Entrenching Economic Freedom in Africa

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In the 1950s and 1960s, many Africans believed that independence would change prospects for rapid economic growth and development. First, independence implied the end of colonialism and its despotic, exploitative, and repressive institutions. Second, with the Europeans gone, Africans could now engage in democratic (people-driven, participatory, and inclusive) constitution-making to provide themselves with dispensations that reflected their customs, realities, beliefs, values, cultures, and aspirations. Third, public policy would be focused on maximizing the objectives of the indigenous peoples. Fourth, the new governments, now controlled by Africans, would provide the enabling institutional environment for effectively managing ethnic diversity. Fifth, the new post-independence governments were expected to deal with historical injustices and provide all individuals, groups, and communities with the wherewithal to participate fully and effectively in economic growth and development. Finally, the new governments were expected to restructure property rights, especially in environmental resources, and achieve equity in allocation and sustainability in exploitation.

The general belief was that the new leaders would be able to restructure the critical domains, especially property rights, and produce new and more effective incentive structures. Given the extremely high levels of poverty in these countries, it was critical that the new governments provide incentive structures that encouraged indigenous entrepreneurship, as well as institutions that adequately constrained civil servants and politicians from engaging in inefficient redistributions of income and wealth.

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Failure of the Post-Colonial State

At independence, most African countries opted for statism, a development model that emphasized government control of resource allocation, minimized the functions of the market, and granted the state significant power to intervene in private exchange, as well as to own and control productive resources. Eventually, the state came to dominate the economies of most African countries.

Several reasons have been advanced to explain the choice of statism in post-independence Africa. First, many Africans considered the state as the most important actor in the war against mass poverty and deprivation, and were willing to grant it significant power to intervene in private exchange so it could aggressively confront poverty. Second, many indigenous elites of the time believed that the state was the only institution capable of reconstructing and rehabilitating societies and communities that had been devastated by colonial exploitation. Third, the state, now controlled and dominated by indigenous elites, was considered the only entity with the capacity to hold together competing ethnic and nationality groups and provide the enabling environment for national integration, peaceful coexistence, and sustainable development. Fourth, development economists of the time argued that the state was the only institution capable of successfully organizing the large, highly expensive, risky, and complex development projects needed to meet rising public obligations and deal with poverty, as well as provide employment opportunities for a restless population and enhance the ability of these emerging economies to participate competitively and gainfully in the post-World War II global economy. Fifth, the general ethos of the period favored expansion of the welfare state and public management of the economy. Sixth, many of the continent's new leaders had been educated in Europe, where social engineering and economic planning were popular ideas (see Krueger 1992, Decalo 1992).

During the early years of independence, the economic projects that were expected to generate the wealth to fight poverty, as well as to provide the masses with employment opportunities, were considered too risky and complex for what was essentially a highly underdeveloped and unsophisticated private sector. The new state was expected either to undertake these projects directly or provide large subsidies so that the private sector could organize them profitably. In most of the continent, the new governments chose to directly organize these projects (World Bank 1997). Several African leaders of the time (e.g., Julius Nyerere of Tanzania, Kwame Nkrumah of Ghana, Sékou Touré of Guinea, and Ahmadou Ahidjo of Cameroon) argued that the rapid generation of the wealth that was needed to engage in an aggressive war against poverty and deal with other societal problems—such as illiteracy, infant mortality, pervasive unemployment (especially among the youth), malnutrition, and food insecurity—required a more activist role for the state (Krueger 1992). As part of its activist role, the state was also expected to use its regulatory powers to redistribute income and wealth in an effort to eliminate existing inequalities and inequities in the distribution of resources. The accompanying politicization of resource allocation was to have a significantly negative impact on economic growth and poverty alleviation, as well as political development, in the African countries.

As the evidence from more than 50 years of statism has shown, this approach to development has failed to meet the expectations of Africans. What it has done is to enhance the ability of politicians and civil servants to turn governance structures into instruments of plunder to enrich themselves at the expense of society. More important was the fact that, throughout most of the continent, statism enhanced the ability of urban-based groups to plunder the rural agricultural sectors, further destroying any prospects for development in these already overexploited and impoverished regions of the country.

The next important issue that the African countries had to deal with at independence was the choice of a political system. Arguing that effective management of ethnic diversity required unitary political systems with strong central governments, many of the new leaders opted for the one-party political system. They convinced their countrymen that the rapid economic growth that each new country required could only be successfully undertaken within the framework of a single-party political system. At independence or shortly thereafter, then, many African countries adopted single-party political systems with strong central governments, with the former expected to represent "all streams of opinions and societal groups" (Decalo 1992: 10).

Like statism, the one-party political system failed to enhance the ability of Africa's post-independence governments to manage ethnic diversity effectively and deal with poverty and other critical societal problems. Instead, it stunted political development and enhanced the ability of state custodians to engage in opportunism and enrich themselves through extra-legal means. The results were increased levels of poverty, destructive ethnic mobilization, and the inability of these economies to create the wealth that they needed to meet their needs and deal effectively with societal problems.

As Africans begin life in the new millennium, poverty and ethnic-induced political violence have become pervasive throughout the region and threaten to derail any efforts at building viable and sustainable governance systems. The one-party political system was used effectively by the incumbent government to suffocate civil society and monopolize all aspects of governance. Moreover, massive state control of economic activities enhanced the ability of state custodians to engage in nepotism, corruption, and rent seeking. Government intervention in private exchange also stunted indigenous entrepreneurship, discouraged wealth creation, and significantly impoverished the masses.

State-led development in post-colonial Africa significantly increased employment in the public sector, creating a highly inefficient, parasitic, and bloated bureaucracy. African leaders created a large number of state-owned enterprises (SOEs) to undertake many of the highly complex and risky industrial projects that could not be organized profitably by the private sector. The SOEs, however, generated huge losses and maintained their viability only through large infusions of cash from the government. As a result, SOEs became a significant drain on the public budget. By the mid-1980s, the level of state subsidization of the parastatal sector in many African countries had become unsustainable (van de Walle 1994).

Many African leaders turned their public offices into instruments for personal gain. Corruption and rent seeking became endemic. The SOEs, far from serving as instruments of economic and social transformation, became avenues for patronage, helping incumbent rulers transfer resources to competing elites and others capable of destabilizing the regime.

Excessive emphasis on the state sector resulted in a total neglect of the private sector. Not only did post-colonial African governments ignore the private sector as they searched for ways to support inefficient SOEs, they also undertook policies that significantly increased the costs of operating in the private sector and thereby forced many enterprises to enter the underground economy or informal sector. The subsequent reduction in national tax bases resulted in major shortfalls in public revenues, forcing many of these countries to seek official development assistance from the World Bank and other multilateral agencies.

What Has Caused Underdevelopment in Africa?

In recent years, researchers have renewed their interest in the study of why Africa failed to develop. Most of that research has blamed the lack of progress on military intervention in national politics; political violence, including destructive mobilization by ethnic and nationality groups for increased participation in political and economic markets; dependence on the industrial market economies of the West for trade, development grants, food and military aid, and loans; corruption, rent seeking, and other forms of opportunism; excessive population growth; natural disasters; and excessive exploitation of the continent's environmental resources (World Bank 1981, OAU 1981).

In addition, some analysts have blamed Africa's failure to develop on policy mistakes made by well-meaning but poorly educated, incompetent, ill-informed policymakers. During the 1970s, for example, there were calls made by social scientists working on the continent for more competent, better educated and trained, honest and disciplined individuals to be brought into the bureaucracies of the African countries, as a way to minimize corruption, improve civil service efficiency, and pave the way for more productive use of each nation's resource endowments. Yet, by the mid-1980s, over two-thirds of African countries, most of them located in sub-Saharan Africa, were no longer able to meet rising public obligations, including providing for the basic needs of their populations.

Given Africa's huge endowments of natural and human resources, it has the potential to produce enough wealth to meet the needs of its peoples. In order for such potential to translate into high levels of economic development, however, each country must provide itself with an institutional environment that encourages entrepreneurship and wealth creation, significantly improves the peaceful coexistence of population groups, and adequately constrains the state so that its custodians cannot engage in corruption, rent seeking, and other forms of opportunism.

Recent research into the causes of poverty in Africa (Brett 1995, Mbaku 1997) has determined that many of the so-called policy mistakes were deliberate—opportunistic rulers, who were often well educated, chose to use the power of the state to enrich themselves. The real problem is not lack of resources, ignorance, or incompetence, but rather weak institutions and perverse incentives. What Africa needs is economic freedom and limited government if it is to realize its full potential, not simply more resources.

Institutions and Development

According to Mancur Olson (1996: 22), poor countries have failed to realize "many of the largest gains from specialization and trade" because they lack "the institutions that enforce contracts impartially, and so they lose most of the gains from those transactions." In sub-Saharan Africa, most countries do not have the institutions that can guarantee the long-term security of property rights. Consequently, they have not been able to develop into mature market economies.

In Africa's rural markets, vegetable farmers take their produce to small markets in which prospective buyers can examine the merchandise carefully to determine its quality before a purchase is effected. In such a transaction, the farmer has the opportunity to communicate directly with prospective buyers and provide them with the information that they need to make a decision. Such a village market is underdeveloped, poorly integrated, and incapable of allowing for trade involving differentiated and more sophisticated products. The development of larger markets, however, has been hampered by the existence of substantial barriers to entry. When government officials are not subject to the rule of law, as in many African countries, it is very difficult to develop and sustain integrative markets, the kinds that can promote and enhance entrepreneurship, maximize wealth creation, and allow the country to achieve full employment.

Care must be taken to make sure that institutions designed for a country do not provide local markets with perverse incentives—those that encourage and facilitate behaviors that discourage wealth creation and harm the national welfare. As appropriately stated by the World Bank (2002: 6), "Effective institutions are those that are incentive-compatible." Formal, as well as informal rules should function together to advance the interests of society. The most effective formal institutions are those that complement informal structures and provide the people with a well-integrated system of incentives for trade and exchange.

Institutions serve three very important functions. First, they provide traders with information about other traders, significantly enhancing their ability to anticipate the behavior of others engaged in similar activities. Second, institutions define and enforce property rights, as well as contracts. Unless property rights within an economy are well defined and enforced, entrepreneurs are not likely to invest in productive activities. Third, institutions can raise the level of competition in markets and significantly improve resource allocation. In competitive markets, resources flow to those uses deemed most valuable by consumers, not politicians. In other words, the profitability of firms is determined by consumers' "votes" in the marketplace, not by corruption and rent seeking. The fact that Africa and other underdeveloped countries must recognize is that free-market competition enhances innovation, development of new knowledge, and economic growth.

Economic Freedom and Africa's Participation in the Global Economy

The quality of a country's institutions has a significant impact on its ability to (1) ensure peaceful coexistence of its diverse population groups; (2) maximize wealth creation; (3) minimize corruption, rent seeking, and other opportunistic behaviors; and (4) cultivate entrepreneurship among its citizens. Economic freedom is one of the most important aspects of the quality of a country's institutions. In countries or societies in which economic freedom is guaranteed and protected by law, citizens can freely engage in exchange and contracting; government regulations do not unnecessarily impede the engagement of entrepreneurs in productive activities; the activities of the public sector actually complement those of the private sector and enhance the ability of the latter to create wealth; the person and property of the individual are well protected by the state; traders are provided incentive structures that encourage engagement in productive activities; property rights are well specified and enforced; and state custodians are unable to successfully engage in corruption, rent seeking, and other opportunistic activities. In general, economic freedom enhances the efficient allocation of resources, maximizes wealth creation, and contributes significantly and positively to the elimination of poverty (Gwartney and Holcombe 1999).

The central elements of economic freedom are "personal choice, freedom of exchange, and protection of private property" (Gwartney and Lawson 1997: 2). If economic freedom is constitutionally guaranteed and protected, individuals are more able to make private choices regarding which goods and services to consume, which economic activities to engage in, and how to use their resources, including their time. Traders usually discover that cooperation can significantly increase the benefits that accrue to them from certain exchanges and, therefore, are more willing to cooperate with other market participants. Where economic freedom exists, individuals can freely engage in trade, with market prices serving to coordinate voluntary and mutually beneficial exchange.

One way to determine the extent to which economic freedom is guaranteed in a country is to see whether the state or the market dominates resource allocation decisions. In countries where economic freedom exists and is protected by the law, there is greater reliance on the market for the allocation of resources, the government provides effective protection of persons and property, and market participants are provided with sound money and other institutions that facilitate exchange. In carrying out those functions, it is assumed that the state does not (1) become the source of violence and brutality directed at citizens; (2) seize private property without adequate, full, and fair compensation; (3) pass laws that interfere with or restrict voluntary and mutually beneficial exchange; and (4) engage in regulatory activities that place certain individuals, groups, and communities at a competitive disadvantage (e.g., usury laws that force banks to lend money to certain traders at artificially low interest rates). Thus, in performing its constitutionally mandated functions, the state should not violate the economic freedoms of citizens (Gwartney, Lawson, and Block 1996; Gwartney and Lawson 1997).

During most of the last 50 years in many African countries, regulations such as price controls on agricultural products, interest rate ceilings, foreign exchange controls, and licensing have enriched special interest groups while perpetuating poverty. If African countries are to increase their economic performance, participate fully and effectively in the global economy, and decrease ethnic violence, they must constitutionally entrench economic freedom.

Constitutionally Entrenching Economic Freedom

Through democratic constitution-making, citizens of each African country can design and adopt a development-oriented constitution that guarantees economic freedom, enhances the ability of individuals to create wealth, and limits the power of government officials to engage in opportunistic behavior. Such a constitution, in order to protect private property rights, should provide for (1) *monetary stability* to safeguard the value of money, (2) *capital freedom* to allow citizens to own bank accounts in foreign currencies,[1] (3) *fiscal responsibility* to limit the borrowing, spending, and taxing powers of government, and (4) *freedom of contract* to allow both domestic and foreign trade—that is, to allow individuals the right to enter into mutually beneficial exchanges, provided fundamental rights are respected. Price controls and economic regulations designed to restrict entry or confer privilege would be prohibited.

Conclusion

If African countries are to deal effectively with poverty and significantly improve living standards, they must create institutions that protect property rights and allow individuals the freedom to engage in mutually

[1]During the last two decades, liberalization of the foreign exchange market in Kenya, Ghana, and Nigeria has led to the creation of private foreign exchange bureaus and has broken the central bank's monopoly on the purchase and sale of foreign exchange, significantly reducing corruption.

beneficial trade. The first step toward building a sustainable economy, therefore, is to adopt a constitution that safeguards economic freedom. One could argue, of course, that a constitution, no matter how good it is, does not guarantee that citizens will actually obey it or consider it a legitimate tool to regulate their sociopolitical interaction. However, if the constitution is developed through a bottom-up, people-driven, inclusive, and participatory process, the chances that the people will claim ownership of the laws and seek to ensure their survival are greatly increased.

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