

Order & Violence (Political Economy of Development)



Week 6: The origins & politics of today's weak states
Chris Blattman

I. A review

Weeks 1 and 2

- Everyday life requires economic transactions and political bargaining
- These deals are difficult to make because different sides have different information and can't credibly commit to deals
- Societies can find cooperative ways to reduce these transactions costs, but this is hard to sustain in large groups
- Solving the collective action problem to provide public goods is also hard
- Failing to reduce basic transactions costs and provide public goods leads to very low levels of economic development
- The cost of not solving political bargains is competition that often turns violent

Week 3

- A centralized power with the ability to enforce contracts is one way to overcome these problems—the state
- A state curbs some forms of violence, enforces some contracts, and provides some public goods, lowering transaction costs
- But for most of history, the person or groups who control this state have used it to enrich themselves and their kin
- Thus states make societies richer and more powerful in total, but most members of society live in some form of servitude
- States emerge for many reasons, but a climate and endowments that can sustain large dense populations is a major driver of prehistorical states (and systems of many neighboring states)

Weeks 2, 3, 4

- Often there are several groups that wield power in society—military, material, or the ability to mobilize
- We can call these groups elites, and there can be order only when elites are able to strike a bargain to control the state and share the rents among themselves
- To entrench power and rents, these elites develop rules, norms, and structures to preserve these bargains, and make their commitments not to be violent more credible
- These institutions are hard to change, or path dependent, in part because elites will try to protect their interests
- Anything change in military, material, or mobilizational power changes the balance of power and threatens past bargains

Weeks 3, 4, 5

- Groups who develop military, material, or mobilizational power can bargain to join the elite coalition in power (sometimes violently)
- Historically these larger coalitions have had some competitive advantages over their neighbors
 - Broad, stable bargains can lead to more public goods, can give insiders incentives to produce more output, tax some of this output, and mobilize more powerful militaries
- The coalitions that do so are in a good position to take over weaker neighbors (which may broaden the coalition further)
- It is difficult to protect these gains without expanding tax capacity, professionalizing the bureaucracies, and penetrating and controlling society: the “modern state”

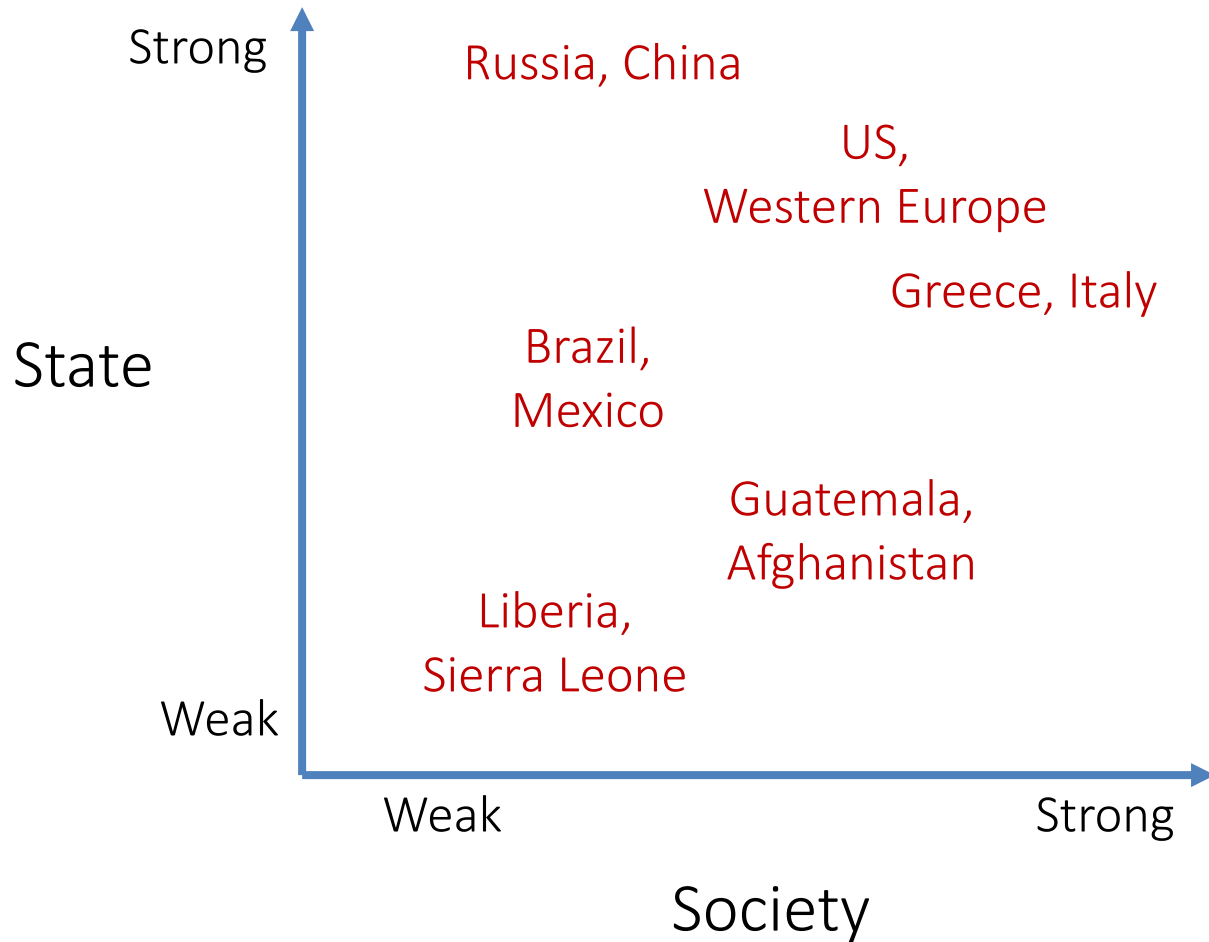
Weeks 4, 5

- Over time, various environments, choices, and chance events have led to different distributions of power across societies
 - Different systems of economic production lead to a narrower or broader distribution of resources (material power)
 - Technological and cultural innovation and change shift military and mobilizational capacities
- When circumstance grants them such powers, broad swathes of society can credibly threaten exit or voice and so demand concessions from the state and elite coalitions
- Durable rules, informal and formal, are needed to make these new bargains credible, such as constitutional governance (the rule of law) and democratization

Weeks 3, 4, 5

- Societies that have developed broader coalitions, and stable institutions to preserve order, have tended to foster investment, innovation and trade, and hence promote commerce and industry
- This is especially true when strong societies are balanced by strong states that can provide public goods, solve problems of collective action and negative externalities, raise taxes, and order society using a set of known and impersonal rules
- The societies that have done this have some advantages in survival and in competition with other states

A very crude typology, with made up data



The next five weeks

- The next four weeks: Now that we have a sense of how politics is organized in most states, and paths of political development, we will study modern interventions:
 - Structural adjustment
 - Armed interventions
 - Aid
 - State building
 - Democracy promotion
- But first, this week: A final history lesson
 - We have largely talked about the root forces leading to state and institutional development
 - But it is different to be a follower than a leader in state development
 - “Late developing” societies have been buffeted by change from the “early developing” societies, only some of it good

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

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

Week 6 objectives

- One reason so many states and societies were weak by the late 20th century was profound destabilization by the first 400 years of true globalization
 - New technologies, the slave trade, colonialism, etc...
- Colonial policies endowed many societies with a stronger state and public goods than they might otherwise have had
- But colonial policy also did little to strengthen society or broaden power in society
- Leaving in haste, most societies not only faced political instability after decolonization, but also highly concentrated political and military power

Week 6 objectives

- Like all limited access orders, these new regimes attempted to control the economy and extract rents
- The result was major fiscal and monetary crises in the 1980s
- International financial institutions designed and imposed reforms that largely ignored these political realities: macroeconomic stabilization and structural adjustment
- As a result, in the short term these policies were often poorly implemented, reversed, or hijacked
- In the end, however, control economies have proven less stable and profitable for elites, and hard to maintain, and so to a large extent a moderate version of the 1980s reform agenda was accomplished in the longer term

II. How imperialism shaped “late developing” states and societies

What is imperialism?

“Extending the power and dominion of a nation by direct territorial acquisitions or by gaining indirect control over the political or economic life of other areas”

— Merriam-Webster dictionary

“Weaker peoples treated as possessions to be economically exploited”

— Emily Greene Balch, 1946 Nobel lecture



Societies with superior military, mobilizational, and material power have dominated others for millennia

Mongol Empire, 1276



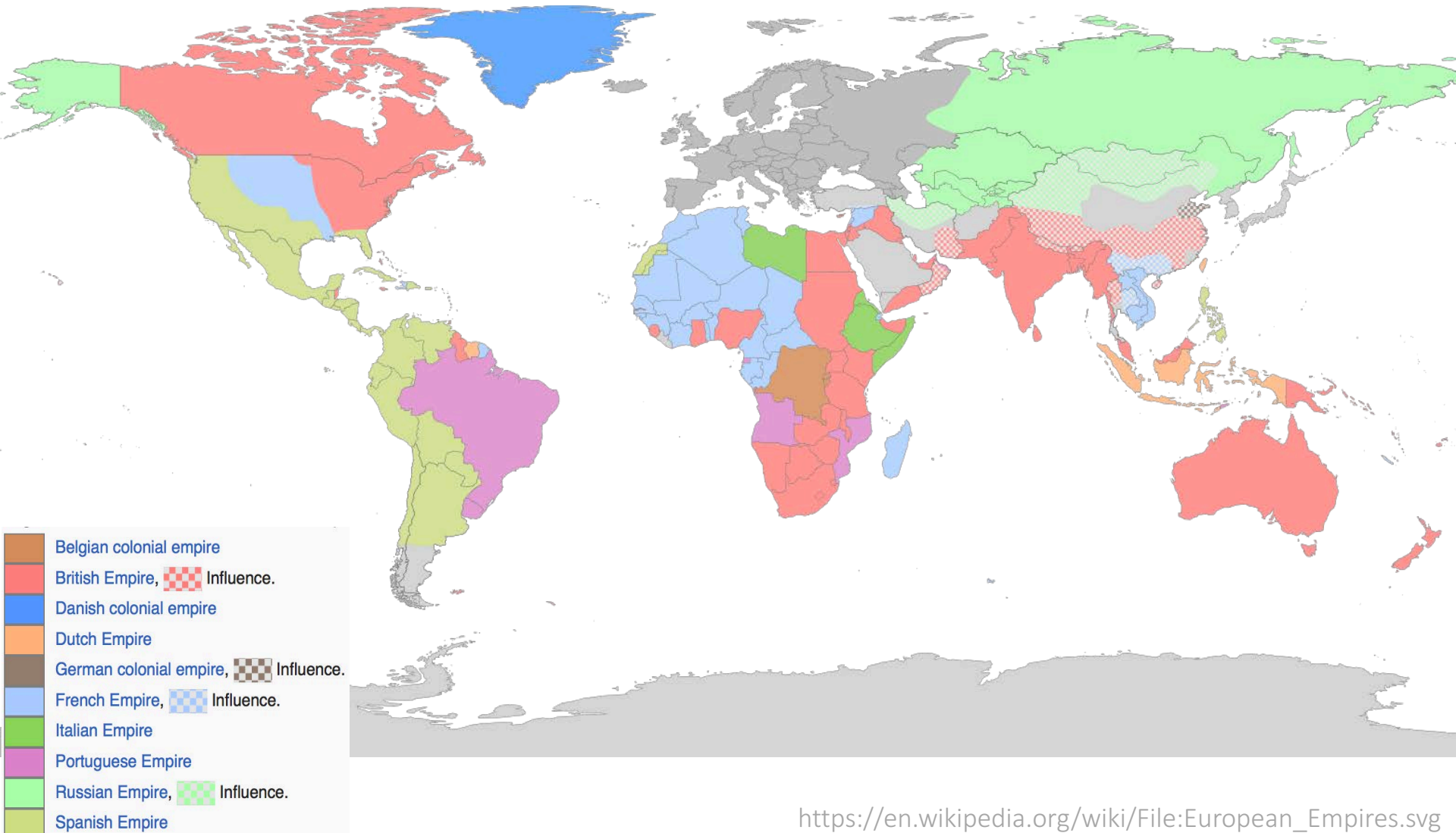
Ottoman Empire, 1600



Japanese empire, early 20th century



European imperialism 1500-2000 is probably the most extensive and global example



But there are examples of imperialism that were more successful in that the imperial powers built lasting nations

France



Senex Map, 1719

China



Imperialism: Two sides of the coin

- On the one hand
 - Build bureaucracies and state capacity
 - End violent infighting
 - Introduce ideas and technologies
 - Increase trade and integration
 - Invest in public goods
- On the other
 - Violent conquest
 - Extract resources and tribute
 - Reorganize systems of ownership and production
 - Control economies
 - Coerce and subjugate people

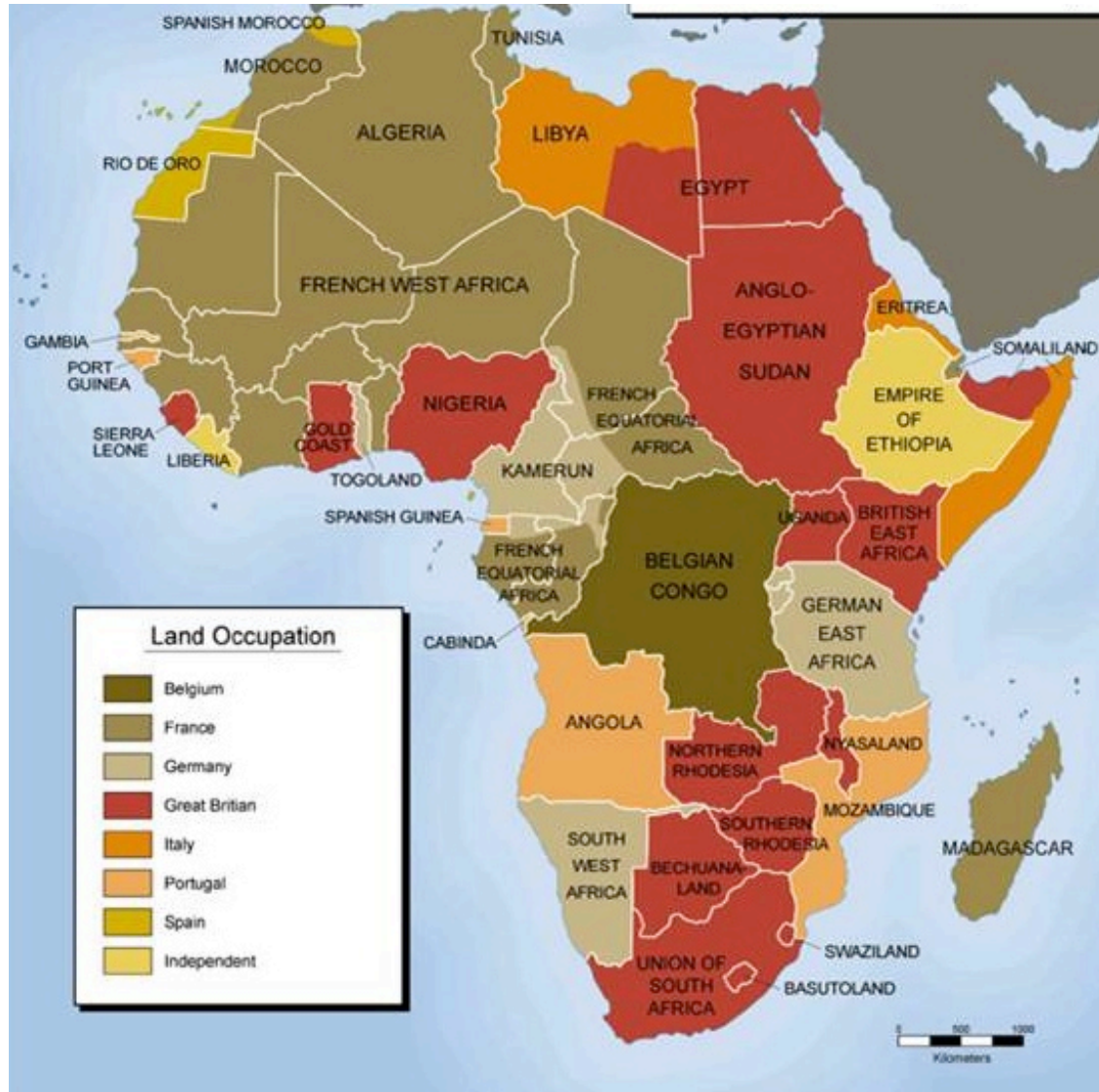


Cecil Rhodes

Today: 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

I will focus on imperialism in Africa
(but draw parallels to South Asia and Latin America)



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

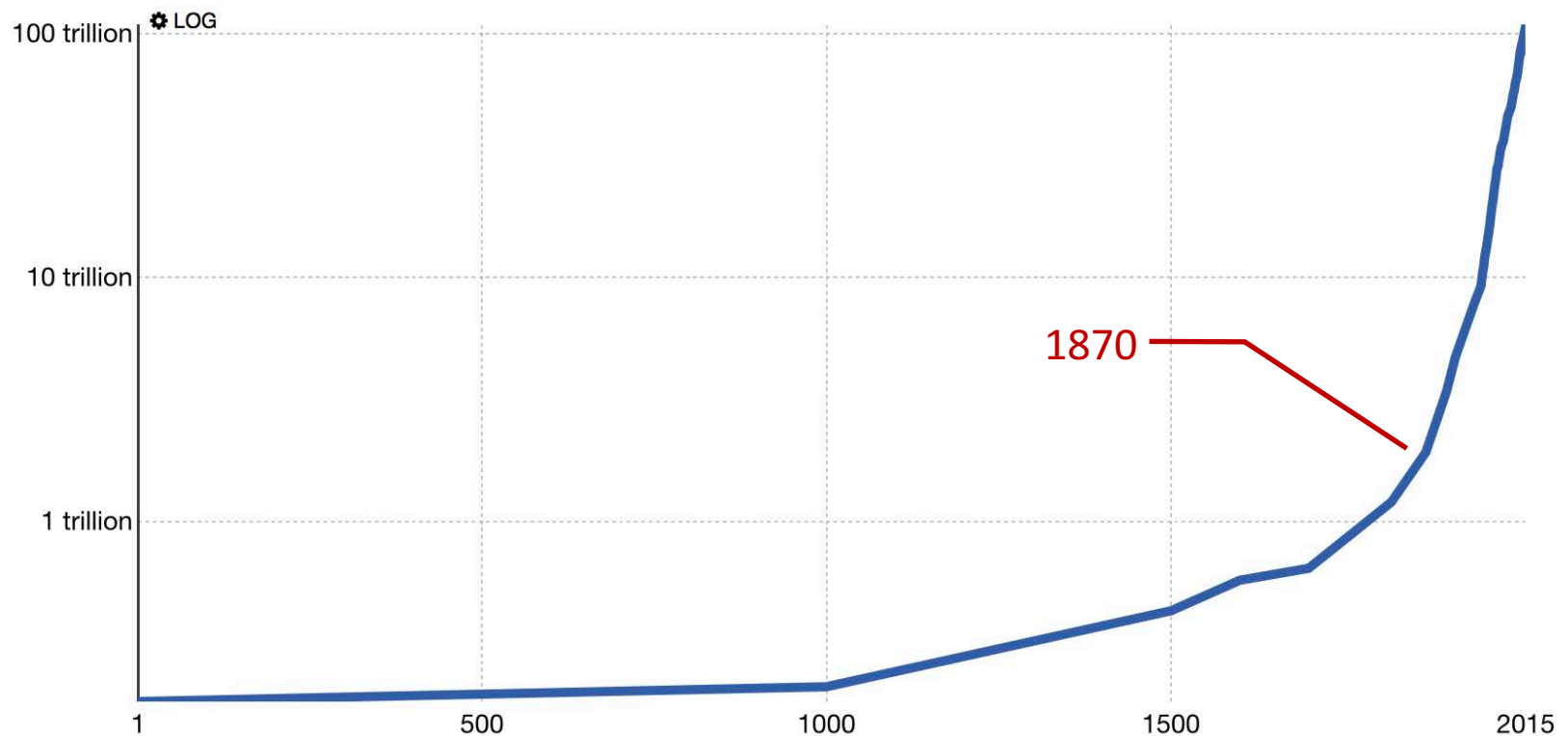
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1500-1870: Steady advances in European agriculture, weaponry, commerce and transport drive unprecedented trade, commerce, and the “first era of globalization”

World GDP over the last two millennia



Total output of the world economy; adjusted for inflation and expressed in 2011 international dollars.

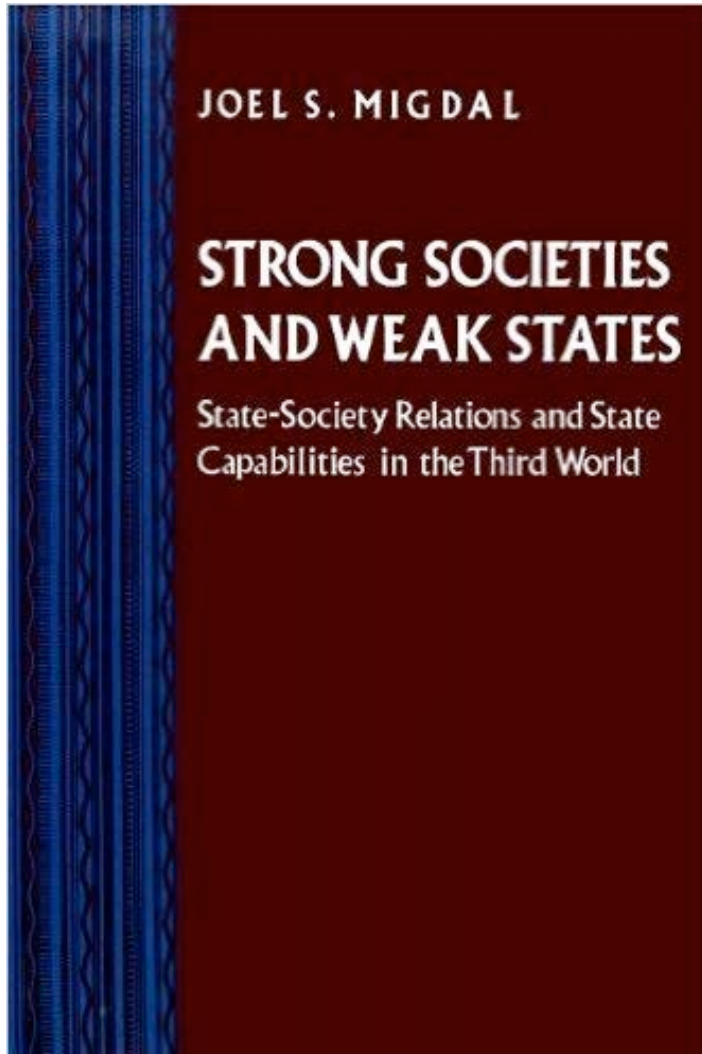


Globalization brings profound economic change and with it social upheaval and weakness

- Strong societies with strong systems of social control and adapted strategies for survival find themselves struggling to find new strategies and systems of control
- Possible implications
 - New sources of and claims to power
 - Rising inequality and social stratification
 - Political upheaval and violence
- We can see parallels today in the disruption of US industry
 - But now imagine changes many times more powerful



1500-1870: Technological change and European expansion transformed and destabilized traditional societies



- New goods
- New livelihoods
- New technologies
- New war machines
- New diseases
- New gods
- New institutions
- New worldviews
- New allies

One example: Privatization and concentration of land

- Land is the basis of social organization, political power, and economic organization in agrarian societies
- Europeans almost never encountered societies that were organized for the large-scale production of the commodities it demanded
- Large-scale cash crop production required:
 - New systems of tenure (privatization) and control (concentration)
- Imperial powers sought out and empowered figures—landlords, tax collectors, officials, etc.—who could guarantee goods or tax flows

An example from India: The Zamindari

(Lakshmi & Iyer 2005)

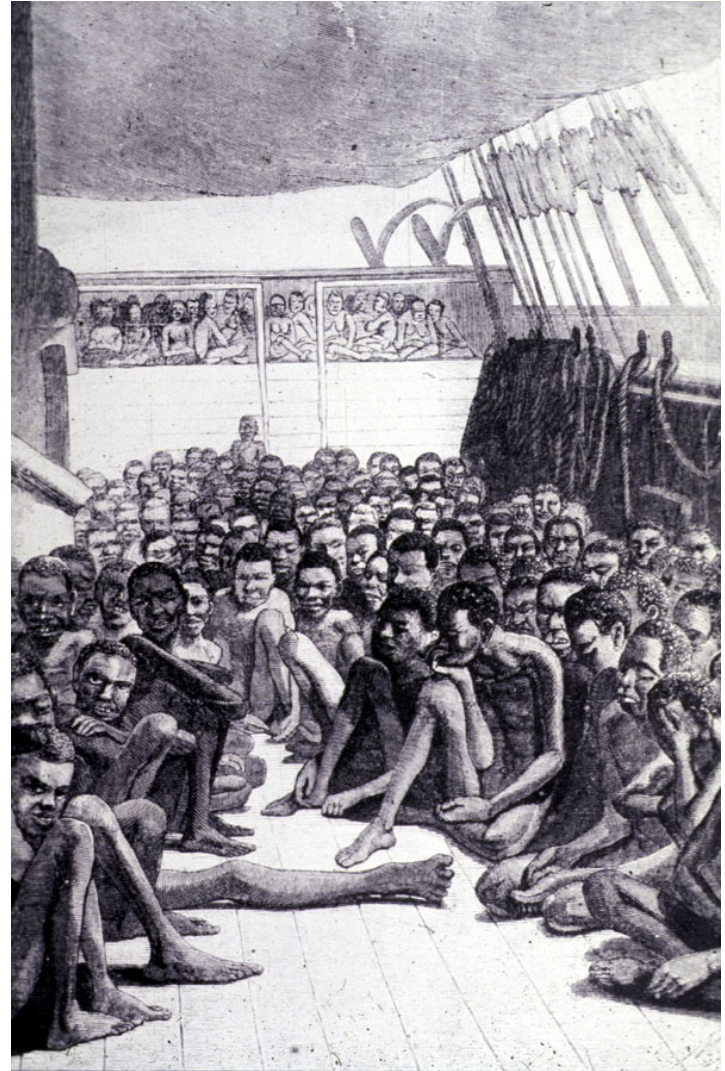
- To maximize revenues, Britain identified and empowered people opportunistically
- Collected land revenues through cultivators in some districts and empowered landlords (Zamindari) in others
- Where they reinforced a non-landlord system, wheat yield is +23% and infant mortality -40% today
- Lessons:
 - Disruptive, transformative nature of land and tax policy
 - Unintended, unpredictable long term consequences



Zamindar of Nattathi

The African slave trade

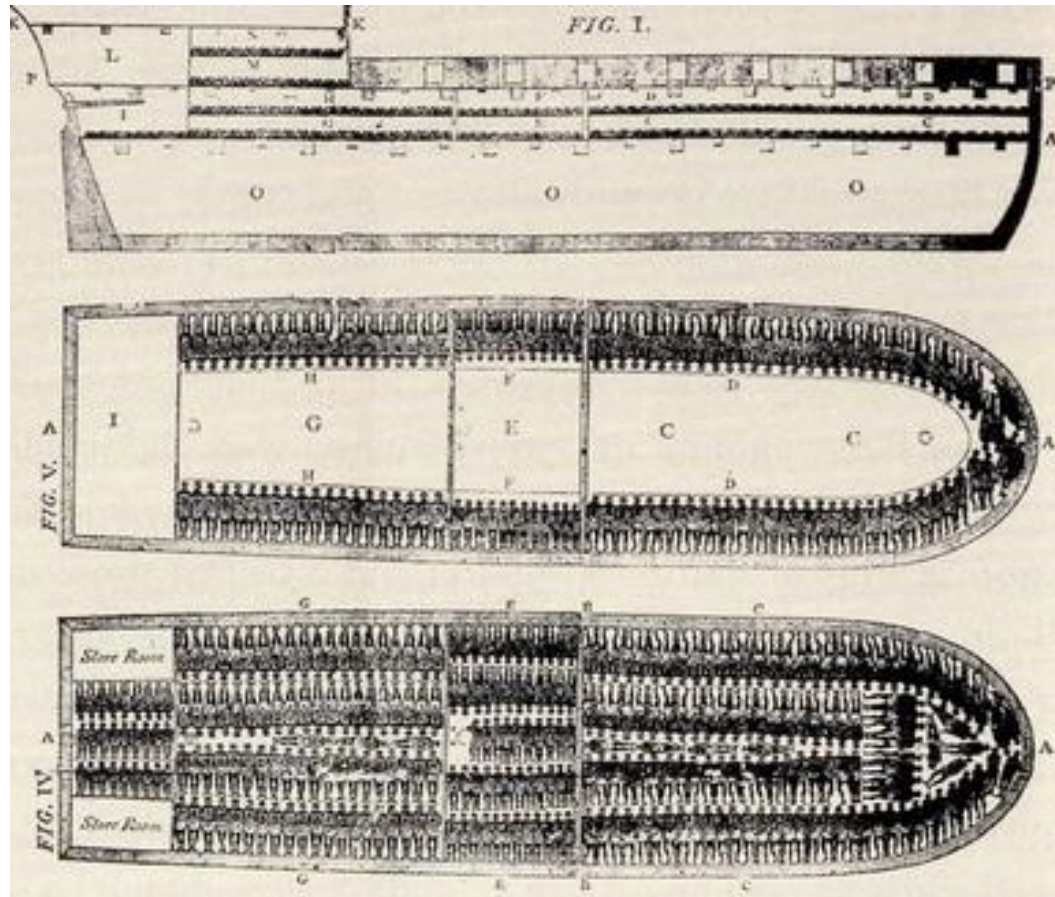
- One of the most profound sources of upheaval



Africa (like many parts of the world) had known an internal and Arab slave trade for centuries



But the scale and depravity of the Atlantic Slave Trade would dwarf the Arab trade after 1500



Arab /eastern slave trade:

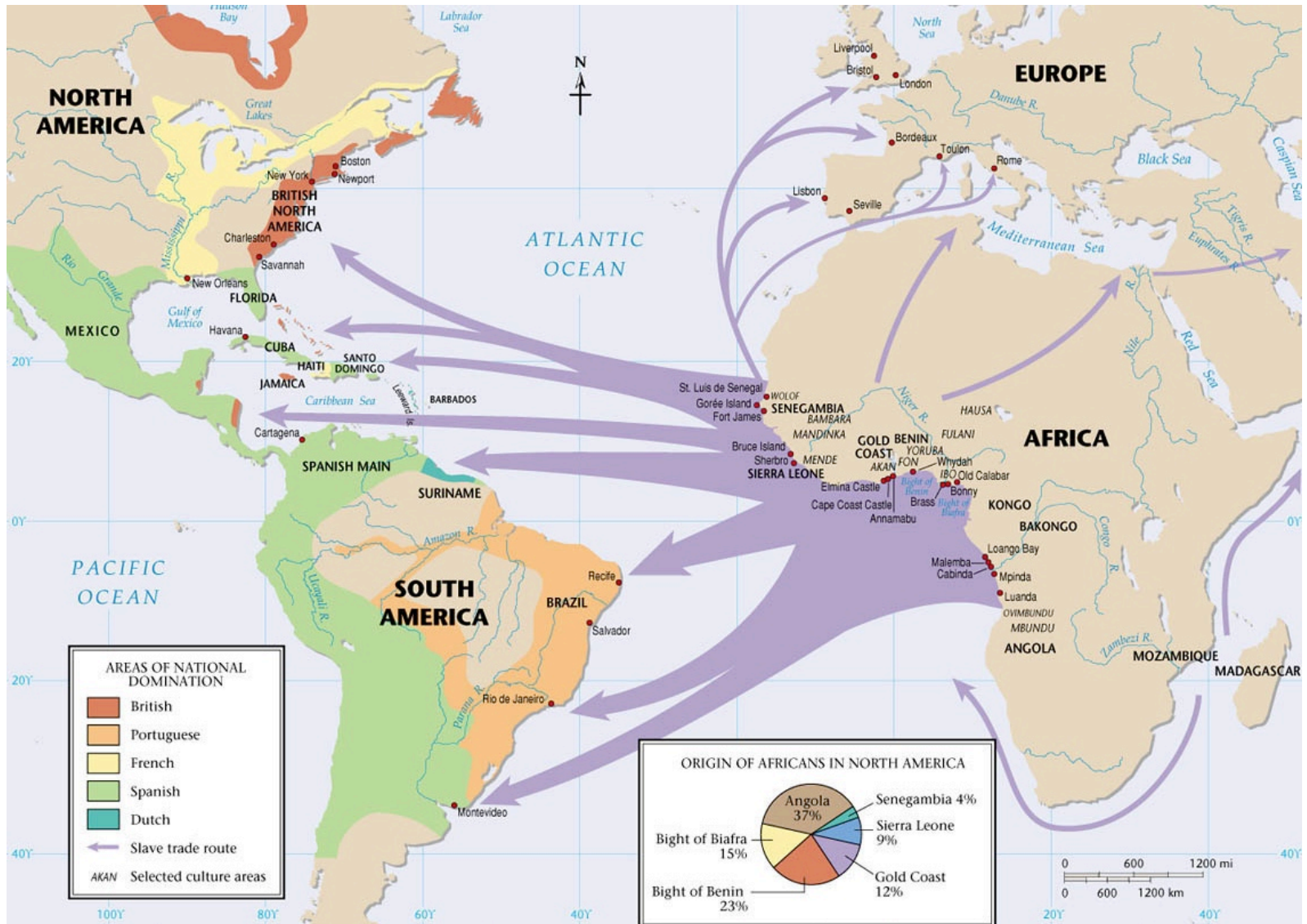
- Est. 7 million shipped

Atlantic slave trade:

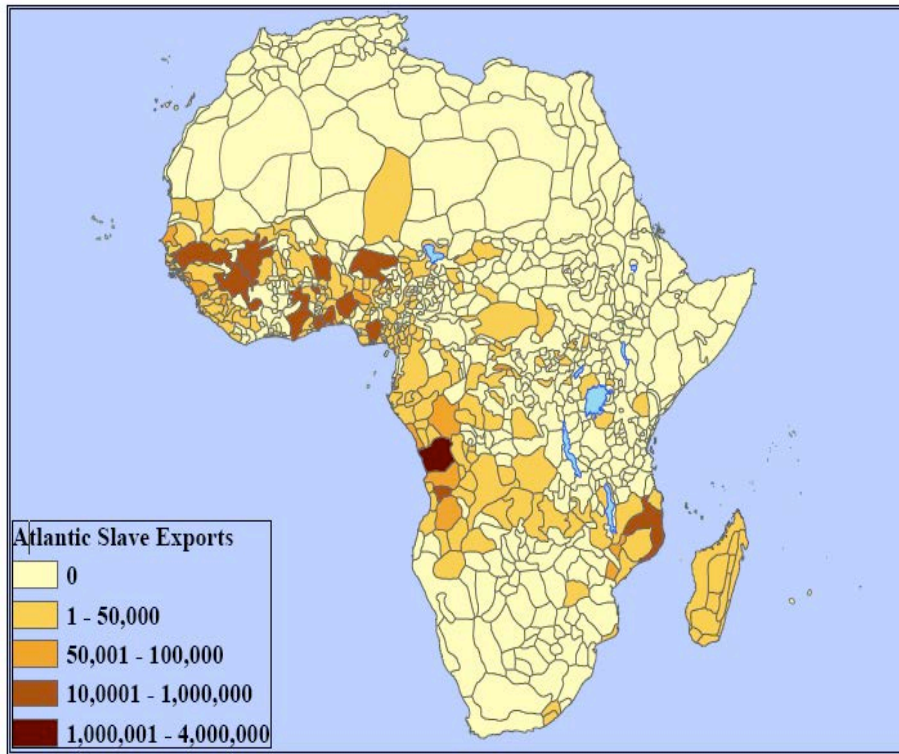
- Est. 9-12 million shipped
- (Roughly half by Portugal)

(Number killed in raids or before shipment unknown)

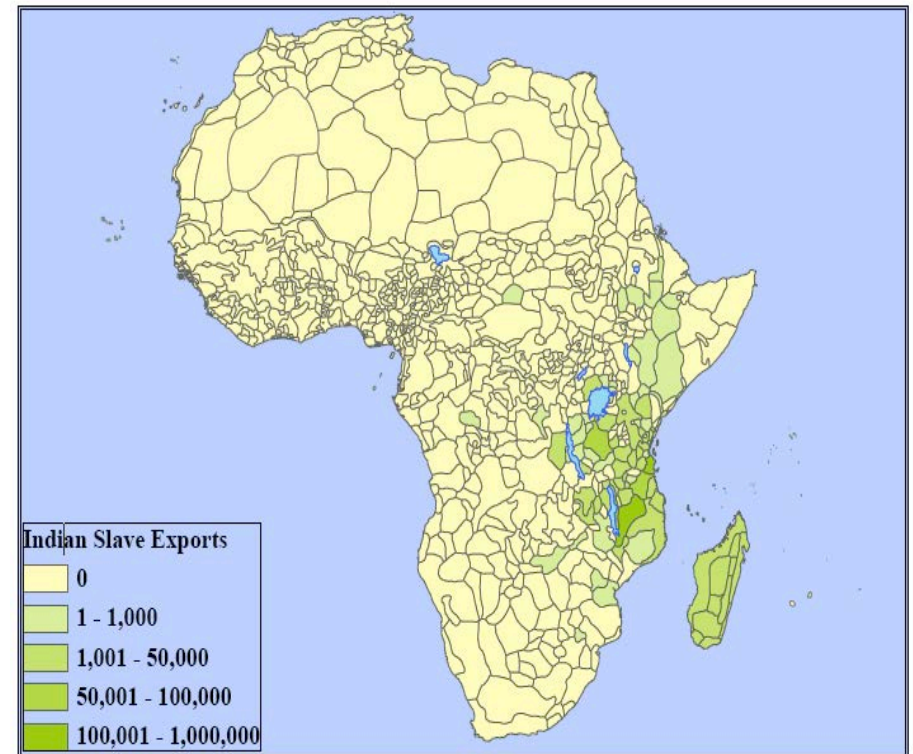
Primary destination was South America & Caribbean, 90% to work on sugar plantations



Regions (i.e. ethnic groups) most affected by the slave trades



Atlantic trade

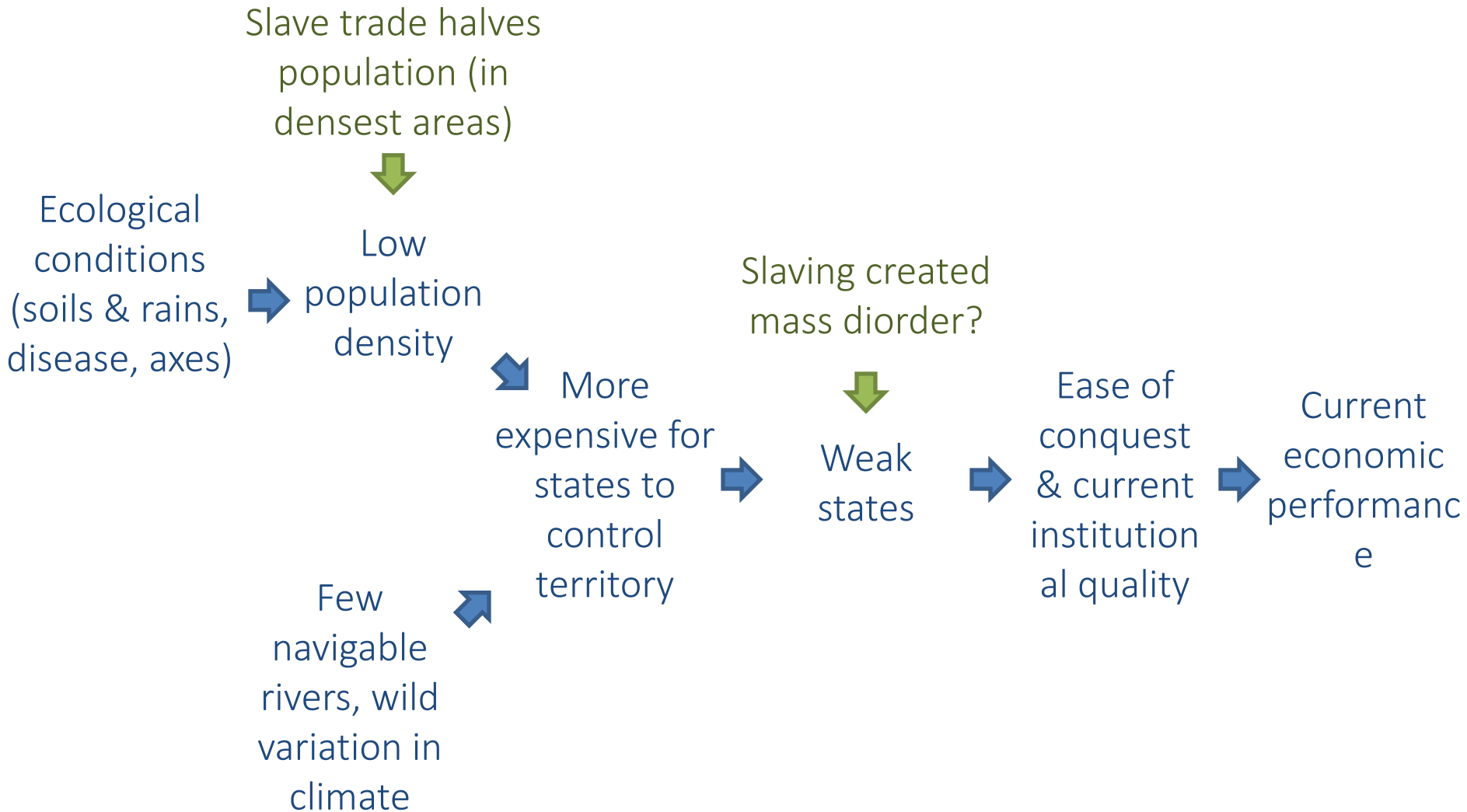


Arab trade

Dire demographic consequences:

By 1850, Africa's population believed to be half of what it would have been had the slave trades not taken place.

The impact of depopulation and destabilization: The slave trade and development in the Herbst model



The greater the slave trade, the lower is income today...

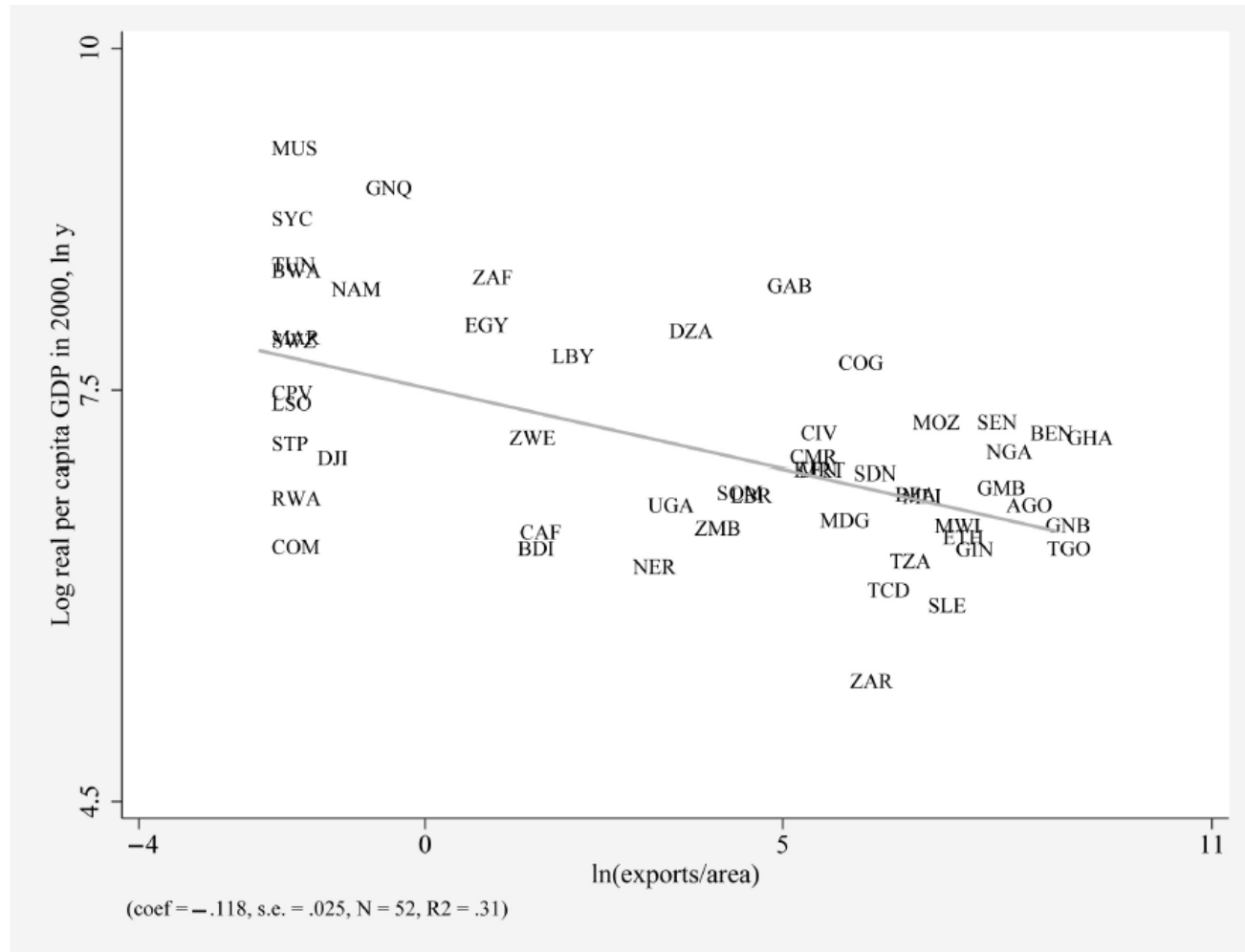


FIGURE III
Relationship between Log Slave Exports Normalized by Land Area,
 $\ln(\text{exports}/\text{area})$, and Log Real Per Capita GDP in 2000, $\ln y$

...and the less developed the 19th century state

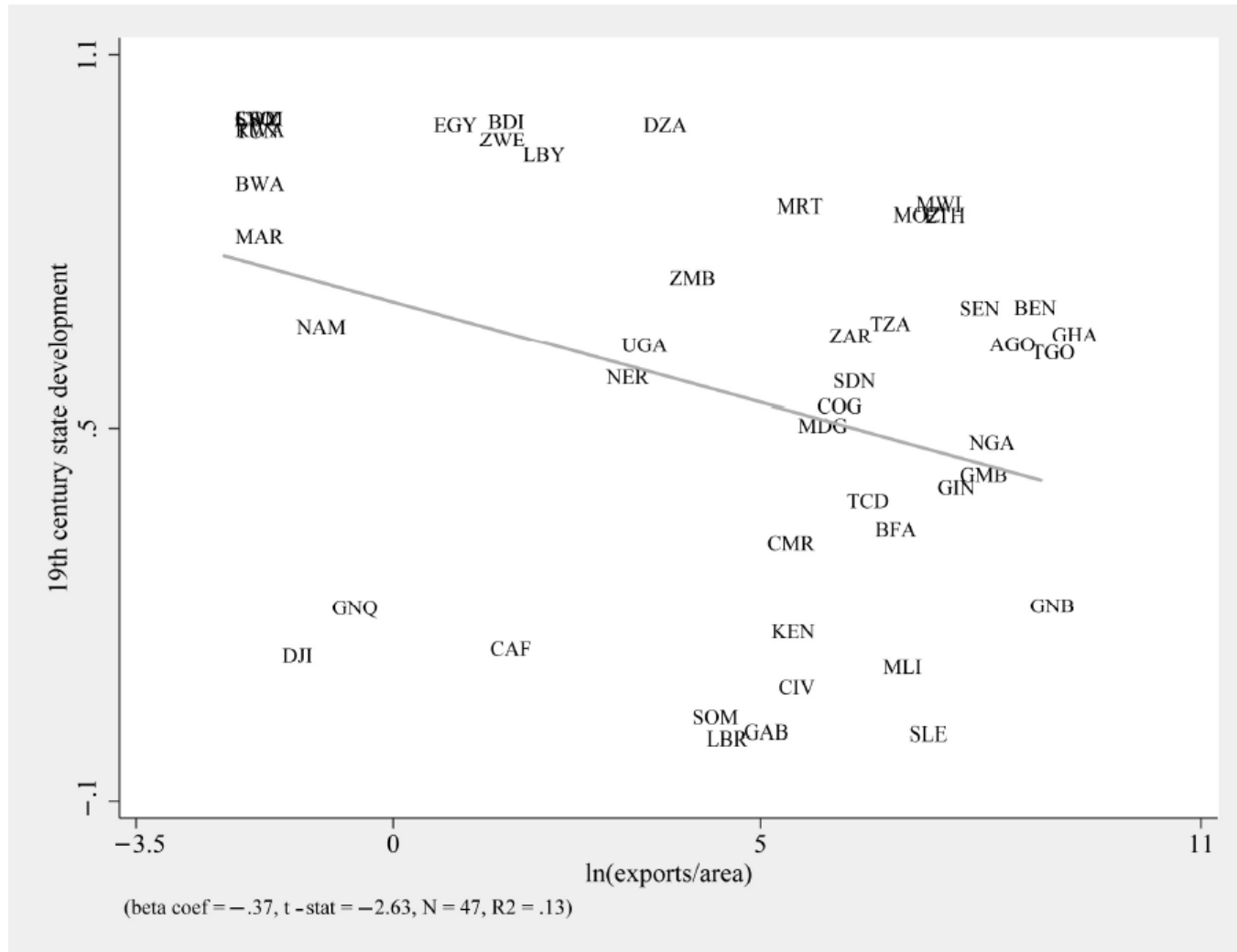


FIGURE VII

Relationship between Slave Exports and Nineteenth-Century State Development

Reducing the risk of bias, the slave trade took place in densest (likely the most developed) regions of Africa

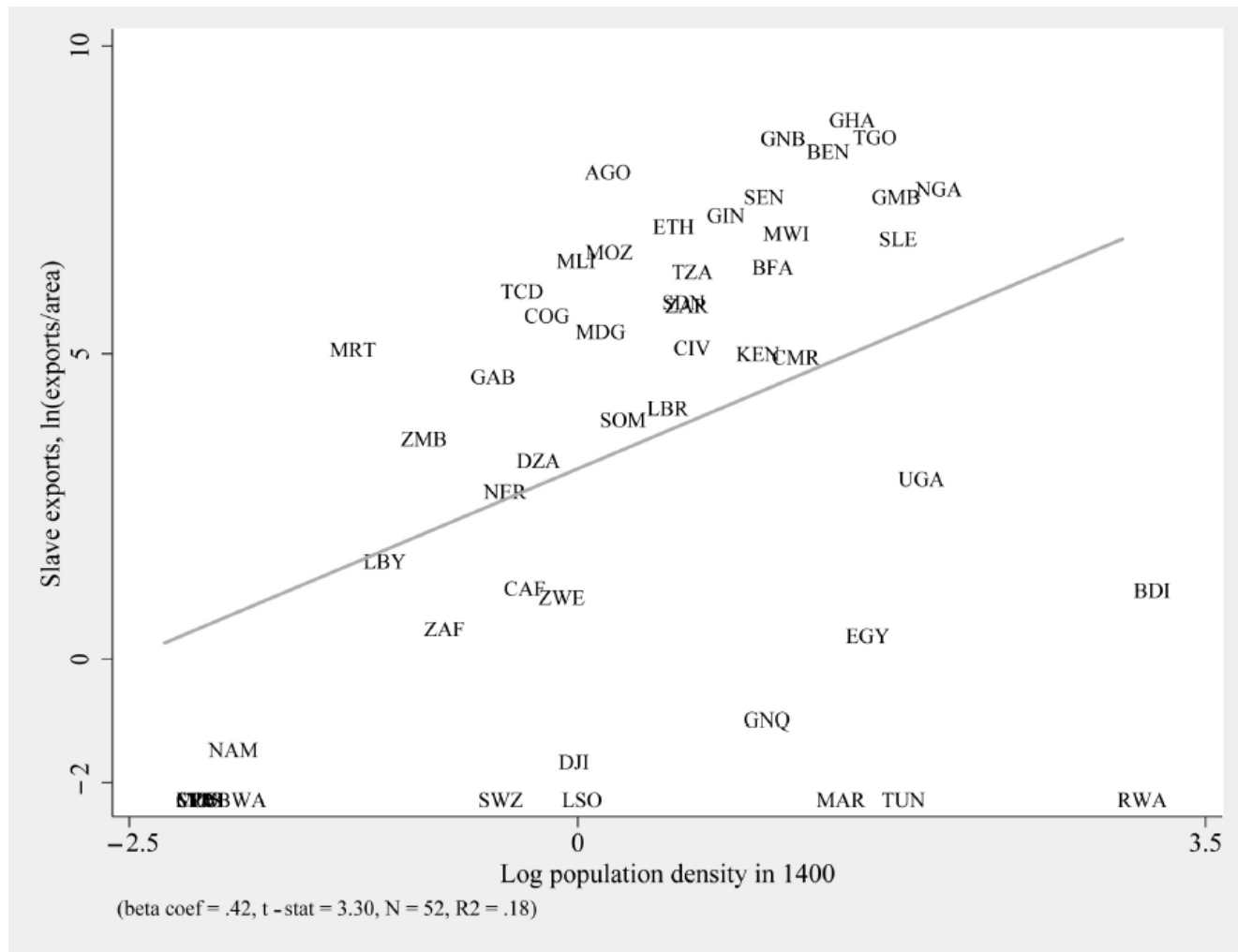


FIGURE IV
Relationship between Initial Population Density and Slave Exports

Also, the greater the slave trade, the lower are modern levels of trust (Nunn & Wantchekon)

Table 1. The Method of Enslavement among Koelle's Informants

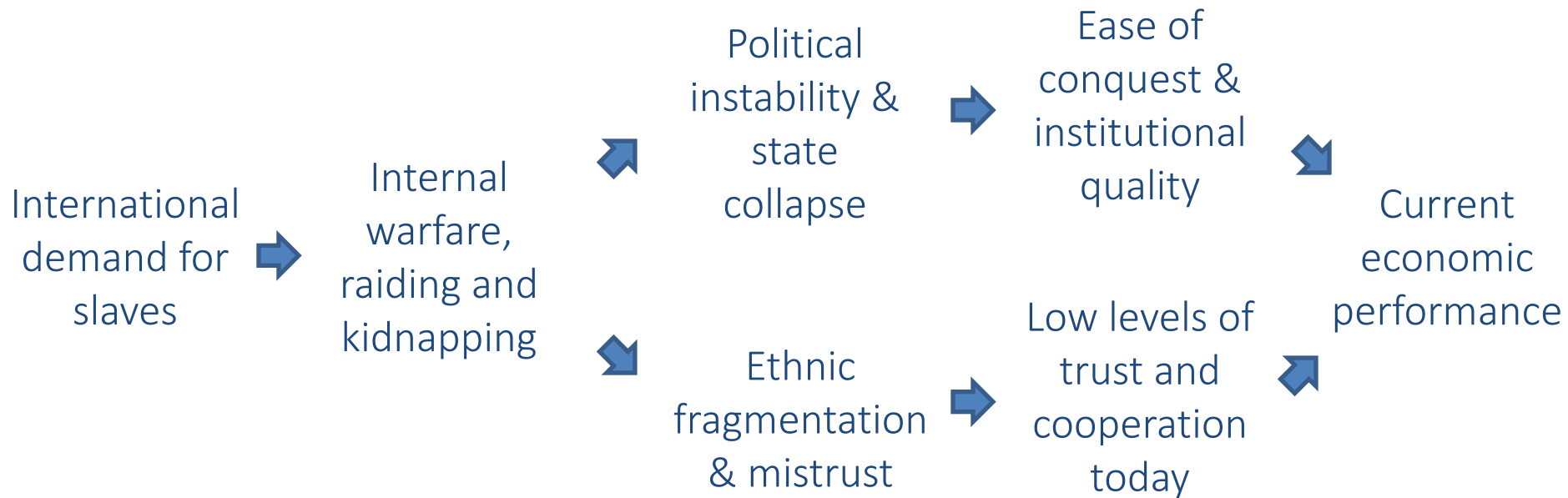
Manner of Enslavement	Percentage
Kidnapped or seized	40.3%
Taken in a war	24.3%
Sold/tricked by a relative, friend, etc.	19.4%
Through a judicial process	16.0%

Notes: The data are from Sigismund Koelle's (1854) Linguistic Inventory. The sample consists of 144 informants interviewed by Koelle for which their means of enslavement is known.

“There are many traders in all corners of the country. They bring ruin to the country. Every day people are enslaved and kidnapped, even nobles, even members of the king’s own family”
— Affonso, King of Kongo, writing to the Portuguese king in 1526 (Vansina 1966)



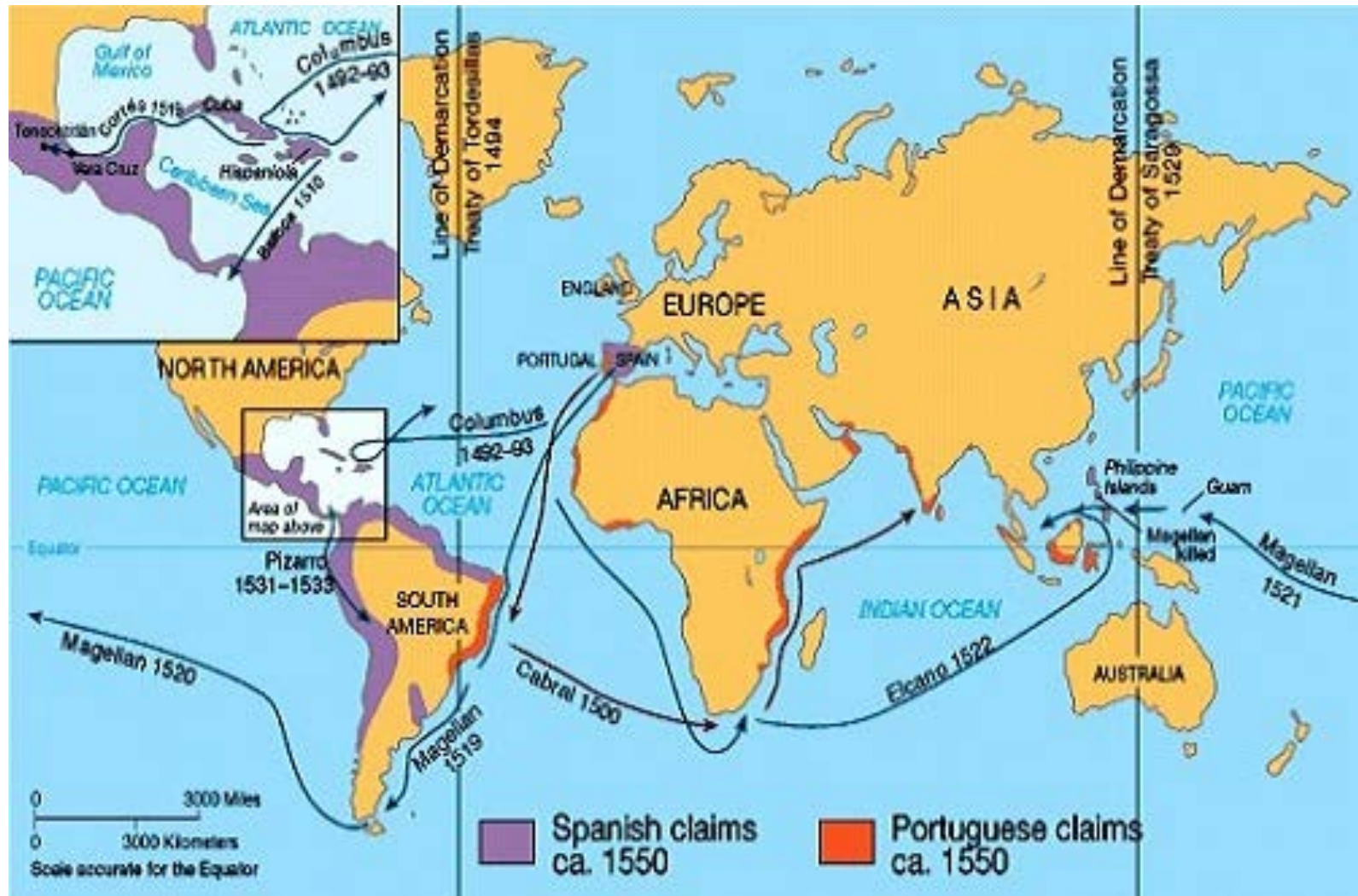
Nathan Nunn (+ many historians): The slave trade undermined African institutions



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

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Exploration, trade, conquest, and settlement are instigated with the advent of oceangoing vessels and would be driven by the opportunity to produce and trade new commodities



In contrast, Europe had yet to penetrate and settle Africa

Totius Africæ tabula, & descriptio uniuersalis, etiam ultra Ptolemæi limites extensa.



Before 19th century, Europe treated Africa mainly as a supply of slaves (and some trade goods) and a way station to Far East

- Relatively few states to conquer and rule through
- More limited production and trading opportunities
- Less hospitable to European people and agriculture
 - Diseases
 - Agricultural suitability
 - Precious metals



Penetrating the continent would wait until the arrival of steamships, rifles, and quinine in the late 19th century

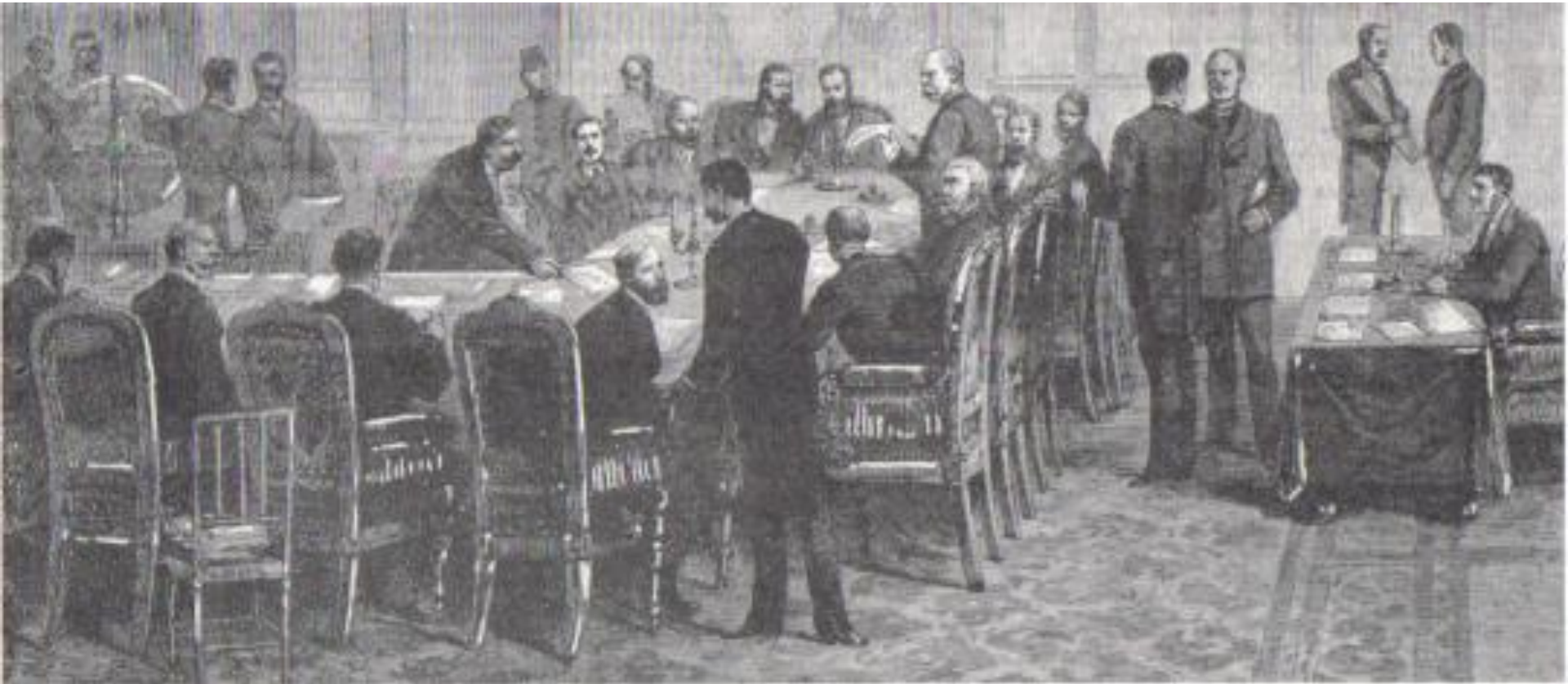


Even then, colonialism would have more of a geo-strategic motive than an economic one

“Our policy may for the present chiefly assume a negative character. So long as we keep other European nations out, we need not be in a hurry to go in.”

- British Vice Consul of the Oil Rivers Protectorate (Nigeria)

Conference of Berlin (1884-85) The carving up of the continent



Formal colonialism would last less than a century



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

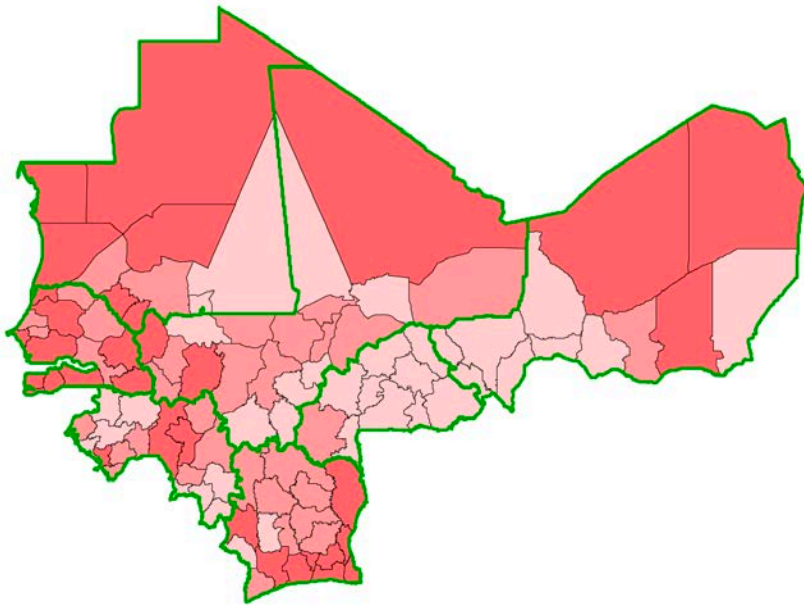
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2(a) Colonial administrations formalized bureaucratic structures and tax capacity (Huillery)

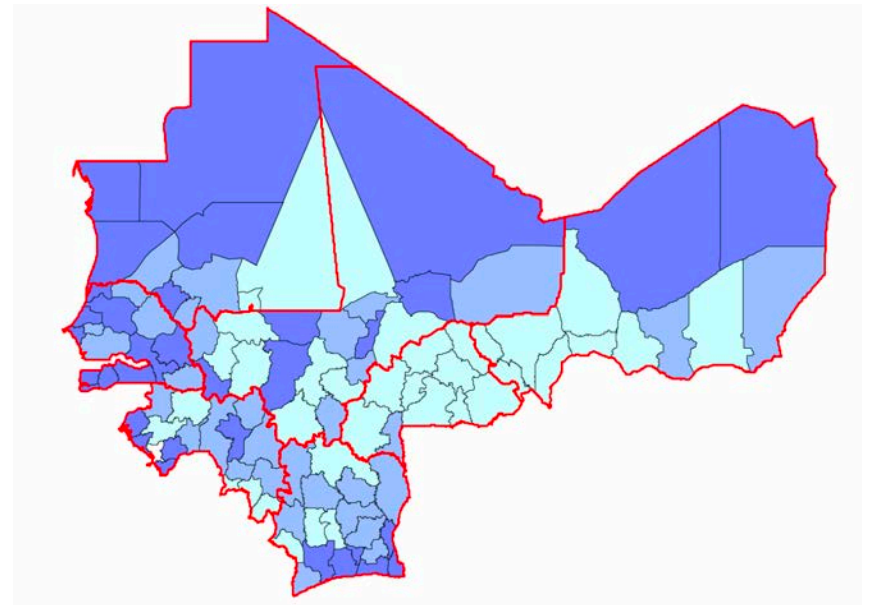
- In French West Africa, France established a broad system of local taxation to deliver local services and public goods
 - 60% of revenues from head tax, 40% from trade & property tax
 - Local budgets cover all non-military expenses, including public works and health/education expenses
 - Central government only used 30% of the colony's budget, and district governments disbursed the other 70%
 - District spending on infrastructure, health and education in districts was 25% of colonies' budgets
- Like most states, this one was coercive and extractive
 - After Independence, the French handed these coercive bureaucratic and tax structures down to largely despotic regimes
- Nonetheless, this brought a previously unknown level of state development and integration

While access to public services varied, the colonial state increased health and education provision

Teachers per 100,000 inhabitants,
French West Africa 1910-1928



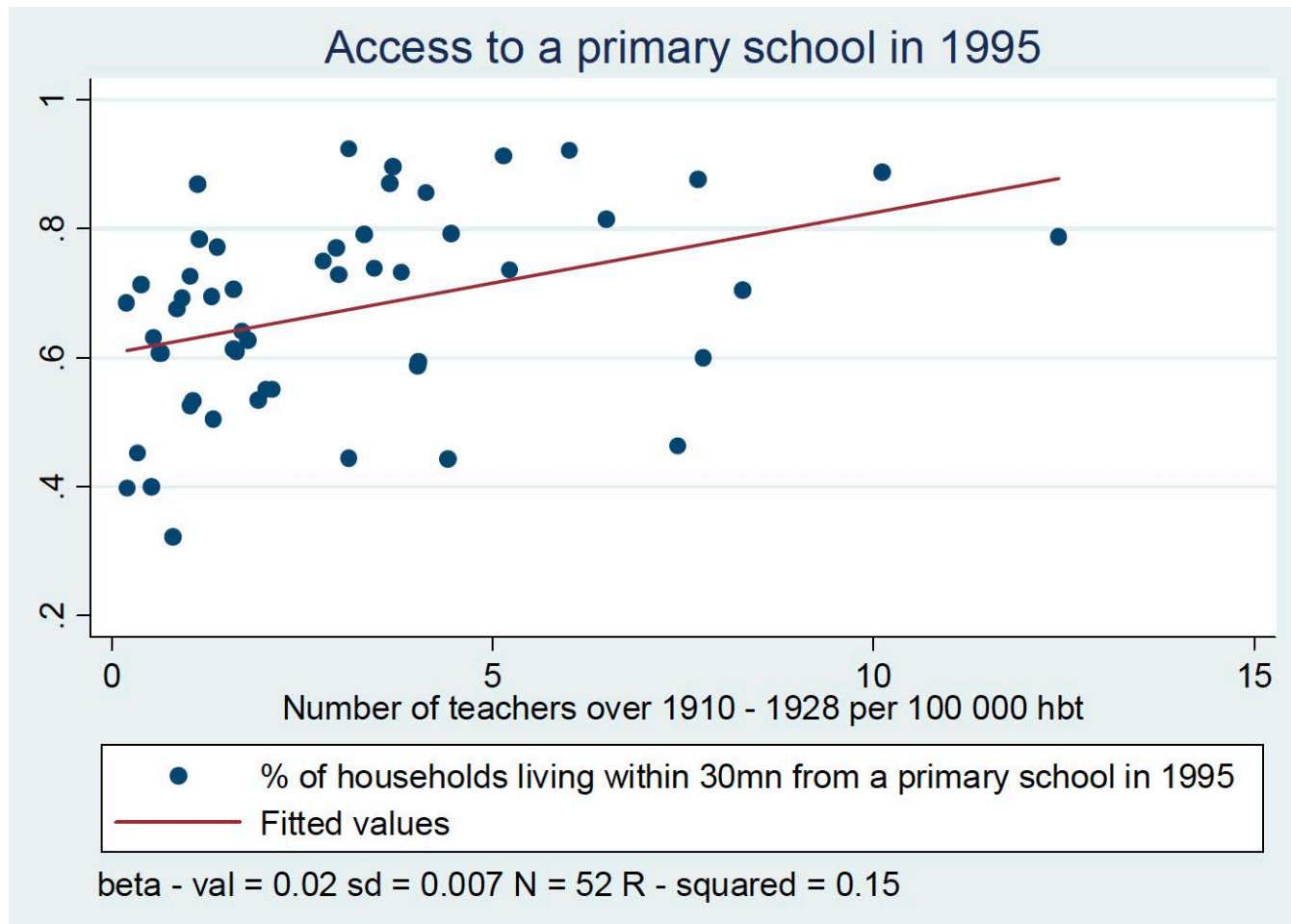
Medical staff per 100,000 inhabitants,
French West Africa 1910-1928



Huillery, Elise. "History Matters: The Long-Term Impact of Colonial Public Investments in French West Africa." *American Economic Journal: Applied Economics* 1, no. 2 (2009): 176–215.

These investments appear to have persistent effects on levels of development and access to services today

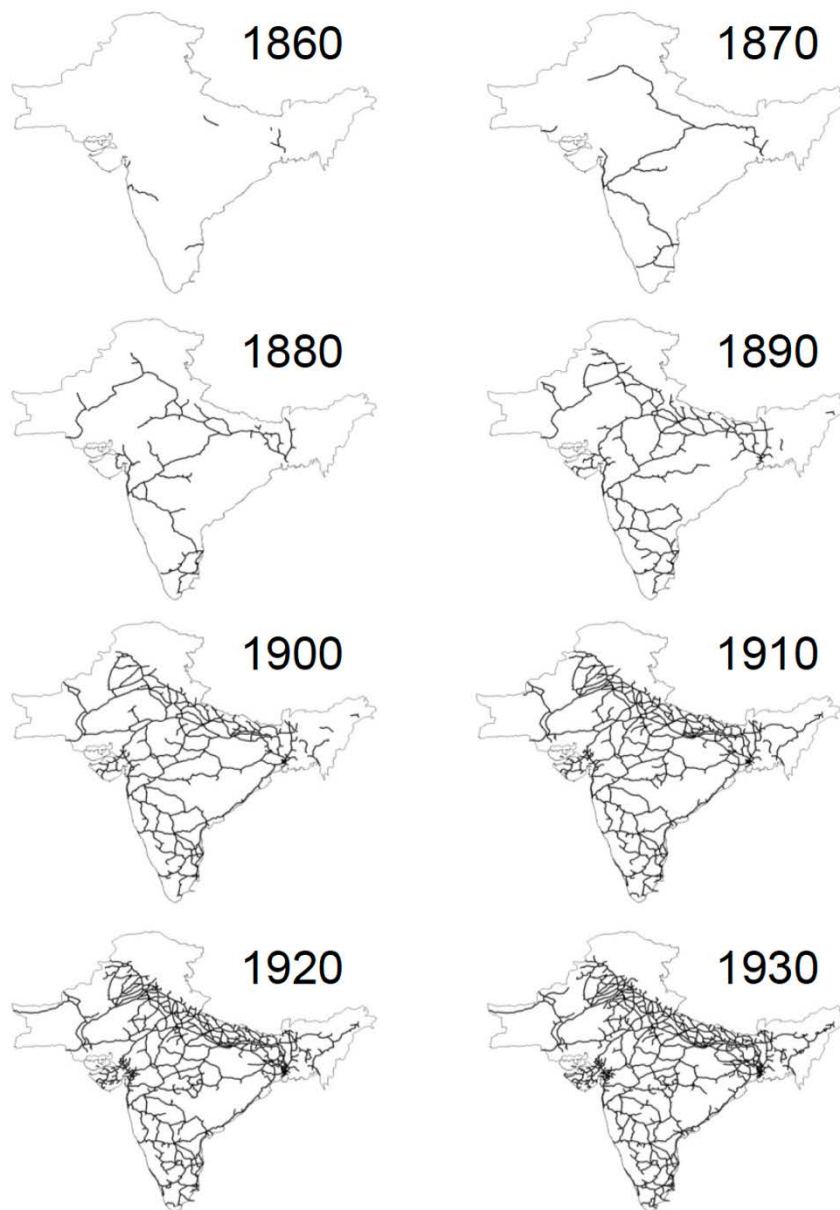
Comparing neighboring districts with similar characteristics



Infrastructure also had huge, persistent effects: e.g. Railroad construction

- British Raj built a 67,247 km long railroad network
- Dramatically reduced the costs of trading
- Raised contemporary real incomes by 16%
 - Undoubtedly continued to raise incomes after Independence
- Transport also enabled political control
 - By the Raj
 - But later a national democratic government

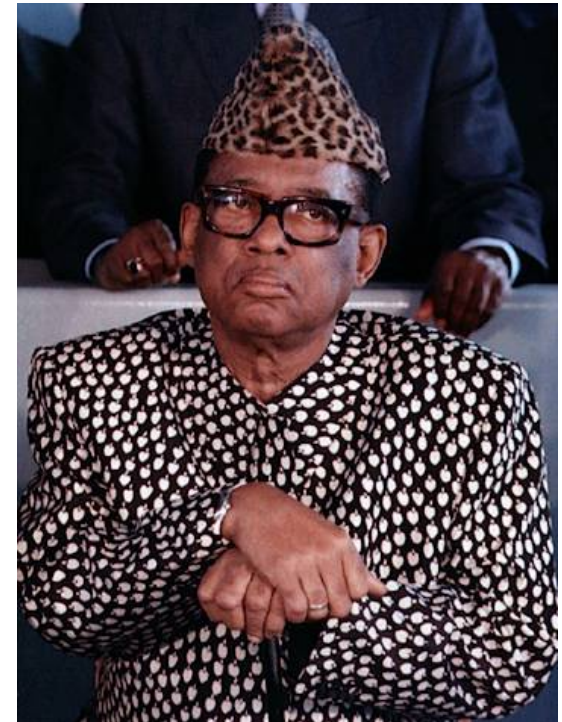
Evolution of India's railroad network, 1860-1930



2(b): Colonialism and despotism

Democracy is not for Africa. There was only one African chief and [so] here in Zaire we must make unity.

- Mobutu, WSJ, 14 Oct 1985



There is no number two, three or four... In Cote d'Ivoire there is only a number one: that's me and I don't share my decisions.

- Houphouët-Boigny, WA, 8 Aug 1988

But traditional rule in Africa was not necessarily hereditary,
despotic or male



Ashanti chief in Ghana

In fact, tribal governance was often much more participatory and open

“The election of chiefs follows a pattern. The senior female of the chiefly lineage nominates from eligible males. This senior female then consults the elders, male and female, of that line. The final candidate is then selected.

That nomination is then sent to a council of elders, who represent other lineages in the town or district. The Elders then present the nomination to the assembled people.

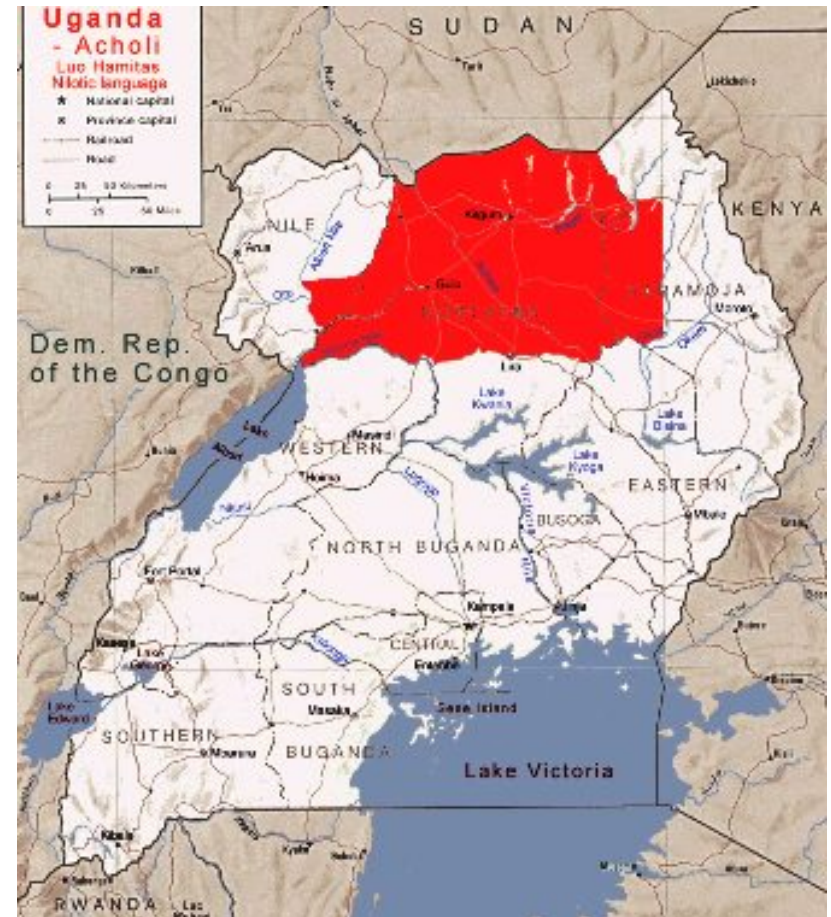
If they disprove of the nominee, the process begins again. Chosen, the new chief is enstooled by the Elders, who admonish him with expectations.”

Nonetheless, colonial authorities found it convenient to organize peoples into ethnic/tribal groups and empower the nearest thing to a leader

- One argument given was that this was an enlightened and deferential recognition of native culture and self rule
- Perhaps more importantly, a single consistent style of authoritarian rule was simpler, cheaper, and effective
- Thus the colonial power repeated the process that states do in every society, whether at home or in the colonies: they reordered societies to make them more legible and easier to control

One size fits all?

- Pre-colonial social relations across Africa were diverse
- Rule was not necessarily lineage-based or authoritarian.
 - e.g. checks and balances, often by elders and heads of kin groups
- Solution: If chieftains do not exist, create them.

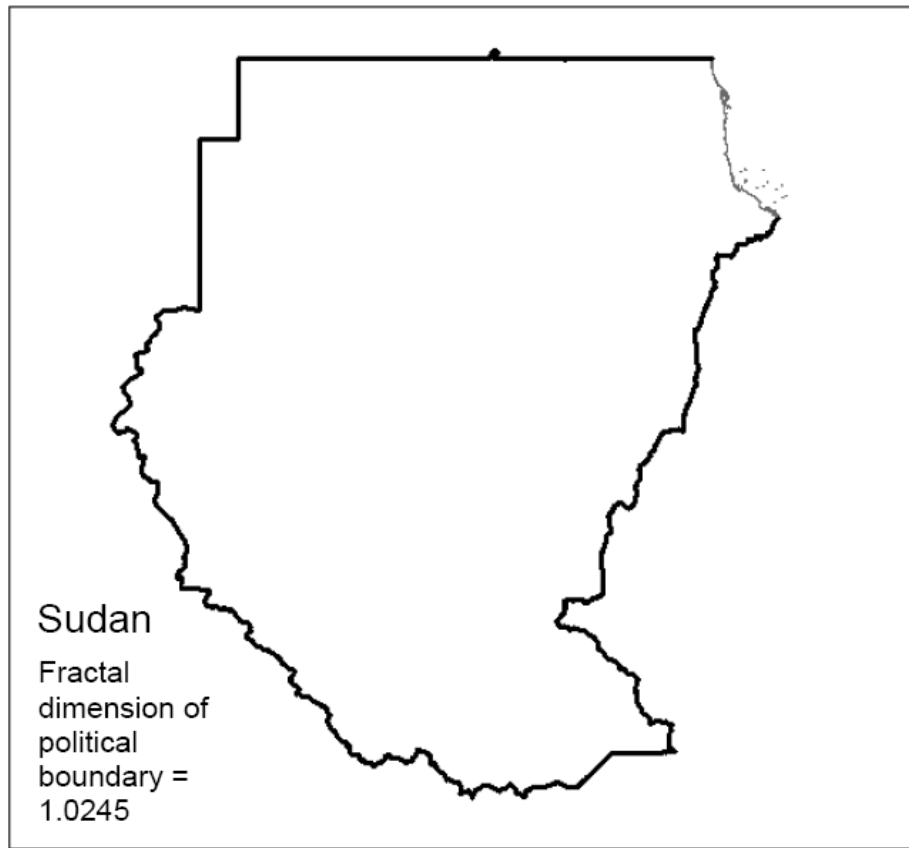


Mahmood Mamdani on “Decentralized despotism”: Ethnic rule reinforced ethnic institutions of control



4(c) Arbitrary, artificial states

80% of non-coastal African borders follow latitudinal and longitudinal lines



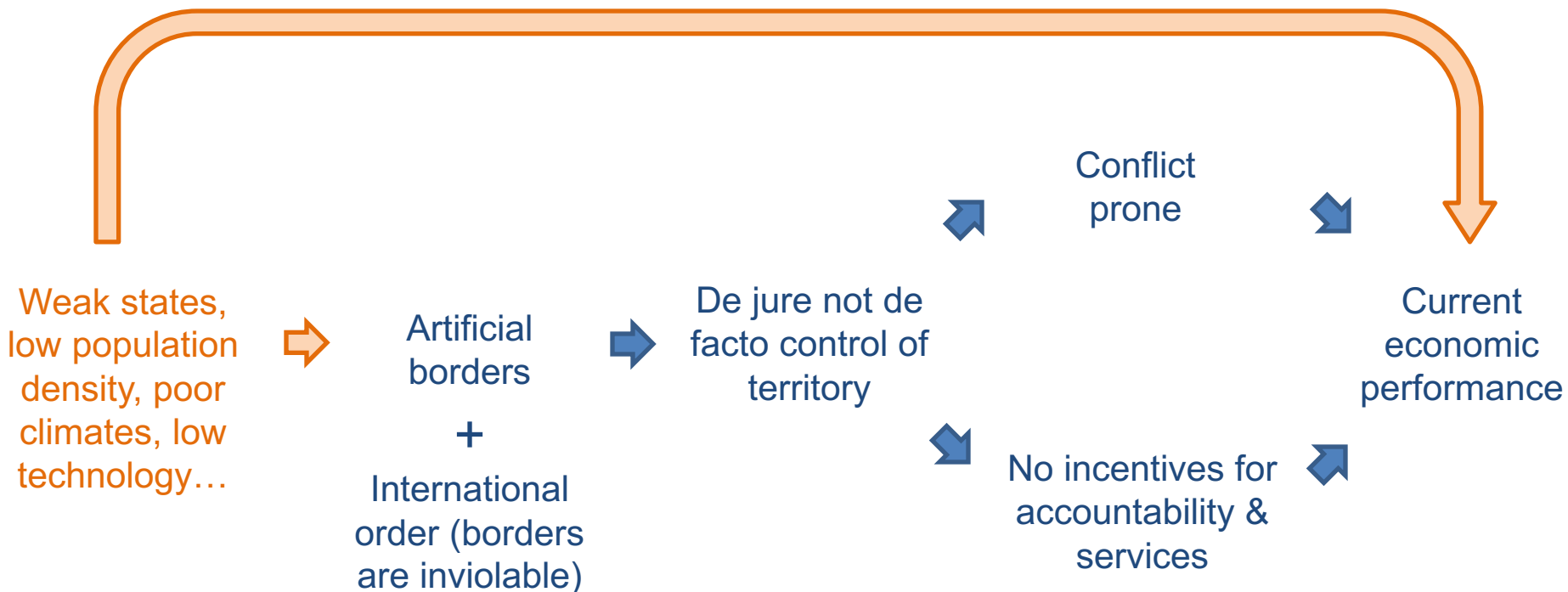
Territorial-states not nation-states?

De jure not de facto statehood

- Drawing lines on maps cheaper than war, defense, and control of the periphery
- Political borders do not coincide with the division of nationalities desired by the people on the ground
 - Gave territories to one group ignoring the claims of other groups.
 - Drew boundaries lines splitting “nations” (ethnic/linguistic groups) into different countries, frustrating national ambitions of some groups
 - Combined into a single country groups that wanted independence.
- Colonial powers only tried to rule in ‘core’ areas
 - Beyond the core, weak systems of formal rule
 - Make have explicitly or implicitly place the “core” group

What's the impact of "Artificial borders"?

(though be careful: correlation doesn't imply causation)



Finally, recall Jeffrey Herbst: Some arbitrary borders are worse than others

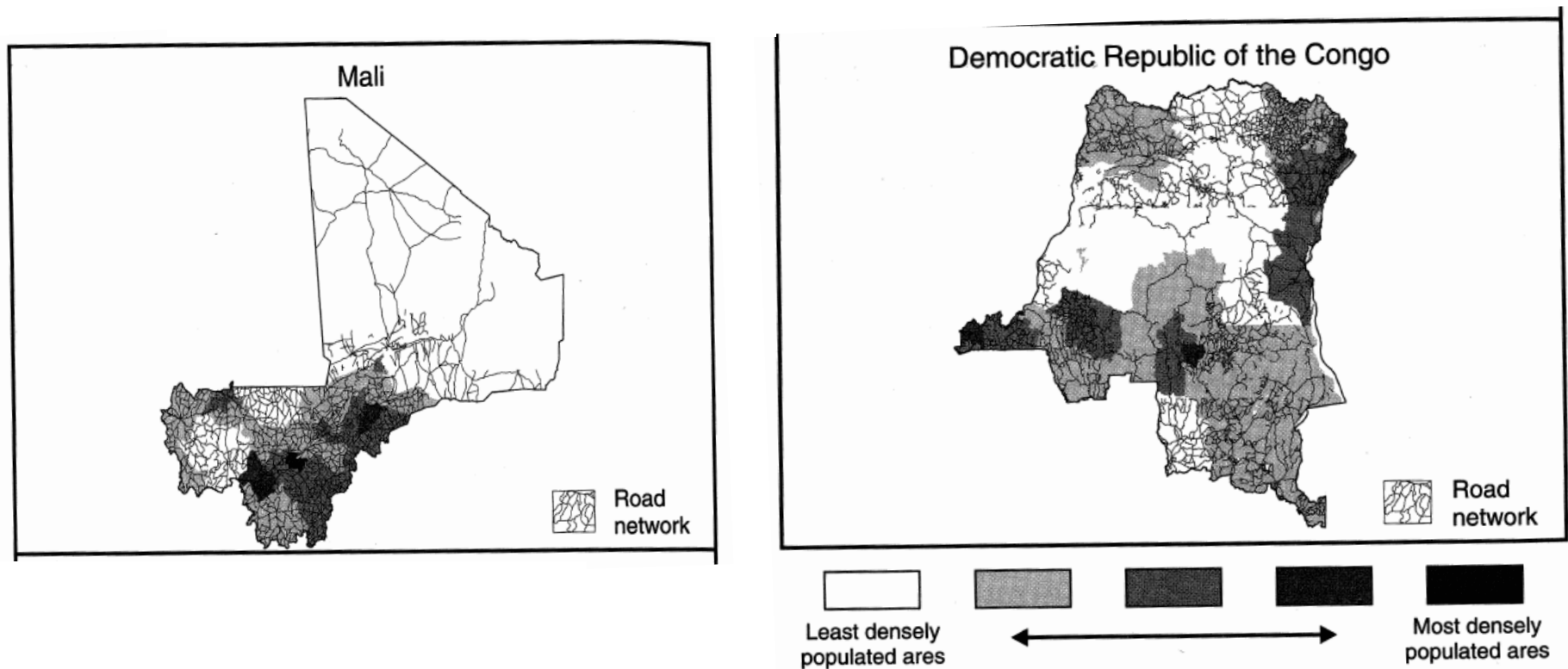
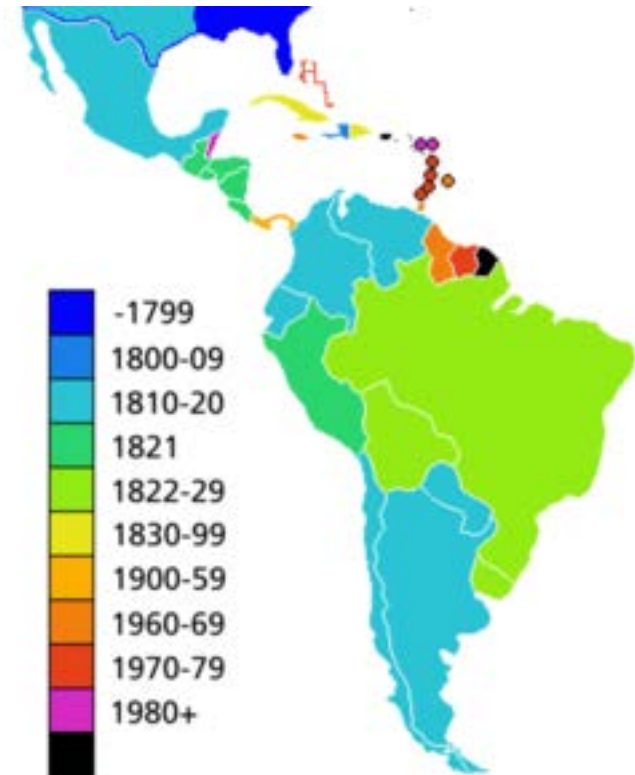


Figure 5.7. Mali and D.R.O.C. Compared

4(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

Rapid decolonization = Economic and Political immaturity?

- 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

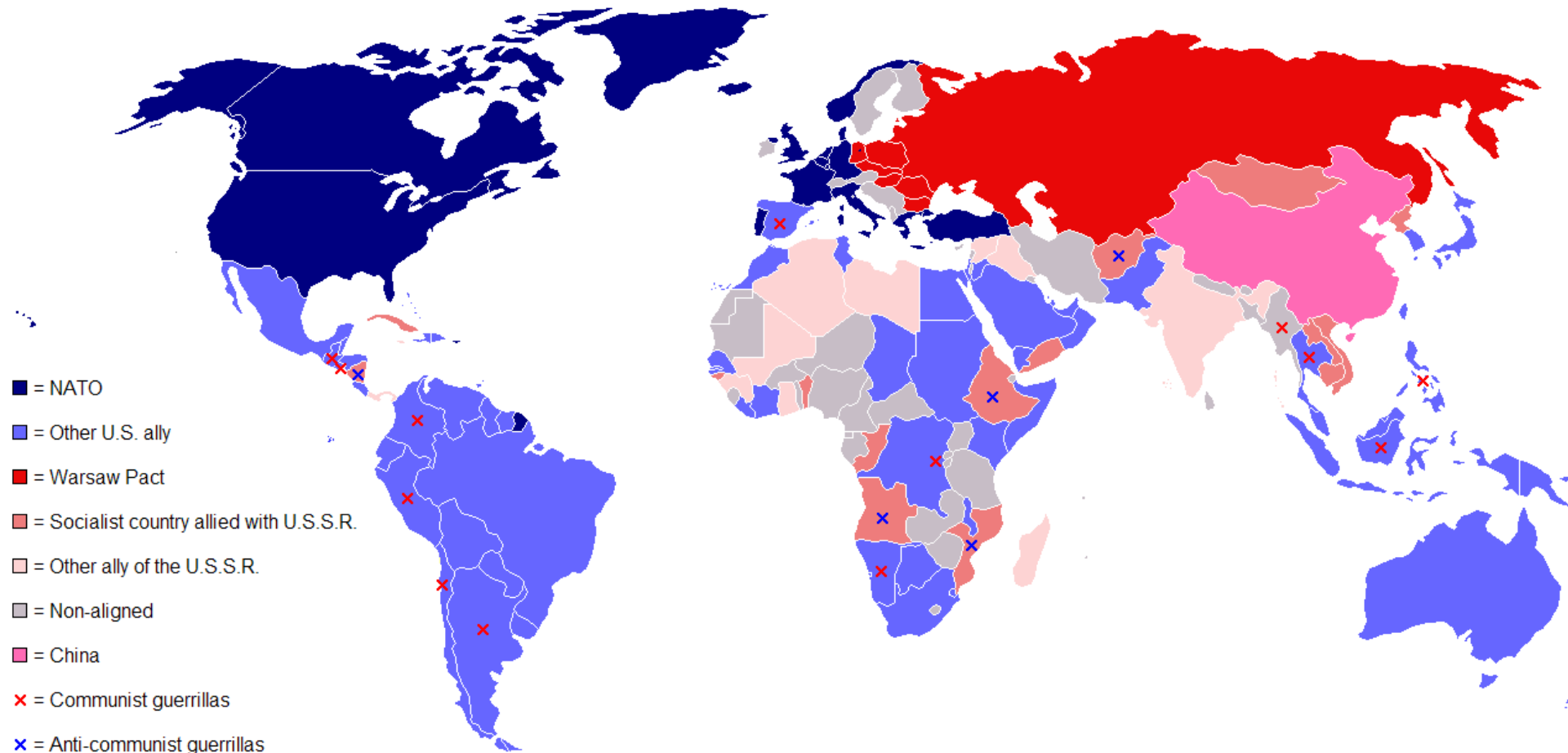
How globalization and Western imperialism shaped order and institutions in late developing states

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

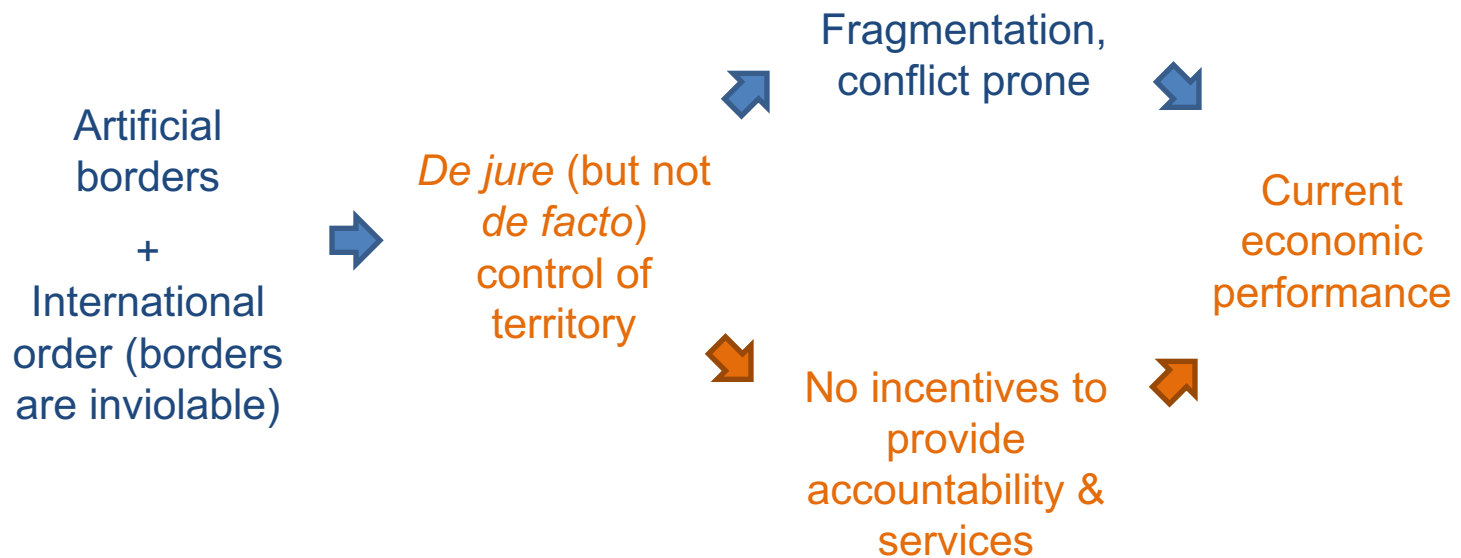
- Small transgressions threatened fragile peace
- US and USSR want a system that contains conflicts in the periphery
 - Fear is that small wars escalate to nuclear war
- Developed rules, norms and institutions that would preserve peace
 1. Non-interference
 - Populations the victims of their leader's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

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



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

Recall Alesina, Easterly & Matuszeski



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Ideology is one of the West's great exports

Some examples:

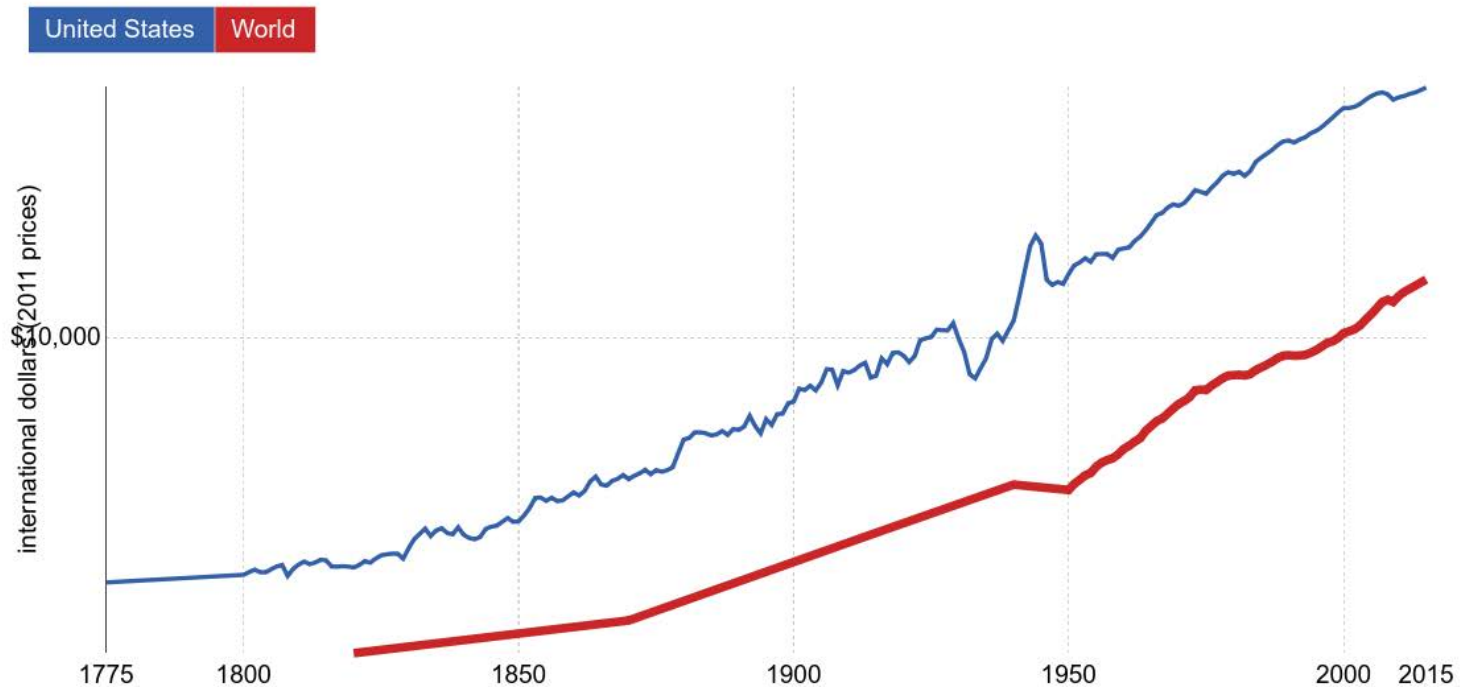
1. Liberalism and democratization
 - We will talk about the spread of democratic norms in Week 9
2. Free market economics
 - We will talk about the “neoliberal” agenda later when we discuss structural adjustment
3. 1950s, 60s: The developmental state
 - The belief that planned, centralized investment 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)

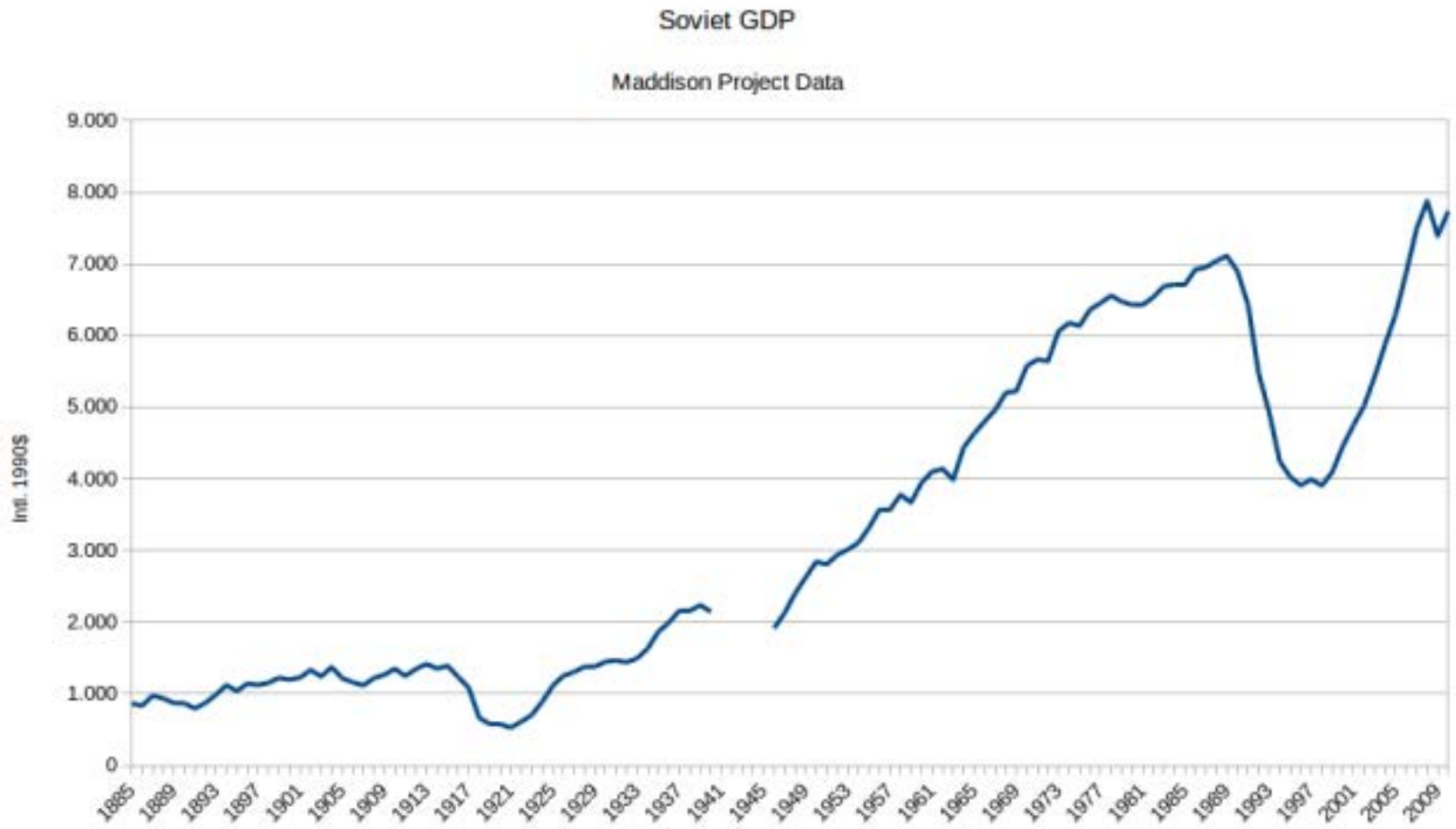
OurWorldInData.org/economic-growth • CC BY-SA

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.

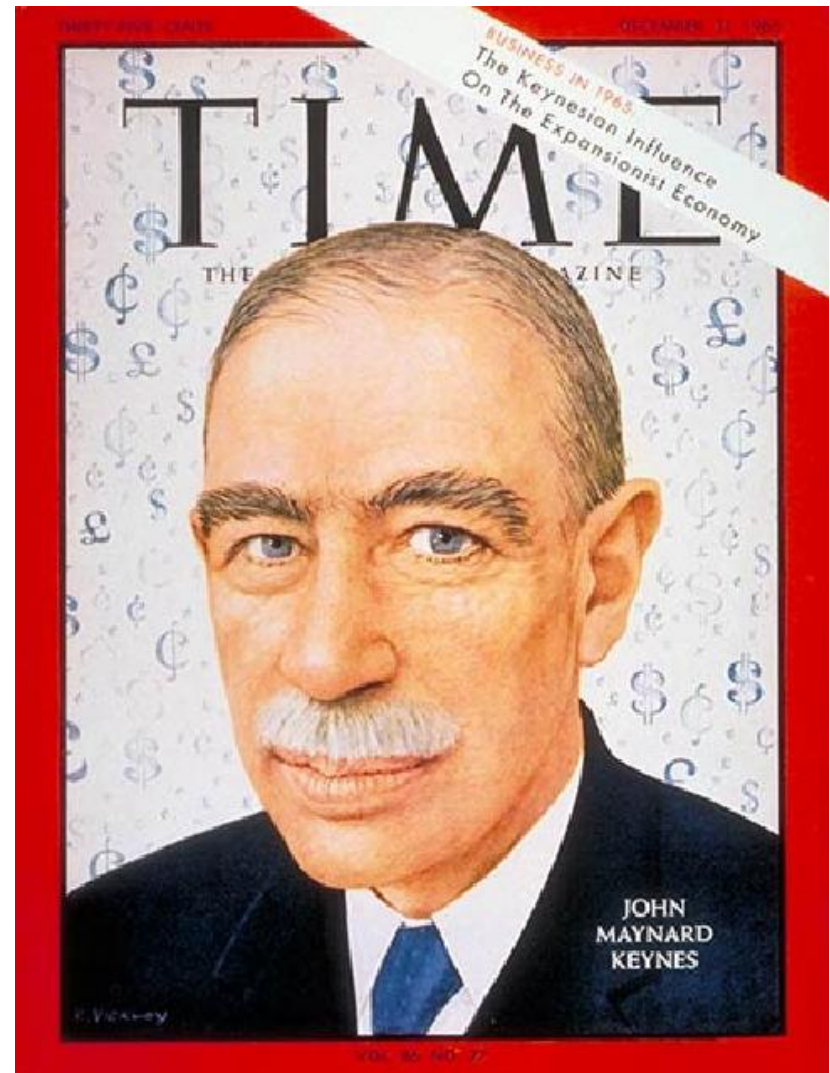
—British historian A.J.P. Taylor, 1945

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)



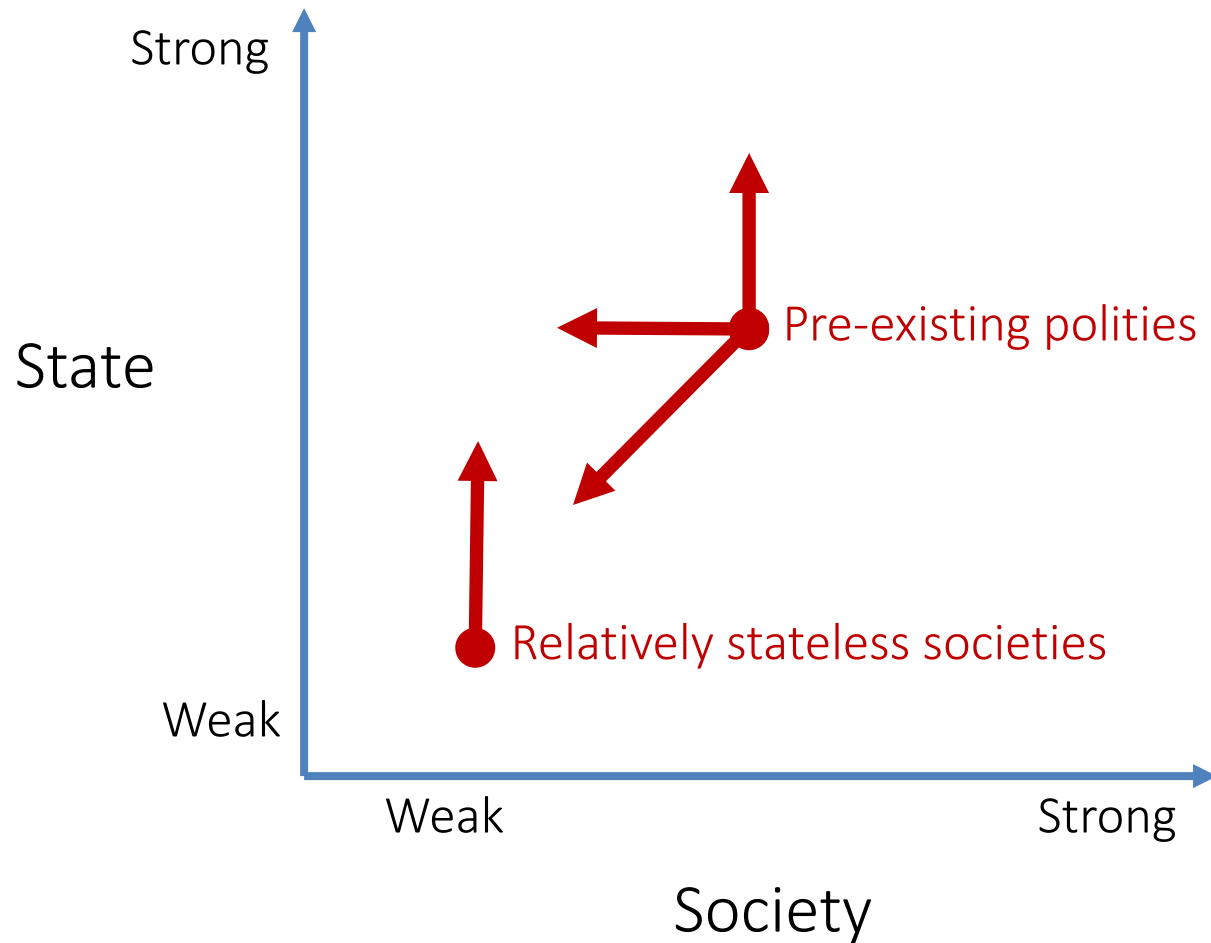
III. The politics of many “late developing” states: survival and control

The example of Sub-Saharan Africa

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

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

It is difficult to know the impact of imperialism, since the counterfactuals are unclear. But weaker societies and (in some cases) stronger and more centralized states is a reasonable conclusion.



It was very difficult for parliamentary democracy to take root in these limited access orders

- The British and French made some attempt to bestow parliamentary democracy on their way out:
 - 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
- But within a decade, all but 3 African nations would switch 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?

Political control required economic control

- A free economic order threatens elite rents
- 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 area means of control in a young, multi-ethnic, poorly integrated territory
 - Patronage is a substitute for repression, nation-building, and service delivery

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

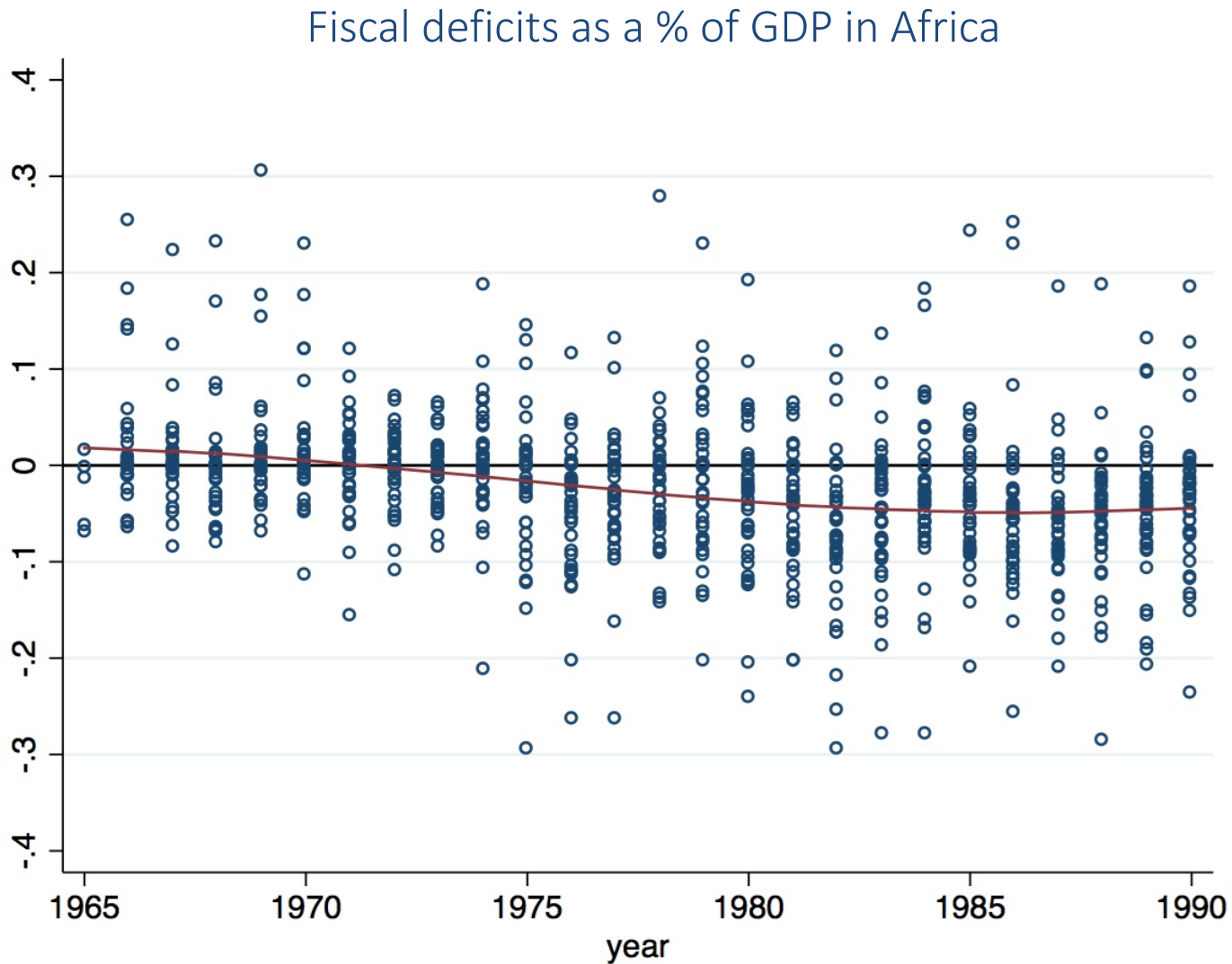
- Manipulated markets
 - Erected barriers to foreign firms
 - Encouraged monopolists
 - Nationalization of banks, resource extraction, transport, etc.
 - Restricted access to foreign exchange
- Distorted prices
 - Subsidized urban food and fuel
 - Lowered prices to rural producers
- Used state resources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

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

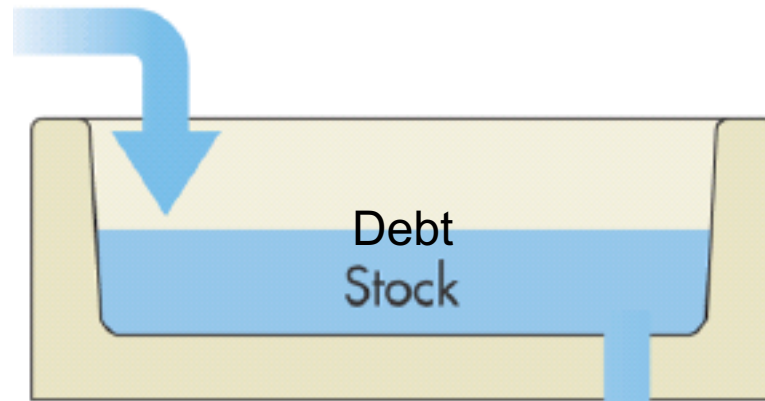
One result was growing and persistent fiscal deficits

Examples: Kenya, Zaire and Tanzania



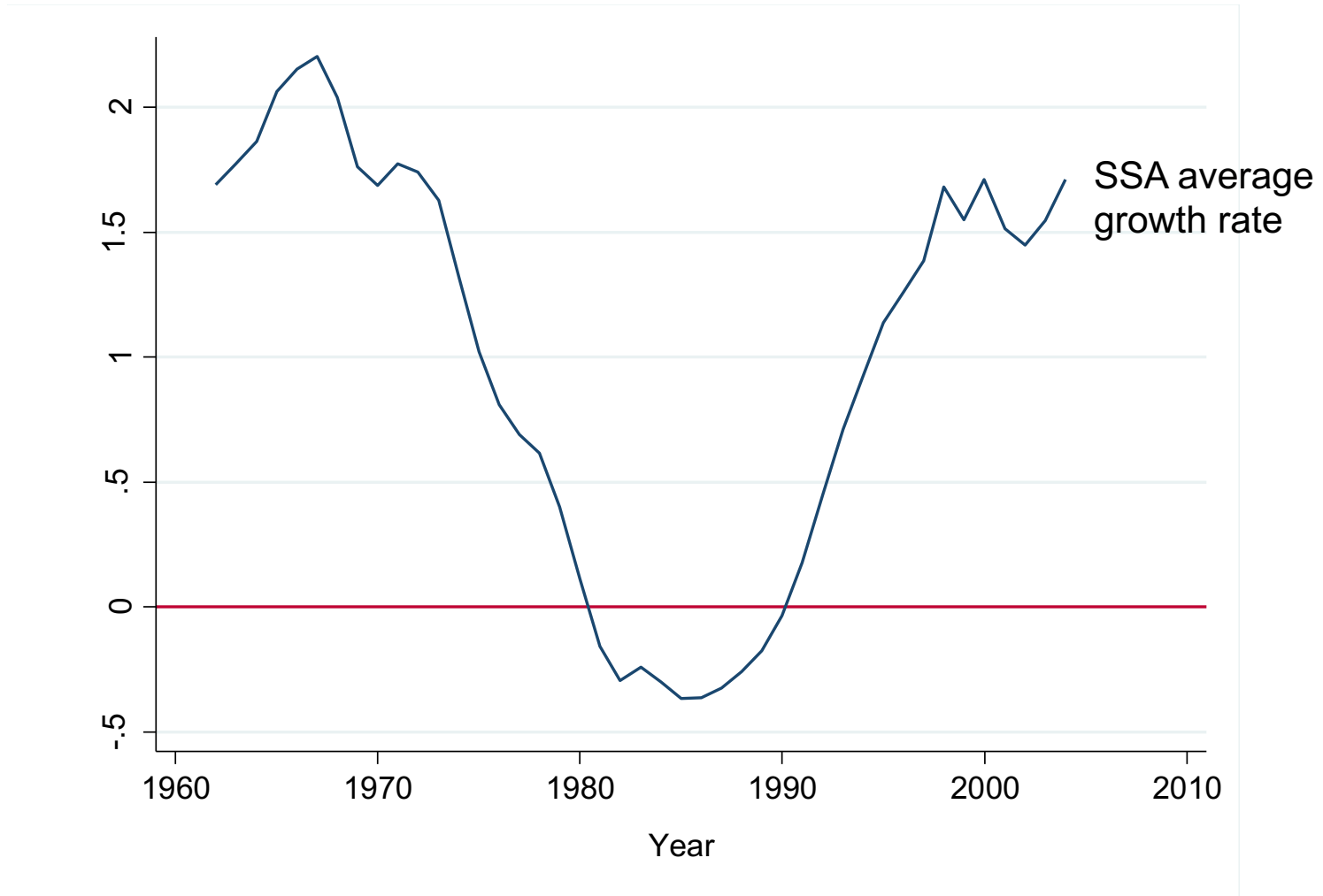
Persistent deficits mean mounting levels of debt (and growing debt payments)

Deficits (including interest payments)



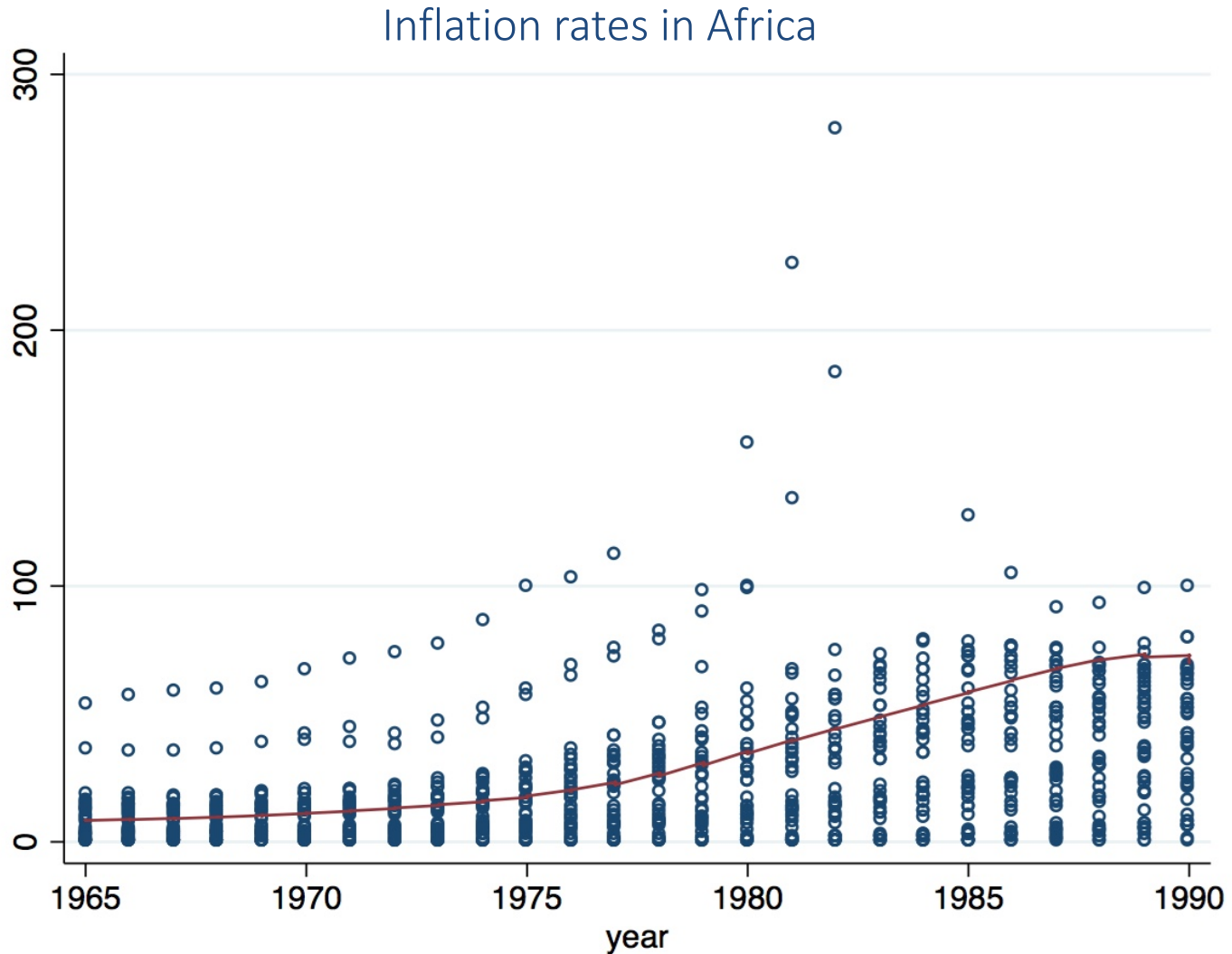
Repayments of principal (minimal)

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

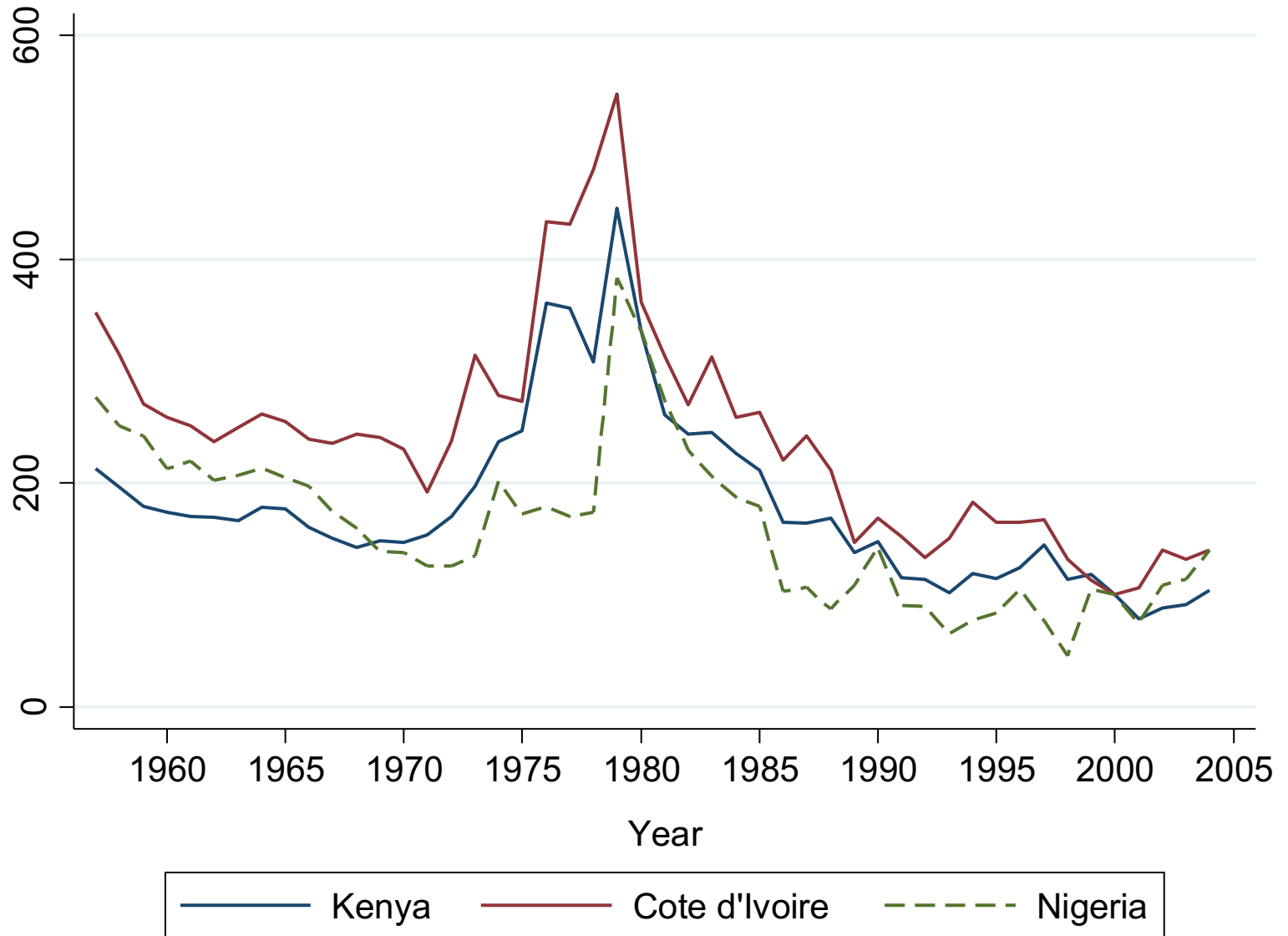


Average African growth rates (unweighted) calculated using Penn World Tables data for all sub-Saharan African countries with populations greater than 1 million.

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

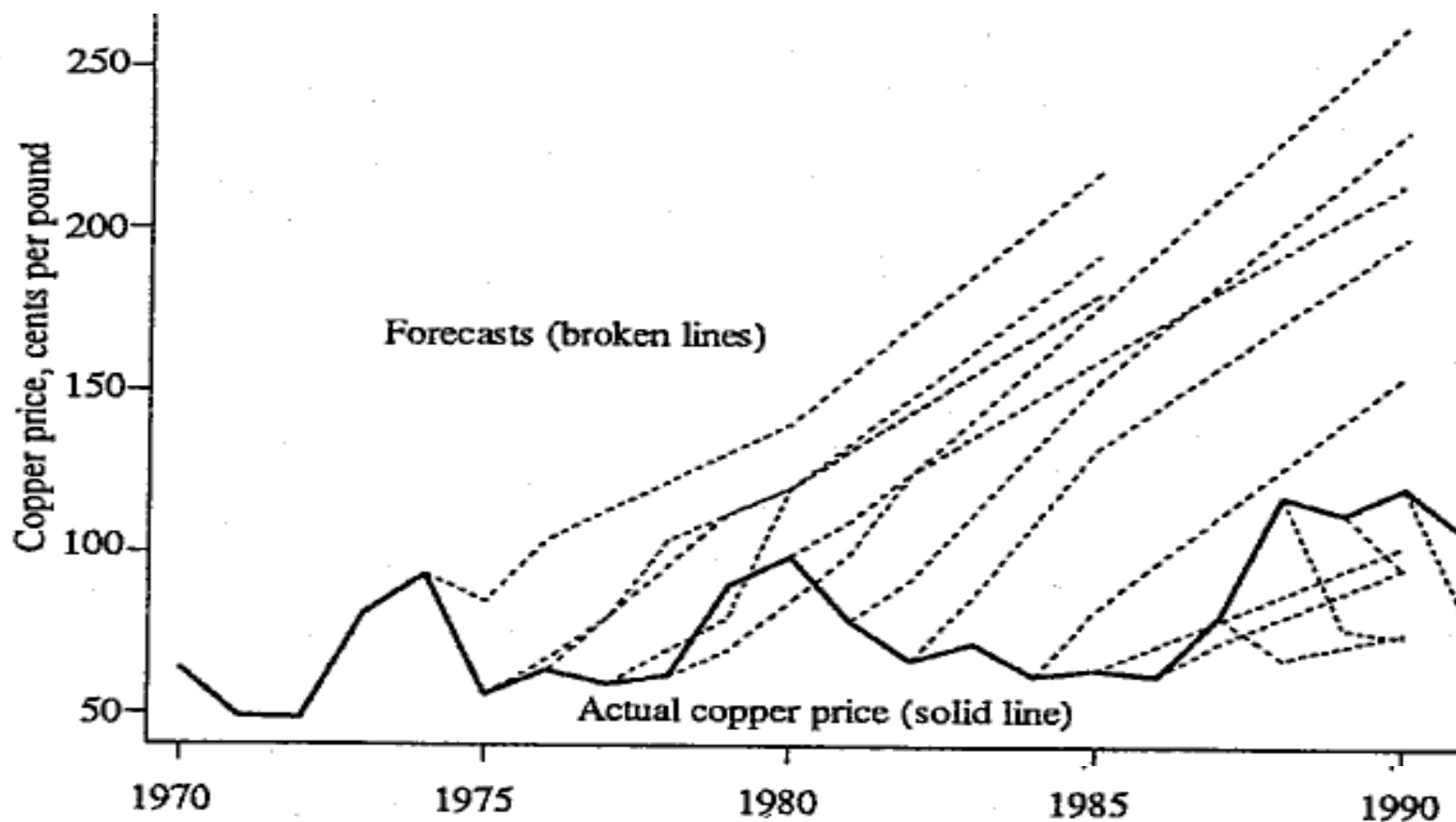


Now, introduce volatility into the system:
Commodity price spikes in the late 1970s



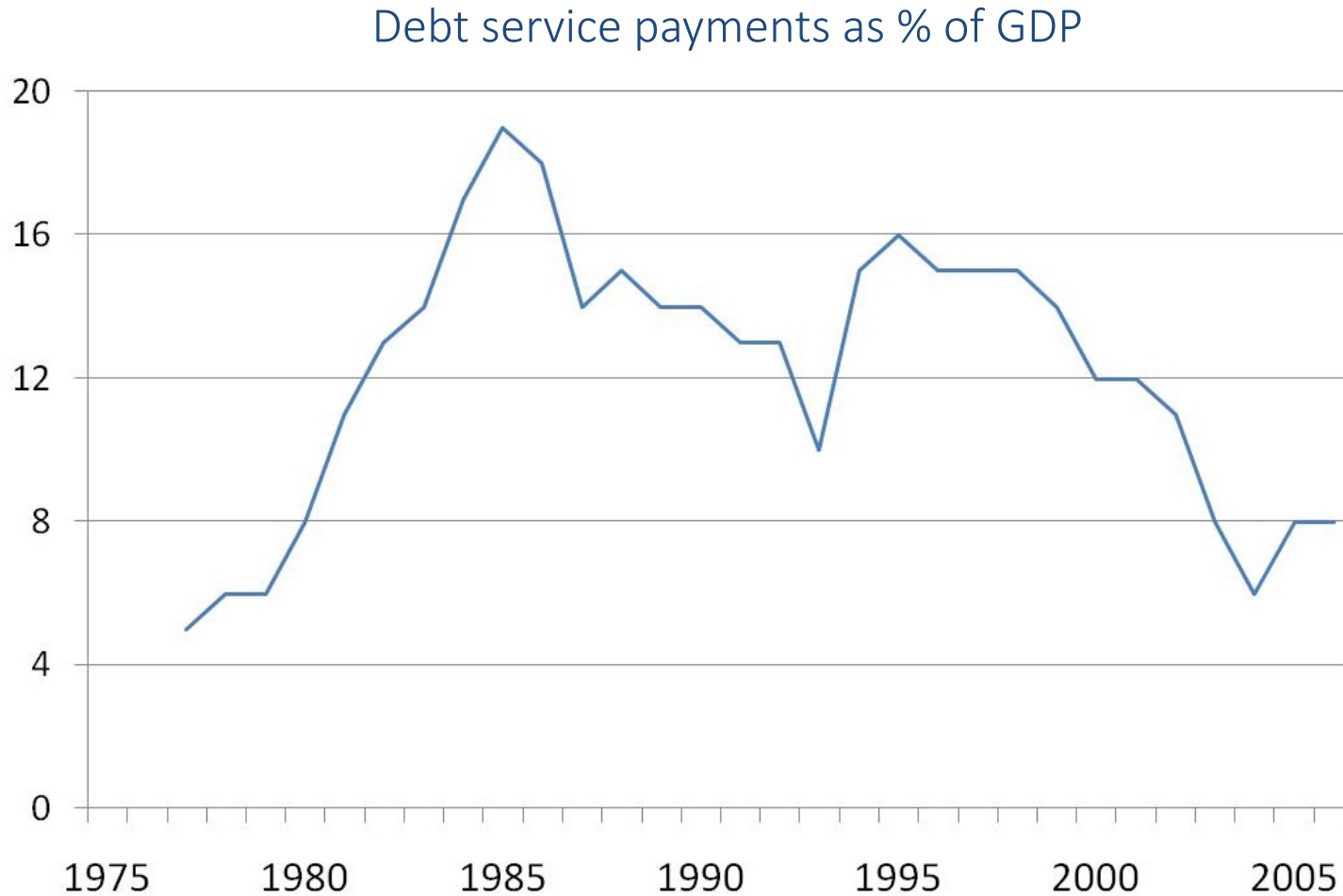
Spikes are a boon if you see them as a temporary windfall,
but problematic if you don't know they are temporary

IMF's actual versus forecasted commodity prices: Copper

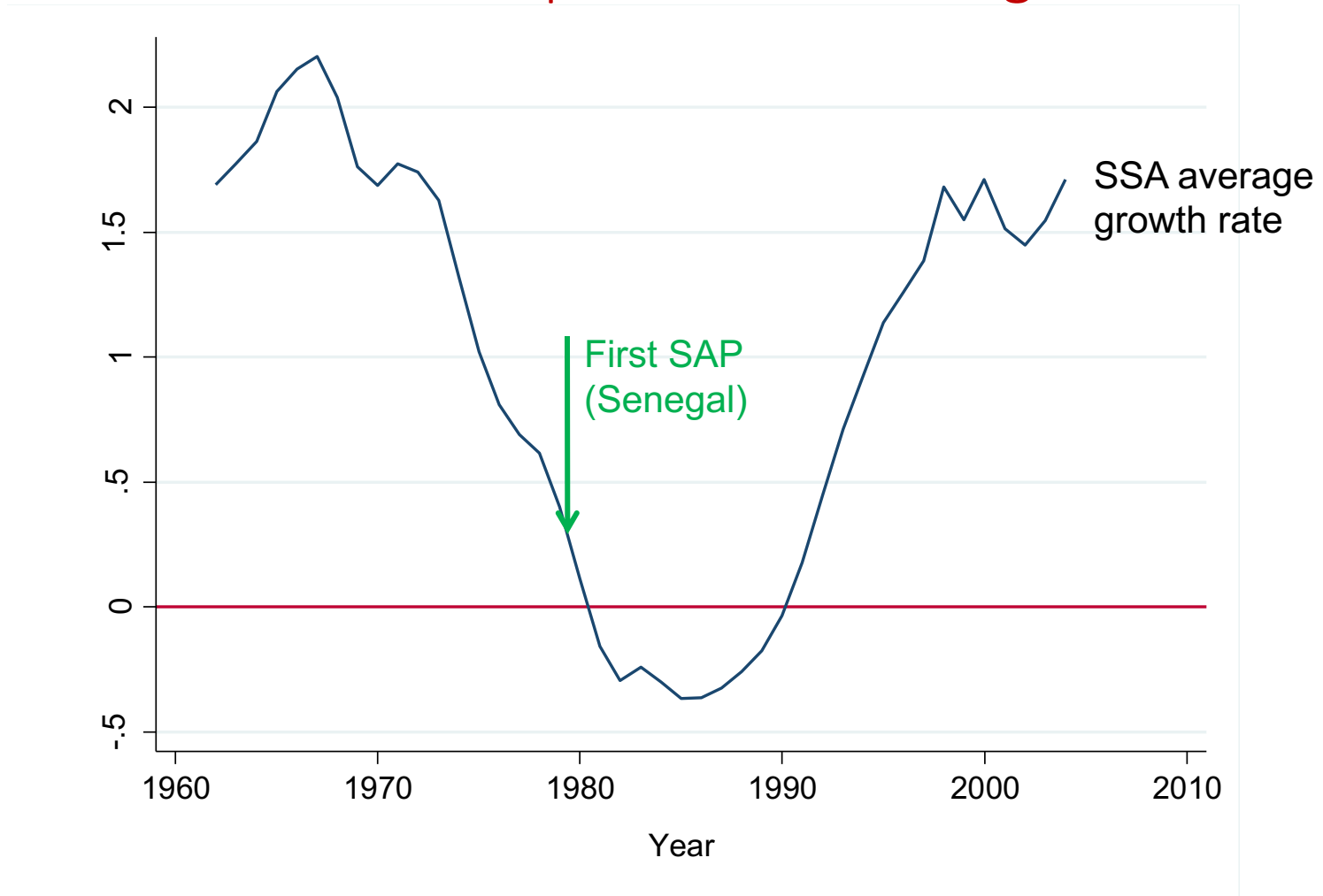


Result: A crisis of debt

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



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



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

We see parallels in Latin America

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

V. The international response: Macroeconomic stabilization and Structural adjustment

Our first look at Western intervention

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 with funding from the West
- Remove price controls
- Privatize state-owned banks and companies
- Build market institutions
- World Bank: Long term loans

Stabilization and structural adjustment were in part a response to patrimonial policies that crippled economies

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

Proposed reforms:

Price and agricultural market deregulation

Strict inflation targets

Reduce expenditures

Public sector retrenchment

Devaluation

Trade liberalization

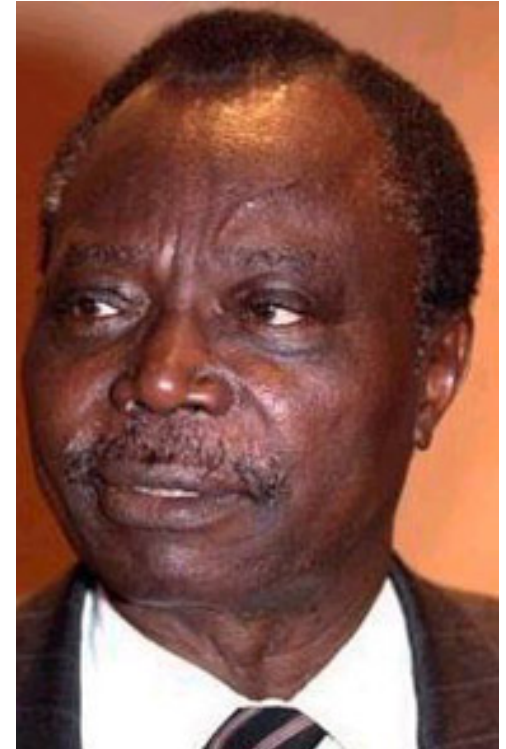
Export bias

Privatization of banks, transport, mining, etc.

Members of these institutions often had an ideological agenda at odds with local states and societies, especially in Africa

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



van de Walle: These reforms 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

Why were these reforms poorly implemented in the 1980s?

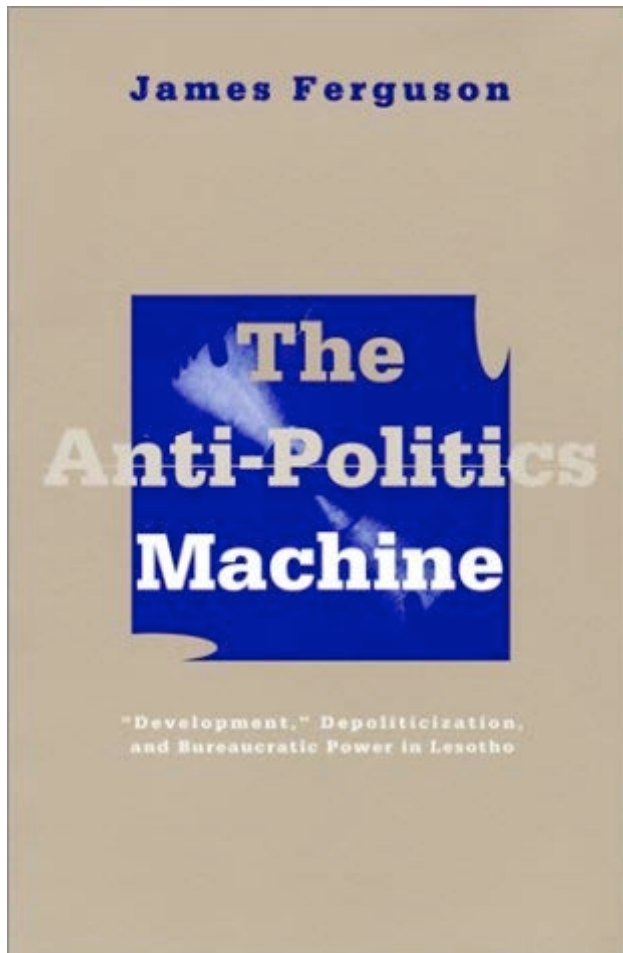
- This scale of public sector reform was an almost impossible task
- The IFIs did not necessarily have the right answer
 - Underestimated the role for the state
 - Took too many lessons from already developed countries
 - Economists don't know how to manage bureaucracies or reforms
- Many governments differed ideologically
 - A Socialist influence persisted in many countries
 - Few governments owned the plans
- Paternalism of IFIs looked suspiciously like colonialism
- Foreign aid helped to sustain poorly managed bureaucratic structures and lessened the need to reform them
- Perhaps most of all: Opening up economy threatened limited access orders

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



- Failed to understand the political logic of the economic systems
 - And absence of incentives for reform
- Saw economic systems as inefficient and irrational, and viewed fixing them as a technical problem not a political one
- Signs of naiveté:
 - Views the problem as “corruption” and a problem of personal greed
 - Ignores effects of reform of relative power of groups in society and risk of conflict

Nonetheless, are we all structurally adjusted now?

John Williamson's core tenets of the "Washington Consensus"

1. Balance 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. Enforce property rights