

INAF U6164:

Political Economy of
Development:
Africa and the World

Week 6: Independence & the politics of
personal rule

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6 qualities of post-Independence politics in Africa

1. Militarization
2. Centralization
3. Personalization
4. Developmentalism
5. Patronage politics
6. Bloatedness

Six political explanations

1. Colonialism established despotic rule
2. Or colonialism didn't go far enough?
3. International ideologies and bad choices
4. Leaders matter
5. Or are new states naturally weak?
6. It's the international system

1. Colonialism established despotic rule
2. Or colonialism didn't go far enough?
3. International ideologies and bad choices
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5. Or are new states naturally weak?
6. **It's the international system**

How the Cold War shaped the international system

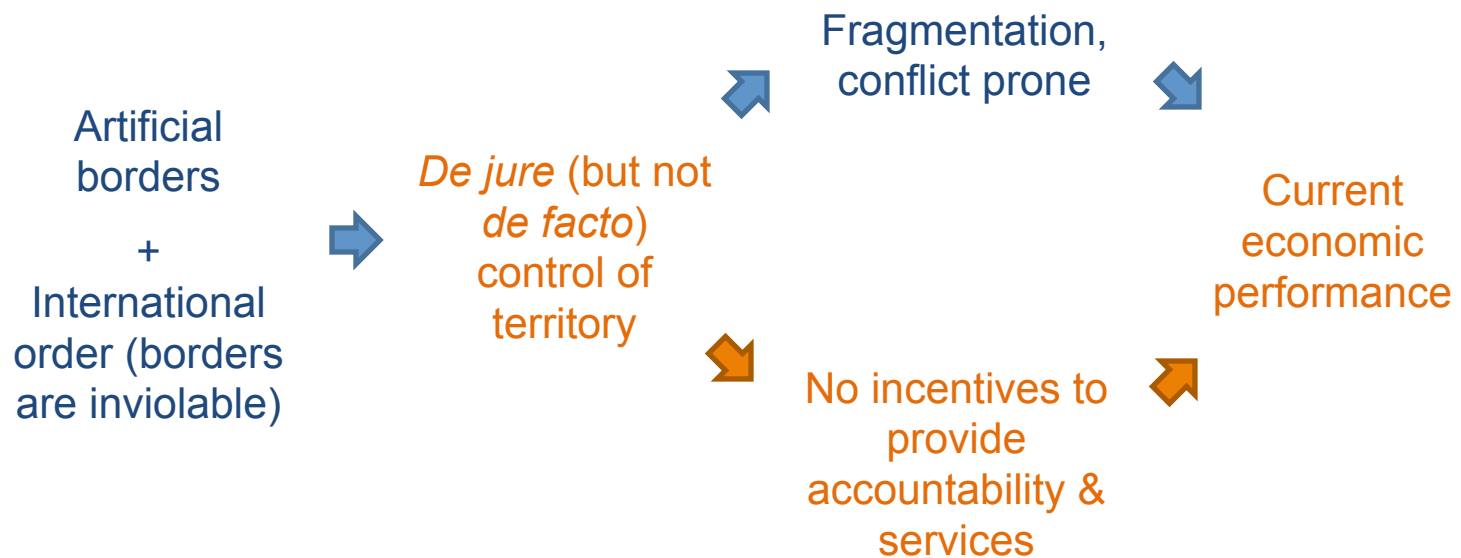
- Small transgressions threatened fragile peace
- US and USSR want a system that contains conflicts in the periphery
 - Fear is that small wars escalate to nuclear war
- Developed rules, norms and institutions that would preserve peace
 - Non-interference
 - Territorial integrity



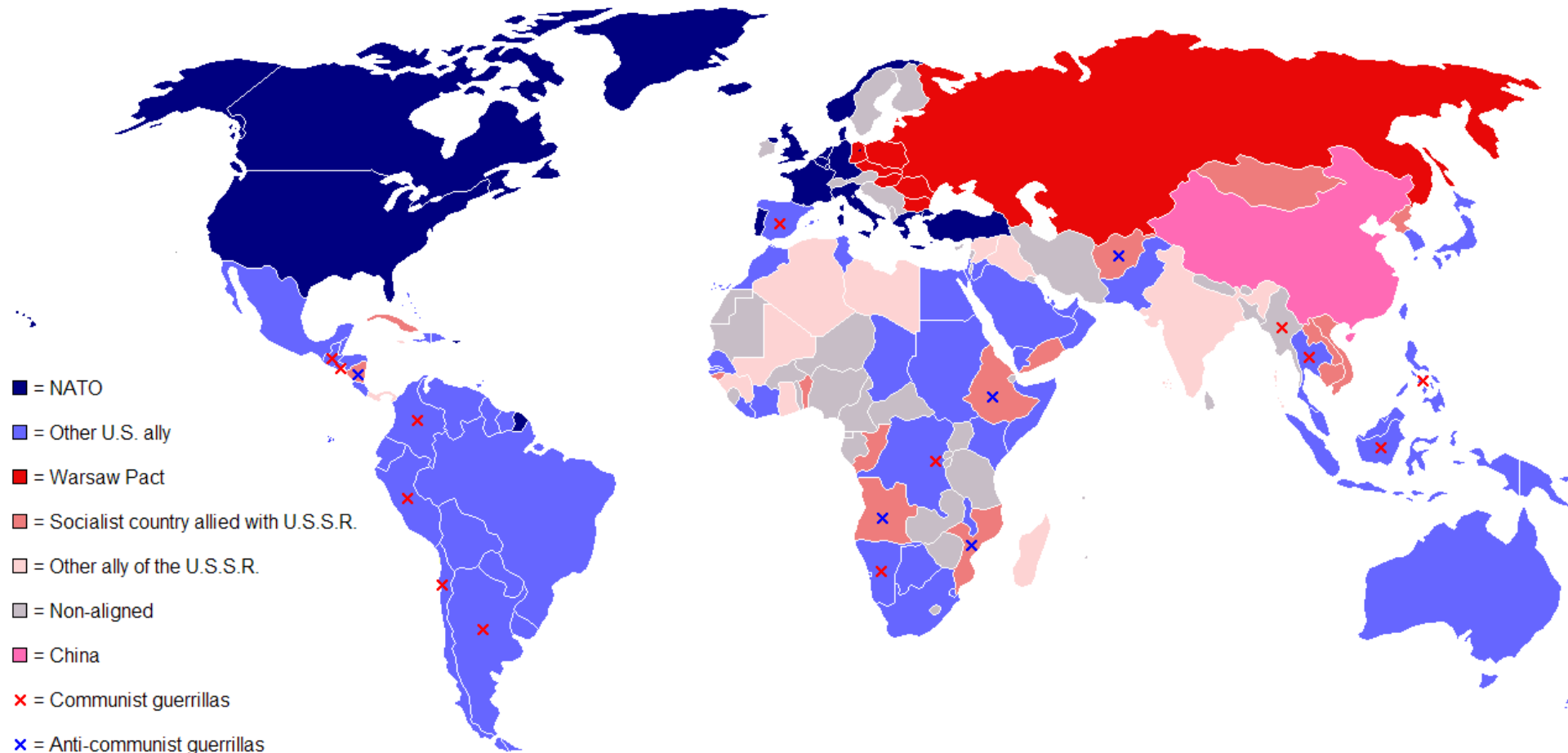
Did the global powers froze Africa in an unstable political equilibrium?

- Non-interference
 - Populations the victims of their leader's cruelty and incompetence
- Territorial integrity
 - Frees state from need to control periphery

“Territorial states” insulate African leaders from state-building and public accountability



Western powers more interested in winning Cold War than sustainable state building (They may be thugs, but they're our thugs)





Foreign aid further removes African leaders from accountability

(van de Walle, Herbst)

- Keeps thugs in power (even unintentionally)
- Further frees elites from obligations of state-building
 - Reduces need to build legitimacy and raise taxes
 - Reduces need to provide services, law and order, security
- Similar effect as natural resource wealth
 - State has access to unconditional resources
- States accountable to donors, not citizens and civil society

What I want you to take away

1. Economic failure in the 1980s was a function of political failure in the 1960s and 1970s
2. Political failure after independence was deeply rooted in Western influence
 - Colonial meddling
 - Rapid withdrawal
 - Imported ideologies
 - Trade and technology disrupting old power forms
3. But state building takes time
 - Not clear that states would have been any stronger without Western influence

What are the characteristics of post-colonial economic policy?

Recall the political environment and incentives post WWII

1. Continuation of existing (colonial) systems
2. State-led development ideologies
3. Closed international systems
4. Elites seeking to preserve privilege
5. Weak bureaucratic structures
6. Effectiveness (necessity?) of patrimonial and personalized rule

Control regimes

Bates, van de Walle

Manipulated markets

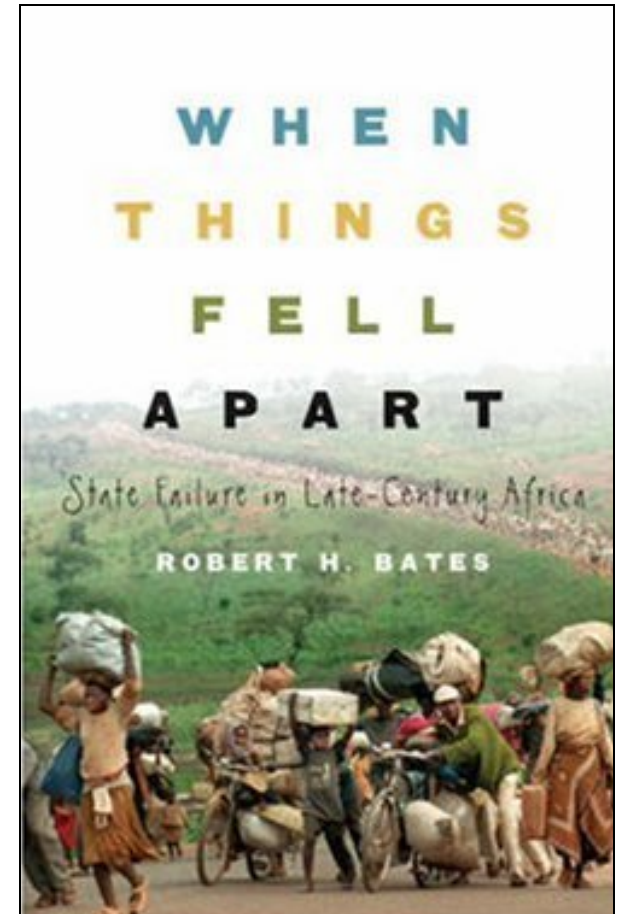
- Erected barriers to foreign firms
- Encouraged monopolists
- Nationalization of banks, resource extraction, transport, etc.

Price distortions

- Subsidized urban food and fuel
- Lowered prices to rural producers

State resources as patronage

- State banks “lent” money to political insiders
- Explosive growth of public sector jobs



Currency manipulation

Overvalued exchange rates

- Set the “price” of your currency artificially high
 - Makes dollars cheap but scarce
- Impact on trade and prices
 - Cost of imports decline (good for consumers)
 - Cost of exports rise (bad for producers)
 - Depresses local industry and exports
- Why overvalue?
 - Import rights and dollar rationing: good patronage tool
 - 1980s: black market premium on dollars was >300%
 - Keeps prices of consumer goods low for urban population and elites

Trade barriers

Region	% Tariffs		% non-tariff barriers	
	1984-87	1991-93	1984-87	1991-93
SSA	26	25	44	47
Latin America	26	12	30	9
South Asia	62	46	48	20
East Asia	18	17	21	24

- High in Africa relative to Latin America and East Asia
- Import duties a main source of revenue
- Helps protect local industry
 - For development, to counteract effect of currency
 - And for patronage

Agricultural markets, marketing boards, and the state

- Marketing boards common tool to reduce price volatility for farmers
 - Full crop is purchased by state at a fixed, stable price
 - State has monopsony
- What actually happened?
 - “Farm gate” prices lagged behind world prices
 - Primary source of revenue for the state
 - Pool of cash for patronage as well as governing



Urban bias in the patrimonial state

Price distortions came at expense of...

- Rural areas
- Agricultural industry
- The political majority

For the benefit of

- Industrial development
- Urban elites
- Urban poor

A giant redistribution of income

- Re-sliced the pie

At the same time, inefficient

- Shrank the pie

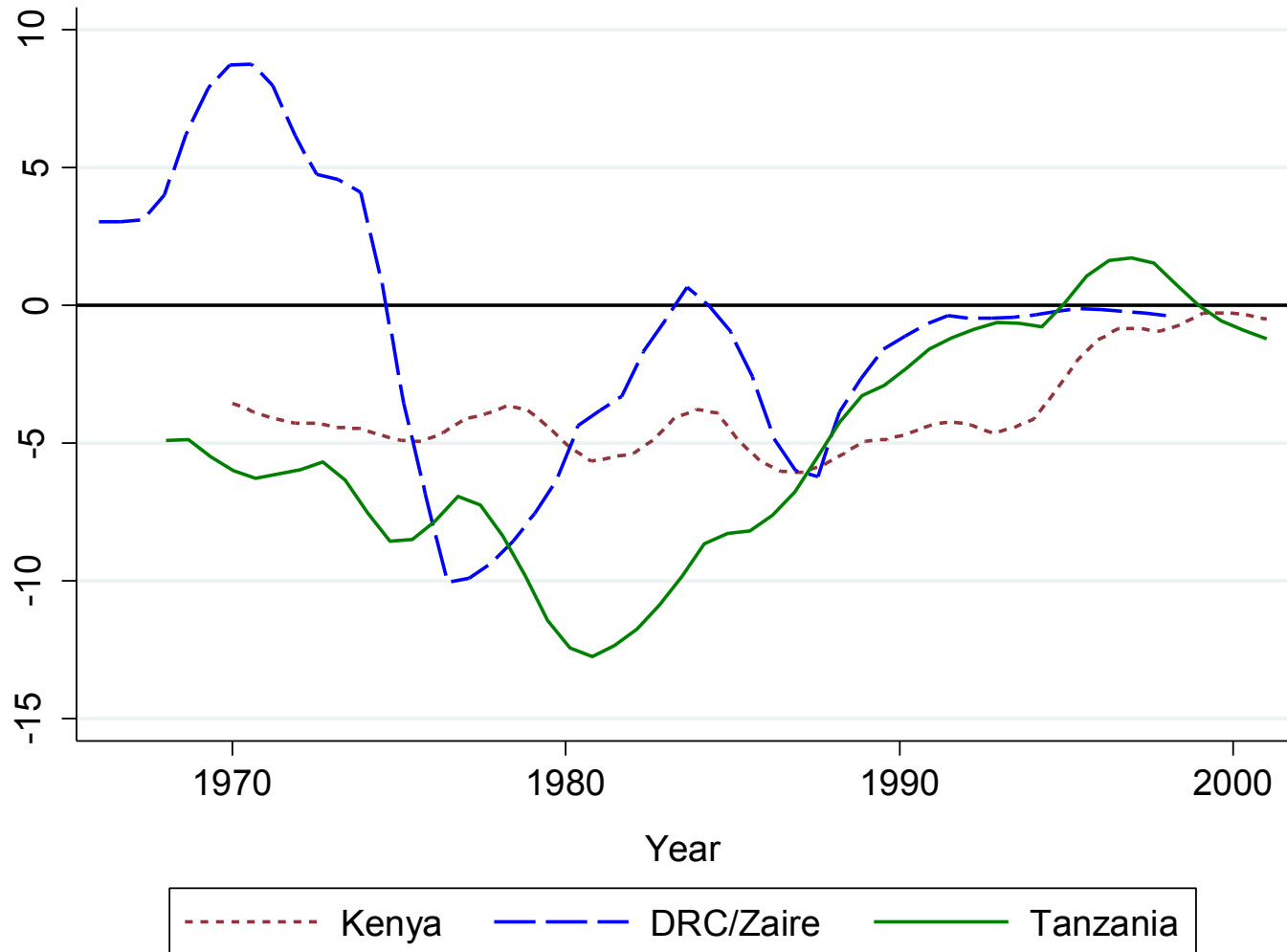


The fiscal strain of inefficiency, corruption and patronage

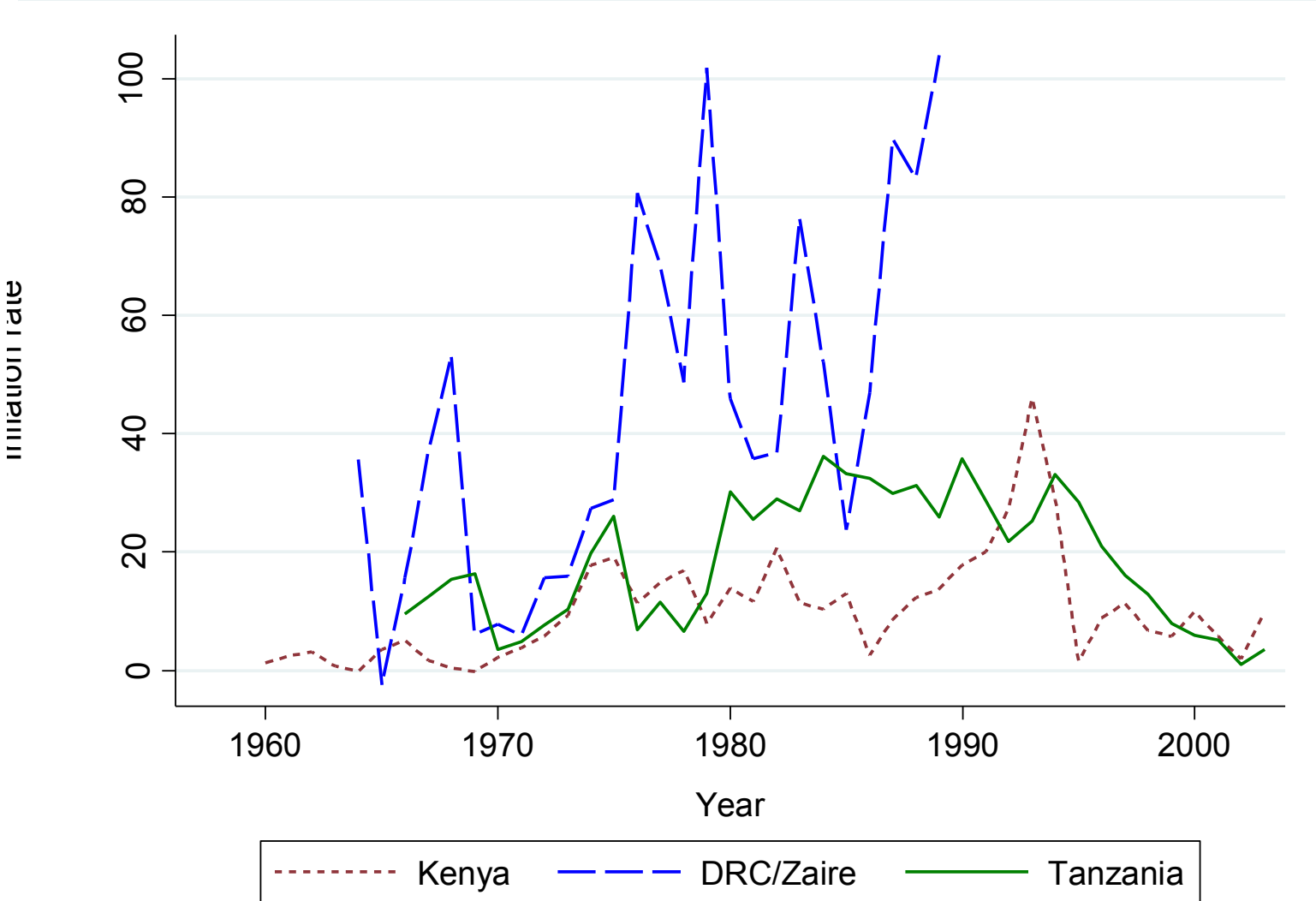
- Social spending growing faster than tax revenues plus aid
- Food and price subsidies draining resources
- Theft and corruption divert funds
- State firms losing money at increasing rate
- State banks insolvent due to unpaid loans



Persistent fiscal deficits

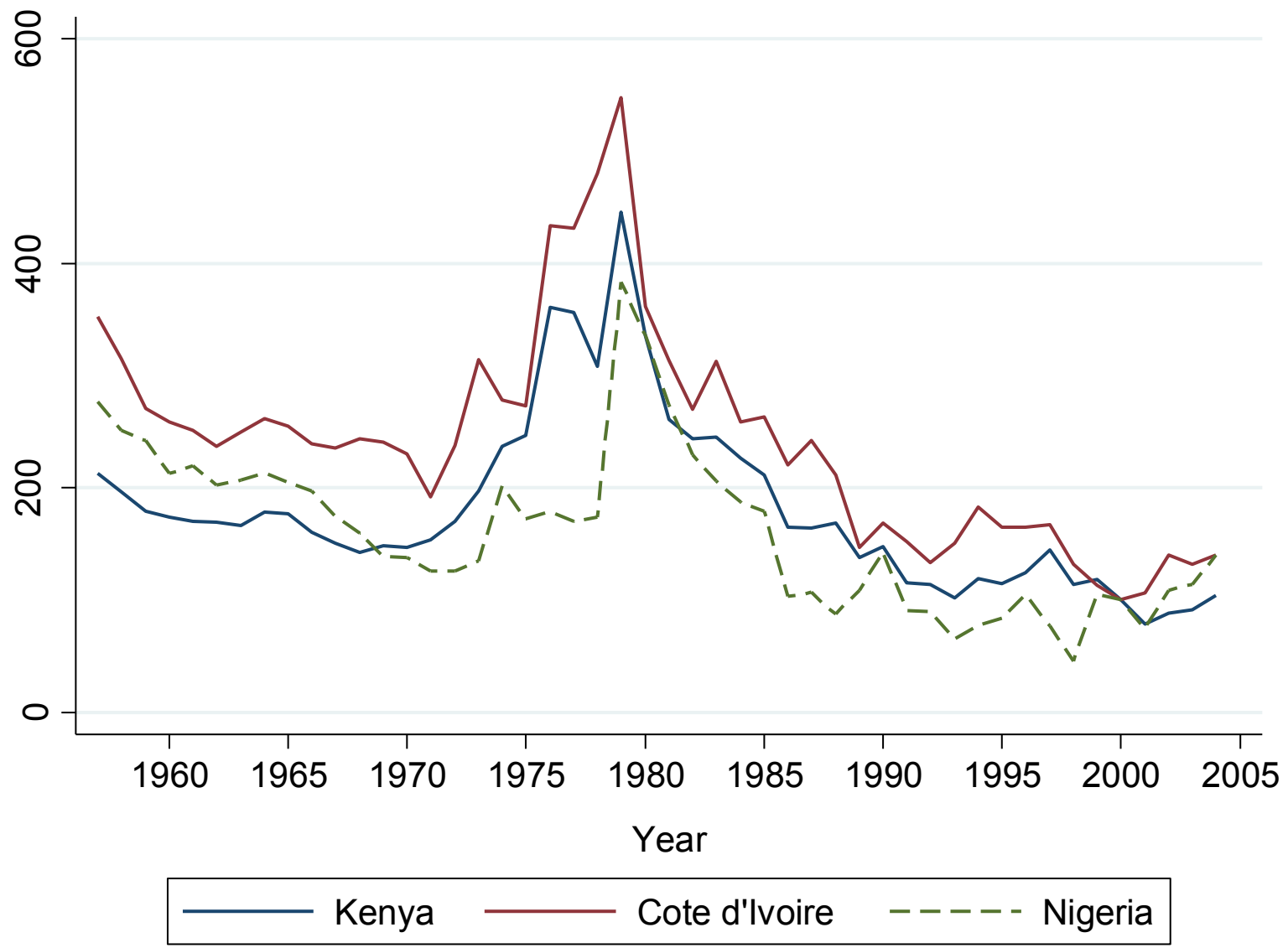


Printing money to pay bills (seigniorage) drives up inflation



Now, introduce volatility to the system.

External forces: Commodity price spikes

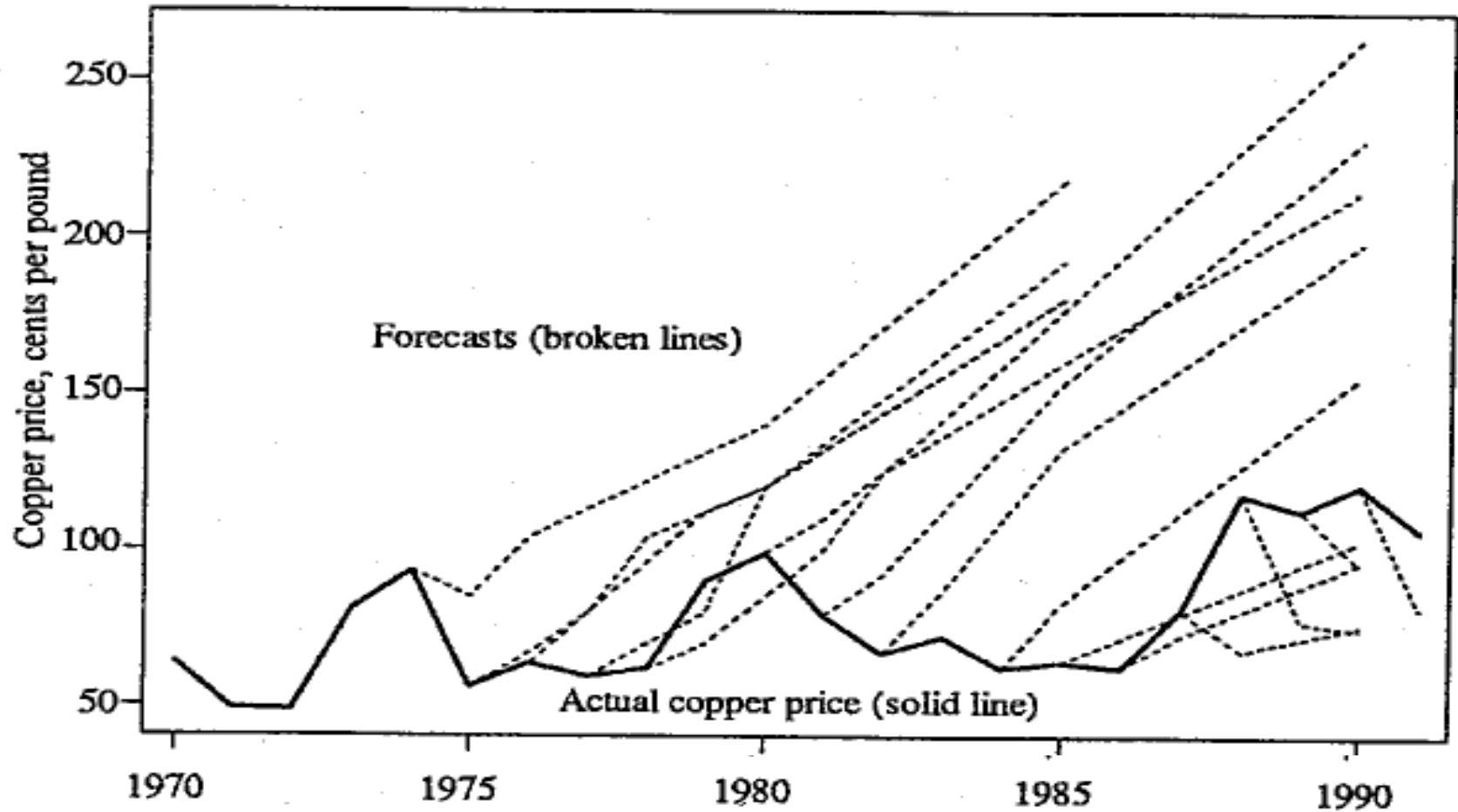


Why is a commodity price spike a problem?

- A temporary windfall for the country
 - A windfall for the state via taxes or marketing board
- One problem: global economic slowdown from oil shock
- Bigger problem: They didn't realize it was a temporary shock

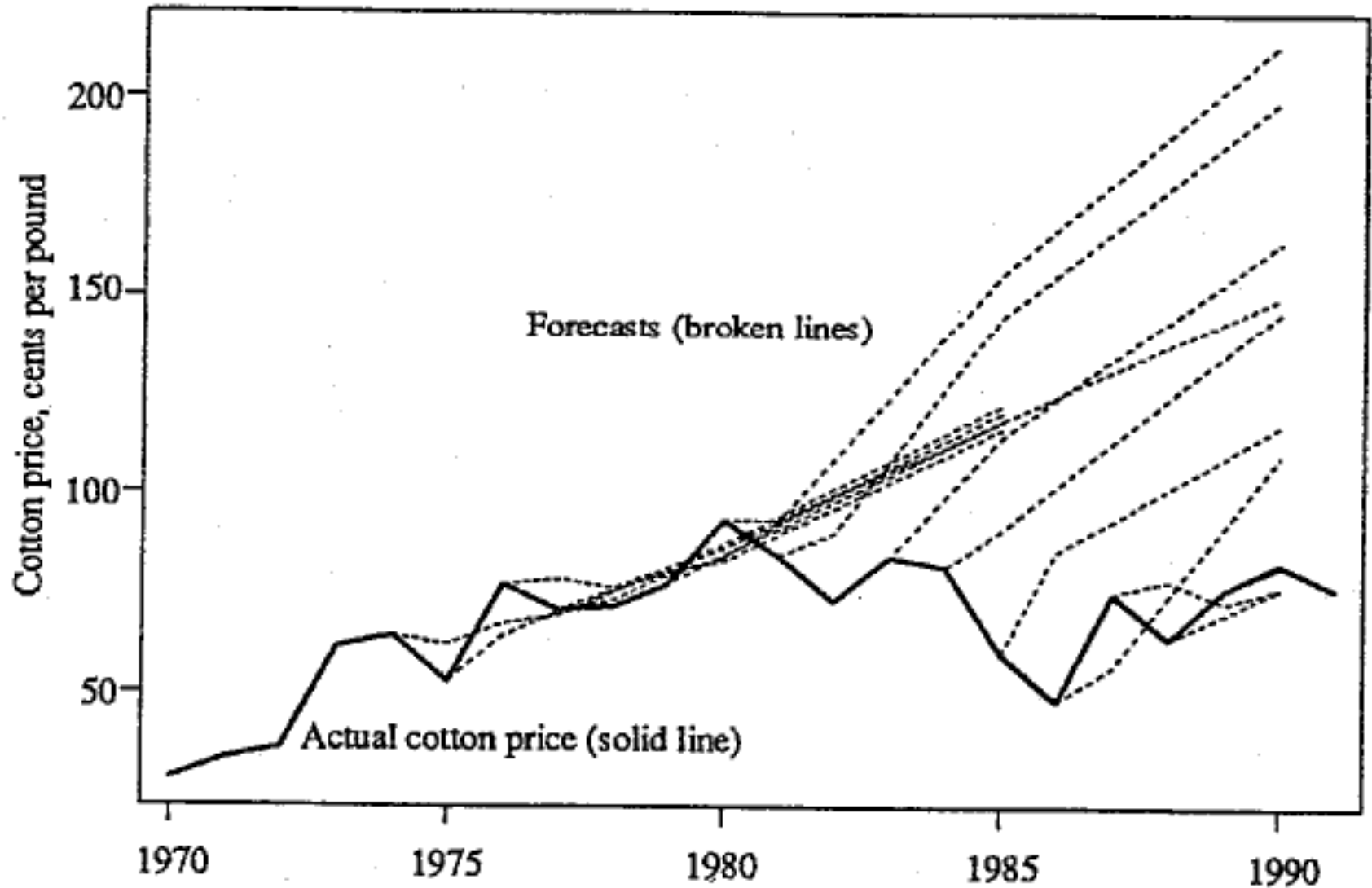
IMF: Actual versus forecasted commodity prices

Copper



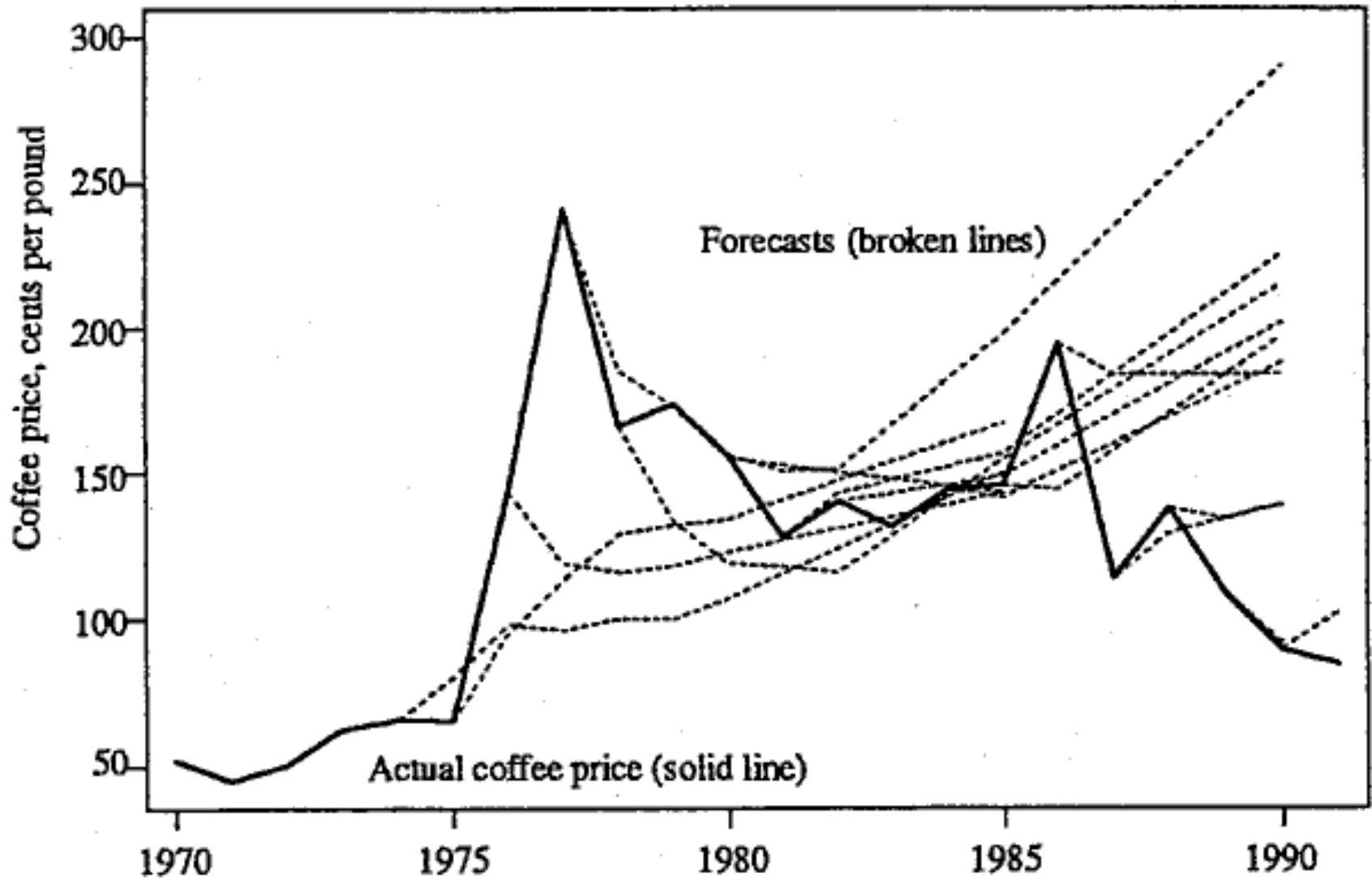
IMF: Actual versus forecasted commodity prices

Cotton



IMF: Actual versus forecasted commodity prices

Coffee



The sensible, technocratic response

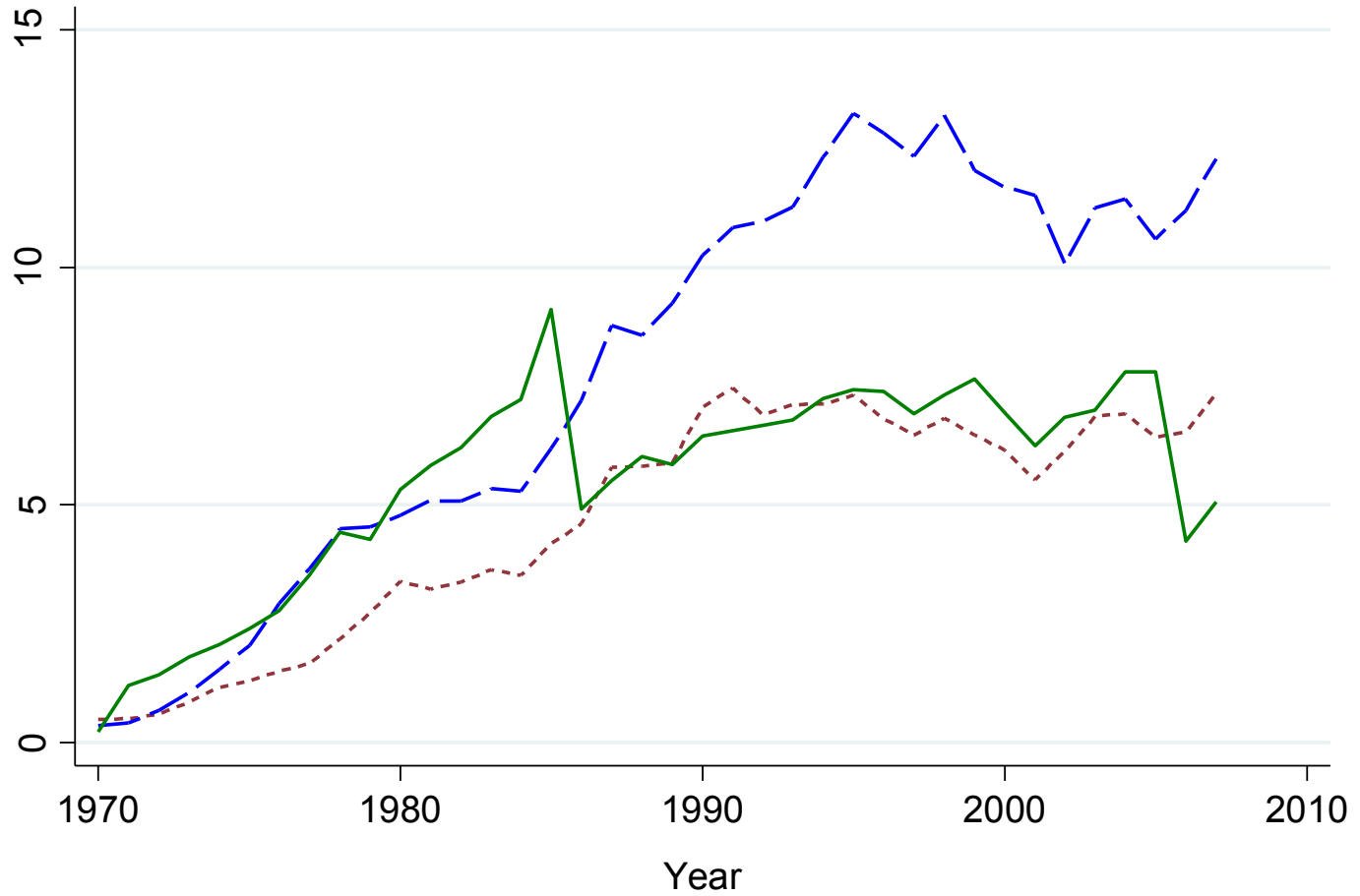
Temporary windfall

- Smooth income and consumption
 - Increase spending only a little
- Increase savings and investment
 - Including debt reduction
- Focus on short-term projects and reversible investment

Permanent windfall

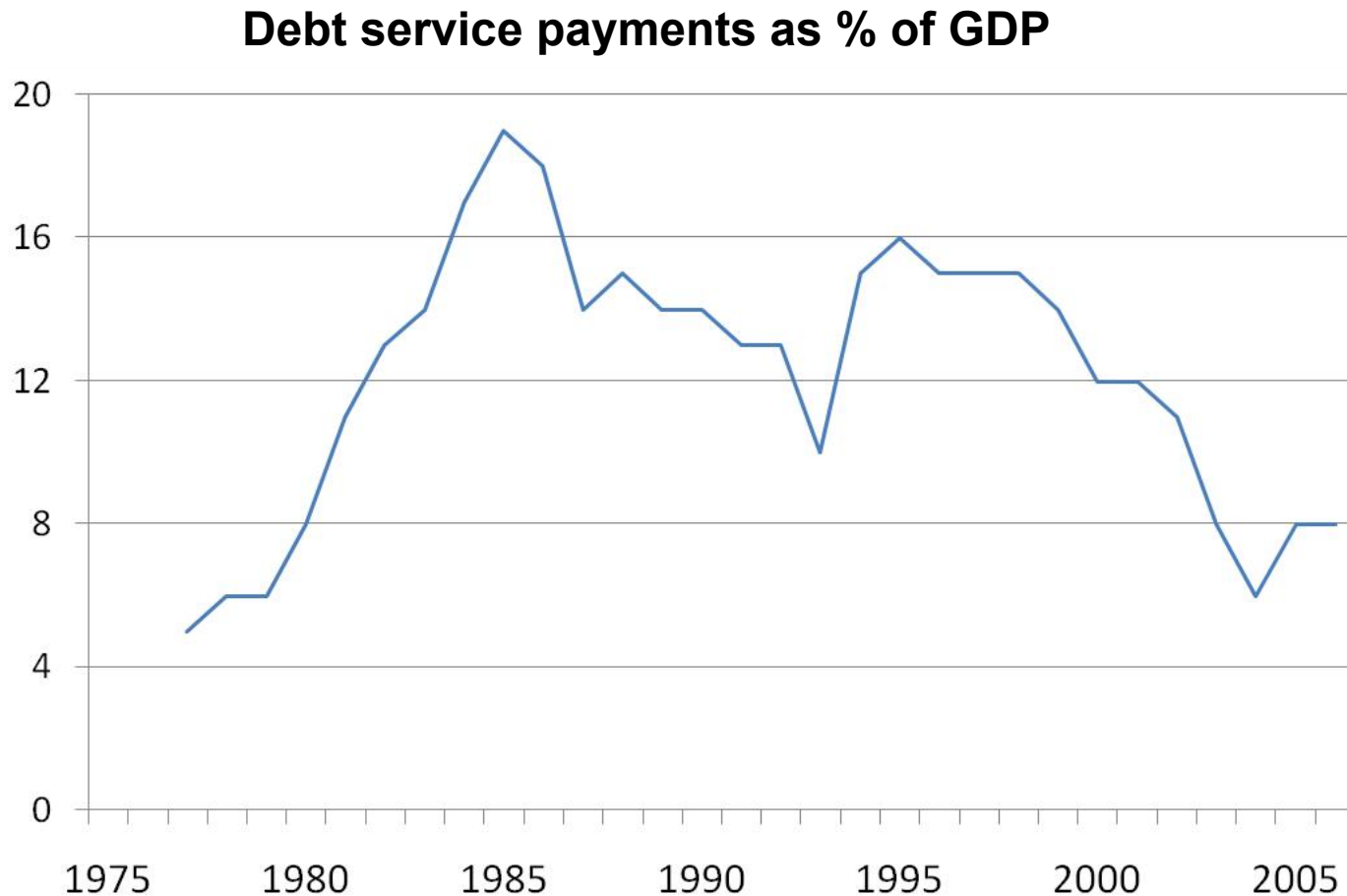
- Increase spending
- Invest in the future
- Consider long term projects and irreversible investments
 - Big infrastructure projects
 - Bigger public sector
 - Schooling and clinic expansion

Rising external debt



--- Kenya - - - DRC/Zaire — Tanzania

Governments finances expenditures through borrowing rather than adjusting spending or restructuring economy (sound familiar?)



Parallels to 19th century Latin America

- 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

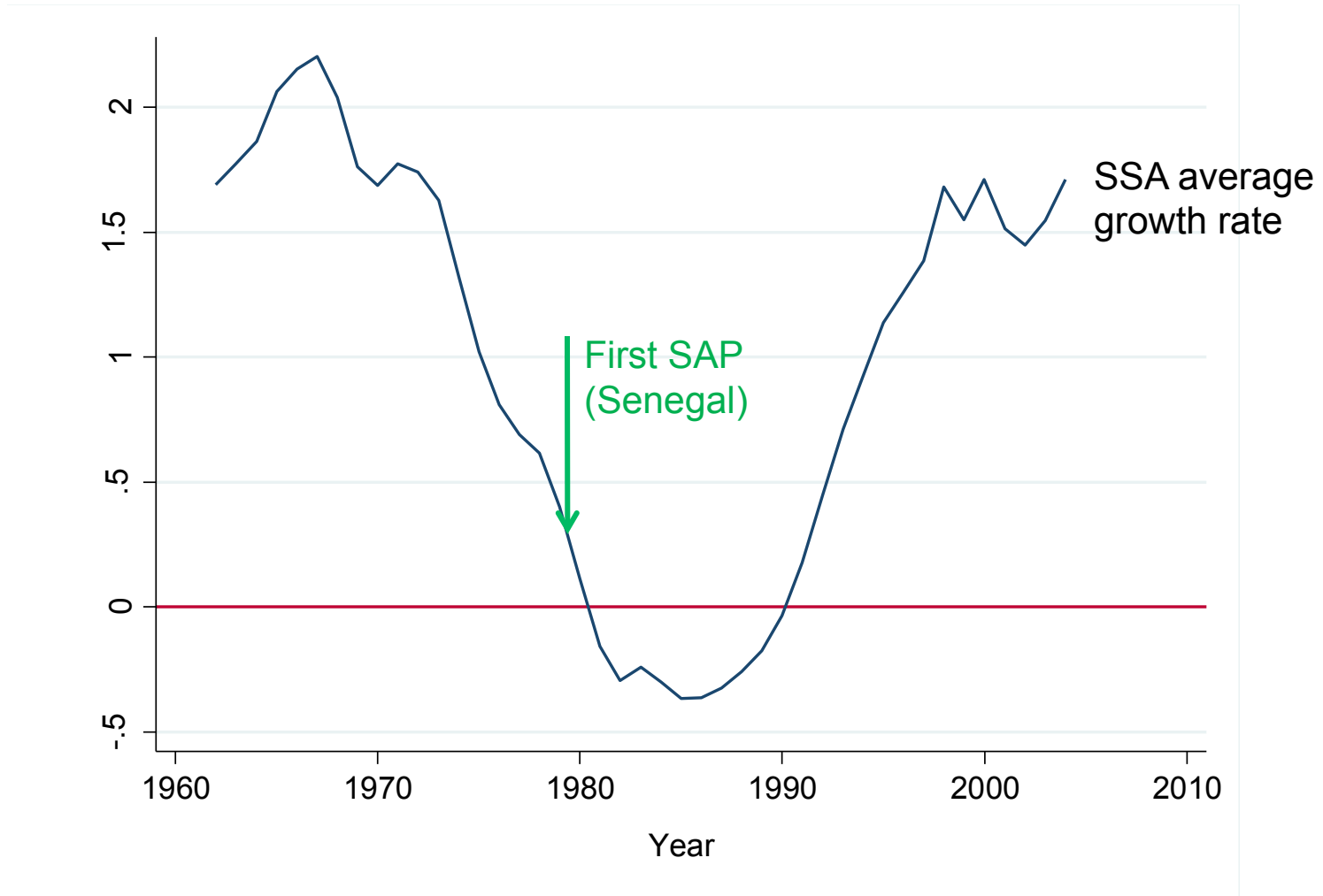
Parallels to 20th century Latin America

- 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

One consequence: Abruptly
frozen out of international credit
markets in the early 1980s

Hit developing countries worldwide,
starting with Mexico

“The Lost Decade”



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

Enter the international financial institutions (IFIs)



The economic reform agenda in the 1980s

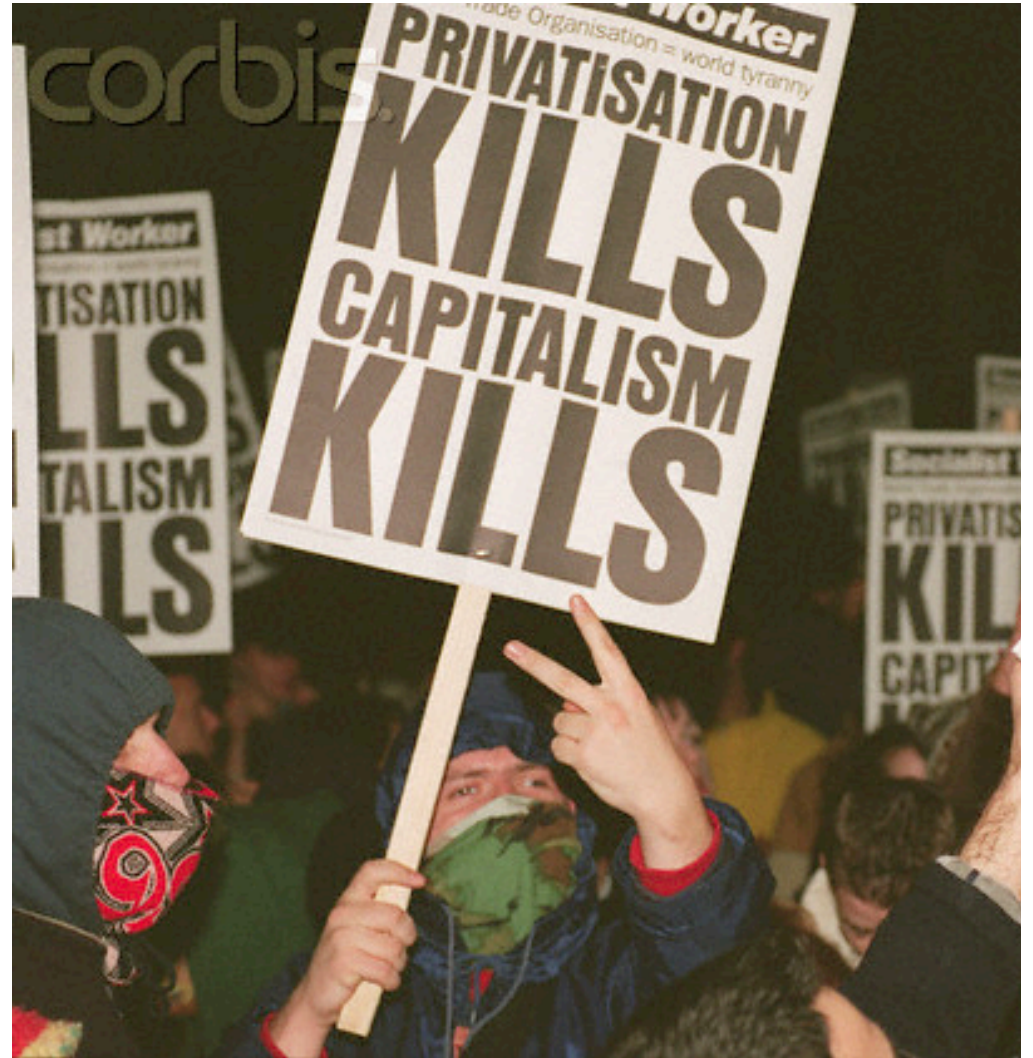
Move away from the policies that crippled the economy

“Macro stabilization”

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

“Structural adjustment”

- Deeper economic reform programs with funding from the West
- Remove price controls
- Privatize
- Build Market institutions
- IFIs: Long term loans



Structural adjustment, conditionality, & reform

Why did it happen?

Was it necessary?

Did it work?

Did it go too far?

Did it not go far enough?

But first... Origins of the international financial system

World Bank

International Monetary Fund

World Trade Organization

First the Great Depression



Then the war

Complete shutdown of international trade and exchange
& a need for reconstruction



1944
Bretton Woods, NH



Logic of the “Bretton Woods Institutions”

- Need for collective action at the global level to avoid another Great Depression
 - Construct a framework for international cooperation
 - Restructure international finance
- Plan for rebuilding Europe with cash injection
- Rooted in a Keynesian view of economics
 - The state can smooth booms and busts, and promote growth, through the use of fiscal policy



The World Bank

Original mandate :

- Facilitate capital investment for reconstruction
- Make longer term loans to countries embarking on reconstruction and development
- Especially infrastructure

IMF

Original mandate :

- Re-establish a system of trade and currency exchange
- Lend countries money to stimulate flagging economies



From GATT to WTO



- Initial plan: create an organization to supervise and liberalize trade
- Avoid 'beggar thy neighbor' policies of the Depression
- Did not happen until 1995
- In meantime, General Agreement on Tariffs and Trade (GATT)

Who runs the IFIs?

- Report to the ministries of finance and central banks that finance the IFIs
 - US, followed by Japan and Western Europe
- “One dollar, one vote”
- US picks head of World Bank, Europe the head of IMF
- In practice, a nation needs the IMF’s “seal of approval” to borrow abroad

Evolution of IFI mandates

- 1950s: Reconstruction of Europe and Japan, restore basic international trade and currency convertibility
- 1960s: Focus on infrastructure, most aid bilateral
- 1970s: Dramatic increase in poverty-oriented lending
- 1980s: Reaction to worldwide economic crisis
 - Change of guard, saw statist model as the problem
 - Lend nations money on favorable terms to restructure debt and economies

Structural adjustment programs

Patrimonial policies:

Marketing boards and price controls

Seigniorage spending

Price supports and pork

High public employment

Overvalued currency

Trade protection

Import bias

Nationalization of industry

SAP 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.

The “Washington Consensus”

1. Balance massive deficits
2. Change from food & fuel subsidies to targeted services for the poor
3. Broadening the tax base and reduce marginal tax rates
4. Let market determine the interest rate
5. Eliminate exchange rate distortions

The “Washington Consensus”

6. Lower tariffs and eliminate quotas
7. Open to up foreign investment
8. Privatize of state enterprises, especially banks and manufacturers
9. Open industries up to competition
10. Provide legal security for property rights.

Stabilize.

Privatize.

Liberalize.

Criticisms of structural adjustment, conditionality, & reform

THE STRUCTURALLY ADJUSTED LAST SUPPER



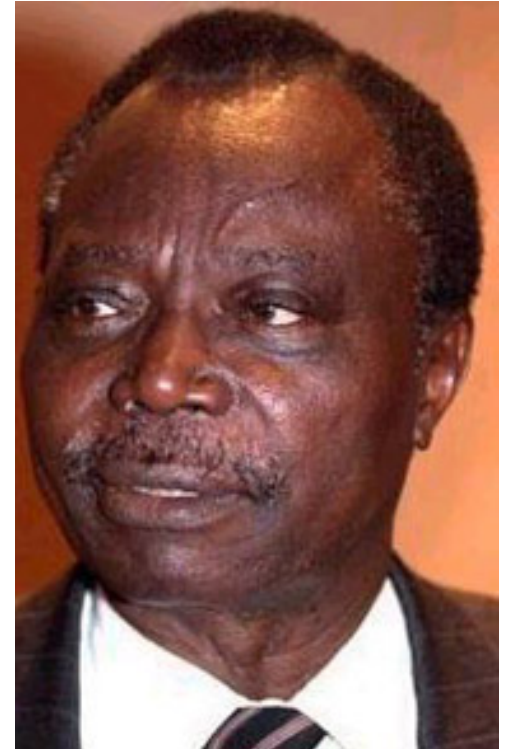
1. The “first-best” market solution may not be the right answer

- “The theory of second best”
- If an economy has market imperfections, the “best” policy (moving one sector towards the market) may actually make the economy worse off.
- Inappropriate prescription in environment (first best)

2. Paternalistic and neocolonial?

They appear more interested in foisting on us their own perceptions and goals. When it comes to Africa, the outsiders have always behaved as if they know better than Africans what is good for Africa.

- Prof. Adebayo Adedeji



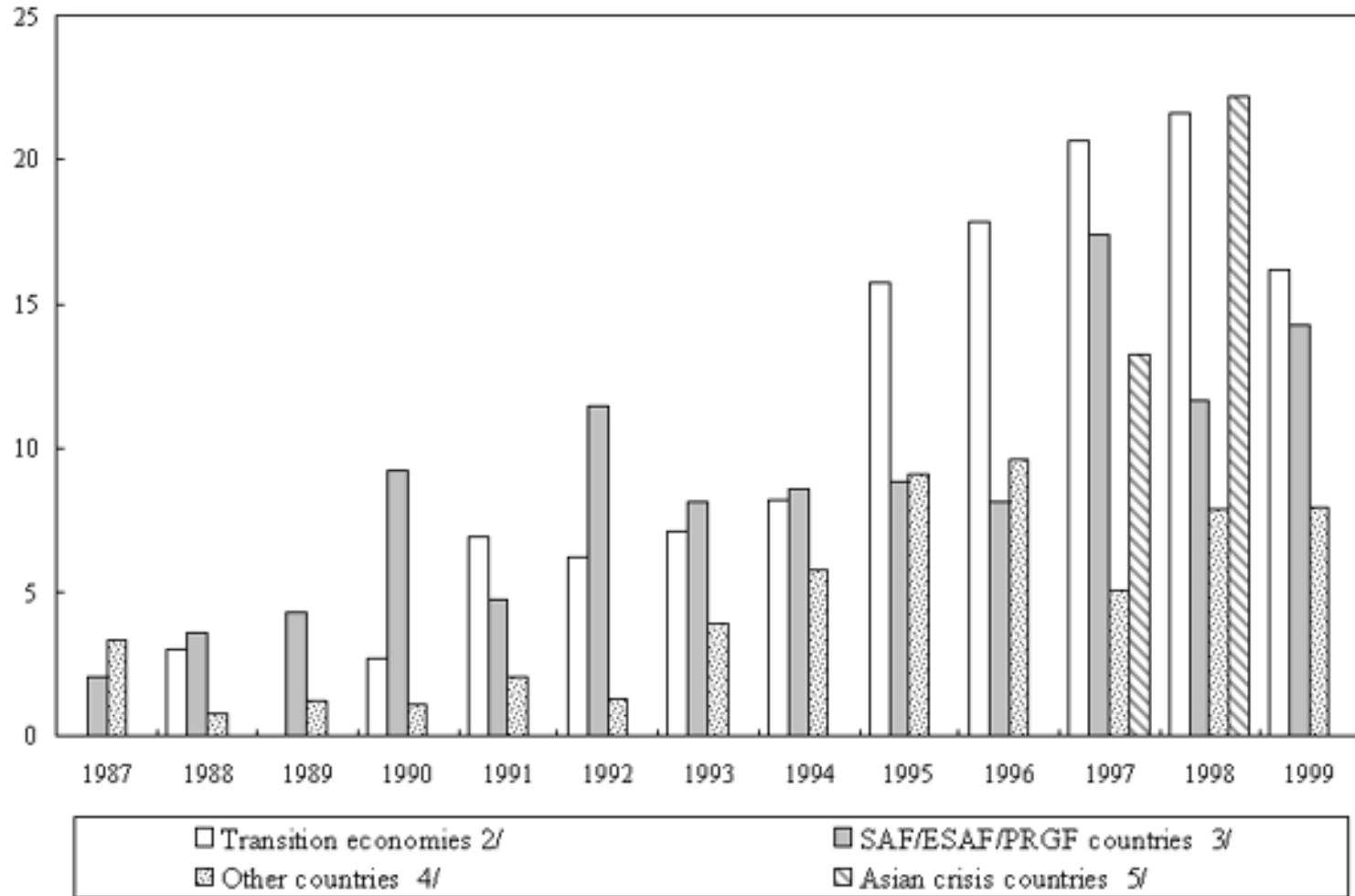
Africa given little choice in the matter

- Unlike Latin America, there was no consensus in Africa that SAP would work
- Governments did not “own” the reform plans
- Responsibility for the reforms placed on IMF, not state



3. Excessive “conditionality”

Average number of structural conditions per year



- Rose in number and complexity over time

4: The Washington Consensus: “neo-liberal” and “market fundamentalist”?

- Free market ideas were increasingly influential
 - Many IMF, and World Bankers were self-professed market fundamentalist
 - Ministers, especially in Latin America, very influenced by Chicago School
- And often perceived as neo-Colonial

5. Not pro-poor enough

Least progress was made on “expenditure switching”
elements of the Consensus



6. SAP driven by ideology & superiority

- SAP has a cynical view of government
 - Demonizes local elites
 - Emphasizes the indiscipline of Africans
- Championed largely by Africanists based in North American universities
- Embraced by the World Bank
- Accorded with a growing neoliberal ideology in the West

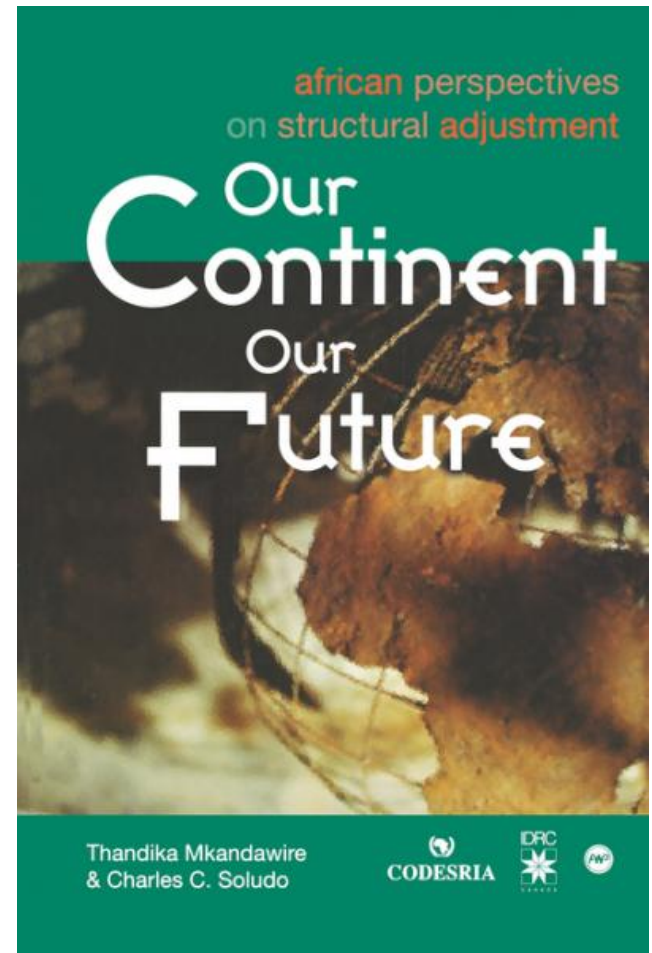


“It is estimated that 100 000 expatriate technical assistance staff work in Africa, meddling in every aspect of policy analysis...

It is remarkable to observe how Africa, over the decades, has been the pawn of international interests experimenting with development models.

The SAPs have in many ways compounded the problems by multiplying the number of experts.

Moreover, these cooks were not master chefs.” (p.37)



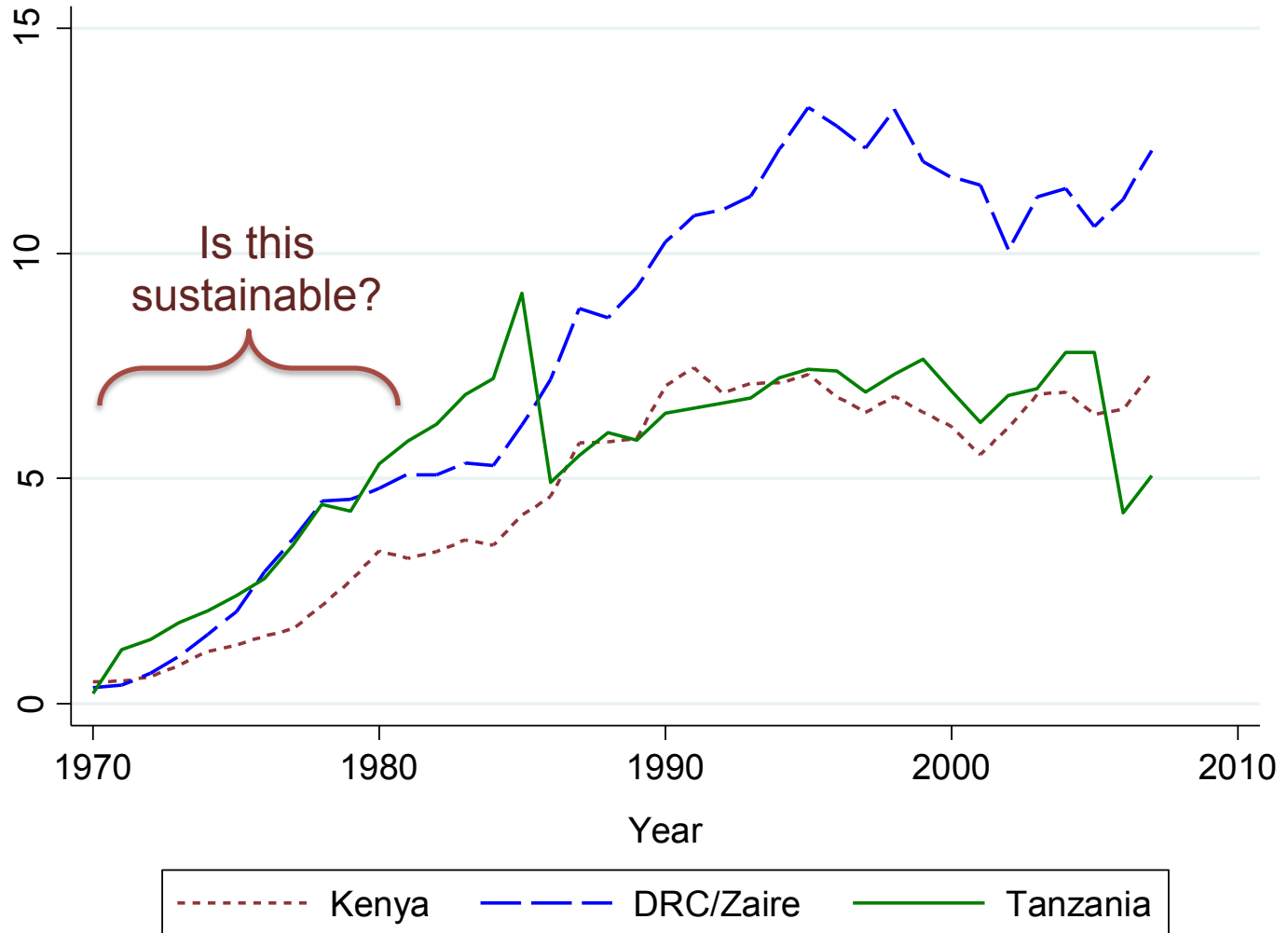
What was the counterfactual for
African states?

No reform?

Different reform?

The case for structural adjustment

Debt levels



Unsustainable policies?

- Black market exchange rate premiums >100%
- Runaway state hiring
- Oil and food price subsidies to non-poor as well as poor
- State ownership of manufacturing and retail
- Politicized state development banks
- Urban bias

- All on a shrinking tax base

Did Washington Consensus = Market fundamentalism?

Wash. Consensus (on paper)

- Reduce tariffs below 200%
- State should not run banks
- Shrink deficits
- State should use a light hand
- Encourage FDI

Market fundamentalism

- No tariffs
- State should not produce power and water
- Cut social programs
- No industrial policy
- Free up capital markets

Did the SAP reforms work?

Slow, uneven implementation

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

1. Little capacity for reform

- State absent from much of its territory
 - Could decree but not enforce
- Local level corruption becomes endemic
 - Simply following the leader's example
- Low human capital
 - Able managers leave to work for private sector or NGOs, or simply leave Africa
 - Nepotism not meritocracy

“Almost every African country has witnessed a systematic regression of capacity in the last thirty years; the majority had better capacity at independence than they now possess.”

- African governors of the World Bank in report to World Bank President, 1994

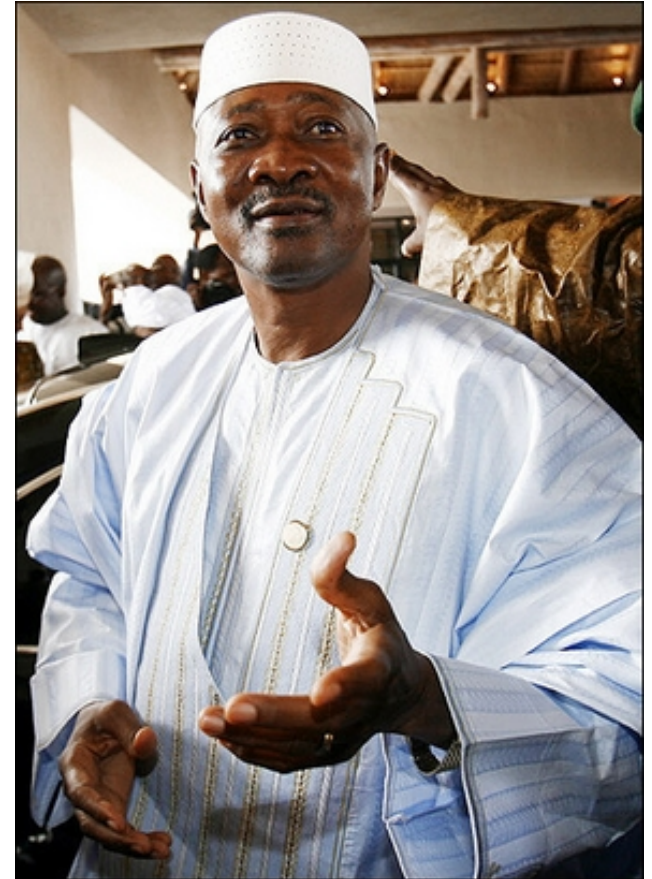
2. The battle of ideas

- Socialist influence persisted
 - Washington Consensus not widely shared among African intellectuals at the time
- Meanwhile, paternalism of IFIs looked suspiciously like 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)



3. SAP threatened control regime and power structures

- Redistributes away from clients
- Reform creates winners and losers
 - 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 class reactions

- Prevaricate
- Blame on external factors (commodity price shocks) not policies
- Prevent and block reform
- Trick IFIs
- Find political advantage in reform
 - Privatize to cronies
 - Centralize and reassert Presidential control
 - Weaken opposition

Was the failure of SAP a policy failure or a political failure?

Van de Walle: Reform is fundamentally political

- Reform stymied by the political class
- Politicians are weak but autonomous
 - Interest groups weak
- Policy driven by political calculus of elites
 - Protect own position and lessen developmental ambitions
- Aid and structural adjustment merely preserved patrimonial states and post-colonial order

“Goodbye Washington consensus, hello Washington confusion”

Dani Rodrik

- Macroeconomic stability essential to growth, but can be achieved in different ways
- Countries that grew 1990 to 2006 followed diverse policy paths
 - Bangladesh, Botswana, Chile, China, Egypt, India, Lao PDR, Mauritius, Sri Lanka, Tunisia, and Vietnam

A middle view

- Macroeconomic reforms were necessary
- IFIs became more pro-poor, less authoritarian, less ideological
- Sector focused rather than economy wide
- Reduced conditionality
- Government ownership of plans
- IFI acceptance of bad policy
- More attention to politics

Are we all structurally adjusted
now?

Economically and politically