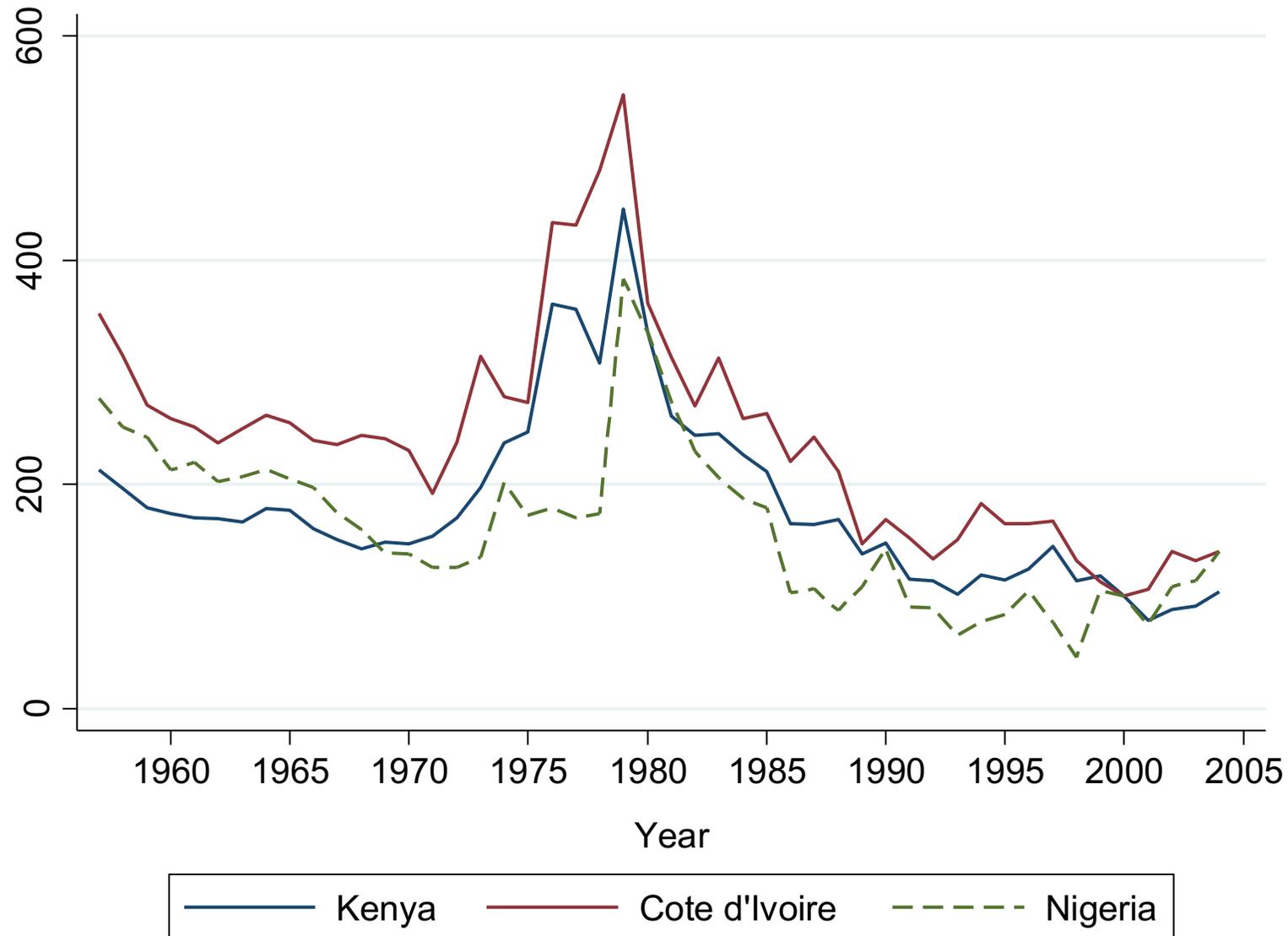


Repayments of
principal (minimal)

Skyrocketing inflation rates illustrate the losing of economic control as governments print more and more money to pay bills

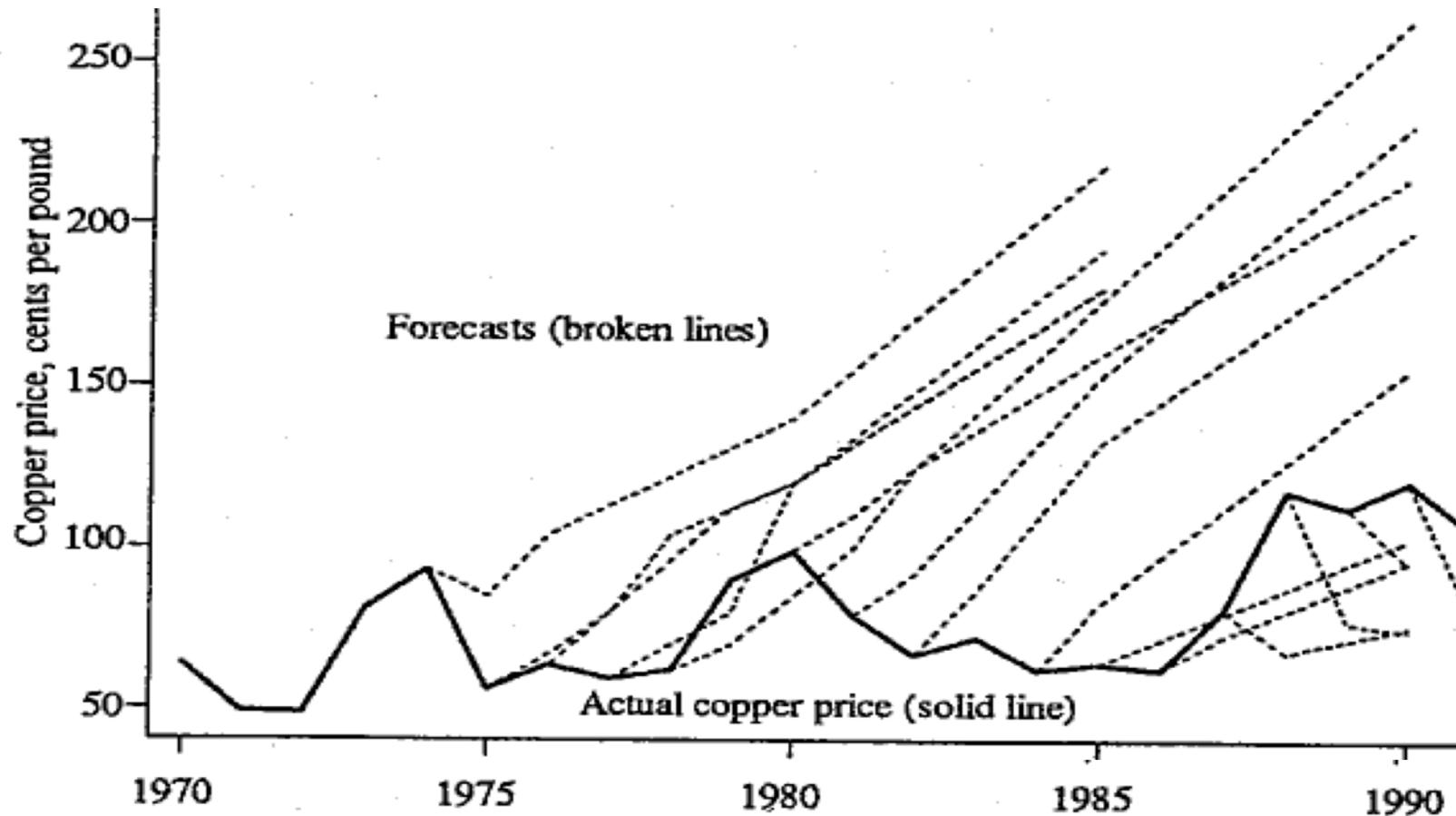


Now, introduce volatility into the system: Commodity price spikes

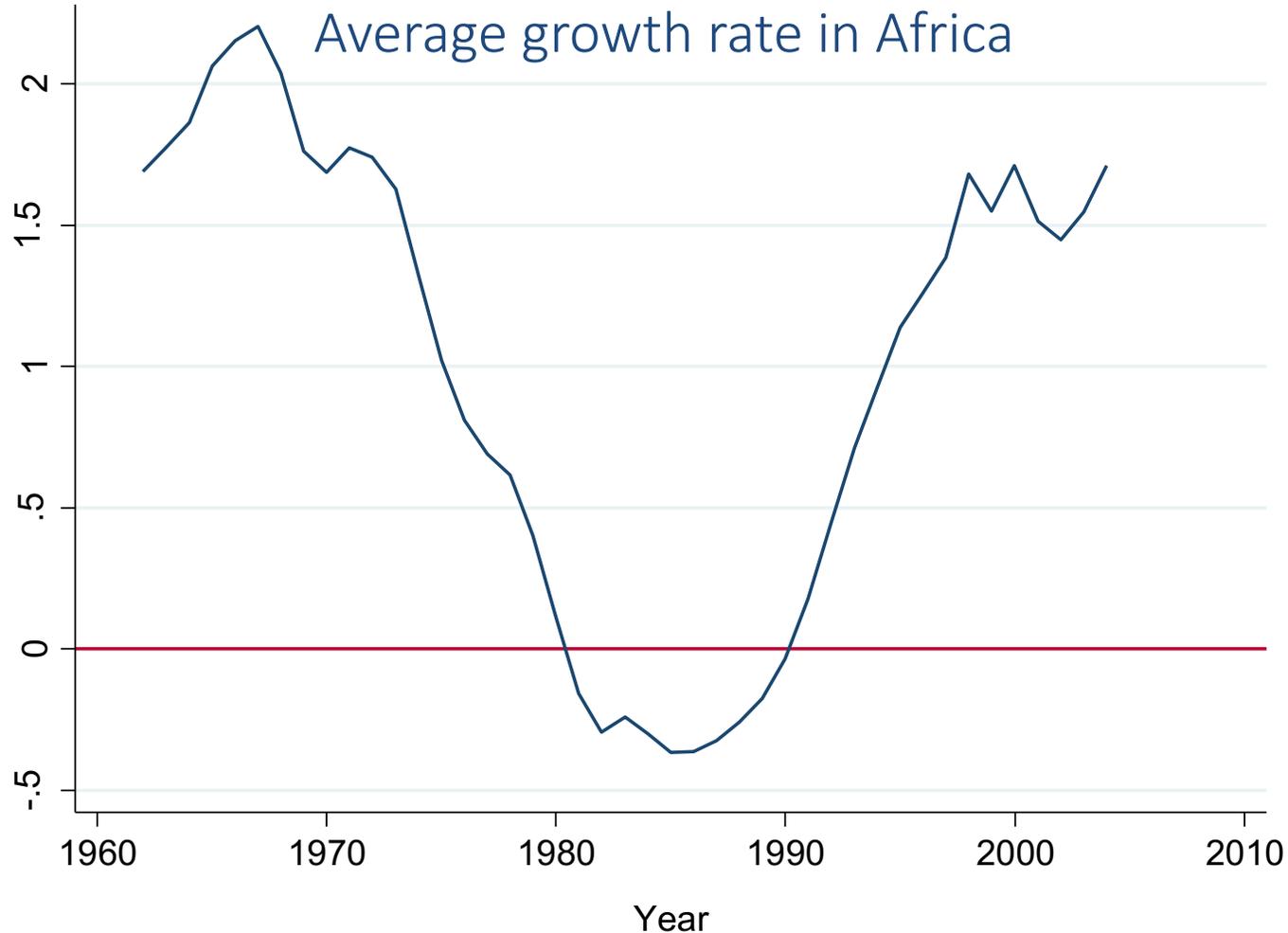


Spikes are a boon if you see them as a temporary windfall, but problematic if you don't know they are temporary

IMF's actual versus forecasted commodity prices: Copper



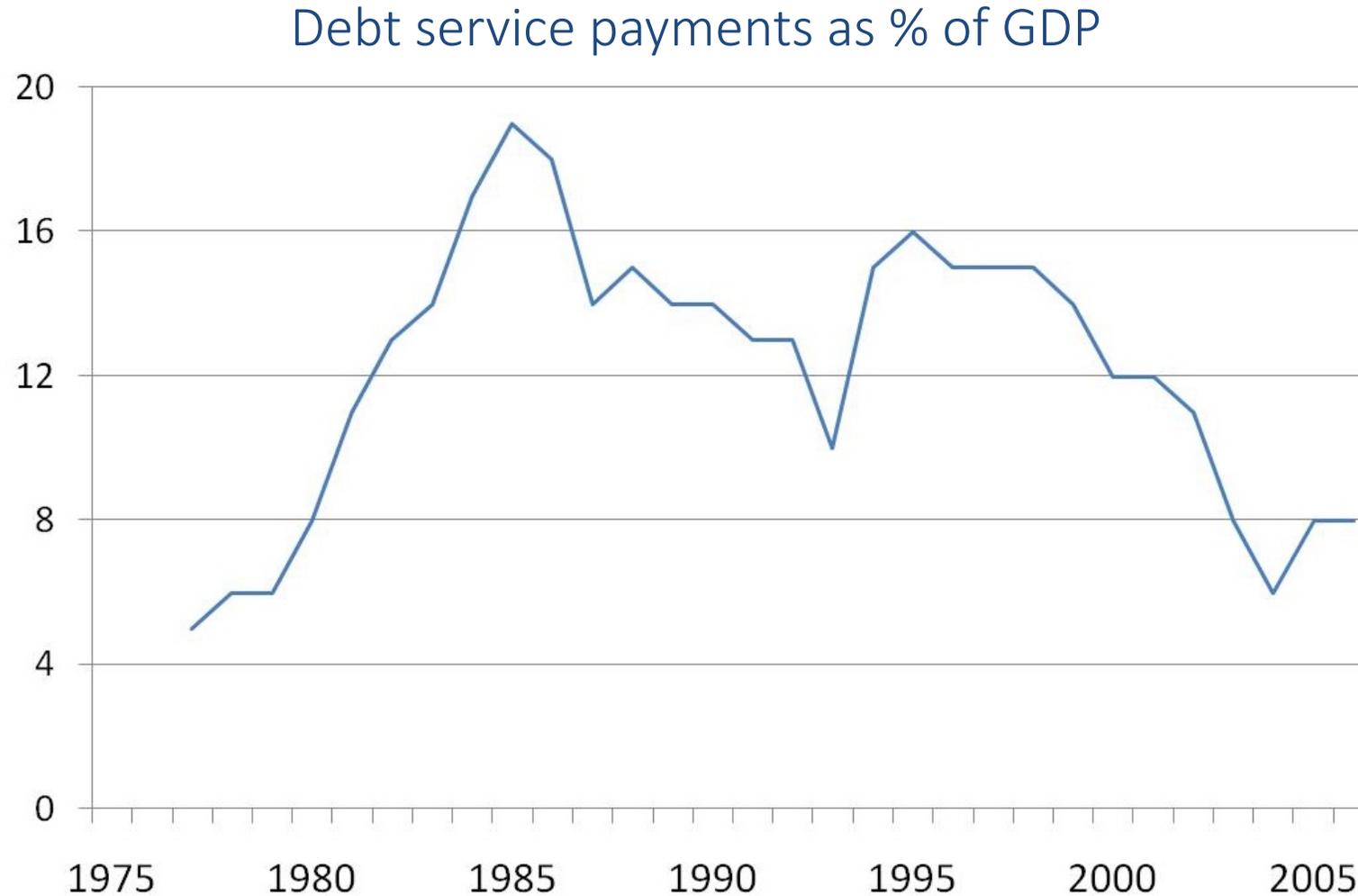
Growing deficits and debt were manageable so long as the economy was growing, but under economic control growth ground to a halt through the 1970s



Average African growth rates (unweighted) calculated using Penn World Tables data for all sub-Saharan African countries with populations greater than 1 million.

Result: A crisis of debt

Dozens of countries frozen out of international credit markets in early 1980s

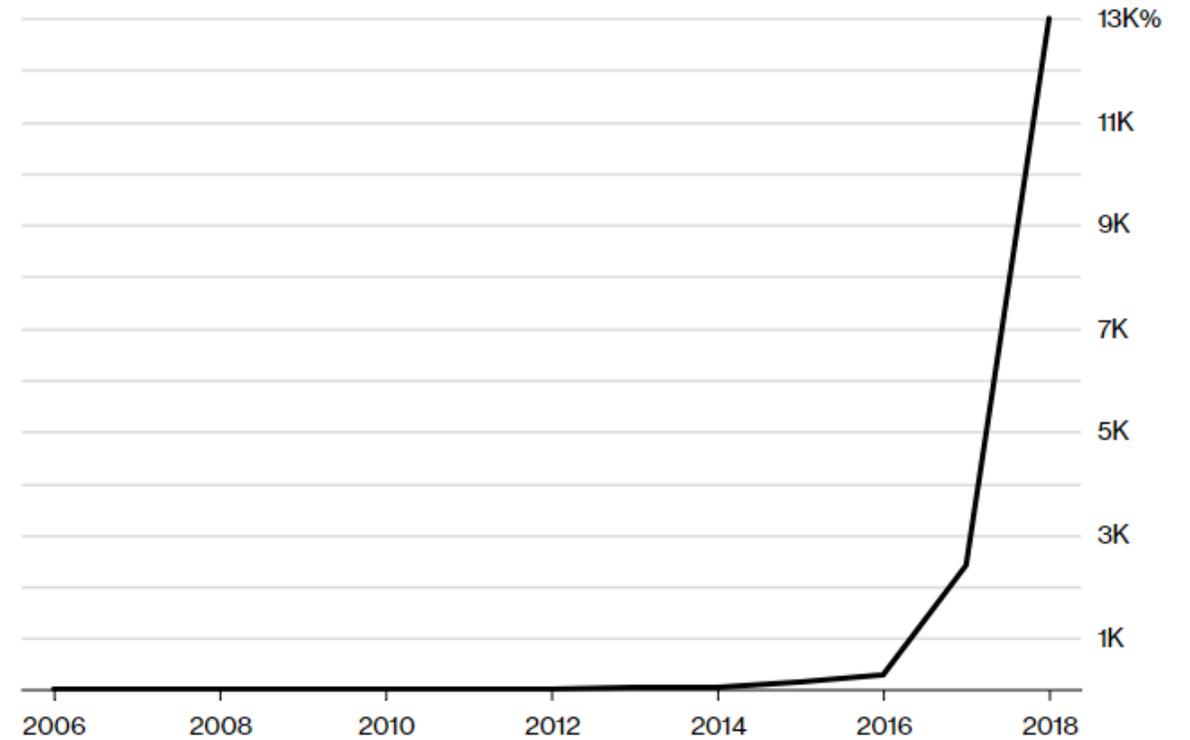


Is history repeating itself?



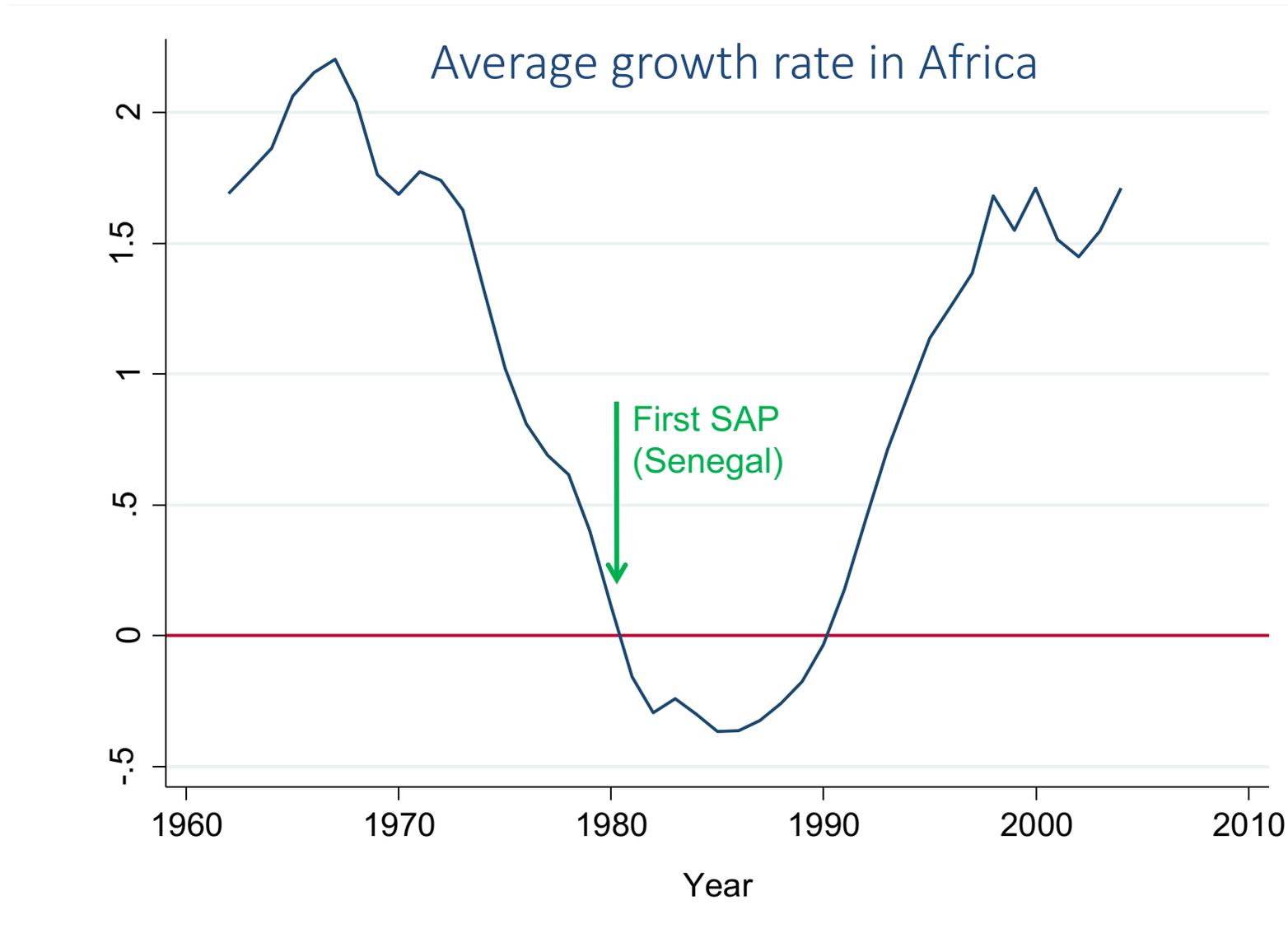
Hyperinflation Spiral

IMF sees Venezuela inflation accelerating to 13,000% by end-2018



Source: International Monetary Fund

As countries face economic collapse, the rest of the world considers how to respond to stabilize these countries and help return them to growth



We see parallels in Latin America, not only in the “lost decade” of the 1980s, but also Latin America’s turbulent postcolonial period

Bates, Coatsworth & Williamson

19th century

- Persistent market regulation and monopoly protection
- Dependence on a small number of export products
- Huge price and supply shocks
 - Tobacco, coffee, rubber, guano
- Growing levels of debt
- Default by 1830s

20th century

- Influenced by the same post-WWII intellectual and political environment
- Focus on industrialization via import substitution
- Required extensive control regimes to maintain
- Unequal, autocratic, repressive regimes persist into late 20th century

The international response: Macroeconomic
stabilization and structural adjustment

Two international financial institutions were retooled to respond,
offering credit in return for reforms

International Monetary Fund



World Bank



Each played a different role

“Macro stabilization”

- Get deficits and inflation under control
- Stop printing money to pay for things
- Cutbacks in spending
 - Social expenditures
 - Public sector job

- IMF: Short term loans

“Structural adjustment”

- Deeper economic reform programs
- Remove price controls
- Privatize state-owned banks, companies
- Build market institutions

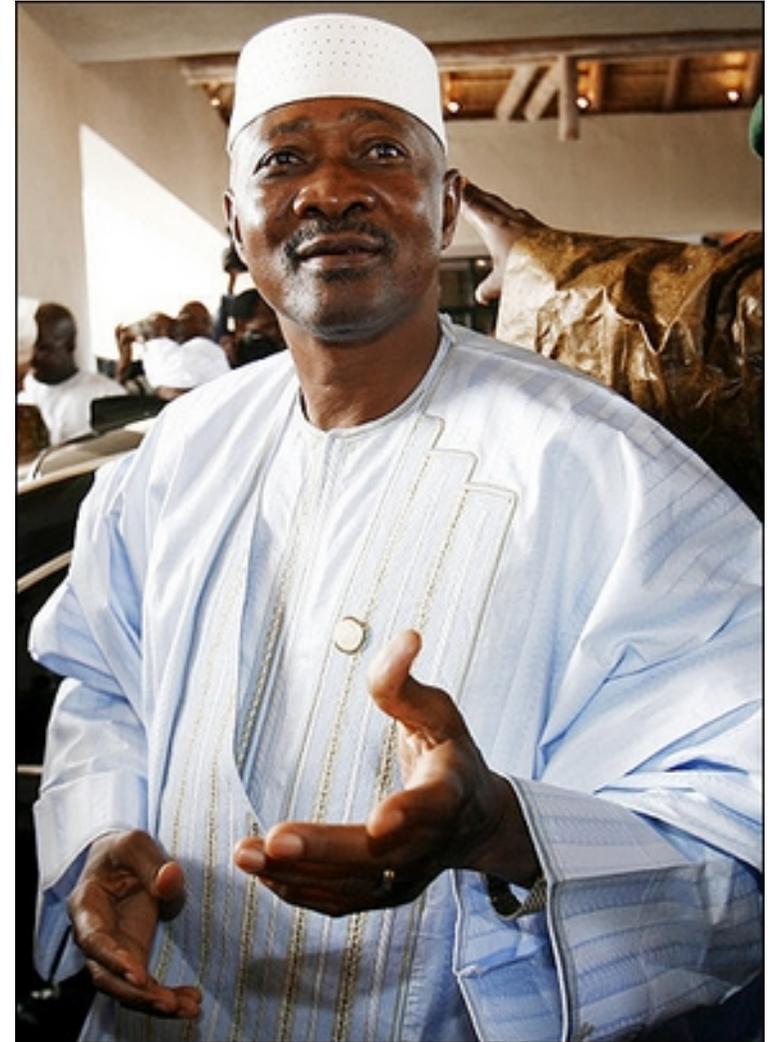
- World Bank: Long term loans

The classic critique of structural adjustment:
Inexpert, ideological, thinly disguised neo-colonialism

People who have never seen cotton come to give us lessons on cotton...

No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student.

— Malian President Amadou Touré (2005)



What were the principle structural adjustment policies?
Did the international institutions hold consistent views on
these policies?
Do they differ from what was actually implemented?

Another way to view stabilization and structural adjustment as a response to patrimonial policies that crippled economies

Economic controls:

Marketing boards and price controls

Seigniorage spending

Price supports and pork

High public employment

Overvalued currency

Trade protection

Import bias

Nationalization of industry

Proposed reforms:

→ Price and agricultural market deregulation

→ Strict inflation targets

→ Reduce expenditures

→ Public sector retrenchment

→ Devaluation

→ Trade liberalization

→ Export bias

→ Privatization of banks, transport, mining, etc.

Core tenets of the “Washington Consensus” according to John Williamson

The non-“market fundamentalist” version

1. Run a roughly balanced budget
2. Avoid broad food & fuel subsidies in favor of targeted programs to poor
3. Broaden tax base and have moderate marginal tax rates
4. Let the market determine the interest rate
5. Minimize exchange rate distortions
6. Have low to moderate tariffs and avoid quotas
7. Be open to foreign investment
8. Avoid state enterprises, especially banks and manufacturers
9. Open industries up to competition
10. Uphold property rights

How much did it matter?

van de Walle: In fact, macro stabilization and structural adjustment were actually quite slow, unevenly implemented, and often reversed

Table 2.3. *Policy Reform in Africa: Patterns of Implementation, 1979–1999*

| Reform | Degree of Implementation | Probability of Reversals | Comments |
|---|--------------------------|--------------------------|--|
| I. Stabilization | | | |
| a. Fiscal adjustment | mediocre-good | high | Belated progress in mid-1990s Sustainability questionable |
| b. Exchange rate policy | good-excellent | medium | Early focus of IMF; CFA countries devalue in 1994, maintain fixed rate |
| c. Monetary policy and external balance | mediocre-good | high | Uneven progress across time; reliance on large aid flow |
| II. Adjustment | | | |
| a. Domestic liberalization | poor-excellent | medium | High variation across cases |
| – Banking/credit | good-excellent | low | Early focus of adjustment programs |
| – Investment | mediocre | low | Large gap between de jure and de facto situation |
| – Export agriculture | mediocre | medium | Prices still set by state, particularly in ex-French states |
| – Food markets | mediocre-good | medium | Consumer prices liberalized more than producer prices Less continuing regulation in west and Central Africa |
| b. Trade policy | poor-mediocre | high | Little progress and often subverted in practice. |
| c. Public enterprise reform | poor-mediocre | low | Privatization quickens in 1990s, biggest Public enterprises remain |
| d. Civil service reform | poor | low | Consistently deferred, high cost and complexity |

Van de Walle: Why were these reforms poorly implemented in the 1980s?

1. Most of all: Opening up the economy threatened power in limited access orders

But also...

2. This scale of public sector reform was an almost impossible task

3. The IFIs did not necessarily have the right answer

- Underestimated the role for the state
- Took too many lessons from already developed countries

4. Many governments differed ideologically

- A Socialist influence persisted in many countries
- Few governments owned the plans

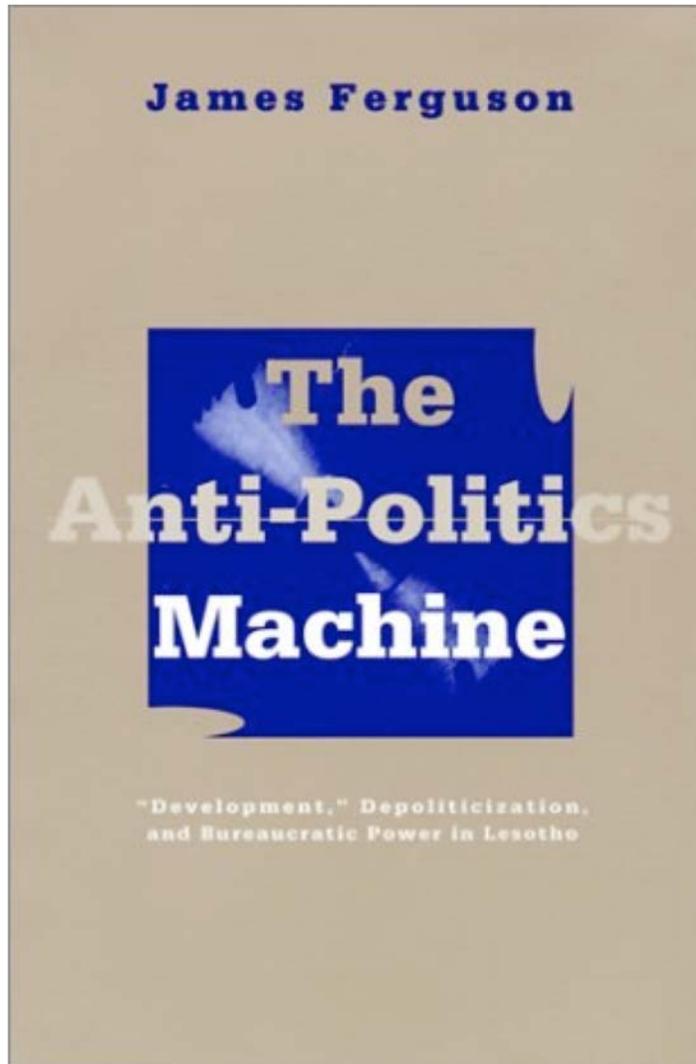
5. Paternalism of IFIs looked suspiciously like colonialism

6. Foreign aid sustained weak bureaucratic structures & lessened need to reform them

Reform is fundamentally political: It threatened control regimes and power structures

- Reform creates winners and losers
 - Reduction of political control → Fewer resources for patrimonialism
 - Public sector retrenchment → lost jobs
 - Removal of subsidies → hurts urban poor
 - End currency distortions → inefficient firms go bust
- Politically very difficult to effect these changes
 - Could also destabilize a fragile political equilibrium
- Ruling elite reactions to protect their interests:
 - Cooperate in transferring the costs and risks to the poor
 - Block or slow reforms that threaten the patrimonial system
 - Create the façade of a rational-legal bureaucracy above this system
 - Find political advantage in reform: Privatize to cronies, centralize and reassert Presidential control,
...

There's a reason that in the 1990s Ferguson called the World Bank the Anti-Politics Machine



- Most international institutions (especially economists) failed to understand the political logic of the economic systems
- They viewed this as an ideological contest with socialism/Communism, rather than a struggle against a system of elite political control
- Saw economic systems as “inefficient”, and viewed fixing them as a technical problem not a political one
- Mislabeled patrimonialism a problem of “corruption” and personal greed
- Failed to consider the nature of local power structures and domestic political threats from reform

In what sense are we all structurally adjusted now?

1. Run a roughly balanced budget
2. Avoid broad food & fuel subsidies in favor of targeted programs to poor
3. Broaden tax base and have moderate marginal tax rates
4. Let the market determine the interest rate
5. Minimize exchange rate distortions
6. Have low to moderate tariffs and avoid quotas
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