

# The Political Economy of Control Regimes

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Our review of the choices made by Africa's governments in the post-independence era revealed a variety of policy "syndromes." Among the more commonly chosen is what we have labeled a "control regime." When imposing a control regime, a government seeks to displace market forces as the primary agency for governing the economy. Either by manipulating the structure or operation of markets, or by replacing private markets with public bureaucracies, they seek to shape the way in which labor and capital are allocated among productive activities; commodities produced and distributed; services provided; and incomes determined.

This chapter focuses on the political economy of control regimes. It describes the forms of intervention employed and the forces that motivate their selection. It focuses in particular on the impact of these regimes on agriculture: the largest single sector of most economies in Africa and the one most adversely affected by this mix of policies.

## Prices in the Macro-economy

Almost all governments in Africa created commercial, industrial, and agricultural banks. When imposing regimes, however, governments targeted privileged projects and sectors and the costs of subsidized capital for those who invested in them. To encourage investment, they imposed low interest rates, either by constraining the lending practices of private banks or by creating state banks to offer low cost loans. The result was financial repression. As shown in Table 1, under governments judged to have imposed control regimes, the mean ex-ante real deposit interest rate was lower than under governments whose policies were judged to have remained "symptom free."

	Control Regimes	Other Syndromes	Syndrome Free
Mean	-60.4	-296.1	-5.2
Median	-5.3	-3.5	-0.8
Count	176	94	147

Outside the CFA zone, African governments control the means of payment. By setting the rate at which the local currency could be exchanged for foreign, they could separate local from international prices. One measure of the magnitude of this intervention is the level of the black market premium that then prevailed in the market for foreign exchange. As shown in Table 2, in economies subject to control regimes, the mean level of that premium was more than twice the level in that in economies free of controls.<sup>1</sup>

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<sup>1</sup> Given the magnitude of the within-group variance, the difference in means implies an F-statistic of 5.44, significant at the .02 level.

	Control Regimes	Other Syndromes	Syndrome Free
Mean	162.0	149.5	23.8
Median	50.0	26.1	9.6
Count	335	197	316

## Interventions by Sector

Governments that adopted control regimes were not only more likely to distort prices fundamental to the macro-economy; they were also more likely to champion sectoral policies.

### *Industrial Sector*

When creating control regimes, governments intervened heavily in the industrial sector. Data from the World Bank study (1994, p. 234) suggest that over one third secured monopoly rights over mineral production, compared with but one-quarter of those judged “symptom free”. Similarly in the cement and textile industries: The World Bank’s data (1984) indicates that governments that adopted control regimes were half-again more likely to form state monopolies.

While governments that impose control regimes were no more likely to monopolize the supply of insurance, as seen in Table 3, they were far more likely to create public sector monopolies in banking and telecommunications. They were also more likely to supply public transportation for those who dwelt in town.

Table 3: Government Monopolies Over:  
(Number of Countries)

Countries that adopt	Banking	Telecom- munications	Insurance			Urban Transport	Total
			Personal	Import	Shipping		
Control Regimes:	8	19	9	7	5	11	21
Other Policies:	3	5	4	3	1	2	7

Source: Data from: World Bank (1994).

### *Agricultural Sector*

In its 1994 review of policy reform in Africa, the World Bank noted whether the pre-reform policies of a sample of 28 governments placed restrictions on the purchase and sale of agricultural commodities and assessed the security of their contracts. As seen in Table 4, among governments that we judged to have imposed control regimes, the World Bank judged one-half to have placed “major” restrictions on the purchase and sale of staple food crops.

Table 4: Intervention in Food Markets.  
(Number of Countries)  
Countries that Adopt

	Control Regimes	Other
Major Restrictions Limited	12	2
Intervention	5	0
No Intervention	4	5
Total	21	7

Source: Data from: World Bank (1994).

All 28 of the countries whose policies were studied by the World Bank maintained a monopoly over the purchase and exportation of the country's major cash crops. When governments adopted control regimes, however, many imposed an additional level of implicit taxation: as noted above, they artificially appreciated the value of the domestic currency. As noted in a variety of studies (most notably, perhaps, in (Krueger, Schiff et al. 1992)), the manipulation of the exchange rate powerfully and adversely impacts upon the earnings of those producing cash crops for export.

Governments also intervened in the market for food crops. The World Bank (1994) reports that virtually of the 28 governments in its sample imposed "extensive" price controls (p. 91). The better to provision consumers with low priced products, some governments took the additional step of seeking monopoly power in domestic food markets. Table 5 reveals that governments that were judged to have implemented control regimes more frequently secured monopoly standing than did others. As noted in studies by Killick (Killick 1978), Bates and Collier (Bates and Collier 1991), and others<sup>2</sup>, when governments created such monopolies, they employed their market power to provision urban consumers with low priced food. Examples would include the National Milling Corporation in Tanzania, which purchased and processed wheat and maize; the Sugar Board in Kenya, which produced and processed sugar and regulated its distribution; or the National Agricultural Marketing Board in Zambia.

Table 5: Government Monopolies in the Processing of:  
(Number of Countries)

	Wheat	Maize	Sugar	Vegetable Oil	Total
Countries that adopt					
Control Regimes:	11	6	12	8	21
Other Policies:	2	2	4	2	7

Source: Data from: World Bank  
(1994).

<sup>2</sup> See, for example, Dodge, D. J. (1977). Agricultural Policy and Performance in Zambia. Berkeley, Institute of International Studies, University of California.

And the classic reports of William Jones: Bank, W. (1975). Republic of Zambia: Agricultural and Rural Sector Survey. Washington D.C., The World Bank.

, Bank, W. (1982). Tanzania: Agricultural Sector Report. Washington D.C., The World Bank.

In efforts to control domestic markets, governments also inserted themselves between domestic consumers and external sources of supply.

Table 6: Government Monopoly Over the Importation of:  
(Number of Countries)

	Wheat	Rice	Sugar	Other Staple Food Crops	Vegetable Oils	Total
Countries that adopt Control Regimes:	10	13	13	8	8	21
Other Policies:	4	4	3	2	2	7

Source: Data from: World Bank  
(1994).

A major purpose of these interventions was to enable the government to use its regulation of the exchange rate to lower the cost of food in urban markets. Acquiring foreign exchange at the official price, the government agency then purchased rice, wheat, and other products abroad, which it then placed in the domestic market at prices lower than would have prevailed had the imports been made by private traders. Local producers of these products found thus themselves competing against government suppliers, who were advantaged by access to cheap imports. As seen in Table 6, such measures were more likely to have been taken by governments that adopted control regimes than by others.

To be noted and stressed is that the costs of the intervention were born by exporters, a portion of whose export earnings were appropriated at the official rate and used to subsidize the purchase of imports. In many African countries, agricultural products -- coffee, cocoa, cotton, or other cash crops -- numbered among the most important of these exports.

## The Economic Impact

To further assess the impact of control regimes, we can map the adoption of these policies onto the geographic distribution of Africa's economies -- coastal, landlocked, and resource rich -- and thus gain insight into the potential magnitude of the impact of policy choice upon Africa's growth performance. As seen in Table 7, governments in landlocked countries were more likely to adopt control regimes than were those with better prospects for growth, i.e. those on the coast or in possession of valuable resources. Nonetheless, in nearly fifty percent the country years, coastal economies, and in nearly forty percent, resource rich economies, were subject to control regimes.

Table 7: Control Regimes and Geographic Location

	(1970-1995)	
	Percent	No.
Landlocked	52.3	193
Coastal	49.6	183
Resource Rich	38.8	143
Total	42.7	

In their paper “Exploring African Economic Growth,” Fosu and O’Connell (Fosu and O’Connell 2005) seek to measure the impact of these policies on the actual performance of Africa’s economies. Examining data from 28 African industries over a forty year period (1961-2000), they control for the impact of rainfall and fluctuations in the growth rate of major trading partners. They also introduce controls for country specific effects – such as coastal location or resource endowment – and time specific effects – such as oil price shocks. Fosu and O’Connell (2005) find that economies subject to control regimes achieved a median<sup>3</sup> growth rate that lay nearly two percentage points below that achieved by economies governed by policies that were judged “syndrome free”.

Probing further, Fosu and O’Donnell (2005) explore the relationship between policy choices and growth spells. Defining a growth collapse as a fall in the 3-year centered moving average of growth below the no-growth (0.0%) level, they find the frequency of growth collapses under control regimes to be more than twice that under policy regimes that remained syndrome free (see Table 8).

Table 8: Distribution of Growth Performance  
by Syndrome  
(Percent of Row)

Panel A:		3 year Moving Average		
Syndrome Status		< 0	>=0	Total
Not Free Syndrome		49.3	50.7	100
Free		19.1	80.9	100
Total		39.5	60.5	100

Panel B:		5-Year Moving Average		
Syndrome Status		<2.5	>=2.5	Total
Not Free Syndrome		75.9	24.1	100
Free		47.5	52.6	100
Total		66.7	33.3	100

Panel C:		5-Year Moving Average		
Syndrome Status		<3.5	>=3.5	Total
Not Free Syndrome		80.7	19.3	100
Free		55.8	44.2	100
Total		72.6	27.4	100

Defining “medium” growth as the achievement of a five year moving average growth rate of 2.5%, Fosu and O’Connell (2005) find that in less than one quarter of the cases where governments adopted control regimes did economies attain medium rates of growth; by contrast, where policies were syndrome free, more than half attained a medium rate of growth. Economies ruled by governments whose policies remained syndrome free, they found as well,

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<sup>3</sup> Given the dispersion in the data, they employed a least absolute rather than a least squares deviation criterion, thus dampening the impact of outliers.

were more than twice as likely to attain high growth rates -- a five year moving average of 3.5% or more -- than were those ruled by governments that imposed control regimes.

## **A Closer Look**

To illuminate the processes that generate the aggregate statistics, it is useful to explore the manner in which government intervention impacted upon specific industries, forms, and markets.

### ***Manufacturing***

Seeking to promote industrial development in Tanzania, the government placed a high priority on the local production of consumer products, such as clothing and footwear. The government therefore created the National Textile Corporation (TEXCO), which invested in a series of mills that produced cloth, blankets, and packaging, and the Tanzanian Leather Associated Industries (TLAIA), which invested in two shoe factories: one in Morogoro and the other in Dar Es Salaam. None of the firms operated profitably. Failing to generate profits, the management skimmed on maintenance; it lacked access to the foreign exchange with which to import of spare parts. Because of a lack of revenues, the managers failed to pay suppliers of raw materials, of services, or of the water and electricity necessary to drive looms and lathes. The firms survived by securing loans from the government: funneling money into the shoe plants, one minister declared, “was like pouring water down a leaky tire”(McHenry 1994). From 1967, the date of Tanzania’s official commitment to socialism, to 1982, when that commitment began to erode, public sector firms increased their share from 15.5 to 52.7% of manufacturing employment. Despite their failure to generate profits, the government continued supporting them, fearing to lay off the thousands of workers that they employed (McHenry 1994).

### ***Public Services***

Governments employed labor not only to work in publicly owned firms but also to staff public services: schools, post and telecommunications, public utilities, and the like. Those that imposed control regimes also hired on the workers necessary to monitor, to inspect, and to enforce the regulations they imposed. Among the most important of these regulations were those governing retail prices.

The inefficiency of domestic firms and the barriers imposed on imports from abroad led to shortages; in the face of price controls, the result was the formation of black markets, where goods could be secured although at higher prices. As central banks accommodated rising deficits – a significant portion of which resulted from covering the losses of public sector firms -- the average wage earner’s real income declined. According to the International Labor Organization, in Tanzania, it fell by nearly one half between 1969 and 1980 (cited in (McHenry 1994), Table 5.1). Many workers therefore found it necessary to supplement their employment in the public services with private sources of income.

Charged with preventing the importation of products that were manufactured locally, a custom’s official could instead wave such goods through, pocketing a fee for his “service.” Or charged with overseeing the pricing of products produced at home, an inspector could share with the managers of firms the profits to be made from selling those products in the black market.

Governments that imposed control regimes recruited greater number of workers. To finance the costs of public employment, they had to extract resources from the private economy through conventional means of taxation or by bidding against private citizens by printing money. As the real value of the incomes of workers declined, the workers then imposed a second form of taxation: they became corrupt. The rise of corruption eroded not only the economic foundations of control regimes but also the political legitimacy of the governments that imposed them.

## ***Farming***

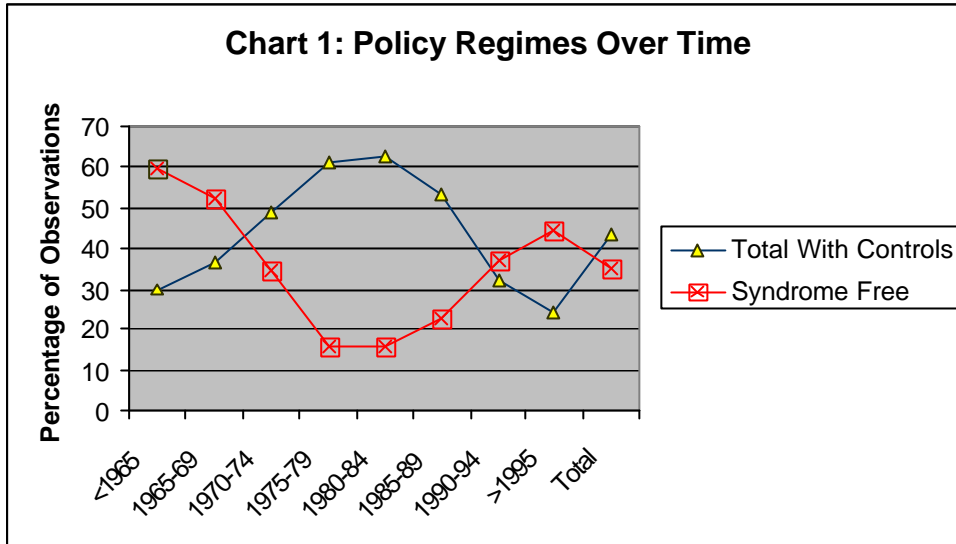
Governments that imposed control regimes formed monopsonies with which to purchase export crops; offering farmers a low domestic price, they resold cash crops at prices prevailing in global markets. As best illustrated, perhaps, by the cocoa industry in Ghana, one result was the smuggling of crops to neighboring territories – Togo and Cote d'Ivoire – where more favorable prices prevailed. Many farmers, however -- especially those located in Ghana's interior -- could not avail themselves of this remedy and another result, therefore, was a decline in income of farmers (Beckman 1976).

Similar patterns arose in markets for food crops. In Tanzania, Mozambique, and Ethiopia, governments gathered farmers into villages which they provided with land, tools, and credit. With farm production now concentrated in circumscribed locations, the governments sought to control the purchase and distribution of farm products, funneling them through "single channel" marketing structures, such as marketing boards or cooperative societies. Governments thereby sought to procure for urban consumers ample and affordable supplies of food. The result of this policy was, perversely, the opposite. As documented by Lofchie (Lofchie 1989), as the bureaucracy charged with procuring grain increased in scope and size, the amount of grain that it marketed declined (see also (Hyden 1981). One interpretation is that production declined; given the forceful relocation of peasant families from private farms to collective villages, this interpretation may be correct. Another is that when confronted with an official market offering low prices for farm products, the producers simply sold their products in unofficial markets, thereby eluding those who monitored the quantities and regulated the prices of agricultural products.

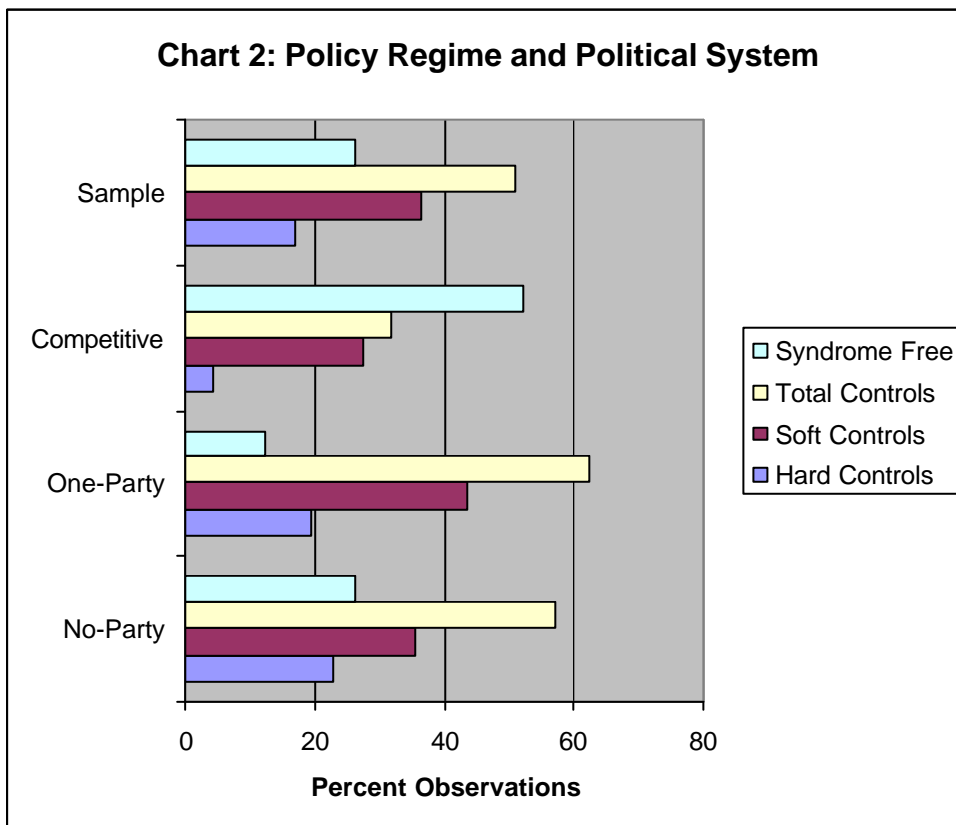
Writing about Mozambique, Pitcher (2002) notes similar trends. In the northern part of the country, "villagization" led to the relocation of peasant families in sites distant from their cashew trees (Pitcher 2002), p. 96. Not surprisingly, the export of cashews declined. And in the southern portion of Mozambique, the formation of communal villages so disrupted production that shortages of food and high prices for farm products became painfully common in the port cities and national capital, while at the same time, the welfare of the peasantry declined (see also (Bowen 2000)). Indeed, it declined to the point, Pitcher notes, where significant portions of the peasantry shifted their support from FRELIMO, the governing party, to RENAMO, an armed movement sworn to its forceful overthrow (see also (Hall and Young 1997) (Schutz 1995)). The impact of control regimes thus weakened not only the economy but also the polity of Mozambique.

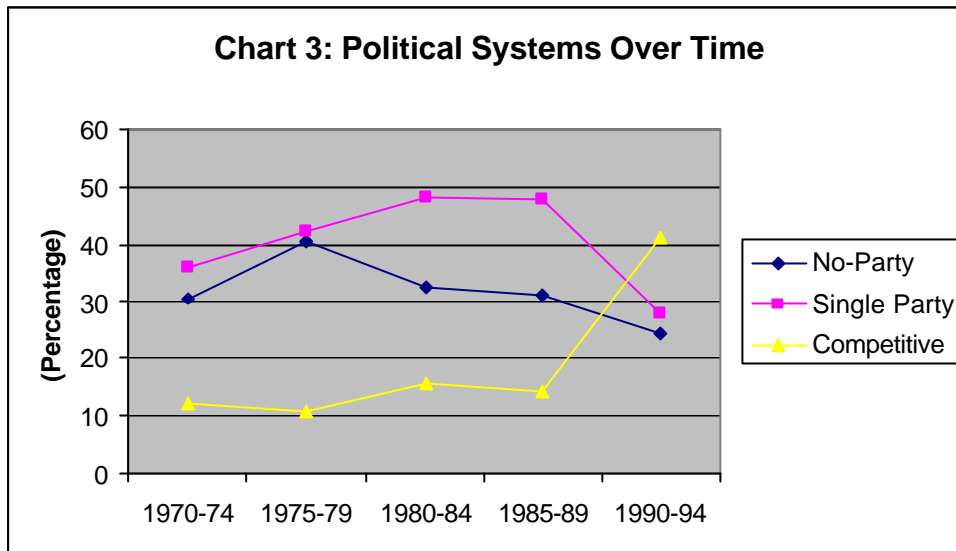
## **Temporal and Political Correlates**

As seen in Chart 1, the tendency to adopt control regimes has varied over time. Governments in the mid-1970s through to the mid-1980s were more likely to adopt control regimes than were governments in the 1960s or 1990s.



As seen in Chart 2, control regimes were more likely to be adopted by authoritarian governments: no party governments (most often military) and single party systems. Governments in countries with competitive political systems were more likely to adopt policies that were “symptom free.”





Over the post-independence history of Africa, not only policy performance but also political institutions varied over time (Chart 3). In particular, single party systems became more scarce and competitive systems more common toward the end of the 20<sup>th</sup> century, just as interventionist and command and control policies fell from favor.

Because both policy choices and institutions co-varied with time, any relationship between them may be artifactual. As demonstrated in Table 9, however, the relationship remains significant even when controlling for time.

Table 9: Fixed Effects Logit Estimates

	1 Control Regime	2 Syndrome Free	3 Control Regime	4 Syndrome Free
No-party	1.030 (2.53)	-0.169 (-0.35)		
Single Party	2.730 (6.25)	-1.869 (-3.75)		
Military Government			2.286 (5.44)	-0.644 (-1.29)
1975-79	1.212 (3.02)	-4.600 (-4.18)	0.475 (1.16)	-3.977 (-4.57)
1980-84	1.222 (3.01)	-4.124 (-4.8)	0.303 (0.73)	-3.440 (-4.41)
1985-89	-0.149 (-0.4)	-1.013 (-2.28)	-1.228 (-3.01)	-0.552 (-1.12)
1990-94	-2.509 (-6.41)	0.925 (2.59)	-1.228 (-3.01)	1.792 (4.23)
>1995	-2.579 (-4.00)	1.222 (2.04)	-3.749 (-7.94)	2.432 (3.49)
No. Observations	675 17	525 19	620 14	499 16

Note: Z-scores in parentheses. In computing standard errors, clustered by country.

Source: D:\AERC\Controls\Controls\_Simple1A.log

The coefficients on the period dummies capture the temporal pattern of policy choice. The reference category is the period before 1975. The estimates in equations 1 and 3 confirm that governments were significantly more likely to adopt control regimes in the late 1970s and early 1980s they were 1970-74 and that they became significantly less likely to adopt such policies in the 1990s. The coefficients in equations 2 and 4 suggest that the trajectory marking the adoption of symptom free policy making traced a mirror image of that traced by the adoption of control regimes.

Of central interest are the coefficients on the institutional measures. In equations 1 and 2, the dummy variable indicating the presence of a competitive political system is subsumed by the constant term. The coefficients on the “no-party” and “single party” variables indicate that the adoption of control regimes is significantly associated with the abandonment of political competition and that single party systems are far less likely to adopt policies judged to be “syndrome free” than are those with competitive political systems. The coefficient on the dummy variable that indicates that the head of state is from the armed forces suggests (in equations 3 and 4) that military governments are significantly more likely to impose control regimes than are civilian. Taken together, the estimates in Table 9 suggest a relationship between authoritarian forms of government and the preference for political control over private markets.

### ***A Closer Look***

**Early adopters:** The first countries to adopt control regimes included such West African states as Ghana, Guinea, and Mali, along with such East African nations as Tanzania and Uganda. They also included Congo (B). The leaders of these governments viewed themselves as socialists and adopted much of the language and some of the institutions of command and control economies.

The commitment to socialist policies at home was matched by their commitment to non-alignment abroad. In the years immediately following independence, Cold War rivalries intruded into Africa, as evidence most vividly, perhaps, by the intervention of the great powers in the Congo in the early 1960s. The independence that Africa had just won now appeared threatened. The states that adopted control regimes at home numbered among those who most vigorously protested their intervention and urged African states to pursue a policy of non-alignment.

These governments also numbered among the most active champions of the cause of racial justice in Southern Africa. They channeled funds to liberation movements; maintained schools in which their leaders could study the histories of other liberation struggles; and gave asylum to leaders who faced jail – or worse – at home. Several provided bases where their cadres could train in preparation for deployment in the field.

The choice of economic policies by these “early adopters” of control regimes fits into a broader political profile. The governments that adopted control regimes sought Africa’s liberation and championed the cause of African unity. They stood among the charter members of the so-called Casablanca group. Their adoption of interventionist economic policies appears to reflect their determination to transform Africa’s economies in order to underpin their political power.

**Embattled Reformers :** As noted above, the percentage of cases in which governments were judged to have adopted interventionist policies increased with time, running from roughly 30% at the end of the 1960s to over 60% by the end of the 1970s. A major reason for this change was the tendency of regimes that were, quite literally, embattled to adopt interventionist policies. Ethiopia and Somalia – two nations fighting each other – entered imposed “hard” control regimes. So too Chad, a nation engulfed in civic strife and fighting Libya, its northern neighbor. To these nations could be added Angola, Mozambique, and Guinea Bissau -- whose military forces in the mid-1970s defeated those of Portugal– and Rwanda and Burundi, where violence repeatedly erupted in the post independence period. The governments of these nations felt driven to override market forces in order to mobilize for war. Adding further impetus to their decision was the desire of some to signal their good faith to socialist countries abroad and thereby attract their military and financial backing.

In other instances, it is difficult to detect systematic reasons for the adoption of control regimes. In the case of Kenya, the reasons appear to derive from anxiety concerning food supplies; in that of the Ivory Coast, they appear to be associated with the launching of agricultural projects and industrial schemes following the coffee boom of the mid-1970s. Rwanda, Chad, and Burundi may belong to the class of “embattled regimes; Senegal, Madagascar, and Mauritius (1960-1970) clearly do not. In such instances, the reasons remain as idiosyncratic and therefore largely unexplained.

With the liberation of Southern Africa from minority rule, the burden of imperialism impacted less heavily upon the calculations of policy makers. And with the end of the cold war, there was less reason for Africa’s governments to propound domestic policies designed to advertise their independence from the west. In a survey of 17 African regimes, Crawford Young, writing in 1982 (Young 1982), explored their political beliefs and values and classified them as Afro-Marxist, Socialist, or Capitalist in orientation.

Table 10: Ideology and Policy Choice  
(Number Country Years)

	Control	Regimes	Total
Afro-Marxist		103	132
Socialist		53	62
Capitalist		45	130

Source: Young (1982).

As seen in Table 10, regimes classified by Young as Afro-Marxist or Socialist were more likely to implement economic controls than were regimes classified as capitalist. When socialist systems collapsed in Eastern Europe and the Soviet Union, the conviction that governments should displace markets waned. In the last decade of the 20<sup>th</sup> Century, both the geopolitical and intellectual climate thus changed. And by the end of the century, the presence of control regimes was reported in fewer than one quarter of the observations (see Chart 1).

## The Politics of Economics

The first section of this chapter addressed the content and impact of control regimes; the second, their incidence. While the first section emphasized the impact of policy choices on agriculture,

the second stressed the appeals of socialism, which offered an intellectual and political alternative to the doctrines of the West, from whose domination Africa sought to liberate itself.

In this section, we probe the political foundations of policy choice. As our point of entry, we highlight a paradox that lies just beneath the surface of the discussion thus far: socialist regimes, which place a high value on justice and equality, tended to adopt policies that lowered the economic wellbeing of the peasantry -- the poorest and most vulnerable portion of Africa's political economies. Addressing that paradox exposes the political forces that rendered the choices of policies an equilibrium, albeit one that proved highly undesirable.

### ***An Informative Paradox***

The discussion proceeds in several quick steps.

**In general:** Lying at the core of Africa's political regimes were the government, industry and organized labor. While accounting for less than 40% of the gross domestic product of a typical African state and less than 20% of the population, these urban-based interests nonetheless dominated policy making in the post-independence period.

Governments provided services and, for the most part, public services remained un-priced. Their biggest cost was labor. And to defend their budgets, governments therefore adopted policies that lowered the cost of labor.

Industries employed capital and labor to produce commodities. All else being equal, a decrease in the costs of labor results in an increase in profits. Industry therefore joined government in favoring policies that lower the costs of labor.

Labor too naturally favored policies that defended the real value of their incomes. Given the income of most wage earners in Africa, workers devote a large portion of their expenditures to food.

In seeking to stabilize the core coalition, governments therefore championed policies that secured low priced food.

**In particular:** Socialist governments aspire to the provision of higher levels of health care, education, and other services than do most other governments. As a result, they hire more workers. Socialist governments have been more likely to nationalize existing firms and to invest in new industries than have others. To a greater degree than other governments, their interests therefore align with those of industrial firms. As a matter of principle, socialist governments endorse the interests of workers. And as a matter of practice, socialist parties maintain close ties with organized labor and trade unions based in both private industry and the public services.

The implication therefore follows that socialist governments should be relatively unsparing of the interests of farmers.

Consider the magnitude of the disjuncture between principle and practice evidenced by socialist regimes.<sup>4</sup> Adopting policies that enabled them to stabilize the coalitions that keep them in power, socialist governments violated their commitment to equality. By doing so they bring into focus the political interests that drive policy preferences in post-independence Africa.

**The Political Origins of Policy Choice**

The defining attribute of no- and single-party systems is the absence of organized political competition. Regional inequality associates strongly with the adoption of authoritarian regimes: as seen in Table 11, military heads of government and no- and single-party systems are far more common in countries marked by regional inequality than in those that lack a so-called “privileged” region.

Table 11: Political System and Policy Choice  
(Percent of Country Years, 1970-95)

Privileged Region?	Military Head of State	No-Party System	Single-Party System	Competitive	Total Number
Yes	47	29	44	18	130
No	25	52	4	44	1065
Total No.	486	374	468	249	

Note: The difference in the totals by column and row arises from some states in some years not yet independent or in political collapse.  
Source: Jean-Paul/DMG-Simple

As shown in Table 12, when a country possesses a privileged region, it is more likely to adopt a control regime and less likely to adopt policies that are “symptom free.” One reason for this, the data suggest, is that when elites from the non-privileged region seize power, they impose such policies (Table 13). They appear to use the state secure resources from the better endowed portions of the economy.

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<sup>4</sup> This tendency has been noted by others. See, for example, Mitrany, D. (1961). Marx Against the Peasant. New York, Collier.

Table 12: Regional Inequality and Policy Choice

	1	2
	Control Regime	Syndrome Free
Privileged Region	1.963 (1.80)	-3.306 (-2.83)
1975-79	0.549 (2.32)	-1.355 (-3.32)
1980-84	0.591 (1.83)	-1.308 (-3.23)
1985-89	0.177 (0.52)	-0.66 (-1.76)
1990-94	-0.79 (-2.17)	0.22 (0.56)
>1995	-1.135 (-2.74)	0.471 (1.15)
Constant	-1.741 (-1.58)	2.315 (1.19)
No. Observations	1150 5	1150 6

Note: Z-scores in parentheses.

In computing standard errors, clustered by country.

Source: D:\AERC\Controls\Controls\_Simple1A.log

Table 13: Policy Choice and The Locus of Power

	Pooled		Fixed Effects	
	1	2	3	4
	Control Regime	Syndrome Free	Control Regime	Syndrome Free
President from Non-Privileged Region	1.006 (2.04)	-0.691 (-1.18)	0.034 (-0.09)	-1.933 (-3.84)
1975-79	0.661 (2.42)	-1.469 (-2.87)	1.686 (4.42)	-5.7 (-4.68)
1980-84	0.551 (1.32)	-1.16 (-2.22)	1.962 (4.77)	-3.897 (-4.70)
1985-89	-0.058 (-0.13)	-0.316 (-0.70)	0.465 (-1.37)	-0.918 (-2.20)
1990-94	-1.105 (-2.57)	0.451 (0.98)	-1.806 (-5.33)	0.783 (2.22)
>1995	-1.412 (-3.02)	0.677 (1.46)	-2.616 (-4.31)	1.351 (2.23)
Constant	-0.016 (-0.04)	-0.771 (-2.23)		
No. Observations	977 6	977 7	641 8	492 9

Observations

Note: Z-scores in parentheses. In computing standard errors, clustered by country.

Source: D:\AERC\Controls\Controls\_Simple1A.log

Given the relationships between regional inequality, political institutions and policy choice, that between institutions and policy choice could be spurious. Equations 1-4 in Table 14 indicates that entering our measure of regional inequality into the same equation as our measures of political institutions does indeed lower the magnitude of the coefficients relating institutions to policy choices, even while the coefficient on inequality does not itself change. Nonetheless, the coefficients in equations underscore that non-competitive systems are more likely to impose controls and abjure symptom free policies (although not significantly so) and that military regions are significantly more likely to break from syndrome free policy making.

Table 14: Region, Elites, or Both?  
(Pooled Sample)

	1 Control Regime	2 Control Regime	3 Syndrome Free	4 Syndrome Free
Privileged Region	1.993 (1.81)	1.942 (1.97)	-3.227 (-2.91)	-3.311 (-3.65)
No-party	0.768 (1.49)		-0.777 (-1.45)	
Single Party	0.672 (1.29)		-1.128 (-1.74)	
Military Government		0.761 (1.45)		-1.413 (-2.34)
1975-79	0.371 (1.66)	0.276 (1.20)	-1.107 (-2.57)	-0.931 (-2.34)
1980-84	0.421 (1.39)	0.197 (0.59)	-1.037 (-2.49)	-0.662 (-1.57)
1985-89	0.006 (0.02)	-0.283 (-0.81)	-0.357 (-0.9)	0.113 (0.30)
1990-94	-0.852 (-2.34)	-1.232 (-3.20)	0.345 (0.84)	0.928 (2.18)
>1995	-0.975 (-2.26)	-1.562 (-3.32)	0.273 (0.63)	1.173 (2.57)
Constant	-2.169 (-1.97)	-1.654 (-1.77)	2.687 (2.40)	2.245 (2.58)
No.	15	13	18	15
Observations	1149	1102	1149	1102

Note: Z-scores in parentheses. In computing standard errors, clustered by country.

Source: D:\AERC\Controls\Controls\_Simple1A.log

## ***The Political Marginalization of Farming***

The significance of this analysis derives from a recognition of the importance of the institutional environment for the political power of farmers. When electoral competition is abandoned, politics then abides by the logic of collective action. Absent electoral competition, policy choices result from the interplay of organized interests. And in the politics of interest groups, urban-based interests enjoy significant advantages.

The advantages they enjoy stem from the greater degree of concentration that they exhibit by comparison with that achieved by farmers. Industry tends to be concentrated geographically; it locates in urban centers. So too industrial labor. Industry tends to be concentrated economically as well. Given the small size of domestic markets in most countries in Africa, the favor shown capital and the inward orientation of economic policies, in many industries, a small number of large firms dominate.

Because of geographic concentration, the cost of communication among industrial firms is low. And because of economic concentration, so too are the costs of monitoring. Being large relative to the size of the market, the conduct of firms is revealed publicly in conditions in the market.

The structure of urban industries influences not only the costs of organizing but also the benefits, and in a way that strengthens the incentives to create and employ market power. The benefits of price setting are proportionate to the quantity of goods produced. If the costs of organizing are diminishing, the net returns to collusion will therefore rise more rapidly for large firms than for those that are small.

Consider the implications of this analysis. In contrast to firms, farms lie widely scattered over space and each farmer stands small in the market place. The costs of communication are therefore high, the capacity to monitor low, and the incentives few for individual producers to bear the costs of organizing. By comparison with urban interests, therefore, farmers will be relatively inactive as lobbyists; they will appear hesitant to press their demands for public policies. When public policy is made by interest groups, the voice of the farmers will therefore be weak compared to that of industrial firms.

Agriculture would be favored, were policy the result of party competition. In Africa's relatively underdeveloped economies, the percent of the population in industry is small and political parties in search of electoral majorities would therefore have to search out rural voters and to affirm their interests. The close down of competitive systems thus deprived agriculture of a political defense of its economic interests. By the same measure, farmers were then plunged into a form of political competition in which they were disadvantaged: the interplay of organized interest groups. Because they faced weak incentives to organize, they found themselves subject to control regimes, with policies that lowered the prices for the goods they sold, raised the prices for the goods they consumed, and therefore undermined the real value of rural incomes.<sup>5</sup>

## **Persistence**

While in the short run privately advantageous to those who dominated the policy process, in the long run, even the initial beneficiaries suffered losses, as the distortions generated by the control regimes de-stabilized the macro-economies of Africa. Africa's economies failed to grow; in some, the growth rate turned negative; and those subject to control regimes performed, on average, even worse than others. Even while economically damaging, these policies proved relatively durable, however, and the governments that chose them persisted in office. As indicated in Table 11, policy regimes based on controls remained in place significantly longer than did those that were syndrome free and the kinds of governments that tended to impose such

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<sup>5</sup> See Olson, M. (1977). The Logic of Collective Action. Cambridge, Harvard University Press.  
, Bates, R. H. (1981). Markets and States in Tropical Africa. Berkeley and Los Angeles, University of California Press.

policies-- no- and single-party regimes — tended to remain in office longer than did those based on competitive party systems.

Table 15: The Duration of Institutions and Policies

		Number of Observations	Mean	Standard Deviation	Confidence Interval (10 Percent)	
Policy Regime:	Control	1150	3.66	0.1177	3.37	3.96
	Syndrome					
	Free					
Political Systems:	No-Party	1150	2.41	0.138	2.18	2.63
	Single Party	1150	3.41	0.164	3.15	3.68
	Competitive	1150	1.27	0.116	1.08	1.46

Source: D:AERC/Controls/Count.log

The question naturally arises: How if these policies were so costly can they have been so stable?

To comprehend the delay in the political response to economic realities, one need only ask: would any member of the governing coalition have an incentive unilaterally to call upon the government to abandon them? More specifically: would any single player – industry, organized labor, or the government itself – benefit by calling for higher prices for farmers? The answer is of course: no. No politician would abandon his coalition, no firm unilaterally agree to higher costs, no trade unionist call for changes that would lower the incomes of labor. While socially costly, the choice of policies constituted an equilibrium.

In closing, it is useful to cite two deviant cases. One is policy change in Mozambique; the other, in Ghana. One reason that FRELIMO, the governing party, relaxed and then abandoned its commitment to villagization was that the policies fueled support for RENAMO, its political rival. While Mozambique's peasantry faced costs of organizing as high as those faced by the peasantry in other countries, RENAMO, while basing itself in the rural areas, was able to draw its finances and logistical support from abroad. What support many peasants could give, however, they did give, and FRELIMO faced losing their allegiance, given its insistence on measures that the peasants opposed ((Schultz 1976; Hall and Young 1997; Pitcher 2002)). That the peasantry elsewhere lacked a similar advocate – organized, armed, and able to resist the governing party – helps to explain why governments elsewhere proved less ready to alter their policies.

The second comes from Ghana. First as a military ruler and then as a head of a single party regime, Rawlings deployed his security services to impose price controls, shut down black markets, and evacuate crops from the country side for sale in urban markets. In face of these policies, the economy still failed to grow and the government began to contemplate abandoning its *dirigiste* policies. For Rawlings – or any other head of state – to abandon a control regime is tantamount to defecting from the governing coalition. It was to abandon his urban-based, industry-based, class-based constituency and the socialist ideologues that legitimated his policy commitments.

Notable is the solution that Rawlings devised. To defend his political future while altering his public policies, he built a rural base for his governing party. Beginning by organizing village

based political committees, manned by political militants, he next introduced local government elections. When he then introduced elections for the Parliament and Presidency, he had a local political organization in place. Given the structure of Ghana's economy and the composition of its population, rural voters outnumbered urban. Rawlings was therefore able to remain in power by shifting his political base from town to country, and thereby reap the political rewards from policy change and elude the political costs (Leith and Lofchie 1991; Rothchild 1991; Shillington 1992; Herbst 1993; Oquaye 1995; Rothchild 1995; Gyimah-Boadi 1998).

The political incentives generated by elections therefore shape policy preferences in ways that prevail in non-competitive systems. If politically sustainable in polities where policy resulted from the interplay of organized interests, control regimes were not sustainable when policy resulted from competition between politicians who had every reason to bid for the support of Africa's rural majority. In this important respect, political reform and policy reform went together.

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