# African Political Economy

Alex Horne
PS-4180

## Thomson, *Neocolonialism, structural adjustment, and Africa's political economy*

Thomson asks whether African economic sovereignty has been violated since independence and what are the political consequences of external economic forces on African economies. In the first section, the author addresses how underdevelopment continued after independence. Africa was indeed underdeveloped by the time the colonisers formally quitted the continent, but national economies still operated in closed-economies for primary goods and monocrops with artificially depressed prices. Thomson remarks that this history is not destiny, as proven by the rapid industrialisation of Asian economies who were similarly exploited by European colonisation.

Thomson next discusses the debt crisis of the '80s. States borrowed money instead of revenue they didn't have to create infrastructure and social services; for reasons discussed by Resnick and Moss last week, that didn't succeed. Thomson points to three external causes for the debt crisis: the OPEC shocks, the financial rally in the '80s, and declining terms of trade overall. This last point isn't nearly as well understood as it ought to be: why did commodity prices for primary goods decline while Asia shifted from a primary-good producer to industrial workshop of the world? At any rate, mono-commodity economies are always most sensitive to market fluctuations, which frustrated efforts to service sovereign debt. In addition, the oil shocks revealed that African economies were also dependent on single-commodities on the import side. Turning to petrodollars was a rational decision at the time, until the 1979 OPEC shock struck and interest rates climbed again. After decades of exploitation directed by European empires, the invisible hand of finance capitalism continued to drain Africa's produce stochastically rather than intentionally.

Thomson then moves on to the era of lending conditioned on structural readjustment. This was an intentional effort to crack open state-led developmental economies and let international firms call the shots. Loans were conditioned on three principals: first, that development should prioritise agriculture; second, that governments abandon manipulating their money supply to benefit their own economic ends; and third, that public-sector work be more efficient. (Curiously, currency manipulation was tolerated in East Asia, which had less resource endowments....) The first and third point were well-reasoned, since Africa net-imported its food supply and ISI policies served the urban classes at the expense of the peasants. The second point, liquidation of state run enterprises, would be theoretically off-set by cheap manufactured goods available via imports. The inefficiency of bureaucracies and corruption would also be a condition for lending, but in practice these inefficiencies were the minimum-viable political arrangement for a functional government. The lenders didn't care; social services were slashed instead.

The evidence is inconclusive regarding the success of structural adjustment plans; non-compliant countries fared no worse, generally, but there were some successes. Proponents argue that the reforms were still-born or half-hearted, in essence doubling down on crackpot neoliberalism. Pushing export-led growth didn't end the same way as in East Asia: the unequal relationship of Africa to the West endured. Thomson cleverly mentions that, since all of Africa took the leap at the same time, there was no relative advantage to be won; this had not been the case in East Asia, where nations developed like a chain of dominoes. Another key difference is that Foreign Direct Investment arrived in East Asia just as Africa was opening itself to it; the money all went East and not South. Clearly, Structural adjustment rests on consequential presumptions about the future. Moreover, the liberalisation reforms were not reciprocated by the West, and thus the unequal terms-of-trade endured.

Thomson describes the socio-political impact of SAPs next. State-managed enterprises were liquidated, particularly in industries which serve public goods like transportation. Competition, rather than breed innovation, created redundancy and inefficiencies of a new kind. Layoffs and unemployment became widespread. The one area where independence had undeniably succeeded, free public education, was also subjected to the whims of the market, which reduced literacy and harmed the ability of states to create educated workers. Medical staff were laid off and drug prices rose; grain doles for urban poor dried up. The upshot of all this is that SAPs were extremely unpopular politically. With prior knowledge from this course regarding the tenuous legitimacy of many African states at the time, SAPs heightened the stakes of political contestation. In many places, military coups "intervened" to correct the direct threat to the common welfare that the sitting government had invited by consenting to SAP-conditioned loans; other states simply withered away; a few transitioned to multi-party democracy as a reaction to SAP (take that, democratic modernisation theory!). With fewer resources to command, state-power, which had been central to nationalists since independence, was subject to the dictatorship of international capital. Lastly, Thomson returns to the topic of debt-relief and conditionality. There isn't much here which Resnick and Moss hadn't already covered last week. SAPs remain in place in exchange for debt relief rather than debt service. Still, the fact remains that African economic sovereignty is still far out of reach.

Thomson cites Ghana as a case study of structural adjustment gone right. After independence, the Nkrumah regime employed ISI policies to fund urban industrialisation. The cocoa industry became unproductive under heavy-handed state management, and a vicious cycle began by which Ghana was increasingly unable to sustain its preferred economic policy. Despite the economic contraction, the state sought to expand, and patronage networks expanded with it. The 1966 NLC coup dethroned Nkrumah and his one-party state but did little to change economic courses. Ghana suffered more coups and counter-coups inthe '70s before Jerry Rawlings finally assumed control. After briefly continuing the policies of his predecessors, Rawlings adopted the demands of structural readjustment, ending the downward spiral of agricultural non-production. However, Ghana didn't rapidly develop as anticipated, and its agriculture remained export-oriented while Ghana relied on food aid. No transnational corporations moved in as expected. The political consequences for Rawlings were not dire, however: he successfully transitioned to an elected president in the face of mounting demands for change. Still, Ghana's economic future is thoroughly embedded in a global system in which it has little power. It's most promising option is to diversify into petroleum, which is no more a viable long-term plan than its other attempts.

## Moss & Resnick, *The Political Economy of Policy Reform*

After independence, large swaths of African economies were nationalised in order to begin state-led development projects. With limited knowledge of running successful businesses, state-managed firms could only function absent meaningful competition, thus requiring protectionist legal regimes. In agriculture, many African economies were only profitable in a single crop, whose sale would be monopolised by a national export agency. The profits skimmed off the top of exports were invested in misguided or mismanaged infrastructure projects. This situation was not unique to left-aligned socialist countries but common to state capitalist governments as well.

Moss and Resnick list socialism and nationalism as influential in motivating the consolidation of economic power under the state. Furthermore, dependency theory and developmental economics also suggested that national control of the economy would be necessary for a state to modernise and diversify its economy, either from within the global system or by exiting it. Lastly, they mention elite capture as a motivation for economic centralisation, which, though cynical, is the most explicitly political reason listed. In any case, each of the rationales lost salience as the promised prosperity remained elusive.

They write that the conditions of SAPs failed because the cost of defection was too low. They discuss several reasons for the divergent paths of East Asia and Africa in economic development. First, state support for firms in Asia was conditioned on clearly defined expectations, which, if not met, would end the support. Even if Asian politics were quite hierarchical, the patron-client arrangement in Africa was more politically valuable than, say, party support in China. Second, the firms which East Asian governments supported oriented toward *exporting* commodities rather than serving a domestic market with primary goods. In a sense, then, the state's expectations engendered innovation without competition. By comparison, a state-enterprise in Africa could expect protection from political connections if it became inefficient. In a final note on East Asia, they write that perhaps Asia's development is epiphenomenal after all.

Privatisation encountered political opposition from multiple sides. Whereas before, a domestic elite had captured valuable endowments to charge rents, an international elite would now capture them through corrupt deals with the government. In some cases, the newly privatised industry remains a complete monopoly; in others, particularly public services, redundancy reduces the efficient delivery of public goods. Privatisation also entails lay-offs of make-workers, many of whom will feel politically alienated. So-called "shock" doctrines made these reforms a fait accompli before political resistance could be marshalled. How wonderfully democratic. Unlike in the post-Soviet world, African governments had to stagger the implementation on account of lacking state capacity. In practice, privatisation became a political game, where government elites played their economic hands to buy support while liberalising the economy. Moving into the 21st century, this political game continues, and Resnick and Moss argue that both IFIs and governments face major disincentives to reform.

First, they argue that the traditional perception of weak state being preyed upon by international capital is wrong. Governments found it was easy enough to delay, distract, and deceive creditors long enough to secure a further loan; furthermore, government elites faced every disincentive to modify the status quo which put them in their position. On the creditor side, the staff overseeing international loans have a rational preference for ignoring non-compliance, and country experts rarely remained attached to one loan project for a long period of time. As a result, donor teams are judged on dispersals, and they can feel that further aid might justify the already sunk cost. For what it's worth, I'd like to see some evidence to back up these accusations.

The authors contend that the Washington Consensus had mostly succeeded at ending hyperinflation in Africa while still having to account for its mixed record in other areas. Rather than dismiss the entire doctrine, they suggest adding to it, allowing countries room to experiment and planning for the pains caused by liberalisation with unemployment and poverty relief. Lenders and donors now condition loans on prior performance, not planned projects. Loan-seeking governments are no longer asked to implement specific reforms but to implement specific processes for reform, increasing transparency and civil-society input. It's too early to tell if these changes will succeed. The authors finally beg the question: if governments aren't sensitive to civil society's demands, then why would this last condition make any difference?

Moss and Resnick float the idea of industrial policy as a renewed topic of interest in the discourse. Borrowing directly from East Asian experience, this school of thought advises reducing barrier to entry for entrepreneurs into the market, investing in infrastructure and education, and creating special economic zones to incubate industrial activity. Three challenges to this project are evident, arising from the political situation of many African states. First, businesses and governments often enjoy a political relationship, as discussed earlier, which may be hard to break in order to promote true innovation. Second, African bureaucracies must also be competent enough to manage these special zones, which is far from guaranteed. Last, governments must also be willing to admit and learn from the mistakes they inevitably encounter, rather than blame them on foreign interference and bad luck.