

The Anatomy of Modern ‘African Capitalist States’

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Introduction

Africa’s infatuation with socialism appears to have been an inevitable outcome of events surrounding the birth of her independent states in the late 1950’s and 1960’s.² Protracted struggles against imperialism and the horrors of liberation wars ignited such apprehension that the atmosphere for mistrust reigned beyond attainment of self-government. These events raised the stakes for nationalist leaders to prevaricate colonial tactics of divide and rule and the humiliation of postcolonial polarization by adopting a postcolonial design of the state espousing extremist sentiments of national ‘unity’.

As a matter of fact, the post independence destabilization of Angola, Zimbabwe and Mozambique, exemplified the determination of disgruntled remnants of the colonial establishment to indoctrinate tribal minorities to wage war in pursuit of power sharing, while disingenuously serving retributive interests.³ These events and the dangerous ethnic and social cleavages that pervaded the political and social landscapes in most African societies had elevated ‘unity’ to a critical imperative of national integration.

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² Special note is made for Mocambique/Angola and Zimbabwe who attained independence in 1975 and 1980, respectively

³ In Zimbabwe, the Ndebele-Shona balance hung on a pendulum of treachery that it took a subtle clip from colonial instigation to shatter every justification for a nationalist government.

Nationalist leaders therefore embraced superiority of the single party state and bureaucracy as the main ideals of state making for purposes of consolidation. Except for Gambia⁴ and Botswana, which opted for multiparty democracy, the rest of sub-Saharan Africa opted for the one party state and a high degree of nationalist autarky – in the political sense – to the rest of the World.

Given the influence of political ideology on economic choices, the inclinations of government to close the colonial chapter of exploitation awakened a new role in which the state postured itself as a benevolent amalgamation of political and economic authority seeking to provide for the needs of ‘marginalized masses’. Without openly conceding to socialist ideology, African nationalists turned advocates of the Stalinist-Marxist philosophy that the state should determine, inter alia, *"allocation of resources, distribution of income and consumption, levels of saving and investment, and relative prices of goods and services."*

Africa’s socialist expansion started with government policy of seeking comprehensive ownership of the means of production and also acquiring centralized management of the economy. Ghana’s Kwame Nkrumah brought the lucrative cocoa farming under state ownership as well as the Ashanti Gold mine; a model replicated in state ownership of copper mining by Kaunda’s Zambia and state patronage over diamond and copper mining in Congo.

Both Angola and Mocambique adopted pure Marxist government as with Mengistu in Ethiopia, while Banda’s Malawi supported proliferation of state enterprises producing and marketing lucrative tobacco for export. Of the lot, Nyerere took Tanzania to the commanding heights of socialism embracing revolutionary elements of cultural transformation promulgated by Mao Ze Dong, which permeated his country to the village level.

Unknown to their subjects, the early African leaders were also to use the same channels stealthily to capitalize on the synergy of a dominant state business and hysterical one-party politics to tighten their grip on power. Zaire’s Mobutu and Malawi’s Banda personally acquired phenomenal business interests in premium sectors of the economy only rivaled by state enterprises and multinationals in their respective countries.

Given that authoritarianism had been the defining characteristic of the neo-colonial states in Malawi and Congo; the role of the Life President in business resurrected a capitalist cum political and constitutional phenomenon [reminiscent of wealthy royals families in ancient Europe] for which Okoth-Ogendo has coined the term "Imperial Presidency".⁵

It can be discerned, therefore that ideological origins of a dominant state sector intended to build socialism contingently synergized by hysterical one party politics and state bureaucracy for purposes of

⁴ Up until the military coup that revealed fragility of post-independence democratic governance in Africa

⁵ This is because power was personified by the respective Life Presidents who also had authority and prestige over the legislature and courts of law; the representative organs of the people

consolidating political power. A highly restrictive, protectionist and over-regulated environment seems to have been designed to guarantee state enterprise success alongside imperial business interests of political cadres who enjoyed moratoria and waivers in pursuit of 'capitalism of the few', sparingly extended to multinational political allies in a phenomenon commonly recognized as 'crony capitalism'.

Overall, African independence conjured up an image of the internal economic landscape in each country as the playground of immutably sovereign individuals at liberty to choose whatever enterprise they wished to do. The reality, however, evokes a conception of the nationalist state machinery that subjugated the citizens to its inexorably capricious dictates of political economy which served to limit the scope for fissiparous sharing and trading of economic influence inherent in capitalist society. At the same time, the political cum bureaucratic environment aimed to keep the dynamics of a free society subdued while forcing its various tendencies to compete within a single defined political arena.

Public sector expansion

In the 1960's and 70's, most African states used generous flows of foreign aid and gains from favourable export trade towards establishment of state enterprises that ventured into industry, trade, finance, farming and property development. The state undertook more direct ownership, management and direction than provision of incentives to private sectors. Government ministries became vehicles for enterprise ownership while state banks recycled fiscal resources to invest in private enterprise at the expense of investment in health and education.

Nationalist governments also allowed a reincarnation of colonial exploitation, by using its ownership of agricultural marketing boards to extract surpluses from poor farmers for re-investment in industry and commerce via state owned investment agencies. The Ghana Cocoa board is reported to have paid the farmers only 35% of the international price. Small enterprises involved in emerald mining in Zambia received \$5 per ounce from the monopsony buyer Lonrho that exported them at \$35.

In Malawi maize farmers received 10 cents for a kilo of maize sold at 24 cents to urban consumers and worth more than \$1 on the export market. Mozambique also adopted similar taxation of poor cashew nut farmers.

The state also proffered industrial exclusion by making industrial licensing a precondition to commencement of any business, giving existing operators the right to veto applications from new entrants. As a result of its state involvement in business its own organs were awkwardly positioned as both competitors as well as regulators of private enterprise. As a result of further control over banks, development banks and mortgage finance sources, and the authority to approve foreign exchange, the government literally controlled the flow of funds to enterprises.

These developments have had adverse implications to the conduct of fiscal and monetary policy. The fact that the state financial oligarchy allowed government to direct credit from banks to state enterprises or

preferred enterprises, literally marginalized pure private sector access to finance. The fact that bank provision of credit to non-performing enterprises relied on the generosity of the state to refinance them when such funding turned into bad loans, means that fiscal policy was fused with monetary policy.

In effect, the state exercised fiscal policy via the monetary institutions. The governments caused major failures in allocative efficiency of the financial system by suppressing interest rates to reduce the burden of the internal public debt and loans to state enterprises.

Africa's Boom Busts

This apparent public sector driven buoyancy was sharply interrupted by collapse of export prices of African commodities in the late seventies, which undermined the ability of African governments to support their expanded public sector. The Organization of the Petroleum Exporting Countries (OPEC) quadrupled the price of crude oil in 1973-1974, and further increased petroleum prices in 1979 and in 1980, resulting in a worldwide energy crisis.

Apart from transforming the pattern of international flow of funds⁶ inflationary pressures prompted contractionary monetary policy in the form of increases in interest rates the recessionary effects of which weakened demand for developing country exports. This resulted in price deflation estimated at between 34% and 42% for all African exports in 1978 alone.

Primarily, these measures worsened the balance of payments deficits for many of the African countries because in addition to high cost of oil, higher interest rates on loans worsened the factor services component of the Balance of Payments. Inevitable reduction in imports of industrial countries from Africa also undermined foreign exchange earning capacities, thus raising demand for external borrowing to service maturing debt.

Paramount to these developments was a drop in fiscal revenue, as buoyancy of domestic demand [a proxy for fiscal revenue earning capacity] had depended entirely on receipts from the exports markets. The downturn coincided with major reductions in external aid as the international development assistance budget gave way to domestic priorities in education, health, and transport. The most defining characteristic of international relations during this period was the fact that Margaret Thatcher, President Mitterand and Ronald Reagan had ascended to power in the UK, France and USA with firm beliefs in revitalisation of their domestic economies and the end of communism.

Weak demand on foreign markets brought expansion in Africa's primary sectors of agriculture, mining, fisheries and forestry to a halt while industries processing agricultural exports and import substitution

followed suit. Similarly, service sectors experienced retarded growth plunging most of Africa into a crisis. The 1980's saw inflation rising while per capita GDP plummeted, driving much of the African population into unemployment and below the threshold of poverty. Currencies also showed signs of fatigue as a result of declining reserves. Overall confidence diminished as major economic parameters registered negative growth rates.

Key among the maladies of African economies was the fact that the public sector entered a period of serious imbalance with soaring deficits. Another defining development was the end of communism in the late 1980's and subsequent decline in levels of aid as a result of rising demand for assistance to independent states in Eastern Europe. Soaring budget deficits in response to endogenous and exogenous economic contraction and declining aid exemplify Africa's worsening aggregate resource position. The very fact that state enterprises maintained unmitigated dominance exacerbated pressures on the fiscal budget, claiming more resources to cover widening losses.

Since early 1980's African governments have resisted reforms aimed at making state enterprises more independent, market orientated, efficient and competitive. Such gospel was perceived as a means of wresting their political control over the economy. Pressures of multiparty politics elsewhere in Africa seeking regime change, of which the dethronement of omnipotent Gorbachev in Russia and similar developments in Yugoslavia provided indisputable testimony, which heightened resistance to reform.

Intransigence of African governments persisted towards the 1990's despite pressure from further oil price inflation, the influx of refugees from Mozambique, Angola, Namibia, Southern Sudan and Liberia and drought in many parts of the continent. Most governments resorted to higher levels of deficit monetisation and fiscal reallocations; giving priority to state enterprise subvention, which became manifested in reduced public investment, surging inflation and stagnation in per capita GDP.

International aid reductions under structural adjustment remain the final straw that broke the back of the African camel. Reluctantly, some African states agreed to address the drainage of public resources by ending state enterprise dependence on the fiscal budget. However, in the absence of progress on liberalization of the financial sector, this strategy saw a mere redirection of the financial hemorrhage from the fiscal budget to the banking sector. In most African states, this is reflected in the rising share of bank credit consumed by state enterprises.

Under auspices of the IMF and World Bank African governments were further pressurized to relinquish control over banks, liberalize interest rates, foreign exchange markets and abolish the system of directed credit. In essence the programs sought an end to restrictive industrial, trade and financial policies that

⁶ The OPEC countries' monetary reserves accumulated rapidly, but oil-importing countries experienced severe balance of payments problems.

altogether depressed savings, hindered private investments and encouraged capital flight. Africa had to overcome public sector inefficiencies that resulted in high public deficits, increased foreign borrowing with implications for crowding out the private sector and debt service and balance of payments problems.

Ending state Paternalism

The end of communism in Eastern Europe had the effect of heightening African of how the continent had positioned itself in such a way that emphasized its own vulnerability to economic meltdown. Large public sectors and intrusive government showed that the African experience of state making had been about moving states from colonial conflict and chaos to nationalist exploitation. Large public sector had achieved consolidation of political space more than the presumed economic benevolence. The single party system and the stifling bureaucracy had emerged as instruments for perpetuation in power ambitions of a particular clique.

African is now increasingly becoming a landscape of reforming states embracing an economic agenda based on the premise that privatization requires an end to distrustful politics that aroused tenacious bureaucratic resistance under the one party state. By advancing political freedoms of expressions, an end to human rights abuses and also free enterprises the atmosphere for distrust is slowly dissipating at the onset of African New Democratic Capitalist states. The philosophy of government is shifting from obstructive regulation to demonstration of authority and political will to incentivize free enterprise.

'African Capitalist States' are gradually advancing the view of Adam Smith that the state is *"a spectator that steps in to correct the actions of the private sector when it commits errors of commission or omission"*. The new beliefs about reduced size and role of the public sector epitomize the contrast between the African old and the African new on the same scale as the death of communism allowed economic democracy to thrive over the demise of state hegemony.

Most importantly change of governments is allowing new governments to aggressively dismantle policies of old governments. In Malawi, the new government has moved swiftly to privatize dairy plants that had interfered with the factor markets as well as the functioning of the dairy industry. The previous government had invested \$49m in three Dairy plants to subsidize quality milk consumption in urban areas by selling at such low prices that could only be sustained by underpaying dairy farmers who had gradually abandoned dairy farming as a very crucial off farm activity. The resulting low inputs availability trapped the dairy plants within capacity utilization levels below break-even volumes and government had to cover the losses at over \$55million.

In Tanzania as well, the new government of Benjamin Mkapa has brought an end to socialism lifting the lid on state controlled rents and liberalizing entry into the housing production sector thus leading to proliferation of urban housing schemes. The first nationalist Nyerere government had funded production of subsidized urban housing the continued supply of which would not be sustained without continued

fiscal subvention. At 70% below market rents, subsidized rental revenues were so sub-economic that supplementary resources had to be taken out of essential education and health programs or funded from massive printing of money that caused inflation.

The government of Ali Hassan Mwinyi reigned through a period when housing was cheap enough to encourage rural urban migration, while further production of new houses could not be sustained to meet rising demand let alone keep existing stock in good condition.

However, it is noteworthy that the departure of state control in the dairy industry in Malawi has resulted in the offer of more attractive prices to dairy farmers, the same way as liberalization of rents is offering higher incomes among housing companies in Tanzania. The significance of this transformation in Malawi is very important because a large majority of the dairy farmers are generally poor people who have gradually released their land for food production as dairy farming is increasingly becoming significant as a source of income. Similarly in Tanzania, the labour intensive nature of housing reproduction has raised prospects for employment of unskilled labour as well as the supply of building materials.

Market liberalization has also led to a flourishing Tanzanian housing sector as in the Malawi dairy sector as many new players entered the industry to offer competitive prices. New dairies offer better prices to farmers making them better off. Although consumer prices had to escalate the same way rentals did in Tanzania, reflecting a pass-through of price decontrol competition in the industry has led to price stabilization. Among dairies in Malawi this involved diversification into high value products like yogurts, ice creams, etc to sustain profitability. In Tanzania, too a lot of innovation in housing supply has brought prices down. Further investment in the respective industries in the two countries is also creating further employment.

In Malawi, the state has reverted to animal husbandry training and micro-lending to build animal stock while the Tanzanian government has taken up a new role of developing land and improving utilities and provision of incentives for private sector led housing boom at market prices. In the context of political change, the departure of the state from involvement in activities with capacity for entrepreneurship to allow private involvement to develop in the same areas, while government merely provides incentives underscores the concept of the anatomy of Africa's new capitalist states pursued in this paper.

Market Reforms

Since the most direct form of government intervention in the economy is fiscal policy, newfound African democracies are moving with speed to reoriented budget policy towards irreversible cuts in the level of spending, and changes in composition in favor pro-poor spending. Direct subvention is diminishing with progress in privatization while implicit expenditures, in the form of concessions to state enterprises are also being eliminated via commercialization.

Most African states are now moving towards market liberalization to eliminate price distortions caused by under pricing of farm output in an effort to subsidize urban consumers. Unrealistically low interest rates that provided cheap credit to the public sector have been replaced by market-determined rates that aim to allocate capital in accordance with the marginal efficiency. Prudential rules are also in place to limit concentrated borrowing by enterprises endowed with enormous collateral, a legacy of politics of primitive accumulation.

The end of directed credit is also making more financial resources accessible to the private sector. In response to elimination of policies that had constrained free and fair competition in the banking sectors, there is increased and diversified development of financial institutions. Potential gains point towards more financial deepening and competitive lending.

Exchange rate liberalization has also eliminated implicit subsidies on imports that encouraged inward looking industry. Realigned currencies are encouraging development of domestic resource based industries targeting the export market. Having raised the domestic opportunity cost of importation, realignment of currency based on market value is contributing to the decline in net growth in external debt. The problem of capital flight is practically disappearing in a large number of African States.

The new 'African Capitalist States' are also dismantling protective discriminatory tariffs that amounted to piggy backing of inefficient enterprise. Trade liberalization is ending the captivity of domestic markets, thus giving choice to the consumer and the benefit of price competition. Industrial liberalization has also archived requirement for industrial licensing for new entrants.

The new 'African Capitalist State' is having public expenditure choices defined with a growth-orientation, focusing on its contribution to national savings, expenditure on infrastructure, incentives to invest and cleaning up of the remaining public debt between enterprises and banks. In some African countries public expenditure choices are becoming more market-orientated, undertaken like private investment with cost-benefit analyses done prior to investment. An increasing share of expenditure is also being devoted to health and education.

The changes in Africa have drawn the attention of authorities worldwide. The President of the World Bank James Wolfensohn reported in his 1997 address to the Board of Governors that there was progress in Sub-Saharan Africa, citing the role of new leadership and the new economic regimes. The Managing Director of the International Monetary Fund had also noted in 1996 that Africa, for which so many seem to have lost hope, appeared to be undergoing some resuscitation. The two Vice Presidents for Africa at the World Bank, Callisto Madavo and Jean-Louis Sarbib, have expressed similar sentiments.

Hegemony

Despite all the energies directed at economic reform, the African Capitalist States are facing large difficulties associated with downsizing of government. The end of subsidization of enterprises means that

disguised unemployment is manifesting itself into widespread joblessness. The government is continually challenged as political activists and interest groups fiercely oppose many of these measures. The alternative of reversing these measures means that budget deficits re-emerge and government remains in the vicious circle of stabilizing the economy in the face of declining foreign aid resources.

Tax systems have also failed as African economies embarked on the transition to market-orientation. The resulting fiscal deficits are startling, as the ability of these governments to cut spending by similar proportions is limited by demands of the development program. The revenue collapse owes to incompatibility of the old taxation system with a market-based economy.

Previously the state had to extract taxes from enterprises over which they had great control. However, privatization means that the state was faced now with millions of individuals and privately owned enterprises. The liberalization of prices and wages to market-determined levels also means that the state is no longer be firmly in control of the tax base.

High inflation accompanying liberalization is also undermining profits of enterprises, hence less taxable income. Since the onset of market reforms the private sector has also become larger and difficult to tax. Financial reforms also mean that the state had to sell off corporate control of the banking sector to private interests. It is therefore becoming cumbersome to levy withholding taxes without requisite information.

There is need for tax reform in Africa. Some of it is underway, especially new tax system like value-added tax and personal income tax changes. However, these cannot be just introduced overnight while the donor community fails to support transitional arrangements to ensure that effects on the fiscal deficit are minimized.

There is also rising disagreement over the policies of the IMF. The African Capitalist States are being asked to reduce expenditures sufficiently so that budgetary surpluses should allow the state to mobilize savings in the private sector, provide resources for privatization and allow the banking sector to foster private investment. However, the reality is that private sector institutions are weakened by high rates of interest occasioned by inadequate donor funding. At this stage of the transition, it is often up to the state to prop the economy so that there is initial buoyancy from which it is hoped that private enterprise may flourish.

The implications of IMF policies in Africa are that stabilization spells disaster for the needed fiscal stimulus. This combines with terms of trade deterioration to constrain demand and result in economic depression. In some countries, current account deficits are re-emerging with severe hyperinflationary implications. Combined with high interest rates, this is hindering investment.

The 'African Capitalist State'

The reality is that the post-independence African State has conceded to the systematic disintegration of all its utopian promises. However, 'Africa's Capitalist State' is better equipped to undertake modernization of society, more rational management of economic forces and also defend the classical liberal tradition of individualism, free markets and limited government.

The doctrine of the 'African Capitalist State' emphasizes economic liberalism underpinned by progress in privatization, state enterprise restructuring and downscaling of public expenditure along the transition to a market economy. The 'African Capitalist State' represents integration of rural agricultural sectors into the mainstream of the cash market economy.

The traditional negative discrimination against poor farmers and miners is disappearing while industrial liberalization is developing a new competitive culture in business. Liberal trade policies also continually integrate Africa to the world economy while community projects are being decided, designed and implemented by the poor themselves.

However, interruptions to the flow of aid continue to undermine progress to the reform process. Africa's development program includes non-reschedulable fiscal demands that force government into deficit monetisation, thus resuscitating fiscal-monetary links that elude economic stability. The unmitigated enthusiasm of the World Bank and IMF in pushing for reform without fully addressing resource deficiencies is therefore hurting these economies.

The 'African Capitalist State' could materialize if the IMF and World Bank emphasize on resolve, credibility, and certainty of the reform process and avoid backslides caused by macro instability. The IMF and World Bank should exercise patience to allow reasonable time for adjustment, while shaping business expectations and providing resources to minimize the costs of transition for the firms and people affected. In this way, the donors will be allowing aid to evolve from being a 'quid pro quo' against specific policy actions to become a reinforcing agent or as a means of reducing the cost of reforms.

Theoretical implications

The observations regarding Africa's past resurrect stipulations of the Public Choice theory that "...governments can do nothing right because politicians, bureaucrats, businessmen and citizens act solely from a self-interested perspective using power and lobby to procure the authority of government for their own selfish ends".

The past of state resistance to reform also typifies the contention of "Nelson's Third Law," that 'the worse a government regulation [or practice] is, the harder it is to get rid of it' because there are other persons and entities deriving benefit and therefore willing to defend it

In a retrospective revisionist interpretation, these observations suggest that the belief in trickle-down public economics in Africa is, in fact, in serious error in relation to the impact of economic theory on economic strategy exemplified by public sector expansion. In place of 'the power of (economic) theory' the findings in this paper suggest a 'theory of economic power' as the rationale for proliferation of state enterprises.

Two further extensions emerge within the context of the theory of economic power; the first is that government use of public resources and direction of bank lending to preferred enterprises resurrects stipulations of the Financial Oligarchy Theory (FOT). Although FOT is fashioned along the lines of financial patrimony of developed states over poor countries, its basic reasoning [that domination of capital is key to gaining economic control] evokes great similarity with state domination of financial capital as exemplified in Africa's domestic setting.

The second extension is that the presence of 'Administrative oligarchy' can also be discerned in the African setting. This is in relation to the propensity for the state to capitalise on bureaucratic controls within its legitimate regulatory powers, but to safeguard business interests of the state against pure competition from the private sector.

Available evidence also suggests ideological origins of public sector expansion intended to build socialism in Africa contingently synergized by hysterical one party politics and state bureaucracy for purposes of consolidating political power. Protectionism and over-regulation are designed to guarantee state enterprise success alongside an imperial business community of political cadres who enjoy waivers in pursuit of 'capitalism of the few', sparingly extended to political allies in a phenomenon commonly recognized as 'crony capitalism'.

This arises from the fact that authoritarianism had been the defining characteristic of the neo-colonial African states where the role of political leaders in business introduces a capitalist cum political and constitutional phenomenon for which Okoth-Ogendo has coined the term "Imperial Presidency".⁷ In authoritarian Africa power was personified by Heads of state who had authority and prestige over the legislature and courts of law; the representative organs of the people.

The conditions observed in Africa's past are consistent with 'state hegemony' a subtle form of economic tyranny that enables the state to present its own interests as universal while marginalizing those sectors of society that offer competition. Africa's state hegemony was legitimized by subsidies, artificially low product prices, low interest rates, and over-valued exchange rates, but at the cost of large budget deficits, high level of seignorage, high inflation, rapid accumulation of domestic and external debt, weak factor markets, crowding out of credit and macro instabilities that undermine private enterprise.

⁷ Okoth-Ogendo, 1991

Overall, the arguments outlined in this paper evoke the power of Gramsci's theory of hegemony born from the basic idea that the state cannot enforce control unless by stealth or other, more intellectual or capricious methods the cost of which is born by society itself. These costs are manifested in Africa as a debt overhang and high debt services payments, as a result of borrowing contracted to meet demands of a large public sector. The costs are also manifested in the form of a very low capital transfer value on privatization and underdeveloped domestic capital markets that make privatization synonymous with foreignization.