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COMMENTARY

If Economists Are So Smart, Why Is Africa So Poor?

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President Bush's new Africa initiative, and the recent events unfolding in Liberia, raise the question why, despite decades of aid, Africa remains impoverished. Over the years, the continent has been the site of large-scale experiments to reform its economies. But however ambitious, these projects have failed to generate sustained economic growth. Most African nations today are poorer than they were in 1980, sometimes by very wide margins. And of the continent's three-dozen countries, only two (Botswana and Uganda) have managed to grow at rates exceeding 3% per annum since 1980. More shocking, two-thirds of African countries have either stagnated or shrunk in real per capita terms since the onset of independence in the early 1960s.

A major reason for the failure of reform is that the market-based policies -- the so-called "Washington consensus" -- that underpinned the African experiments had a fatal flaw: they assumed that economic reforms can create efficient markets without simultaneous reform of the political institutions. Without a limit on government and a guarantee of property rights and individual liberty, "efficient markets" cannot exist. Economists have made an impressive start on the types of economic institutions needed to support efficient markets, but have not made equal strides in devising political institutions that will accomplish that objective. It took a Sekou Toure, or a Hastings Banda, five minutes of despotism to undo the finest economic theory.

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The efficient functioning of markets requires that some organization enforce contracts and property rights. As Thomas Hobbes warned in "Leviathan," the absence of an enforcer implies a free-for-all: everybody knows that everybody else can behave in an opportunistic fashion, therefore everybody behaves opportunistically. (How like the Congo that looks -- or Liberia.) To be credible, the organization that enforces contract and property rights must have the power to force people to adhere to its decisions. This necessarily implies that the enforcer is the government. History offers us no case of a well-developed market system that was not embedded in a well-developed political system. Even under apartheid, South Africa prospered -- relative to the rest of Africa -- because of the rule of law (however unpalatable and discriminatory some laws were). Uganda, too, is now starting to recover because, however authoritarian its president, Yoweri Museveni, he seeks to run a rule-based society, not one run by mercurial fiat.

The necessary connection between government and the market creates a thorny problem. Any government strong enough to enforce contract and property rights is also strong enough, presumably, to expropriate its citizens' wealth -- witness the confiscation of white farms in Zimbabwe. Undemocratic African governments have powerful incentives to do this. First, they need revenue for their political survival. Second, to survive, they must also serve politically crucial constituents. Too often governments exchange political support for monopoly rights, protection from competition, or special privileges. The fundamental political problem of economic development is therefore that of devising the appropriate means for channeling government action into support of markets, rather than predatoriness. If Robert Mugabe had done so, Zimbabwe would not today present so calamitous a picture.

In effect, solving the development problem in Africa requires the crafting of political institutions that limit the discretion and authority of government and, more saliently, of individual actors within the government. No simple recipe for limiting government exists. Yet two principles are clear. First, the countries of Africa must create mechanisms and incentives for different branches and levels of government to impose sanctions on one another if they exceed the authority granted to them by the law. Second, these sanctions cannot be imposed in an arbitrary or ad hoc fashion: the sanction mechanisms themselves must be limited by the law.

Two ways exist to create these sanction mechanisms and incentives, both of which divide power so it is not concentrated. One is a system of checks and balances that limits a strong central government. Here, political competition among actors in the different branches of government provides incentives for actors to police one another's actions. A second way to limit government is federalism, in which different levels of government limit one another. Here each level of government has an incentive to police the actions of other levels. The result is an outcome in which each level of government essentially balances the others. Nigeria, had it embraced this model, might not now be bankrupt.

The problem in Africa is that it has neither system. This is most obviously the case in the various authoritarian states -- too numerous to mention, but let's just pluck Burkina Faso from the hat, or Burundi -- but it is also true in the few that have selected political leaders via free elections recently, such as Nigeria. There, federalism and checks and balances exist on paper but are undermined by constitutional loopholes that make the states too weak to check the power of the federal government. Parliament and courts are an ineffective constraint on the president.

Liberia provides an excellent illustration of Africa's institutional problems. Although a republic from 1847 to 1980, the constitution atrophied long before the government coup in 1980. For example, President William Tubman had served six terms from the 1940s through the early '70s. Since 1980, Liberia -- in an institutional vacuum -- has experienced coups, a disastrous civil war, and authoritarianism. The economy, stripped of law, is a basket case, with capital and skilled labor fleeing the country since the civil war began in 1989.

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The main lesson is that no attempt at economic reform in Africa can hope to succeed if it ignores the concomitant need for political reform. Without attention to their political foundations, markets cannot flourish. Donor governments and agencies must ensure that African countries -- indeed, developing countries everywhere -- undertake market reform, as the economists emphasize. But they must attend to the political security of markets as well as to the economic policies creating them.

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