

Institutional foundation of Inclusive Development in Africa
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Comments by **Carlos Nuno Castel-Branco**¹ on the paper by Professor **Machiko Nissanke**²

**“ENDOGENISING INSTITUTIONAL CHANGE FOR INCLUSIVE DEVELOPMENT IN SUB-SAHARAN
AFRICA: A COMPARATIVE PERSPECTIVE”³**

The prime objective of Professor Nissanke’s paper is “...to explore the paths towards building institutional foundations for inclusive development in Sub-Saharan Africa. In particular, the paper discusses, in light of conditions found in SSA, the process of institutional changes required for facilitating inclusive development...” (page 4). This is, of course, a huge enterprise that, under certain analytical conditions, could be of great importance to advancing the understanding and the debate of key questions related to economic and social development in Sub-Saharan Africa. Professor Nissanke pursues this objective by relating her study with two recently advanced theses on institutions for development, namely the *extractive versus inclusive* and the *endogenous* economic and political institutions for development (page 4).

My comments on this paper are organized around two broad main parts, one that discusses the theoretical underpinnings of the inclusive-endogenous development process and institutional analysis (the analytical framework), and another that tries to describe Africa and Asia in comparative perspective relative to this analytical framework.

Analytical framework

Although Professor Nissanke explicitly defines the theses her paper is related with, there is no clear explanation about why these theses are preferred to others in discussing endogenous institutions for development. There are competing approaches, such as, for example, Mushtaq Khan’s and Ha-Joon

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Chang's views of institutions for development,⁴ which emphasise the process of learning and historical specificity, and do not restrict institutions to property rights and transaction costs. These characteristics could make these two approaches particularly relevant to an institutional discussion of capacity development for policy analysis. My main point, however, is not to argue for the inclusion of Khan's and/or Chang's competing approaches to the debate, but to point out that it is not clear, at least for me, from the current version of the paper, why such a narrow set of the literature on institutions was selected for the discussion and how it relates to broader research into this field.

Another issue is that the literature on institutions is very vague about what the institutions debate is about. The "rules of the game", as institutions are often defined, is not a useful concept – what does it mean? Which game is being played and why, and where do the rules come from? Without knowing what the debate is about, it is very difficult to learn anything from the debate.

The institutions literature seems to be trying to find a substitute for social theory and political economy analysis of growth and development processes. Institutions are a sort of black box, the new coefficient of ignorance, which is supposed to explain differences in economic and social performance. However, unequal development, social and economic differentiation, conflict and contestation, power and struggle for power, monopolies and scale, adoption of political, social and economic options, the shape and dynamics of markets, the relationship between the state, capital and labour, the characteristics and dynamics of property rights and how they change over time, gender relations, higher or lower elasticity of poverty levels with respect to economic growth, inequality, and so on, are all explained by, and cannot be explained otherwise, by social theory and political economy analysis of concrete historical processes of the penetration, formation and development of capitalism. For this, one does not need to create an undefined and undefinable concept, like institutions or social capital, or the like. Furthermore, "institutions" cannot be the (or an) explanatory variable, as the issues covered by property rights, social capital, markets, the state, social rules, culture, and so on, are social issues, historically specific and need to be explained.

The literature on institutions reviewed in Professor Nissanke's paper tend to neglect the historical analysis of the economic, social and political processes and contexts under which "institutions" emerge, develop and are replaced.

As Professor Nissanke clearly, and quite correctly, stated, the aim of studying institutions for development is to show that there are different ways of doing things, and that one need not try to find

⁴ Khan, M. 2001. The new political economy of corruption. in Fine, B., C. Lapavistas and J. Pincus (eds.). 2001.; Khan, M. 2000a. Rents, efficiency and growth. in Khan, M. and Jomo K.S. (eds.). 2000.; Khan, M. 2000b. Rent-seeking as a process. in Khan, M. and Jomo K.S. (eds.). 2000.; Khan, M. 1995. State failure and weak states: a critique of new institutionalist explanations. in Harriss, J., J. Hunter and C. M.9 Lewis (eds.); Khan, M. and Jomo K.S. (eds.). 2000. Rents, Rent-seeking and Economic Development: Theory and Evidence in Asia. Cambridge University Press: Cambridge; Chang, H-J. 1996. The political economy of industrial policy. MacMillan: London and New York.

blueprints to be replicated out of success cases. Replication is not the issue, but learning that there is a wide variety of options, models and solutions, and that experimentation may be the way forward.

If Professor Nissanke is right about her focus on learning about variety and on experimentation rather than on the replicability of experiences, then the questions that arise are where do the economic, political and social goals, and capacities to pursue such goals, come from and why are things done in different ways? These questions need to be addressed with the help of detailed investigation of patterns of accumulation (with their historically specific political, social and economic processes of class formation, development and conflict in relation to organization of production and finance and technological development).

However, the literature reviewed in the paper does not relate to any historical specificity of modes of production, and this sterilises the debate, as development studies tend to become a game theoretical, rational debate, rather than a social sciences, political economy process. The analytical point of departure tends to be located on the value-norm of what is good or bad for development, at the expense of detailed historical description and understanding of what is going on and why, based on political economy analysis, historically contextualised, of real social, economic and political processes of change, struggle and differentiation. In particular, the perspective of social relationships and organization developing within the process of production, differentiation and accumulation, in relation to both social, political and economic struggle and technological change embedded in such struggle, is lost from the framework of analysis. Hence, this literature cannot help much the learning and experimentation that Professor Nissanke is trying to focus on. Therefore, it is not clear, for me, what are the key and specific questions and lessons that can be taken from this literature, and in which way they represent a substantial advance for understanding institutions for development in Sub-Saharan Africa or elsewhere.

In my understanding, the institutional literature reviewed suffers from two further major weaknesses. First, it seems to be based on the assumptions of methodological individualism that characterise neo-classical economics. This creates two types of tensions, namely: between institutions as social processes or as individuals; and between the social process of generating institutions and the individuals regulated or served by such institutions, or builders of institutions. This is not a very useful framework for learning anything particularly interesting about social and economic experimentation.

Second, institutions are perceived as ways to increasing economic efficiency. In Professor Nissanke's paper, economic efficiency is equated with sustained growth cum sustained inequality and poverty reduction and increased social cohesion. Hence, experiences that depart from, or do not achieve, such desirable type of economic efficiency are explained as resulting, at least partially, from failure to develop inclusive, endogenous institutions (this is, for example, the case of predatory behaviour of institutions, however this is defined). But if these failures are so generalized across African countries, as argued in the paper, and across most of the countries at different stages of capitalist transformation,

as argued in the broader literature, then there might be a case to ask whether predatory institutions (however they are defined) are not the norm, resulting from endogenous social development in specific stages and under specific circumstances of capitalist accumulation. In other words, there might be a case to question whether capitalism could develop (and whether there is any historical case in which it has developed) out of, and contribute to reinforce, pro-poor, just, orderly, socially cohesive and mostly egalitarian societies. If capitalism involves expropriation, reorganization and redistribution of rents and property, proletarianisation, creative destruction of modes or forms of production, expansion and competition, accelerated innovation, economies of scale, monopolies and globalization, there is nothing orderly, just, egalitarian, socially cohesive and non-predatory about such processes, nor in Africa, Asia, or anywhere else, nor now or ever.

So far, I have argued that the sub-set of the institutions literature reviewed is too narrowly mainstream and not particularly relevant for the goals of the paper, and too vague such that it is difficult to understand what the debate is about. Furthermore, I have argued that the issues that the institutions literature tries to cover are better understood within the political economy analysis of the process of penetration, formation and development of capitalism in specific historical conditions, which the institutions literature does not do.

My last point about the analytical framework of Professor Nissanke's paper is related to the concept of "*pattern of growth*". The paper raises the very relevant issue that for sustaining growth and development (however defined), the *pattern of growth* is as, or more, relevant than the rate of growth, and ultimately has a bearing on the sustainability of high, long term rates of growth. This is a very important point. Some of the key economic literature on Mozambique, Tanzania, Kenya and South Africa, for example, has been focused on the critique of *patterns of accumulation or growth*, as political economy analysis, for the last three decades or more⁵. The problem with Professor Nissanke's paper is that the literature discussed equates *pattern of growth* almost solely with *distribution* (be it defined by ex-ante *inclusiveness* or ex-post *redistribution*, or both): "...the *pattern of growth*, i.e the nature and *pattern of distribution generated in growth processes*, does matter a great deal indeed." (page 11).

Of course, different schools of thought define *pattern* (of growth, of accumulation) and its bearings on social and economic development and broad welfare with respect to what they define are the key issues in economic growth and development. For example, neo-classical economists, if they were

⁵ See, for example, Sender, J. and S. Smith. 1986. *The development of capitalism in Africa*. Methuen: London and New York; Fine, B. and Z. Rustomjee. 1996. *The political economy of South Africa: from Minerals-Energy Complex to industrialisation*. Westview Press: London; First, R. 1983. *Black Gold*. Harvester Press: London; Lawrence, P. (ed.). 1986. *World recession and food crisis in Africa*. James Currey: London; Kitching, G. 1980. *Class and economic change in Kenya: the making of an African petite bourgeoisie 1905-1970*. Yale University Press: Mew Haven and London; Castel-Branco, C. 2010. *Economia extractiva e desafios de industrialização em Moçambique*. In Brito, L. *et al* (eds.) *Economia extractiva e desafios de industrialização em Moçambique*. IESE: Maputo: 2002a. *An investigation into the political economy of industrial policy: the case of Mozambique*. Unpublished PhD Thesis. Depart. of Economics of the School of Oriental and African Studies (SOAS), Univ. of London; and 2002b. *Economic linkages between Mozambique and South Africa*. (mimeo); O'Laughlin, B. 1981. *A questão agrária em Moçambique*. *Estudos Moçambicanos* 3, pp. 9-32. Centro de Estudos Africanos (CEA): Maputo; Wuyts, M. 1989. *Money and planning for socialist transition: the Mozambican case*. Gower: Aldershot.

interested in *patterns* at all, would probably emphasise factor intensity and degree of market distortion and of individual freedom, such that social and economic welfare would be derived from perfectly functioning markets and associated marginal returns to each factor of production, low inflation and full employment, or from rational correction of market failure in a world of imperfect markets. Structuralist economists focused on industrial transformation, like the late Alice Amsden (1994) and Ha-Joon Chang (1996),⁶ would emphasise the *pattern of political and economic linkages* and of *allocation of capital* that accelerate learning, coordination and productivity increase, which would yield higher wages as acceleration of productivity gains would allow for increased nominal wages whilst the wage/output ratio would remain competitive. Kalecki (1963 and 1954)⁷ would discuss the macroeconomic balance between accumulation (capital formation) and consumption, arguing that broad based social and economic welfare is embedded in production structures in two ways, namely: how they promote broad based employment, and how they contribute to lower the cost of basic consumer goods, such that real wages can increase whilst nominal wages are kept competitive. Marxist economists would focus on the *pattern of accumulation of capital*, that would entail the analysis of the process of production, expropriation, accumulation and utilisation of surplus, under historically specific social, economic, political and technological conditions of industrialization, with the pattern of distribution being determined in the production process and through social, economic and political struggle, crisis and restructuring. So, how *pattern of growth* is defined matters a great deal when one asserts its importance in economic analysis and attempts to derive policy lessons from the analysis.

There are several limitations with the *distributive* definition of the *pattern of growth*, such as, for example, the effective separation of production and distribution, the vague concept of distribution and the over dependency of the role of distribution on moral and ethical social preferences.

A crucial problem with the distributive definition of the pattern of growth is the reliance of this approach on the argument that inequality, measured by the Gini Coefficient or by any other measure of nominal income distribution, is the filter that translates growth into poverty reduction, automatically. Quite apart from the fact that growth, inequality and poverty need to be explained by the same social process that explains the relationships between them, there are other problems with this analysis. Standards of living are related to real, not nominal, income distribution; lower income groups spend a higher than average proportion of their income on wage or basic consumer goods and services, such that a key channel for translating growth into poverty reduction is how prices of food and other wage goods and services perform relative to average consumer prices, and how competitive, in nominal wage/output

⁶ Amsden, A. 1994. *Why isn't the whole world experimenting with the East Asian model to develop? Review of the East Asian miracle*. World Development 25(4), pp. 469-80; Chang, H-J. 1996. *The political economy of industrial policy*. MacMillan: London and New York.

⁷ Kalecki, M. (1954) *The Problem of Financing Economic Development*, pp. 24-44 in J. Osiatynsky (ed.), 1993. *The Collected Works of Michal Kalecki: Volume V Developing Economies*. Oxford: Clarendon Press; Kalecki, M. (1963) *Problems of Financing Economic Development in a Mixed Economy*, pp. 98-115 in J. Osiatynsky (ed.), 1993.

terms, labour is (Wuyts 2011a, b and c and 2001).⁸ This is, one needs, with the same set of equations, to look at both job creation and the standards of living provided by jobs. Lower relative prices of wage goods and services and higher labour productivity combined to make broad based, labour intensive, industrialization *cum* sustained poverty elimination possible. The question, then, is what is the economic policy that is simultaneously consistent with lowering the costs of wage goods (therefore, raising the real wage), and lowering the labour/output ratio (therefore, making labour competitive). Kaleckian economics is useful to bringing about a unified macroeconomic analysis of patterns of production and distribution, looking at distribution and consumption as part of the balances that may or may not sustain reproduction and accumulation of capital.

What are we comparing?

The second part of the paper summarises broad statements of the literature about the experience of Sub-Saharan Africa and East Asia, calling attention to the differences in institutions and economic and social performance.

As the literature that is researched and summarised, this part of the paper has a couple of fundamental weaknesses. First, it looks at Africa and East Asia as two homogenous individuals, and yet there is a whole branch of literature (not sufficiently discussed in this paper) that looks in detail at particular countries, particular cases within countries and regions, and over particular periods of time. As it is, the paper makes generalizations that are not useful for a deeper understanding of Africa or East Asia and that do not capture key important lessons from either. There is no such a thing as an average Africa or a typical Africa, nor a single model of East Asian development. I would rather have a detailed, historically sound, political economy discussion of Tanzania or Mozambique or Ghana (or all of them), compared with a similarly detailed study of South Korea, Japan and Malaysia, than a generalization that is so aggregated and general that it eliminates the variances, nuances and differences and, therefore, cannot say much about any particular issue.

The second problem is that the debate on Africa and Asia lacks historical perspective. Often, the literature on African development presents a hopeless case of steady or sharp decline since independence. However, quite apart from fundamental disagreements about what may have caused such failure (if it has occurred) and how to study it, economic and social performance of African

⁸ Wuyts, M. 2011a. *Does economic growth always reduce poverty? Reflections on the Mozambican experience*. Boletim IDEIAS no. 35E (April). IESE: Maputo; Wuyts, M. 2011b *Growth, Employment and the Productivity-wage Gap: Revisiting the Growth-Poverty Nexu'*, pp. 437-447 in *Development and Change. Forum 2010-2011, Vol 42(1)*, January; Wuyts, M. 2011c. *The working poor: a macro perspective*. Valedictory Address as Professor of Applied Quantitative Economics delivered on Thursday 8 December, 2011 at the Institute of Social Studies, The Hague, The Netherlands; Wuyts, M. 2001. *Informal economy, wage goods and the changing patterns of accumulation under structural adjustment – theoretical reflections based on the Tanzanian experience*. *Cambridge Journal of Economics*, 25(3), 417-438.

countries has varied significantly from country to country and over time. Additionally, the political experiences of African countries are also very different from each other. If one wants to draw experiences from East Asia to Africa, or compare the regions, one needs to understand the large variety of African experiences, across countries and regions, and over time, and how these experiences are rooted in history, from colonialism to regional blocks to domestic process of development of capitalism.⁹

The same applies to East Asian countries. Until 35-40 years ago, most of the Asian countries (including some of the big industrial stars as South Korea and Taiwan) were seen as hopeless cases of corruption, poverty and predatory elites, all of these explained, in the literature, by the impact of the very same cultural conditions that nowadays are used to explain their success. Taiwan and South Korea were, at some point, corrupt military dictatorships. According to some literature, agrarian reform and the resulting changes in class dynamics and patterns of accumulation were dictated by the focus on industrialisation associated with a multitude of factors (military and geo-political reasons, need to mobilise domestic resources and to free and feed cheap labour for massive industrialization, need to build state legitimacy and protect state power, amongst others), rather than by society preference for equity and equality.¹⁰ For example, Chang (1996) argues that as late as the late 1970s, the South Korean government was sending civil servants to be trained in Pakistan, because of the superior technical, administrative and informational capacity of Pakistan's civil service and its significantly lower levels of corruption.

To learn anything from East Asia to Africa, we need the historical detail and the historical framework that the current paper does not provide. This involves understanding the specificities of the different experiences in historical perspective and within the framework of capitalist accumulation at country, regional and global level. We need to learn not only about good or bad institutions, but above all about the historical processes and contexts they are part of. We need to unpack "Africa" and "East Asia". We

⁹ Sender, J. and S. Smith. 1986. *The development of capitalism in Africa*. Methuen: London and New York; Fine, B. and Z. Rustomjee. 1996. *The political economy of South Africa: from Minerals-Energy Complex to industrialisation*. Westview Press: London; First, R. *Black Gold*. Hervester Press: London; Lawrence, P. (ed.). 1986. *World recession and food crisis in Africa*. James Currey: London; Kitching, G. 1980. *Class and economic change in Kenya: the making of an African petite bourgeoisie 1905-1970*. Yale University Press: Mew Haven and London; Castel-Branco, C. 2010. *Economia extractiva e desafios de industrialização em Moçambique*. In Brito, L. et al (eds.) *Economia extractiva e desafios de industrialização em Moçambique*. IESE: Maputo.

¹⁰ Chang. 1996; Gore. C. 1996. *Methodological nationalism and the misunderstanding of East Asian industrialization*. UNCATD discussion paper 11; Limqueco, P. et al. (eds.) 1983. *Neo-marxist theories of development*. Croom Helm: London; Kholi, A. 1994. *Where do high growth political economies come from? The Japanese lineage of Korea's 'developmental state'*. *World Development* 22(9), pp. 1269-93.; Jenkins, R. 1992. (Re-) interpreting Brazil and South Korea. in Hewitt, T. et al (eds.). 1992. 246; Jenkins, R. 1991a. Learning from the gang: are there lessons for Latin America from East Asia? *Bulletin of Latin America Research* 10(1), pp. 37-54. Jenkins, R. 1991b. The political economy of industrialisation: a comparison of Latin America and East Asian newly industrialising countries. *Development and Change* 2, pp. 197-231.; Jones, L.P. and Il Sakong. 1980. *Government, Business and Entrepreneurship in Economic Development: The Korean Case*. Harvard University: Harvard, Cambridge, Massachusetts and London; Kim, Eun Mee. 1997. *Big Business, Strong State: collusion and conflict in South Korean Development, 1960-1990*. State University of New York Press: Albany; Fine, B. and Z. Rustomjee. 1996. *The political economy of South Africa: from Minerals-Energy Complex to industrialisation*. Westview Press: London.

need to learn about Africa (unpacked) before we can learn from East Asia to Africa. And we need to learn about how capitalism develops and about the struggles around the formation and dominance of industrial and financial capital in the process of accumulation.

Finally, it is not clear to me why research on African endogenous development of inclusive institutions should start from a normative definition of what these institutions need to be, rather than start from setting a research framework to understanding what the hugely diversified development processes, including institutions, in Africa are.

Conclusion

Critics of free market approaches to development tend to focus on the reverse of the coin and promote, sometimes with equal *fundamentalism*, the virtues of state intervention, encapsulated in what became known as industrial policy states. The argument then follows that there is no progressive development without a strong state capable of developing and pursuing industrial policy. The state, therefore, becomes the dominant institution.

However, this statist approach suffers from four major weaknesses. First, this vision of state led development is as ahistorical as the neo-classical perspective of markets, and does not account for the huge number of failed experiences of state led industrialization. Second, it accepts the terms of the neo-classical debate by separating the state from the markets. Third, it defines industrialization and industrial transformation within very narrow boundaries, the creation of a national economic sector called manufacturing industry, which fails to capture the dynamics of capitalist transformation and redefines economic policy success solely in terms of construction of national industrial capitalism. Fourth, as a result, labour is excluded from the analysis.

There are some basic observations from historical experience that we should take into account. First, the existence of strong state is not synonymous with industrialization, even if there is no single case in Human history of successful capitalist industrial transformation that took place without a strong state. Second, the concept of strong state is very vague. Third, the strength of the state comes from class structured conditions, historically specific, that change over time.

Thus, we need more than an “inclusive institutions approach” or a “strong state approach” to make some progress in the debate about Sub-Saharan Africa. Altogether, we need more than a behavioural blue print, a catch phrase, a buzzword or a norm. We need a framework for investigation that is capable of describing and explaining what is there (before pointing to what is missing), and then is capable of finding the points of conflict and paradoxes that may work as anchors for change.

I think that a political economy framework is required to investigate the experiences and experimentations in Asia and Africa, and I think that the institutions literature reviewed does not provide such a framework. And I think that developing such a framework and setting clear questions for research would be a more useful and focused way of trying to address the main goals of Professor Nissanke's paper.

To this effect, it would be interesting to review Fine and Rustomjee (1996)¹¹ critical discussion of the East Asian debate and analysis of the South African mode of capital accumulation. Their methodology, which focuses the analysis around the linkage-agent dynamic relationship, would be an interesting point of departure.

When comparing East Asia and Sub-Saharan Africa, it would be important to keep the focus on the historically specific conditions for capital accumulation, over time and across different regions. Two interesting questions may help this investigation, namely: why and how did industrial capital become dominant in capitalist accumulation East Asia (Hamilton, 1983);¹² and where do high growth political economies and states come from (Kohli, 1994; Fine and Rustomje, 1996)¹³.

¹¹ Fine, B. and Z. Rustomjee. 1996. *The political economy of South Africa: from Minerals-Energy Complex to industrialisation*. Westview Press: London.

¹² Hamilton, C. 1983. Capitalist industrialisation in the four little tigers of East Asia. in Limqueco, P. et al (eds.) 1983. *Neomarxist theories of development*. Croom Helm: London.

¹³ Kohli, A. 1994. Where do high growth political economies come from? The Japanese lineage of Korea's "developmental state". *World Development* 22(9), pp. 1269-93; Fine, B. and Z. Rustomjee. 1996. *The political economy of South Africa: from Minerals-Energy Complex to industrialisation*. Westview Press: London.