Private Sector Perspective

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Fruits of the political kingdom

In the 1970s one of the most popular books about Africa's development crisis, was written by a Caribbean historian, the late Walter Rodney. The book was entitled "How Europe underdeveloped Africa".

After nearly 12 years of trying to do business in sub-Saharan Africa – here I'm excluding South Africa – and largely failing, I have more than enough material to write a sequel to Rodney's book. Mine would be entitled "How Africa's Political Elites underdevelop Africa".

When African and Asian colonies gained independence from the 1940s onwards, their new leaders faced two main challenges: to consolidate quickly their political power while ensuring stability and, in the longer term, to transform their countries' economies away from colonial era norms of exporting raw materials and importing manufactured goods.

The new political elites aspired to develop industrial economies like those of the departing colonial powers, which could produce both raw materials and manufactured goods, using a local labour force that was healthier, better educated and better clothed than before.

At first, many expected Asia to remain mired in conflict while Africa would quickly surpass it. But the opposite has happened.

Although much of Asia at first succumbed to bloody conflict, for a large part of the region – southern and east Asia – stability soon followed, and the region moved fast to address the economic challenge. In Africa, however, old conflicts still rage and new ones have erupted. With few exceptions, Africa's political elites have undermined their countries' economies.

Comparing Ghana and South Korea, for instance, the World Bank notes that the two were at a similar level of development in the 1960s. Yet by 1995, Korea's exports had increased 400-fold, compared to only four times for Ghana, where real earnings per capita also declined.

What has gone wrong has been the massive mismanagement by the ruling political elites of the economic surplus generated in Africa over the last 40 years. As heirs of the colonial state, political elites exploited their strong position in relation to the private sector that in Africa comprises peasant and plantation agriculture; domestic and foreign owned manufacturing industries; foreign owned extractive industries, to do the following:

* Bolster the standards of living of political elites to levels comparable to those of middle and upper classes of the West, without of course the equivalent productivity.

* Undertake half-hearted, loss making, industrialization projects that were not supported by the necessary technical and managerial educational development.

* Transfer vast amounts of economic surpluses generated in agriculture and in extractive industries such as oil, diamonds, metals and timber to developed countries as capital flight while simultaneously contracting vast loans from developed countries.

Pre-Industrial Revolution societies

There is a common fallacy which has become conventional wisdom that is that if only African governments implemented the prescriptions of the Washington Consensus all would be well and development would soon follow. This is the magic wand so beloved of foreign consultants. The hard reality is that development and therefore profitable investment will happen in Africa only when the social and political obstacles to Africa's economic growth are overcome in the first instance.

What gets overlooked in many discussions about Africa's development crisis, is that Africa, with the, exception of South Africa, has yet to embark on an Industrial Revolution. Africa, in development terms, is thus sadly about a century and a half behind where Western Europe is today and a good 70 to 80 years behind India and China.

Pre-Industrial Revolution societies typically are predominantly agricultural with the vast majority of their people peasants. There is no middle class or working class to speak of. Political power is thus controlled by a small elite of aristocrats which also owns or controls the land that the peasants farm. Cities are not centres of industry but of administration although they have a few manufactories largely for production of consumer goods. This, typically, is where most of Africa is today, especially sub-Saharan Africa.

Pre-Industrial Revolution societies by definition cannot be democratic because they lack the powerful intermediate social strata i.e. the middle class and the working class, that provide the countervailing power to that of the ruling political elites that control the pre-Industrial Revolution state.

Capitalist economic development

Thinkers on the left and right of the political spectrum agree that the private sector is the driver of modern economic development. Yet Africa, with one of the largest private sectors in the world, is one of the least developed.

Classical economic theory suggests that we all seek greater security and comfort, which in turn should make us productive members of society who will accumulate more wealth to shore up that comfort. The logic of capitalism says that since everyone is competing for security and comfort, everyone will produce more, better and more cheaply, for fear of suffering the opposite fate.

However, if economic theory is right, Africa should be a hive of economic activity and growth driven by the logic that private individuals and households are all trying to maximize that basic need. But today the vast majority experiences less of both, and in many instances faces homelessness, violence and starvation every day.

The problem is that the theory assumes private individuals and firms are free to pursue their security and comfort while owning and controlling the means to do this. It assumes that they are free to exchange what they produce without hindrance and that where they can save, they are free to keep those savings and plough them back into improved techniques or other investments.

This is not the case for the private sector in Africa. The private sector in Africa predominantly consists of peasants and secondly of subsidiaries of foreign owned companies. It also includes companies owned by foreign ethnic groups such as Indians, Lebanese, Chinese, etc who may or may not be citizens. None of these groups operate in the marketplace freely because they are dominated politically by non-producers – the political elites - who control the state.

This is the weakness of the African private sector that explains its inability to become an engine of economic development. Africa's private sector lacks political power and is therefore not free to operate to maximize its objectives. Above all, it is not free to decide what happens to its savings.

<u>Pillage of Africa's savings</u>

The political elites use their control of the state to extract savings from private sector operators, which, if they could, they would otherwise have invested, either in improving their skills or in other productive economic activities.

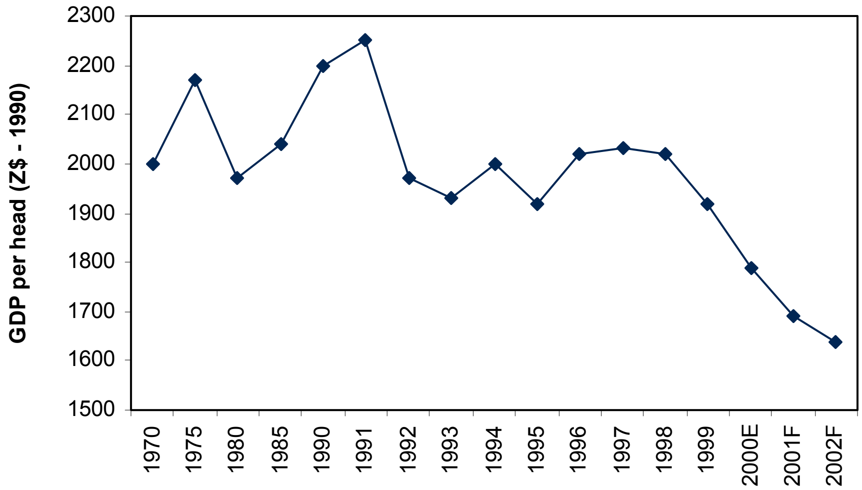
The elites divert these savings towards their own consumption, and also to strengthen the
states' repressive instruments. Much of what Africa's political elites consume, however, are imported. So state consumption does not create a significant market for African producers. Instead, it is a major drain on national savings that would otherwise have gone into productive and profitable investment.

This explains Africa's growing impoverishment. The more the political elites consolidate their power, the stronger their hold over the state, the more rural and urban societies sink into poverty and African economies regress.

Zimbabwe is a textbook case for the correlation between falling living standards and the growing power of the political elite. In their struggle against the white minority regime, in the 1960s and 1970s, Zimbabwe's African nationalists enlisted in particular the support of agricultural workers and peasants who made up the majority of the population.

Although the government made strenuous efforts to support the peasants in the 1980s soon after gaining independence, once the new Zimbabwe political elite consolidated its power, it quickly discarded its wartime constituency and instead proceeded to enrich itself to the great detriment of the national economy and of the welfare of the population at large, as the following graph shows.

Figure 1. Zimbabwe income per head (1970 – 2002)



Source: CSO Harare National Accounts (various editions) and Tony Hawkins forecasts for 2000-2002

Foreign companies are also at the mercy of political elites. European joint stock companies have operated in Africa since the dawn of the capitalist era. They started by financing and operating the ships that transported slaves to the New World. With the emergence of colonialism proper, these companies followed close on the heels of the colonialists' conquering armies and established agricultural plantations, mines, railways, harbours and new cities. Later they diversified into making consumer goods for the burgeoning African market, and processing of raw materials.

But when the colonial powers retreated from the 1950s onwards, these subsidiaries lost their key political protector. Before long, they, like the African peasants, fell prey to the whims of the new African political elites. The lucky ones were nationalized and their owners were paid compensation. The not so lucky ones were "privatized".

Even the mighty Western oil companies have not escaped the power of Africa's political elites. Every now and then they are compelled to make huge payments to foreign private bank accounts of heads of state – and their families and friends – of oil producing countries. The US Senate not long ago uncovered vast sums paid by oil companies to the private bank accounts of Equatorial Guinea's head of state in Washington DC. By some estimates the private wealth of Angola's president tops the US$6-billion mark.

The result of the massive onslaught against Africa's private sector is predictable. In a recent report, the UN Industrial Development Organisation says that sub-Saharan Africa has in fact de-industrialized over the last three decades, thanks to a widening productivity gap between agriculture and manufacturing and between manufacturing and economy-wide productivity.

Africa also loses more than 20,000 graduates annually who emigrate out of the continent, according to the World Bank.

The New Partnership for Africa's Development (NEPAD) was set up to combat Africa's decline. While it may address some of the worse excesses of the political elites, it fails to tackle the fundamental malaise, that is, the enormous power imbalance between the political elite and key private sector producers.

If the reason for Africa's underdevelopment is the powerlessness of producers and their inability to control their own assets and savings, it should be self-evident that until this problem is solved, there will be no development. It is the powerlessness of the private sector in relation to the predatory states that accounts for capital flight, skills flight, as well as for Africa's foreign direct investment famine.

Conclusion

For Africa to develop, it needs a new type of democracy – one that will empower private sector producers, not just the political elites. First, the peasants must become the real owners of their primary asset, land. This is the only way towards the environmental improvement, as opposed to the current trend of rampant deforestation and desertification. To do this, freehold must be introduced and the so-called communal land tenure system, that in reality is state land ownership, must be abolished.

Secondly, peasant producers must gain direct access to world markets without the political elites acting as the go-between through state-owned corporations. This means that internationally traded cash crops – such as coffee, tea, cotton, sugar, cocoa and rubber – must be auctioned by the producers themselves rather than being sold first to state controlled marketing boards. This is already the case with tobacco in Zimbabwe; coffee and tea in Kenya.

New financial institutions are needed that are independent of the ruling elites, and that will address the financial needs of the rural societies as well as of small and medium-scale producers. These could be cooperatives, credit unions or savings banks. Besides providing financial services these institutions would undertake all the other technical services that are not being provided at present by the political elites such as crop research, extension services, livestock improvement, storage, transportation, distribution and many other services that would contribute to make agriculture in Africa more productive.

This is where foreign donors could play a more constructive role than they do at present, given their current efforts to sustain the political elites and African states with budgetary support and the like. Donors could support these independent institutions by providing the expertise to manage them and to some extent help shield them from predators.

These changes would for the first time herald an African market economy that answers to the needs of Africa's producers and consumers rather than simply to the needs of the ruling elites, who maintain the colonialist vision of Africa as a primary producer for the industrialized world.

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