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B. J. Ndulu

Stephen A. O'Connell
Swarthmore College, soconne1@swarthmore.edu

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Governance and Growth in Sub-Saharan Africa

Benno J. Ndulu and Stephen A. O'Connell

Real income per head in much of sub-Saharan Africa grew rapidly in the 1960s, but faltered following the first OPEC oil price shock in 1973–74, and then stagnated or fell from the late 1970s to the early 1990s. Africa also saw a broad wave of authoritarian rule sweep the continent in the 1960s and early 1970s. Since 1990, however, the African political landscape has experienced significant changes, many in the direction of greater pluralism and democracy. Moreover, where civil strife has been avoided, Africa has seen a broad tendency towards rapid growth for several years after 1995.

This sequence of events suggests that political economy may offer useful perspectives on Africa's growth record over the last several decades. We begin with a summary of Africa's growth patterns and the evolution of African political regimes. We then examine models of authoritarian rule for insights into the conditions under which elites may sacrifice the general interest to extract rents and retain power, or in which leaders may find ways of making growth-enhancing policy politically acceptable. It would be premature to conclude that Africa's political reforms of the 1990s have helped to generate economic progress. However, we do believe that the increase in political pluralism, in combination with greater unity among African aid donors, bodes well for a continuation of Africa's growth recovery.

■ *Benno J. Ndulu is Lead Specialist, World Bank Resident Mission, Dar es Salaam, Tanzania. Stephen A. O'Connell is Professor of Economics, Swarthmore College, Swarthmore, Pennsylvania. Both authors are also Research Associates, Centre for Study of African Economies, University of Oxford, Oxford, United Kingdom.*

The Growth Record

African countries were poor in 1960. They were largely pre-capitalist, at least outside of narrow corridors of development that served a commodity export sector, and the production sector was dominated by peasant agriculture using traditional methods. Most were acutely lacking in human capital. Yet in the move to independence at that time, optimism was widespread. National development plans envisioned rapid growth, fueled by industrial expansion, diversification of exports, modernization of agriculture, and public investment in health and education. Looking back, the legacy has been mainly one of disappointment. In the vast majority of cases, growth had faltered seriously by the early 1980s. Social indicators like literacy rates and life expectancy typically fared better, but even these came under pressure in the economic contractions of the 1980s and early 1990s.

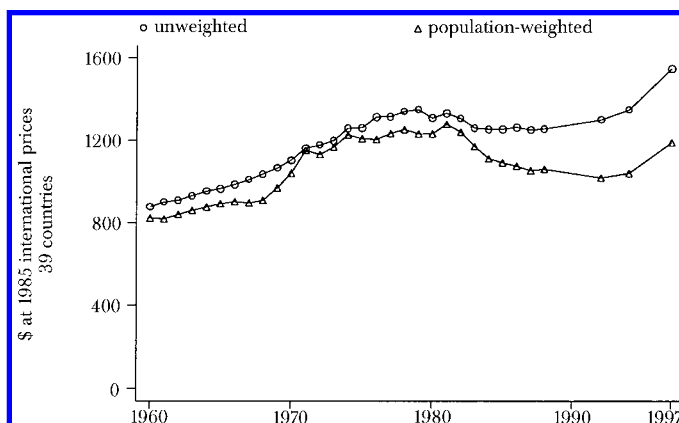
Figure 1 shows the evolution of real GDP per capita for 39 of the 47 countries of sub-Saharan Africa from 1960 to 1997 (these 39 account for over 90 percent of total sub-Saharan GDP). The data are at international prices from 1960 to at least 1988; for most countries, the international price data extend to 1992. We have extended these series to 1997 using IMF data on growth rates of GDP as expressed in constant local currency. The difference between population-weighted and unweighted figures largely reflects the roller-coaster performance of Nigeria, a country accounting for nearly 25 percent of sub-Saharan population.

The underlying data for individual countries follow a few characteristic patterns, as emphasized by Pritchett (1998). Growth is rapid and sustained in a small number of cases, most notably Botswana and Mauritius, and steadily negative in a few others, like Benin, Chad and Madagascar. But the typical pattern—as reflected in the average—is one of initial growth followed by protracted stagnation or decline. The dates at which growth stops or reverses for individual countries cluster between 1972 and 1982. Among the slowest growers, roughly half exhibit reasonably robust growth before entering the period of stagnation or decline; the other half grow at rates below 1.5 percent in both periods and are better described as persistently stagnating.

Figure 2 also shows the smoothed difference between the average annual growth rate in 43 non-African developing countries (mainly in Asia and Latin America) and in the African sample. The average growth differential is 1.5 percentage points per year. The differential approaches zero briefly in the late 1960s and again in the early 1980s, but is strictly positive except at the very end of the sample. Growth decelerated in much of the developing world after 1973, so that Africa's slowdown and outright decline becomes "unusual" in terms of relative growth rates only in the late 1980s and early 1990s. There is evidence of a general turnaround starting in roughly 1994. Indeed, with the slowdown in growth in Asia since 1997, more recent data would almost certainly show Africa outperforming the comparison countries.

In Tables 1 and 2, we decompose the growth in GDP per worker into growth in capital per worker and a productivity residual, for the period from 1960 to 1994.

Figure 1
Real GDP per Capita, Sub-Saharan Africa



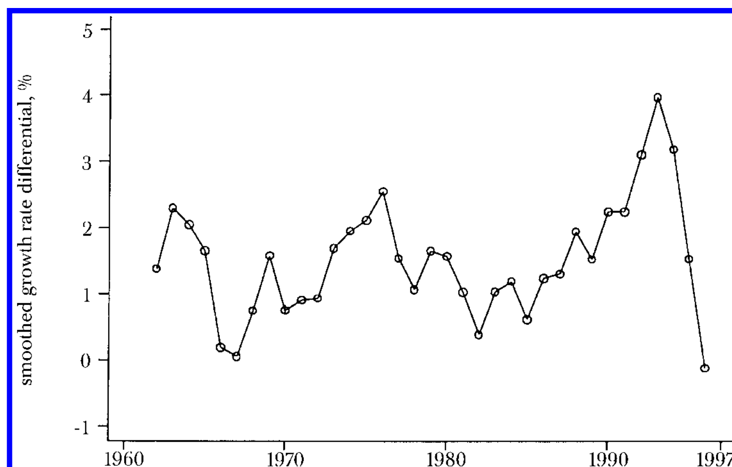
Notes: The population-weighted figure is total GDP in the 39 countries divided by total population, year by year. The unweighted figure is an unweighted average of national per capita incomes. The following countries are included: Angola, Bénin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde Islands, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, and Zimbabwe. Eight countries were excluded due to incomplete data on the post-1988 period: Djibouti, Ethiopia, Equatorial Guinea, Liberia, São Tomé, Sierra Leone, Somalia, and Sudan.
Sources: Penn World Tables version 5.6 for 1960–92, where available; data after 1988 extended using growth rates of real GDP per capita from IMF, *World Economic Outlook,* December 1998 and population data from World Bank, *World Development Indicators 1998.*

Regional aggregates cover 21 of the 39 countries of sub-Saharan Africa represented in Figure 1 (representing roughly 85 percent of sub-Saharan GDP and population), and 45 other developing countries. Table 1 presents unweighted averages of endpoint-to-endpoint growth rates across countries, while Table 2 presents standard deviations. We stress three features of the data.

First, Africa's long-term growth has been very slow relative to that of other developing countries. Over the 34-year period of the sample, the difference is on the order of 2 ½ percentage points per year.[1] This gap is more than sufficient to double the income ratio between a country growing at African rates and one growing at the rate of other developing countries over the 34-year period.[2] Real incomes per person have been diverging even more rapidly, at 3 percentage points

[1] The discrepancy between the 1960–94 growth differential in Table 1 and the average differential in Figure 2 is due to the use of different data series, the inclusion of 1995–97 in Figure 2, the use of endpoint-to-endpoint growth rates in Table 1, and differences in the sample (for example, Table 1 includes Ethiopia, Sierra Leone, and Sudan, three very low-growth African countries that do not appear in Figure 2).
[2] Cross-country growth regressions typically find that roughly 1 percentage point of Africa's annual growth shortfall remains after conditioning on a stable of explanatory variables (Collier and Gunning,

Figure 2
Africa's growth shortfall



Notes: The figure gives the smoothed difference between unweighted average growth rates of real GDP per capita in 43 developing countries outside of sub-Saharan Africa and 39 countries of sub-Saharan Africa. Smoothing is with a three-year centered moving average. The sub-Saharan African countries are listed in the note to Table 1. The comparison group of 43 other developing countries includes 22 from Latin America and the Caribbean (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela), nine from East Asia (China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand), five from South Asia (Bangladesh, India, Myanmar, Pakistan, and Sri Lanka), and seven others (Iran, Israel, Jordan, Papua New Guinea, Saudi Arabia, Syria, and Turkey).
Sources: see Figure 1.

per year, than the growth in GDP per worker shown in Table 1. This is because Africa's economies, alone among the regions of the world, have experienced a falling ratio of labor force to total population over the last few decades, driven by a combination of continued high fertility rates with reductions in infant and child mortality (Bloom and Sachs, 1998).

A second key feature of the data is that while a third of Africa's growth shortfall reflects slower accumulation of physical and human capital than in the other developing countries, fully two-thirds is accounted for by slower growth in the residual, which in a very broad sense is often taken to represent developments in technology.

A third feature of the data, especially apparent from Table 2, is that while the shocks of the 1970s had disparate impacts outside of the region, the African sample shows a tendency to converge on poor performance after 1973. Africa is

1999). Aron (1997) presents a critique of this literature that highlights the identification and joint endogeneity problems.

Table 1
Growth Decompositions: Unweighted Averages

Region and Sub-Period	Growth in Real GDP Per Worker	Contribution of[a]: Physical Capital	Education	Factor Productivity
21 Sub-Saharan African countries[b]				
1960–94	0.39	0.60	0.23	−0.44
1960–73	1.76	1.05	0.18	0.53
1973–94	−0.44	0.33	0.26	−1.02
45 Other developing countries[c]				
1960–94	3.14	1.44	0.33	1.34
1960–73	2.07	1.19	0.39	0.46
1973–94	1.65	1.45	0.49	−0.30

Notes:
[a] The production function is assumed to be Cobb-Douglas in physical capital and effective labor, where effective labor is the product of education per worker and total employment. Capital's share is assumed to be 0.35. See Collins and Bosworth (1996).
[b] Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Malawi, Mali, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, Senegal, Sierra Leone, Sudan, Tanzania, Uganda, Zaire, Zambia, and Zimbabwe. Of these, Ethiopia, Sierra Leone, and Sudan do not appear in Figures 1 and 2.
[c] This group includes eight countries from East Asia (China, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand), five from South Asia (Bangladesh, India, Myanmar, Pakistan, and Sri Lanka), 22 from Latin America and the Caribbean (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Guyana, Honduras, El Salvador, Haiti, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela), and ten others (Algeria, Cyprus, Egypt, Iran, Israel, Jordan, Malta, Morocco, Tunisia, and Turkey).
Source: Authors' calculations using data from Collins and Bosworth (1996).

in fact the only region of the developing world within which both the mean and the standard deviation of growth rates fell after 1973. A distinctive feature of Africa's post-1973 experience is a collapse in physical capital accumulation, which goes nearly to zero in the 1973–94 period (and is actually negative for 1984–94). This is in marked contrast with other developing countries, where investment tends to rise.

Political Regimes

Following independence, African political regimes tended to evolve in three stages: consolidation of authoritarian rule by the mid-1970s, crisis management under authoritarian rule to the late 1980s, and an outburst of democratization starting in 1990. The political economy literature has therefore viewed Africa's growth performance through the lens of authoritarian rule, and we will follow suit

Table 2
Growth Decompositions: Unweighted Standard Deviations

Region and Sub-Period	Growth in Real GDP Per Worker	Contribution of: Physical Capital	Education	Factor Productivity
Sub-Saharan Africa (21 countries)				
1960–94	0.97	0.61	0.12	0.97
1960–73	1.66	0.92	0.13	1.69
1973–94	1.33	0.68	0.15	1.22
Other developing countries (45 countries)				
1960–94	1.64	1.05	0.20	1.04
1960–73	1.84	0.87	0.14	1.20
1973–94	2.80	1.07	0.21	2.17

Notes: A list of countries appears in the note to Table 1.
Source: Authors' calculations using data from Collins and Bosworth (1996).

below. The historical context is important, however, so we begin with a brief overview.[3]

In historical perspective, the most striking feature of African states is their novelty. The contemporary African political map was largely determined in the late 19th century "scramble for Africa." Ground rules were formalized at the Berlin Conference of 1884–85, where European powers agreed to recognize each others' territorial claims based on effective control of the coast. The process was complete by 1914 and the resulting territorial borders were largely adopted at independence.

As late as 1939, only Ethiopia, Liberia and South Africa existed as independent nations; elsewhere in Africa, European colonial control was essentially unchallenged. Outside of the Belgian territories of the Congo (later Zaire) and Ruanda-Urundi (later Rwanda and Burundi), the bulk of the continent was in French and British hands. The French territories were administered federally, in the vast blocs of French West and Central Africa, an administrative geography that was to survive independence in the form of two multi-country monetary unions with currencies linked to the French franc. British territories were more dispersed geographically, and the British tradition of indirect colonial governance was less centralizing than the French.

World War II spelled the end of European colonialism. The United States and Russia supported decolonization, and Europe was exhausted; indeed, even before the end of the war the British and American governments had confidentially agreed

[3] Griffiths (1994) is an excellent general reference. We draw also on Oliver and Atmore (1994) for historical background, Ruth Collier (1982), Sandbrook (1985), and Fieldhouse (1986) for the transition to independence and the consolidation of authoritarian rule (1945–80), and Bratton and van de Walle (1997) for subsequent political developments including regime transitions in the 1990s.

that Europe's African colonies would be ready for independence by the end of the 20th century (Oliver and Atmore, 1994). But events moved much faster. India's independence came in 1947; Indonesia's (from the Dutch) in 1951; and in 1956, long-deteriorating relations between Britain and Egypt led both nations to accommodate Sudan's independence from the "Anglo-Egyptian condominium." In the same year, Egypt's General Nasser nationalized the Suez Canal, leading to the humiliation of Britain and France whose military attempt to occupy the canal zone failed, having been actively opposed by both the United States and the Soviet Union. The clock accelerated, and in the end Africa's move to independence was abrupt. Between 1956 and 1968, 34 former colonies and protectorates of Great Britain, France and Belgium, representing two-thirds of the continent's GDP and three-fourths of its population, became independent nations. France divested of its colonies en masse, with 13 receiving independence in 1960. Among British colonies, the move to independence was more tailored to individual circumstances, but by 1968 only Southern Rhodesia (later Zimbabwe) remained in British hands, its own transition blocked by the "unilateral declaration of independence" of the white settler regime of Ian Smith. An internal war culminated in Zimbabwe's independence in 1980. Portugal's dictatorship resisted decolonization and its colonies of Angola and Mozambique became independent only with the Portuguese revolution of 1974. In 1994, events at two ends of the continent—Eritrea's emergence from a 30-year war of independence from Ethiopia and the transition to majority rule in South Africa—culminated a process that had brought political independence to the 47 countries of sub-Saharan Africa in fewer than 40 years, and to most of them in much less than a generation.

Africa's formal political institutions were young at independence, and most countries lacked a tradition of mass political participation. After 1945, the European powers moved deliberately and then rapidly to introduce universal suffrage (R. Collier, 1982). Political constitutions at the time of independence were modeled on their European counterparts, with British colonies inheriting parliamentary systems and French colonies republican ones with stronger executive positions. On paper, these institutions built in substantial pluralism and political liberties. But they were not to last. By 1975, and in a number of cases even before independence, nearly all African political regimes had cast off the trappings of pluralism and replaced them with authoritarian structures. Along with a narrowing of political participation, many governments acted to subordinate domestic "agencies of restraint" to executive authority by the late 1970s (P. Collier, 1991). For example, colonial-era currency boards were often replaced with national central banks that then became effectively subordinate to finance ministries within the government.

By 1988, only five countries in sub-Saharan Africa—Botswana, Gambia, Mauritius, Senegal, and Zimbabwe—had multi-party systems allowing meaningful political competition at the national level. Among the remaining 42 nations, Bratton and van de Walle (1997) identify eleven "military oligarchies," 16 "plebiscitary

one-party systems," 13 "competitive one-party systems," and two "settler oligarchies" (Namibia and South Africa).[4]

The military oligarchies included continually war-torn countries like Liberia and Sudan and also countries like Ghana and Uganda that were ruled by military leaders who had acquired power via coups and presided over successful macroeconomic stabilization in the 1980s. These regimes imposed relatively tight constraints on mass political participation.

One-party systems are distinguished in this classification by the level of political competition. In the 16 "plebiscitary" one-party systems, themselves often led by military leaders, mass participation was encouraged via mechanisms designed to ratify the nonnegotiable candidates and platform of the national party. This diverse group included the predatory regime of Mobutu's Zaire (now the Democratic Republic of Congo) and also Angola, Ethiopia, Mozambique, and Somalia, where the strategic interests of the Cold War powers involved them directly or indirectly in the military contests for power after 1974. This group also included Kenya, where President Moi introduced public queuing for local elections in 1986, thus violating secrecy of the ballot and undermining a tradition of intense competition in local elections.

In the 13 "competitive" one-party systems, local and parliamentary elections were meaningfully contested, but in a framework of single-party dominance and with no effective contestibility at the executive level. Ruth Collier (1982) characterizes these regimes as having achieved dominance via legal means by the time of independence or soon thereafter. Such regimes were often characterized by long executive tenure. The canonical example is Côte d'Ivoire, where the rural-based Parti Démocratique de Côte d'Ivoire, formed in 1946 by Félix Houghouet-Boigny, so dominated national elections that a transition to one-party rule effectively predated independence. Houghouet-Boigny was elected president at independence in 1960, and subsequently won an average percentage of 99.7 percent of the vote in five consecutive presidential elections, a record that survived more than a decade of economic contraction starting in 1980. The remaining 12 regimes in this group had an average of 3½ presidential elections between independence and 1989, in which the party's candidate won an average of 93 percent of the vote (Bratton and van de Walle, 1997, Table 1). Local and parliamentary elections were often contested hotly, so that the position of incumbents below the executive was by no means secure; but opposition parties were illegal or easily undermined, and dominance of the national legislature was assured. This group of nations includes the Tanzania of Julius Nyerere and his chosen successor, Hassan Mwinyi (Nyerere resigned voluntarily in 1985 but retained leadership of the party until 1990), the Zambia of Kenneth Kaunda, the Malawi of Hastings Banda, and the Cameroon of Amhadou Ahidjo and his chosen successor Paul Biya.

[4] The full list of countries in each category appears in the note to Figure 3.

The political landscape began to change decidedly in the late 1980s. Between 1988 and 1992, in most cases following domestic political protest, 33 of Africa's 42 nondemocratic regimes had measurably increased civil liberties. By 1994, 16 of these countries had held genuine multi-party elections, making the continent a major participant in what Huntington (1991) has characterized as the "third wave" of democratization in the modern world. In addition to the 16 countries which had held such elections, an additional 12 countries saw "flawed" transitions (the classification of transitions is due to Bratton and van de Walle, 1997), as in Ghana and Kenya where multi-party elections had been held but manipulated by the elites in power; and 12 more countries saw transition effectively "blocked" (at least as of 1994) by the elite, as in Nigeria where a national election was openly contested in 1993 but then annulled by the military. The latter group included Tanzania, where an open national election was soon to occur. Only in Sudan and Liberia, engaged in civil wars of long standing, did the issue of a democratic transition appear to be fully off the national agenda.

What forces drove African political systems to authoritarian regimes? Ruth Collier (1982) argues that leaders sought to deny the benefits of mass political support to contesting elites. The prospect of personal aggrandizement was substantial, but its initial role is easily overplayed: leaders like Machel (Mozambique), Senghor (Senegal) and Nyerere (Tanzania) clearly sought power, but not spoils. Across the board, Africa's first generation of leaders appealed to the national interest in stability and economic development. They argued that competitive national politics would hold the national development agenda hostage to subnational interests based on ethnicity, region, religion or class. The argument takes for granted that economic development was a state project, about which there is more below. But an appeal to the dangers of factional conflict was not implausible. The colonial authorities had adjudicated local (and cross-border) conflicts, and their exit widened the scope for such conflicts. Internal conflicts that had simmered under colonialism emerged to violent effect in Ethiopia, Nigeria, Sudan, Uganda, and Zaire, and later in Angola and Mozambique, all within a decade of independence.

The salience of tribal and ethnic divisions at independence was in part a legacy of colonialism. The European-created national boundaries in many cases bore little relation to pre-existing economic or political groupings. More significantly, the colonial powers had in some cases acted to reinforce ethnic identities, as in the British system of "indirect rule" in Nigeria and the Belgian government's alliance with the Tutsi minority in Rwanda and Burundi. But the traditionally local scale of economic and political activity in Africa virtually guaranteed that in any case local identities would predominate over national ones at the time of independence. In this sense, it was the existence of national borders, rather than their placement, that gave rise to a political management problem. We therefore find it difficult to follow Griffiths (1994) and others in second-guessing the 1964 agreement by African states to treat the boundaries

existing at independence as permanent.[5] We return below to the substantial challenges social divisions pose to economic policy.

A final perspective on the transition to authoritarian rule comes from the "Lipset hypothesis," which views a relatively advanced level of economic development as a prerequisite for democracy (Lipset, 1959). The argument is that democratic institutions are consistent with political stability only where relatively high incomes and widespread literacy support a tradition of informed participation by a wide electorate. Such conditions were generally absent at Africa's independence. Using the comparison groups in Figure 2, Africa's (unweighted) real GDP per capita was less than half that of other developing countries in 1960. Life expectancy at birth was 40 years in 1960, as compared with 53 years among other developing countries. In 1970, the adult literacy rate was 26 percent, as compared with 61 percent in the comparison group.[6]

Figure 3 brings out the potential importance of initial conditions in explaining the variation of political regimes even within Africa.[7] We group countries according to the tripartite division used in Bratton and van de Walle (1997), leaving out the "settler oligarchies" of Namibia and South Africa, whose transition to black majority rule had not yet occurred. The classification applies to 1988; with few exceptions, it had been established by the mid-1970s. The five nations with multiparty systems are shown by hollow circles. At this level of aggregation, the Lipset hypothesis is a striking feature of Africa's first generation of independence: the multi-party systems started richer and expanded their advantage over time. One-party systems, whether competitive or plebiscitary, are shown by the line with the hollow boxes. After a mildly encouraging growth performance in the 1960s, their real GDP per capita barely rose over the next 25 years. Finally, the triangles show the military oligarchies, which started as the poorest group of nations, and despite some growth during the 1970s, have remained the poorest.

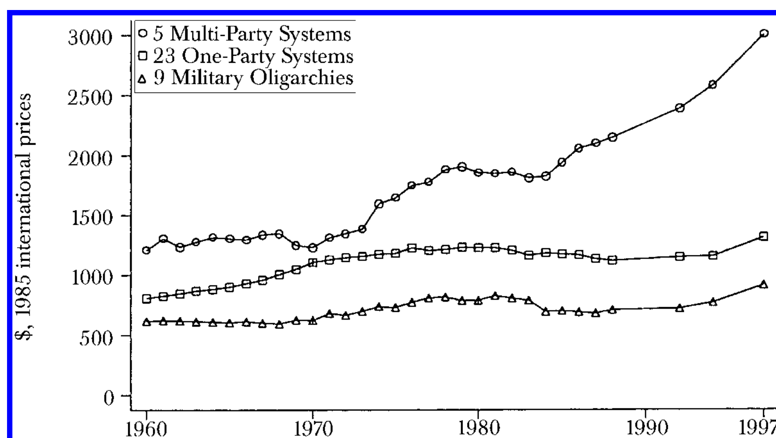
The causal linkages underlying Figure 3 have only begun to be addressed in the empirical literature. However, even in their undigested form, these data pose two central questions about Africa's recent democratization: Will it last? Will it

[5] The scope for post-independence border adjustments was explicitly limited by action of the Organization of African Unity in 1964 (as quoted in Griffiths, 1994, p. 68): "Considering that border problems constitute a grave and permanent factor of dissention . . . all Member States pledge themselves to respect the borders existing on their achievement of national independence." Our own view is that ethnic homogeneity held no better promise for the conceptualization of viable national political units in Africa at the time of independence than it has elsewhere during this century, or than it does now in Africa—witness the conflict in ethnically homogeneous Somalia.

[6] The comparison excludes Namibia and South Africa, and the life expectancy and literacy comparisons use reduced samples due to limited data. When population-weighted averages are used (reducing the influence of China and India), Africa's real GDP per capita rises to 71 percent of the comparison group, the life expectancy comparison is 40 vs. 47 years; and the adult literacy comparison is 23 vs. 27 years. Data are from the United Nations Development Programme (1996).

[7] The Lipset hypothesis has received support in recent cross-country empirical work by Barro (1996) and Gasiorowski and Power (1998).

Figure 3
Real GDP per Capita by Political Regime



Notes: Bratton and van de Walle (1997) classify the 47 countries of sub-Saharan Africa according to their political regime in 1988. Omitting the "settler oligarchies" of Namibia and South Africa, this leaves 45 countries, of which we have data for 37. The groups are shown below, with excluded countries shown in brackets. We have joined Plebiscitary and Competitive One-Party Systems into a single category comprising 23 countries. The figure shows unweighted averages of real GDP per capita for each category. Population-weighted averages look similar, though the one-party states and particularly the military oligarchies show a more pronounced rise and fall, with the military oligarchies outperforming the one-party states starting in 1974 (reflecting Nigeria's rise).
Five Multi-Party Systems: Botswana, Gambia, Mauritius, Senegal, Zimbabwe.
Nine Military Oligarchies: Burkina Faso, Burundi, Chad, Ghana, Guinea, Lesotho, [Liberia,] Mauritania, Nigeria [Sudan] and Uganda.
Twelve Plebiscitary One-Party Systems: Angola, Benin, Cape Verde, Comoros, Congo, [Djibouti, Equatorial Guinea, Ethiopia,] Gabon, Guinea-Bissau, Kenya, Mozambique, Niger, [Somalia,] Swaziland, and Zaire.
Eleven Competitive One-Party Systems: Cameroon, Central African Republic, Côte d'Ivoire, Madagascar, Malawi, Mali, Rwanda, [São Tomé,] Seychelles, [Sierra Leone,] Tanzania, Togo, Zambia.
Sources: Regime classification from Bratton and van de Walle (1997). Real GDP per capita from Penn World Tables version 5.6, extended as described in the note to Figure 1.

make a difference for growth? We will return to these questions, but first we offer an analytic framework for understanding the choices made by various regimes.

Policy Choices

In their public pronouncements, Africa's first-generation leaders often appeared to differ dramatically from one another in the role they envisioned for private accumulation in the development process. But as emphasized by Young (1982) and others, these differences hid powerful commonalities in the policy environment they desired. We emphasize two such features.

First, governments of seemingly disparate ideology shared the development paradigm of the day, which emphasized the importance of market failures and the

need for state-led industrialization. The dominant peasant agricultural economy was considered not only technologically backward, but also lacking the requisite dynamism for autonomous development. The state was to use its fiscal powers, external resources channeled through the state, and controls on private sector resource allocation to modernize the economy.

Second, trade and investment policies were inward-looking. This orientation was rooted in an obligation to repudiate the colonial division of labor and to develop national managerial capacity and comparative advantage in industry. Thus, domestic industry enjoyed high rates of effective protection and grew rapidly in many countries during the 1960s and early 1970s. But outside of Mauritius, which developed a dynamic textile export sector, the industrialization process did not survive the economic shocks of the 1970s.

Suspending the wisdom of hindsight, the choice of state-led and inward-looking strategies can be made plausible through an appeal to a combination of initial conditions (including new nationhood) and the global intellectual environment of the time. Gerschenkron wrote in 1962 of "The Advantages of Backwardness," offering the notion that where the historical preconditions for capitalist development were absent, governments could shortcut the modernization process by substituting direct intervention.

The policy environment in Africa came under intense external scrutiny starting in 1980. African governments, hoping to rally the World Bank in support of a renewed industrialization effort, requested a report on the challenges facing industrialization in Africa. The Organization of African Unity, in its 1980 *Lagos Plan of Action* (OAU, 1981), had emphasized the impact of external shocks and the need for government intervention to overcome structural impediments to long-run development. The Bank's report, in contrast, developed a systematic critique of African economic policy (World Bank, 1981). We explore the essence of this critique below. Here we simply observe that the Berg Report, as it was called, crystallized an ongoing shift in which donors came to view Africa's policy failures as mainly to blame for slow growth. Foreign assistance was reconfigured with a view to obtaining economic reform, under the rubric of "structural adjustment." Reforms in the 1980s emphasized exchange rate unification, trade liberalization, liberalization of agricultural marketing, and fiscal contraction. Beginning in the late 1980s, a second generation of adjustment packages began to emphasize the reform of public sector institutions, including privatization of state enterprises. The implications of these developments continue to dominate economic policymaking in most African countries.

Neopatrimonial Rule and Governance

An extensive political economy literature locates slow African growth in a failure of governance. Lipumba (1994, p. 88) phrased the central question in this way: "Can African governments establish 'developmental states' that respect their budget constraints, allocate resources, pursue policies that develop human re-

sources, and encourage private-sector saving and investment to generate productive employment and promote growth?" The notion that good governance can spur economic growth was also put forward in 1755 by Adam Smith, who listed as key factors the triumvirate of "peace, easy taxes, and tolerable administration of justice."[8] The cross-country literature on economic growth has found that various proxies for these three factors are correlated with growth, and also that African governments have rarely achieved all three (Collier and Gunning, 1999).

The political economy literature has stressed the "neopatrimonial" features of African authoritarian regimes. The term refers to the lingering influence, within modern state structures, of personalized patterns of authority and obligation, patterns that Max Weber associated with socio-political organization in the smallest and most traditional political units (Bratton and van de Walle, 1997). Two central themes emerge from this literature. The first explains how an overly narrow leadership elite can end up over-taxing dynamic sectors of the economy. The second theme involves a tendency of the neopatrimonial state to exacerbate the transactions costs facing private economic activity. We develop these two themes in turn.

The Unconstrained Elite

An important strand in the political economy literature—and the current thinking of external aid agencies—locates the poor public policy performance of African countries in a divergence of interest between African leaders and their own populations. Bates (1981) offered a classic treatment of this theme in an analysis of post-independence agricultural policy in eight African countries, and later wrote (1983, p. 165):

> Leaders engage in bureaucratic accumulation and act so as to enhance the wealth and power of those who derive their incomes from the public sector; they also act on behalf of private factions, be they social classes, military cliques, or ethnic groups. They engage in economic redistribution, often from the poor to the rich and at the expense of economic growth. These are the central themes in policy formation in Africa and their prominence serves to discredit any approach based on a conviction that governments are agents of the public interest.

To convey some implications of this approach, suppose that elites in power serve the interests of a group that comprises a fraction f of the population. We assume that the identity of this group is given by pre-existing political and social dynamics. Tax revenues are split between infrastructure spending and transfers to

[8] "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and tolerable administration of justice; all the rest being brought about by the natural course of things," wrote Adam Smith. Jay (1996) traces this 1755 statement to Smith's *Essays on Philosophical Subjects* (1795).

the favored group. Denoting infrastructure spending per capita by I and the tax base per capita by B, the government's period-by-period budget constraint (assuming no borrowing or aid) is

$$fT + I = tB(t),$$

where t is the tax rate and T is the transfer received by each member of the favored group.[9] The tax base should be conceived of as narrow relative to overall economic activity, which is a realistic assumption for developing economies. Goods traded with industrial countries, for example, provide a disproportionately important share of revenue in most African countries because they are easily taxed as they pass through railways and ports. Broad-based employment or income taxes are unavailable, given the small size of the formal sector.[10]

Taxation is distortionary; that is, a rise in t shrinks the tax base $B(t)$ and creates a deadweight loss. Holding infrastructure constant, the efficiency effects of anticipated future taxes operate through the level and composition of private investment (Adam and O'Connell, 1999). Private capital accumulation does not *necessarily* fall with increases in the anticipated tax rate, but the composition of investment shifts away from readily taxable forms—towards capital flight in preference to domestic investment, mobile capital in preference to fixed capital, and investment in informal and/or illegal circuits as opposed to formal and legal ones. Such shifts in the composition of investment reduce growth and would show up in a growth decomposition as a decreasing or even negative productivity residual. Public infrastructure complements and increases the productivity of private capital, so higher infrastructure means higher output, both directly and via higher private investment. This brings out a second tradeoff between transfers and growth: holding the tax rate constant, higher transfers mean less infrastructure and therefore less growth.

We focus on the choice of tax rate and transfers, holding infrastructure constant.[11] As long as infrastructure spending is positive, which implies that some amount of distortionary taxation cannot be avoided, then even the smallest of transfers creates a finite additional distortion on the margin and is therefore socially inefficient. To motivate the choice of taxes and transfers, we think of the government as maximizing the welfare of the favored group. The government's choice of transfers depends on the nature of the tax base. If members of the favored group "own" a pro-rata share of the tax base, we get a variant of Mancur Olson's

[9] The budget constraint can alternatively be written $(N_f \times T) + (N \times I) = t(N^*B(t))$, where N_f is the number of individuals in the favored group and N is the total population. Divide by N to get the equation in the text, with $f = N_f/N$.

[10] Important portions of the tax base may not enter the fiscal accounts explicitly: for example, $tB(t)$ would include the inflation tax (the inflation rate multiplied by the real monetary base) and, in the presence of a foreign exchange black market, any implicit surplus gained by the central bank via net purchases of foreign exchange at the overvalued official exchange rate.

[11] This simplifies the exposition without changing anything of substance; see McGuire and Olson (1996) for an analysis with endogenous infrastructure.

(1982) "encompassing interests" paradigm (applied here to authoritarian regimes, rather than, as Olson did, to the social democracies of postwar Europe). A government with fully encompassing preferences—in fact, even one in which f is "sufficiently" large, but below one—will completely forego transfers.[12] In effect, the favored group chooses to benefit over time from overall economic growth (Boone, 1996; McGuire and Olson, 1996). However, narrower power structures will generate larger transfers and slower growth. Elites with support in dynamic sectors will produce better growth outcomes, other things equal, since they will tend to support such sectors.

The analysis accommodates features of African economic policy that were emphasized in the Berg Report—in particular, heavy discrimination against agriculture and international trade, and widespread use of direct controls in preference to price interventions. In his classic discussion of African agricultural policy and urban bias, Bates (1981) argues that since peasants were excluded from the favored group and the administrative cost of taxing external trade was low, transfers from export agriculture were often large. By the early 1980s, many African countries had lost market share in key agricultural commodities, and in many cases the tax base had shrunken still further, reflecting the diversion of trade into illegal channels. Where leaders had important political roots in smallholder agriculture—as did Kenya's Kenyatta, Côte d'Ivoire's Houghouet-Boigny, and Botswana's Khama and Masire—policy towards agriculture was more favorable and export performance in this sector fared better. The demonstrated preferences for quantitative restrictions and licensing over price-based interventions makes sense because it is easier to target the benefits of quantitative restrictions to favored parties.

The interest-based approach has obvious difficulty explaining why the leading group should pursue economic policies that lead to outright stagnation or decline. But dramatically inefficient outcomes are possible if the political structure gives leaders a high discount rate (for example, Olson, 1982; Levi, 1988). For example, a high probability of a coup d'état reduces the incentives to enact policies that will support a larger future tax base—since the current leadership may no longer be in control at that time.[13] This effect can be especially strong when institutional

[12] To see this, consider an initial tax rate that is just sufficient to finance the socially optimal level of infrastructure, so that transfers are initially zero. The cost to each member of the favored group of financing a dollar of transfers via higher taxation is then $f \times (1 + MDWL)$, where $MDWL$ is the marginal deadweight loss from taxation, which is strictly positive because distortionary taxes are already being used to finance infrastructure. The benefit to each member of the favored group is $1/f$, which exceeds 1 because of the concentration of transfer income into the hands of a group that is smaller than the overall population. Comparing marginal cost with marginal benefit, it is clear that there is some value of f, strictly below 1, for which the concentrated benefit of the transfer is not sufficient to offset the favored group's pro rata share in the social cost of taxation. Any government with f exceeding this level chooses zero transfers.

[13] If we think of the government as setting tomorrow's tax rate today, then the possibility of having power (and revenues) captured by an opposition group simply replaces fT in the display equation with pfT, where p is the probability of remaining in power. Under these conditions an exogenous increase in contestibility is equivalent to a reduction in f.

restraints are absent, so that leaders are known to have wide discretion over tax policy. In this case, moderate tax rates are supported only by the incentives of leaders to maintain a reputation for moderate tax rates—an incentive that weakens with increases in the discount rate. Recognizing the short time horizon of policymakers and the likelihood that the tax rate will be punitively high, private investors move away from investment in the taxed activity; faced with a weak tax base, leaders then choose very high tax rates, in a self-confirming equilibrium. Along these lines, McMillan (1998) shows that an increase in the frequency of executive transitions in African nations increases the probability that export tax rates will be pushed to the wrong side of the Laffer curve—as in Ghana in the late 1970s when the taxation of cocoa clearly exceeded revenue-maximizing rates (Leith and Lofchie, 1993).[14] The broader point is simple: if the favored group cannot commit to limit its extraction of rents in the future, its current incentives shift from sustaining growth to extracting transfers.

The interest-based approach had both comforting and unsettling implications for the economic policy reforms that got underway in the 1980s. On the positive side, while external aid donors defended market-based structural reforms primarily on supply-side grounds, they also expected trade and exchange rate reforms and the loosening of state controls over agricultural marketing to unwind the urban bias of existing policies. Since Africa's poor are overwhelmingly engaged in agriculture, this meant that the distributional impact of structural adjustment would be favorable. The available evidence, while limited, favors this interpretation (Sahn, 1996). On the negative side, however, these reforms were likely to fail if the existing urban bias represented a political equilibrium. Urban groups would block reforms to protect existing distributional patterns—as in Zambia, where riots hastened the reversal of fiscal and exchange rate reforms in the late 1980s. Moreover, lingering uncertainty about the political viability of such reforms would undermine the private sector's supply response, as potential investors waited for uncertainty to be resolved before making commitments. Aryeetey (1994) views low credibility of reform as a central reason for the poor investment response to sustained reform in Ghana (see also Oyejide et al., 1997).

In retrospect, the interest-based interpretation of urban bias appears to apply more powerfully to understanding the fitful pace of reforms and the prevalence of policy reversals than it does to why the policies of urban bias were originally adopted (Mkandawire and Soludo, 1999). In many cases, the relevant urban interests—including the public enterprise sector, the civil service, and the large urban informal sector—were mainly a post-independence creation. These interests came to constrain the state in its ability to adjust to economic shocks, but in contrast with the military in some cases, it is not clear that they were forces to be reckoned with at the time of independence.

[14] Evidence on the inflation tax (defined in note 10) suggests that these examples could be multiplied: Adam, Ndulu and Sowa (1996), for example, find that inflation exceeded revenue-maximizing rates on a sustained basis in Ghana and Tanzania in the 1980s.

The Weak State

"[T]he coercive monolithism of most African political systems," writes Ake (1996, p. 69), "readily gives the impression of strong states with immense penetrative capacity, states which are everywhere doing everything. Yet African states are actually very weak." The argument is that while the neopatrimonial state is superficially powerful, it is too weak to support sustained growth. Its internal limitations distinguish it from the "rational-legal" state, which is equally authoritarian but creates a supportive environment for growth. This line of argument emphasizes that bureaucratic corruption, policy-generated uncertainty, and predatory behavior of a state will tend to raise transactions costs for private actors.

Consider bureaucratic corruption first. The interest group approach tends to gloss over the actual machinery of government, as if the favored group, having captured the policy process, could delegate the task of rent extraction to a well-functioning bureaucracy. But this requires that the political elite exercise tight control over the bureaucratic apparatus. If, instead, corruption is decentralized, with individual state employees each operating independently, the cumulative tax on private activity can well be prohibitive. Moreover, since corruption builds on itself, regimes subject to decentralized corruption may also be particularly vulnerable to shocks that increase the incentives for rent extraction by individual employees. Vishny and Shleifer (1990) argue along these lines in interpreting bureaucratic corruption as a tax on private capital accumulation. In fact, the widespread use of state employment as a patronage mechanism in Africa, along with the absence of a bureaucratic tradition, meant that in many cases employees were hired with a tacit acceptance that they would use their positions to meet patronage obligations of their own.

As a second example of state-generated transactions costs, consider the uncertainties associated with shifting patron-client links in neopatrimonial regimes. Van de Walle (1994) observes that neopatrimonial regimes have been characterized by "factional infighting and alliance switching . . . even when [rulers] remain in power for long periods of time. Achebe (1988, p. 41) described the same problem in more picturesque terms in *Anthills of the Savannah*: "Worshipping a dictator . . . wouldn't be so bad if it was merely a matter of dancing upside down on your head. With practice anyone could learn to do that. The real problem is having no way of knowing from one day to another, from one minute to the next, just what is up and what is down." Van de Walle characterizes these manipulations as ways of limiting the ability of competing elites to coalesce in opposition to the incumbent. Their effect, however, is to undermine the coherence of public management in the short run and to increase uncertainty about the nature and timing of executive transitions. As argued in the previous section, a greater degree of uncertainty—in this case, over which regional or sectoral interest will control the regime in the near future—will discourage long-run investment in all sectors.

Consider finally a disturbing insight of Robinson (1997a, b) regarding what he calls "predation." Suppose that government policies that produce rapid economic development—like the provision of public infrastructure—also reduce the costs of

collective action by the political opposition. Rapid development then increases political contestibility. Leaders may then oppose development as a way of tightening their grip on power.[15] This view makes some sense of "non-development dictatorships" like those of President Mobutu in Zaire, Idi Amin in Uganda, or Sani Abacha in Nigeria. But its potential applicability is wider. For example, in a pattern consistent with Robinson's interpretation, African states have in some cases nurtured a more productive relationship with politically excluded domestic capital (like Kenyans of Asian descent) than with indigenous capital which might pose a greater political risk. More generally, the approach helps to explain why many African governments continue to view the private sector with lingering suspicion—because it may serve as an alternative political power base (Mkandawire and Soludo, 1999). The political potency of private wealth was brought home to Nigeria's military leaders in 1993 when Moshood Abiola, a wealthy private businessman, swept a democratic presidential election. The election was annulled and it was not until after Abiola's death under house arrest that the military opened room for new elections in 1999. Finally, one can apply Robinson's analysis to the transition to one-party rule. We emphasized earlier that Africa's first-generation leaders sought to deny the leverage of mass political participation to contesting elites.

Limitations of Foreign Aid

These observations on the characteristics of the neopatrimonial state suggest that the three pieces of Adam Smith's triumvirate—peace, easy taxes, and tolerable administration of justice—are mutually reinforcing, so that where history or poverty puts one or more out of easy reach, the others become more costly. In such a situation, the scope for effective foreign assistance seems wide. For example, an untied inflow of aid might enhance growth by allowing a reduction in distortionary taxation; for a sufficiently encompassing government, this is what the model predicts (Boone, 1996). A similar effect would emerge if aid could directly finance increases in spending on public infrastructure like roads and agricultural research. If the problem is that government has too short a time horizon, outside donors with longer perspectives may serve as external monitors; indeed, the conditionality packages of the 1980s seemed designed with this idea in mind. If public sector

[15] In a game-theoretic extension in the style of the Olson and Bates analysis, Robinson (1997a) argues that a more encompassing elite (a government with larger f) may actually be *less* likely to choose developmental policies, rather than more likely. The reason is that an elite with wide claims on GDP presents a more attractive target for overthrow than one with narrow claims. Faced with a larger "prize," members of the opposition have a greater incentive to engage in collective action. In this view, President Mobutu opposed Zairian development not because his discount rate was high or preferences overly narrow, but because development raised the threat of political demise and the loss of his substantial claim on GDP. This conclusion requires certain underlying assumptions; for example, that the growth in the economy primarily threatens a broader elite, rather than giving them greater strength to resist the loss of power. Ongoing work in this area is likely to deliver many insights.

management were the issue, donors could design technical assistance packages that built or transferred expertise in this area.

Yet a view is emerging in the empirical and case study literature that aid has had a limited effect on policy outcomes in Africa and that its contribution to growth has been heavily conditioned by the pre-existing quality of the institutional and policy environment (for example, World Bank, 1998). In 1996, the African governors of the World Bank went further, arguing that aid was on balance undermining institutional capacity in Africa (cited in van de Walle, 1998).

If one considers the politics of the global aid regime, these conclusions are not surprising.[16] Bilateral aid is first and foremost an instrument of foreign policy. In Africa during the Cold War, the geopolitical interests of major donors centered on the support of political or ideological clients rather than on rapid economic development. Until the late 1980s, since donors were divided and in some cases in direct competition for clients, they could be played one against the other. For these reasons, donor pressure at that time was poorly suited to push for better economic policy or for a transition from authoritarian rule to greater pluralism.

In this setting, a rise in unconditional aid will often simply increase transfers to the favored groups (Adam and O'Connell, 1999). Aid does not directly reduce growth in these cases, but it will have little impact on reducing policy distortions, either. Indeed, to the degree that aid flows enhance the domestic competition for politically motivated transfers and the power to dispense them, they may reinforce neopatrimonial patterns.

As donors coalesced around market-based reforms in the 1980s and early 1990s, they confronted the reality that reforms would generally be implemented by incumbent political leaders, and that even in the best of cases—where leaders were ready to embrace reform—domestic constituencies in favor of reform were not likely to emerge rapidly. It would therefore take a strong state to weather the political battle of reducing state controls. Ake (1996) argues that this placed donors in the position of supporting, at least implicitly, a tightening of authoritarian rule in Africa. Aid increased rapidly in the 1980s, as donors shifted to quick-disbursing balance-of-payments support that would soften the impact of reforms on overall spending and allow leaders some leverage to buy off domestic opposition. At some 15 percent of GDP, the median African country was receiving by the early 1990s roughly six times the amount of American aid delivered annually to western Europe under the Marshall Plan (O'Connell and Soludo, 1999). But the growth response to reforms was weak. Ake (1996), Gordon (1993) and others argue that the most fundamental effect of conditional aid in the 1980s was an unexpected one: by creating political turmoil and little perceived gain, it tended to undermine the narrow legitimacy of autocratic rulers and hasten the emergence of mass protest in the late 1980s.

[16] They are however, controversial. If aid goes to the poorest countries that appear in greatest need, a finding that higher aid levels produce little growth may involve reverse causality.

Flexibility, Restraint and External Shocks

Governance affects long-term growth not only through policy distortions and transactions costs, but also via the capacity to handle external economic shocks as they occur. The institutional framework through which African countries encountered shocks to commodity markets in the 1970s and to world financial markets in the early 1980s had already evolved substantially since independence. We have stressed the expansion of the public sector's role in the economy, the subordination of "agencies of restraint," and the narrowing of public debate over economic policy. At the same time, a tendency to over-tax potentially dynamic sectors and a heavy reliance on revenues to service patron-client networks had created vulnerabilities in many countries in terms of fiscal positions and the balance of payments. In some cases, these vulnerabilities were heightened by social conflict. For all of these reasons, African countries were not well-placed to handle the macroeconomic shocks of the 1970s and 1980s.

Rodrik (1998) develops a unified view of external shocks and distributional conflict that fits well with the themes we have developed above. Consider, for example, the burden-sharing problem generated by a collapse in the terms of trade. Efficient adjustment requires that resources be reallocated to minimize the decline in permanent income, and that total spending decline accordingly. Rodrik argues that the willingness of domestic groups to accommodate such efficiency-based responses depends on beliefs about how conflicting claims will work themselves out. If the political system is believed to reward pressing aggressive claims on resources, then everyone will make such claims, and a tangle of mutually incompatible claims will paralyze effective policy action and exacerbate aggregate losses. What matters in the end, in this view, is the strength and independence of policy institutions relative to latent social conflicts. Countries with strong institutions relative to latent conflicts will adjust more successfully to an adverse shock than those with weak institutions and/or substantial latent conflicts.

Rodrik's (1998) framework has immediate appeal in thinking about how African countries have responded to commodity price fluctuations. For an undiversified commodity exporter, standard principles suggest a conservative response to price booms (including the accumulation of foreign assets) and a decisive response to price declines of any duration, via currency devaluation, reductions in government spending, and real wage declines. Botswana, for example, followed this pattern closely in responding to fluctuations in oil and diamond prices on the world market (Hill and Mokgethi, 1989). The more typical African pattern, however, has involved rapid increases in government spending during booms, and persistent fiscal deficits with exchange rate overvaluation in periods of decline (Bevan et al. 1989, 1990; Deaton, this issue; Wheeler, 1984). This pattern is consistent with powerful demands on state resources to service patron-client networks. When times are good, the system avoids crisis and may even appear to thrive, but overspending and debt accumulation increase its vulnerability to a reversal of

fortunes. When the situation deteriorates, the combination of weak institutions and severe vulnerability produces a crisis.

A similar argument based in distributional conflict can help to explain the delay and frequent reversal of African trade policy reforms during the 1980s. While the aim of trade liberalization is to raise national income, standard general equilibrium theory suggests that in the short run, the distributional consequences of such changes are much larger than the net efficiency gains (Rodrik, 1998). Moreover, the losers from trade liberalization—mainly urban firms and workers—were better organized politically than the primarily rural exporters. How did Africa's strong economic performers manage to avoid such trade policy problems?[17] In Botswana, the absence of excessive taxation of agricultural exports owed much to the strong rural background of its political leadership (Harvey and Lewis, 1990). On the import side, Botswana retained its participation in the South African Customs Union after independence. This removed the government's discretion over trade policy, which was controlled by South Africa, and thereby eliminated a major avenue for domestic conflict over resources. In Mauritius, the government managed to develop an export-processing zone without undermining the interests of the powerful import-substituting lobby. The export-processing zone mainly employed women, paying them lower wages in an enclave system, and did not challenge the interests of the male-dominated labor force in import-substituting industries.

The example of Mauritius underlines the value of political entrepreneurship, which in turn points to a continuing conundrum in African governance: To what degree, and in what ways, should the discretion of policymakers be limited? Tight policy restraints are not uniformly appealing, even in normal times. The government of Botswana, for example, retained its membership in the South African Customs Union while going in the other direction with respect to monetary policy. By leaving the Rand Monetary Area in 1974 and introducing its own, independent currency, Botswana risked the syndrome of high inflation, exchange controls, and black markets that was common outside of the "CFA zone," those countries which had continued to peg their currencies to the French franc. But the Central Bank of Botswana subsequently achieved lower inflation under a discretionary regime than did the Reserve Bank of South Africa.

In times of crisis, in fact, the general interest may well require the exercise of flexibility, making a failure to suspend restraining mechanisms a sign of weak governance. The countries of the CFA zone provide a clear example. Unlike the rest of Africa, twelve of France's 13 former colonies in West and Central Africa retained colonial monetary arrangements after the transition to independence.[18] These coun-

[17] We draw here on Rodrik's (1997) discussion of trade policy in Africa.
[18] The initials CFA refer to the currencies issued by the two central banks of the zone. The Central Bank of the West African States—which includes Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo—issues the franc of the Communauté financière d'Afrique. The Central Bank of the Central African States—which includes Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon—issues the franc of the Coopération financière en Afrique centrale. See Neurrisse (1987).

tries were grouped into two monetary unions (and later joined by Equatorial Guinea, a former Spanish colony), the governance of which was transferred to the African members in the mid-1970s. The two currencies remained tied to the French franc at parities established in 1948, and convertibility continued to be guaranteed by the French Treasury. The French government therefore wielded substantial influence over monetary and exchange rate policy in the zone. The CFA zone arrangement was a powerful agency of monetary restraint: inflation in the zone was a third of that in the rest of Africa and free capital mobility prevented the emergence of currency black markets that were a standard feature of African experience outside of the zone.

Within Africa, the CFA countries tended to grow more rapidly than countries outside the zone through the late 1970s. However, the beneficent macroeconomic effect of zone membership reversed itself by the mid-1980s, as countries outside of the zone, under pressure from external donors and the collapse of their own exchange control regimes, implemented currency devaluations. Within the CFA zone, overvaluation was initially milder, but devaluation was delayed until 1994. In the meantime, the adjustment to external shocks was highly contractionary. In Côte d'Ivoire, one of Africa's stellar performers between 1960 and 1980 with annual per capita growth of 4.1 percent, real GDP per capita declined at the (same) rate of 4.1 percent during 1980–92, leaving income barely higher in 1992 than it had been 30 years earlier. In Cameroon, an oil-exporting country, contraction was delayed until the mid-1980s, when a combination of weak oil prices and an appreciating French franc created an unsustainable external trade balance. In both Côte d'Ivoire and Cameroon, sufficient domestic deflation could have achieved the required real depreciation, but this process was slow. Outside of the CFA zone, exchange rate devaluations were initially resisted, but they finally proved invaluable in inducing urban interests (trade unions and public sector employees) to accept lower real incomes.

This analysis, rooted in issues of distributional conflict, is not inconsistent with arguments often used by African leaders in rationalizing the prevalence of authoritarian rule. When institutions are initially weak, multiple equilibria exist. Rival groups may choose to act opportunistically if they believe others will do so, but cooperatively if they believe others will. In this setting, political leaders have two ways of reducing the economy's vulnerability to adverse outcomes: they can strengthen institutions or they can work directly on beliefs. Strengthening institutions might involve adopting colonial-style monetary arrangements with their tight restrictions on deficit finance or ensuring the representation of diverse views in the political process. Working on beliefs means trying to create an environment for a cooperative equilibrium to emerge. Presumably leaders will do both—unless the two approaches conflict. One optimistic way of interpreting the weakening of agencies of restraint and pluralist political institutions early in the independence period is as an attempt to submerge social conflicts in the idea of the nation, so that a cooperative equilibrium was more likely to emerge. We have emphasized the fundamental weaknesses of this approach when applied at the national scale. But our criticisms should not obscure the objective and continuing necessity for strong leadership when institutions are initially weak and latent conflicts strong. If pluralist

political institutions are to survive and prosper in Africa they will have to address the central weaknesses of neopatrimonial regimes while simultaneously affording wide scope for political leadership.

Conclusion

African elites engineered a transition to one-party rule early in the post-independence period, promising stability and economic development in return for a monopoly on political power. The tenor of that time was summarized by Kwame Nkrumah, the great pan-Africanist and first President of Ghana, with this phrase: "Seek ye first the political kingdom, and all the rest shall be added unto ye." Nkrumah's statement is often quoted ironically, against the backdrop of his authoritarian style, his removal by coup in 1966, and Ghana's precipitous economic decline. But a serious puzzle arises here, and one that is not specific to Ghana. Having achieved the political kingdom, why did so many governments fail to internalize the general interest in capital accumulation and growth?

One answer is that governments were captive to the wrong interests; for example, giving too little weight to peasant agriculture and too much to urban interests. But while this insight illuminates the political constraints on policy reform, the groups that came to constrain policy reform in the 1980s were in many cases more a creation of policy choices than a source. In choosing state-led and inward-looking industrialization, Africa's first generation of leaders were captive to ideas rather than interests.

Our central argument has instead been that Africa's growth record reflects a groping towards satisfactory modes of national governance under objectively difficult circumstances. Among these circumstances we emphasize particularly the shock of political independence. In most countries, neither the state, operating at a national scale, nor private domestic capital—the two entities whose evolving relationship dominates contemporary discussions of governance—existed in a meaningful sense at the time of independence. In the 1960s and early 1970s, new African governments faced strong pressure to repudiate any outward-oriented or restraining elements of the colonial institutional inheritance. Those narrow interests that would seem at the time to have been most aligned with capital accumulation and growth were most tainted by their close association with the colonial experience. The development ethos of that day emphasized state-led industrialization, and together with plausible appeals for national unity and political stability, this was taken to justify authoritarian rule.

Economic growth was adequate through the early 1970s, but policy distortions and structural weaknesses in the public sector had already undermined the fiscal and balance of payments position when the shocks of the 1970s and early 1980s arrived. By the early 1980s, relations between government elites and their external patrons had soured. From that point forward, donors sought reforms that would both address macroeconomic imbalances and reduce the government's role in the economy. However, since donors paid for reforms, Africa's governments and

citizens did not own them (Collier, 1991). Most African countries had no sustained period between 1960 and 1988 during which broad public debates exercised serious influence over national policy. Internal movements for democracy gathered strength in the late 1980s as Africa's relative economic performance deteriorated further, and by 1994 the possibilities for pluralist politics had been transformed through a combination of internal and external pressure.

Looking ahead, we see a widening scope for positive interactions between politics and economic performance in Africa. Africa's democratization in the 1990s is different in character from the democratization that accompanied the run-up to independence. As a response to the manifest failings of autocratic regimes, and buttressed by an international environment that has narrowed the terms of economic policy debate, it holds out the prospect of a more fundamental creation of a participatory state than occurred at independence. Where political instability continues or the interests of the military and other privileged classes cannot be accommodated within a pluralist regime, economic gains may well be negligible or reversed; in our view, a lack of political pluralism will undermine governance and growth. But where political freedoms remain, the constraints they impose on government predation will enhance the environment for capital accumulation and growth. External donors can play a crucial role, but the task is not their own. They will misuse their newfound post-Cold War unity if they deny African populations and their political leaders the ability to set their own national agenda. There are no easy ways forward. However, Africa's first generation of independence has set the stage for an ongoing, if sometimes halting, move toward greater democratization and economic growth.

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Correction
Governance and Growth in Sub-Saharan Africa

Benno J. Ndulu and Stephen A. O'Connell

Tables 1 and 2 in our article on African governance and growth, which appeared in the Summer 1999 issue of the *Journal of Economic Perspectives* (13:3, pp. 41–66) contain errors that led us to overstate the extent of Africa's growth shortfall and the contribution of slow productivity growth. The African aggregates are measured correctly in these tables; errors pertain to "other developing countries" and are the result of our having transposed some rows in an underlying spreadsheet. The correct data, which should replace the corresponding entries in Tables 1 and 2, appear below.

Comparing these with the African aggregates as they appear in Tables 1 and 2 of the original paper (pp. 45–46), Africa's average growth shortfall from 1960 to 1994 was 1.7 percentage points on an annual basis, rather than the 2.5 percentage points reported in the original text (p. 43). Slower growth in the residual accounts for just over half of this shortfall, rather than two-thirds (as claimed on p. 44). Since the corrected shortfall is now close to what one obtains using PPP-adjusted real incomes (as reported on p. 42 and illustrated in Figure 2), footnote 1 in our original text, which "explains away" the apparent discrepancy, is irrelevant except as a testimonial to our powers of rationalization(!).

These errors are large by the standards of growth accounting, and they feed what is already in the literature a very negative view of African growth performance. We are grateful for the opportunity to correct them in print. Our basic messages, however, are robust to these corrections. Africa's growth shortfall has indeed been large, and slow productivity growth has been a very important contributor. These

■ *Benno J. Ndulu is Lead Economist, World Bank Resident Mission, Dar es Salaam, Tanzania. Stephen A. O'Connell is Professor of Economics, Swarthmore College, Swarthmore, Pennsylvania. Both authors are Research Associates of the Centre for Study of African Economies, University of Oxford, Oxford, United Kingdom.*

Table 1
Growth Decompositions: Unweighted Averages

Period	Growth in real GDP per worker	Contribution of: Physical capital	Education	Factor Productivity
		45 other developing countries		
1960–94	2.07	1.19	0.39	0.46
1960–73	3.14	1.44	0.33	1.34
1973–94	1.42	1.04	0.44	−0.07

Table 2
Growth Decompositions: Unweighted Standard Deviations

Period	Growth in real GDP per worker	Contribution of: Physical capital	Education	Factor Productivity
		45 other developing countries		
1960–94	1.84	0.87	0.14	1.20
1960–73	1.64	1.05	0.20	1.04
1973–94	2.48	0.96	0.18	1.82

observations represent central challenges for researchers in growth and development. We argue in the paper that the study of governance represents one promising focus for coming to terms with them—and that developments now underway in many African countries hold the promise of making them irrelevant.