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Volume Author/Editor: Sebastian Edwards, Simon Johnson, and David N. Weil, editors

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Chapter Author(s): Sebastian Edwards, Simon Johnson, David N. Weil

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Volume Introduction

Sebastian Edwards, Simon Johnson, and David N. Weil

As colonial empires began to crumble in the decade after World War II, there were high expectations for growth in Africa south of the Sahara. The region had significant natural resources, a growing population, and strong ties with Europe that promised trade, aid, and helpful capital inflows. Independence was widely regarded as creating great opportunities.

Over the next three decades, Africa's economic outcomes were, for the most part, profoundly disappointing.[1] Natural resources proved, at best, to be a mixed blessing—even sometimes fueling civil war. Increasing population often outstripped the resources governments could devote to health and education, and the end of colonialism in this part of the world was definitely not associated with sustained growth in incomes per capita. Trade remained sluggish, aid proved disappointing, and capital inflows did not have a more broadly transformative effect.

This volume, the first of four books resulting from our project, provides expert assessments regarding some of the basics of recent economic development in Africa: the rule of law, the extent of political stability, the role of foreign aid, and what happens after civil war. The chapters here also take up key details of how the state operates, including actions and policies that

Sebastian Edwards is the Henry Ford II Professor of International Economics at the University of California, Los Angeles, and a research associate of the National Bureau of Economic Research. Simon Johnson is the Ronald A. Kurtz (1954) Professor of Entrepreneurship and Professor of Global Economics and Management at the MIT Sloan School of Management and a research associate of the National Bureau of Economic Research. David N. Weil is the James and Merryl Tisch Professor of Economics at Brown University and a research associate of the National Bureau of Economic Research.

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1. Africa's disappointing growth between 1960 and 2000 is the subject of a two-volume work (see Ndulu et al. 2008).

are more or less conducive to economic development. Our authors also provide some longer-run assessments of the growth process.

Based on the evidence and analyses presented in this volume, we are convinced that over the past two decades Africa has made important progress and that many of the problems of the postcolonial period have now receded. Currently, sub-Saharan Africa has strong prospects for further development, even including potential convergence toward the income levels seen in today's middle-income countries. But there is a long way to go and some of the obstacles remain severe. The findings of our project stress the ways in which these vary across countries and sometimes within countries.

Political Economy and Conflict

One of the insights that has informed the literature on economic growth and development over the last two decades has been an appreciation for the paramount importance of politics and social peace for any kind of reasonable economic outcome. For this reason we supported—and volume I contains—work on exactly these issues.

Chapter 1, "Healing the Wounds: Learning from Sierra Leone's Postwar Institutional Reforms," by Katherine Casey, Rachel Glennerster, and Edward Miguel, deals with what must be considered one of the most fundamental issues for development: Can countries recover from civil wars, in the sense of building social cooperation, solid institutions, and an agreement not to engage again in destabilizing violence? The authors are cautiously optimistic. The brutal civil war in Sierra Leone did not completely destroy the capacity for local collective action, and while politics remain heavily influenced by ethnicity, voters are willing to cross ethnic lines when they have sufficient information. Ethnic segregation also does not impede the provision of local public goods, and decentralization of government functions can work, at least sometimes.

In chapter 2, Victor A. B. Davies and Sylvain Dessy stress several lessons that can be drawn from the African experience in "The Political Economy of Government Revenues in Postconflict Resource-Rich Africa: Liberia and Sierra Leone." Mineral and energy resources offer a great opportunity for accelerated development, including situations where peace has only recently been established, but rushing to bring in international companies can have unintended and unfortunate consequences. At the same time, there is a great deal that countries can learn from each other about how to structure and enforce contracts in ways that ensure benefits are shared more broadly. There are also important responsibilities for countries where mining companies and oil companies are headquartered, and from which they draw managerial talent.

The boom in Africa since the 1990s is partly about natural resources, but it is also about a more robust approach to poverty reduction. This is largely about creating a state—including a central government, but also its various regional and local components—that is focused on delivering services that people actually need. In this context, it is most encouraging to see governments experimenting with alternative ways of structuring both revenues and spending. An important role for economists is to study carefully what is tried and to distill lessons in terms of what works and along which dimensions.

This is precisely the line taken by Emilie Caldeira, Martial Foucault, and Grégoire Rota-Graziosi in chapter 3, "Does Decentralization Facilitate Access to Poverty-Related Services? Evidence from Benin." Decentralization to the local level can have important advantages, including making government more responsive to what people really need to improve their lives. But no kind of initiative in this sphere is without complications, and the authors study carefully both positive and more nuanced aspects of recent experience in Benin.

The goal of our project was not to create a comprehensive picture of current circumstances in Africa, nor to survey the full range of government and private sector initiatives. Rather, we wanted to encourage research into leading questions—and this study of Benin is a nice example. Other researchers will hopefully find ways to examine this issue in other contexts and, over time, the field will establish a broader systematic assessment.

In chapter 4, "Demographic Pressure and Institutional Change: Village-Level Response to Rural Population Growth in Burkina Faso," Margaret S. McMillan, William A. Masters, and Harounan Kazianga take up the issue of whether population increase can lead to helpful changes in institutions, such as the creation of property rights. In some situations, more crowding onto a finite amount of land can lead to greater conflict—and exactly the kind of downward spiral experienced by some parts of West Africa after 1960. But, as the authors show, other outcomes are also possible. It was very important for us to understand more precisely the conditions in which legitimate pro-growth rules and norms develop. At least in the case of Burkina Faso, seen through the lens of their study, there is some room for optimism.

The same is true for the issues raised in chapter 5, "New Tools for the Analysis of Political Power in Africa," by Ilia Rainer and Francesco Trebbi. The authors have done a great service by collecting and organizing very detailed data on the ethnic background of leading political figures across fifteen African countries. There is much more to do in this area in terms of linking these characteristics to both decision making and to outcomes. The work reported here should help other scholars push forward the conceptual frontier, for example understanding when ethnic identity gets in the way of reasonable economic policies. And, of course, the deeper question and concern always lurks: What prevents any part of Africa from sinking back into the kind of destructive conflict that characterized too much of the postindependence period? Still, there is a very real possibility that ethnic-based conflicts have receded, at least in some parts of the continent.

Government Regulation and Basic Institutions

Lest anyone think that looking for success in Africa has led us collectively to become starry eyed, chapter 6 provides a substantial bucket of cold water. In "Deals versus Rules: Policy Implementation Uncertainty and Why Firms Hate It," Mary Hallward-Driemeier, Gita Khun-Jush, and Lant Pritchett find that, across a large number of African countries, many firms face some form of "closed" environment, in which deals on reasonable terms are limited to firms with favored characteristics. Alternatively, there is a disordered environment in which it is difficult to reliably predict policy action outcomes, even when firms undertake influence activities. Country-level laws and regulations on the books seem to count for little; it is all about "implementation"—meaning how individual officials approach their jobs. This is often done at the local level and is influenced by ethnic and other local characteristics.

The World Bank's Doing Business indicators have been hugely influential and, in some places, prove extremely informative. But in the African countries examined carefully here, the de facto outcomes are quite different from what one would expect from looking at the de jure rules. Unless and until the relationship between government and the private sector improves—including along the precise dimensions identified by these authors—it will be difficult to accelerate growth in Africa.

In chapter 7, "The Unofficial Economy in Africa," Rafael La Porta and Andrei Shleifer investigate a related but distinct phenomenon. To some extent, entrepreneurs react to an unfavorable environment and to the absence of clear rules and regulations by not registering their firms and otherwise trying to stay beneath the radar of the official sector. La Porta and Shleifer find that these unofficial firms have low productivity compared with registered firms, both across a wide range of twenty-four countries and in their detailed investigation of Madagascar, Mauritius, and Kenya. Crossing this chasm will not be easy, and the obstacles may be more serious even than weak rule of law and pervasive corruption.

In chapter 8, "State versus Consumer Regulation: An Evaluation of Two Road Safety Interventions in Kenya," James Habyarimana and William Jack look more deeply at a specific and very important aspect of the private-public interaction. Road safety is now a serious issue in much of Africa, as the combination of modern vehicles and less-than-fully-modern roads too often proves fatal. The role of private bus companies running minibuses over long distances is particularly important, both for transportation and—tragically—as a cause of death. The authors study the effects of alternative ways to make this mode of transportation safer. One approach is to require engine modifications that limit speed. This makes sense from an engineering perspective, but incentives also matter. If the driver makes more money or otherwise derives utility from going faster, then outcomes are not necessarily as intended.

An alternative is to encourage passengers to put pressure on drivers to be more careful. The authors find themselves at a fascinating intersection between psychology, culture, and economics. Who will speak up, under what conditions, and to what effect? There are presumably applications and lessons across a wide range of social situations, both for the private sector and for the public sector.

Long-Run Assessments

We close volume I with two chapters that look at how institutional change played out over long periods of time, with a particular emphasis on how one measures and assesses both causality and economic progress. In volume IV we return to several more studies that follow developments in individual countries.

Chapter 9 belongs to the great tradition of NBER papers that provide deep insight into the data and help to shape a field of study. In "Fifteen Years On: Household Incomes in South Africa," Murray Leibbrandt and James Levinsohn use national household surveys from 1993 and 2008 to assess who has experienced what kind of income gains since the end of apartheid. Real gross domestic product (GDP) per capita since the democratic elections in 1994 has risen by an average of close to 1.5 percent per year—an apparently encouraging performance. However, measuring incomes at the household level (adjusting for household size) paints a potentially different and in some ways less positive picture.

Including all household members, even those not participating in the labor market, confirms that average per capita incomes increased and that growth has been shared across the distribution of income. However, the increases are modest and inequality has increased—even beyond the high degree of inequality that was a legacy of apartheid. Access to basic services such as water, housing, and electricity has improved, but unemployment has risen to very high levels.

Strong spending by the state on education and services led to measurable improvements in levels of education and access to essential services, but these improved endowments did not translate into generalized increases in real incomes. What dampened the translation between improved endowments and improved real incomes? The authors are not yet in a position to provide a definitive answer, but other evidence suggests there has been a twist in the returns to education in South Africa that has lowered the returns to education for all but the highest levels of schooling.

Foreign aid has played an important role in discussions on African development. Recent controversies have pitched scholars that, mostly on the bases of cross-country data, believe that aid has been ineffective (or even detrimental), and those that argue that—when properly dispensed—international assistance can help reduce poverty and further development. In chapter 10, "Is Tanzania a Success Story? A Long-Term Analysis," Sebastian Edwards analyzes the role played by foreign aid in Tanzania between 1961 and 1996. As Edwards shows, foreign assistance—most of which took the form of bilateral aid—did not support growth in Tanzania during the early years (especially after 1967 when the policies of the Arusha Declaration were implemented), and it contributed to economic decline in the 1970s and 1980s. However, foreign aid was helpful for the subsequent post-1996 recovery of the country, when the aid community and the Tanzanian authorities found ways of coordinating their actions. Edwards's work has subsequently been expanded into a book, *Toxic Aid*, published by Oxford University Press in mid-2014.

Conclusion

Taken together, the chapters in this volume paint a complex picture of how government and institutions shape development, and also the factors that determine how well institutions function. The vision of government-led development that accompanied the birth of many new countries in Africa in the 1950s and 1960s did not survive prolonged contact with reality. It was replaced by a vision of government as part of the problem: the people charged with enacting policies often followed political or ethnic self-interest, if they were not simply corrupt; natural resource revenues and foreign aid, both of which had seemed like ideal sources of the revenues needed to speed development instead turned out to have toxic effects on the political system; and waiting in the wings when politics failed were ethnic conflict and state failure.

But experience in Africa, including closer investigation by the economists represented in this volume, suggests that such a dismal assessment is not fully warranted either. Countries with weak governance and a great deal of corruption can still contain pockets of functionality, and in countries as diverse as Sierra Leone, South Africa, and Tanzania, policies and political systems have improved.

There is a lot that remains to be done, if growth across the continent is really to improve the lives of current and future generations. What exactly is involved in sustaining growth and sharing its benefits is the focus of the remaining volumes in this series.

Volume II digs deeply into issues of human capital. Volume III looks at the specifics of modernization across some key sectors, including finance, mobile phones (including the dimension of mobile banking), and exports. Volume IV examines the sustainability of growth in more detail, from the perspective of agriculture and food production, as well as improvements in market efficiency. Volume IV also includes studies of recent experience in countries that have—so far—managed to sustain some broad form of economic success.

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