

## PS 641: Bates, *Markets and States in Tropical Africa*

### I. Introduction:

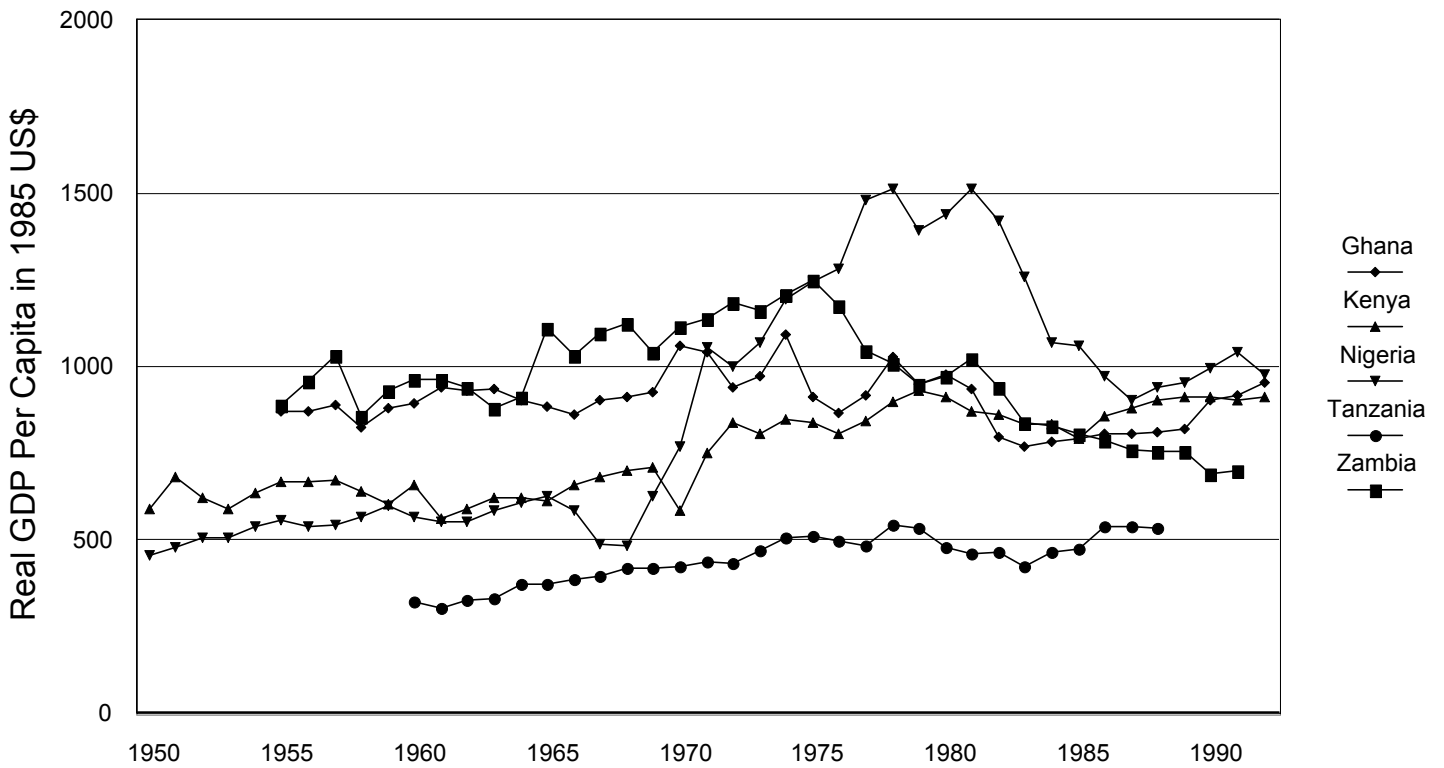
#### A. Book addresses prob's of agricultural (& ec.) growth in Developing World (Tropical Africa)

1. **Problems physical and biological, but also socio-economic impediments** (graph)
2. **Core Claim: Private Incentives Toward Productive Activity Are Wrong**
  - a. Most generally, most importantly, book begins with premise that problems lie in inappropriate incentives for farmers and thus that problems must arise from policymaker distortions of incentives arising from market
  - b. But, book does not follow agricultural economists' model, which stresses ineptness or corruptness of public policymakers while praising acumen of persons in market operations.
  - c. Bates seeks to redress this major inconsistency (esp. since these are often same people) by exploring incentives facing policymakers that lead them rationally to the "inept" policies so lamented.
3. **Core Question: "Why should reasonable men adopt public policies that have harmful consequences for the societies they govern?"** (p. 3). Strategy:
  - a. Looks for social & private purposes that lead policymakers to intervene in agricultural markets
  - b. Examines the political calculations that induce governments to intervene in ways harmful to most farmers.

#### B. The conception of "The Economic Location of Agricultural Producers":

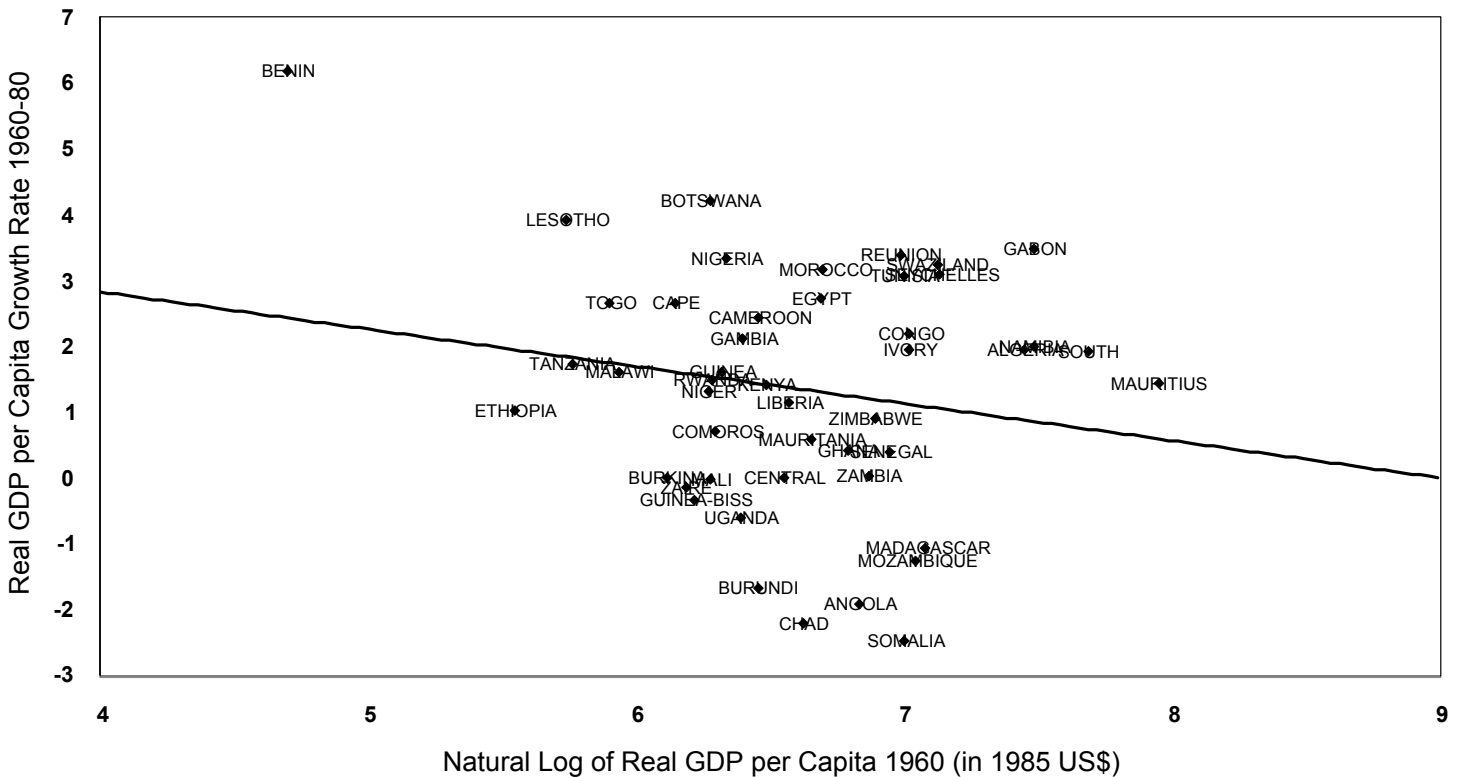
1. **Stand at intersection of three key markets**, their real income depending on their performance therein:
  - a. Sales in markets for agricultural commodities determine their revenues
  - b. Costs in markets for factors of production, with sales revenue, determine their profits
  - c. Prices in markets for consumer goods, largely in the city, then determine real value of their profits
2. This gives a **definition of agricultural policy**: *Agricultural policies* are government actions that affect incomes of rural producers by influencing prices these producers face in these key markets.
3. Book, then, seeks to explain (agricultural) policies African governments adopt. First assumption is that **political action is purposeful behavior**: aims (at least bounded-rationally) at certain objectives
  - a. **Social Objectives**: foremost of which is shifting production from agricultural to manufacturing production
    - (1) ==> attempt to set prices in agriculture to capture resources from there (for shifting to manufacturing)
    - (2) ==> also uses agriculture as major source of revenue, esp. hard-currency revenue, to finance industrial development
  - b. More **Personal Motives**: Stay in power (n.b.: not exclusive, could reinforce)
    - (1) Appease powerful interests in society
    - (2) Satisfy those turning to government for special interests that could not be satisfied or avoided via market
  - c. **Examples of government options and actions** (p. 5); Bates' point that the options are *politically* chosen
    - (1) To increase food supplies, could (a) increase food prices, (b) increase public investment in food production, or (c) subsidize farm inputs. Do (b) and (c) and not (a) for political reasons.
    - (2) Agriculture is both taxed and subsidized in Africa; political reasons
    - (3) Projects proliferate, fail often simply because spreading resources too thinly; politics explains
    - (4) Facing shortages, can (a) raise prices or (b) ration. Do (b), but in way that disadvantages poor. Politics.

# Postwar Development of Selected African Nations



## The Neoclassical ("Catch-Up") Growth Hypothesis in Africa, 1960-80

$$\text{Growth}_{60-80} = 5.09 - 0.565 \text{ GDP}_{60} ; \text{Correlation} = .184$$



### C. **Four Other Themes** addressed in the book:

1. **Disillusionment:** how do policies ostensibly for *public good* become basis for private aggrandizement?
2. **Market as Political Arena:** market is setting for struggle between peasant & state
  - a. State seeks to manipulate behavior of rural producers, levying resources from countryside to invest in city & industry by altering the prices faced in exchanges between them (food & consumer-good prices).
  - b. Rural producers use markets as means to defend against state, taking what economic opportunities they have to avoid or mitigate detrimental impact of policies upon them.
3. **Marketplace &, particularly, Government Interventions in It as Instruments of Political Control:**
  - a. Intervention creates political resources (rent-creating)
  - b. Allocation of which can be and is manipulated to political advantage by policymakers (rent-seeking)
4. Explore **fate of peasant in development process:** how governments & their allies seek to uproot peasantry & replace them w/ socioeconomic classes more suited to “modern industrial order”

### D. **Three Literatures** the Book Addresses

1. (Agricultural) Economic Development: bringing in political causes and effects
2. African Studies: de-unique-izing study
3. Political Economy... within which two strands are addressed
  - a. Some outline or detail distortions (of free-market outcomes) certain policies or sets of policies produce, & analyze welfare implications of the policy-induced distortions, but do not address why & how policies arise.
  - b. Some stress developing nations’ position in IPE, how int’l political & economic forces in developed determine changes in developing, but these neglect very real options developing nations do have &, esp., how they can & do act to condition external forces’ impact on their societies.
4. Bates, of course, seeks to fill these two gaps, bringing it all together

## II. Government Intervention in Major Markets (Pt I): Policies toward Export Cash Crops (Ch. 1)

### A. Goals and instruments, Background:

1. Like all developing nations, tropical Africa seek rapid development, people want higher living standards.
2. Esp. through early 1980s, believed best or only achieved by structural transformation agri. & indust. econ
3. Unlike some others, Trop. Afr. had some institutions available for effective, active pursuit of transform

### B. **Publicly Sanctioned Monopsony** (Marketing Boards)

1. Buys domestic produce at suppressed prices and sells internationally at market prices
2. Weakened by poor border controls; still, typically controls 60-90% of cash-crop sales

### C. **Marketing Boards Aim to Transfer Resources from Cash-Crop Producers to Other Sectors**

1. **Transfer from cash-crop producers to state**
  - a. Historical development, colonial period through independence (12-13), commonalities:
    - (1) dates to colonial periods; established in times of crisis, notably during the Depression and/or World War II
    - (2) officially mandated to use bulk of funding generated to benefit farming community
    - (3) b/c agr. represents core of most African economies, & generates most foreign exchange, agencies controlling market for

agr. exports became among wealthiest and most significant economic units in country

(4) states have always managed to find ways to divert some of generated funds to public coffers

b. Group Discussion:

(1) Changes with independence (13-14) “With the arrival...marketing agencies.”

(2) Example of Awolowo and his Action Group in Nigeria (14-15) “A vivid illustration...impose taxes upon them.”

(3) Agencies’ role in stabilizing or failing to stabilize prices (15-17) “This trend is illustrated...April 18, 1980.”

(4) How & how much transferred from farmers to state (17-19) “The loaning of money...goods and services returned.”

2. **Transfer from cash-crop producers to new industrialists and manufacturers**

a. Resources diverted from cash-crops to fledgling industry *via* direct govt investment in *promising* projects & *via* state *Development Corporations* as financial intermediaries b/w Marketing Boards & private investors: funds loaned at (incredibly) subsidized rates, without security, & often without concern to payback

b. Food processing a key segment of fledgling industry, wants cheap foodstuff inputs; states wants to promote them as natural start on domestic industry & to retain more of value-added of food production domestically

c. ==> State promotes food processing industry by food-price suppression, & that growth (plus other factors to be discussed later) produces alliance of state, investors, & fledgling industry v. cash-crop producers

d. Examples for Group Discussion: Ghanaian Coconut Oil (21-2); Tanzanian Coffee (22-3); Sisal in Tanzania (23-4) (through “Similar cases abound...”); Others & Conclusion: through “...portion of costs” (24-6)

3. **Transfer from cash-crop producers to the bureaucracy**

a. **Bureaucracy** that organizes market & is charged w/ manipulating it for public purposes **becomes main beneficiary** of resource siphoning from cash crops

b. **Partly waste & inefficiency**: monopsony status allows waste & inefficiency to survive (no competition)

(1) Poor storage, careless contracting & sales, poor transport & transport scheduling

(2) Also manifested in excessive & growing staff sizes & their perks

c. **Partly corruption**:

(1) Perks and/or “staff of questionable relevance”: football teams, dancers, etc.; cars, houses, liquors, etc.

(2) straightforward “income enhancement”

d. Not just state bureaucracies but any organization that acquires certain marketing monopsony powers. Private cooperatives have produced same inefficiencies, waste, and corruption.

III. The Food Sector: The Political Dynamics of Pricing Policies (ch. 2)

A. **The Governments’ Food-Policy Dilemma**

1. **Political pressure for low-cost food from urban workers & employers; govts esp. responsive because:**

a. 9 urbanite purchasing-power often Y militant action to which African govts not esp. resistant: constant risk of overthrow

b. Government is usually dedicated to industrial development, which requires support of urban industrialists

2. **Effectively low-cost food could also be achieved by higher wages, but...**

a. Government itself usually a major wage-payer, so has own reasons to resist that option

b. Government seeks industrial development so wants to lure foreign capital, cheap labor is best or only way

3. **Another option: weaken labor & their organizations as political forces** capable of effective resistance to low real urban wages. Partly done, *via* co-optation & suppression, but usu. unsuccessful alone.

4. ==> **Government pursues policies to suppress the domestic market price of food**

**B. Agri. policy derivative, addresses pol. prob's emerging elsewhere; govts suppress food prices 2 ways:**

1. **Food Trade Policy:** over-valued exchange rate, no food tariffs, export restraints on domestic production
2. **Government-Controlled Marketing Institutions:**
  - a. These have tendency to incur debt to support low urban food prices (buy high, sell low)
  - b. Government-sponsored imports to keep urban food supply high (buy high, sell low)
  - c. Direct mandating of lower prices for domestic production, sometimes forcefully imposed (buy low, sell low)

**C. But, unlike cash-crops, govt attempts to control food markets largely a failure, why? (p. 40)**

1. Many cash crops have special agricultural needs; most food can be grown anywhere
2. Ports, roads, and rail needed for exports; food can be grown and sold locally
3. Exports require access to special buyers (importer/exporters with international contacts)
4. Cash crops often require expensive processing that's only efficient large-scale

**D. Still, despite being largely a failure, governments keep trying, why?**

1. Always new methods to close loopholes or escape options in previous methods
2. Testimony to power of urban interests

**E. Persistence of these policies, consequences: Continued peasant v. bureaucrat struggle**

1. Former using market to escape impact of these adverse policies as much as possible
2. Latter using control over these restrictions to appropriate gains from production and to political ends
3. Peasant can often do better by bargaining *exemptions* etc. rather than attempting to break system ==>
  - a. Corruption because both sides can benefit from negotiation and side-payments
  - b. Restrictions become important political assets for government attempting to maintain a supporting coalition

**F. Nuances: Elite producers do less badly than small food-production farmers; Protection ostensibly designed for urban workers, but usually even more advantageous to urban elites**

**IV. The Food Sector: The Use of Non-Price Strategies (ch. 3)**

**A. Summary outline of the dynamic:**

1. Desire to promote industry & appease urban masses ==> policy of low-priced food, but
2. Regulating internal markets difficult, & imports increasingly unattractive b/c foreign exchange needed for import of industrial inputs
  - a. ==> programs increasingly aimed to reduce food imports by increasing domestic production
  - b. ==> direct govt food production & subsidy of food-production inputs (fertilizer, capital, land, seeds, etc.)
3. This administered in ways that benefit especially large farmers & becomes a valuable political tool

**B. Direct government action:**

1. Public production of food, directly subsidized from the treasury
  - a. State farms sell below market cost & well below their production costs & so make overwhelming losses
  - b. Production cannot keep up with demand at the artificially low prices ==> bankruptcy and/or rationing
  - c. These schemes failures by any measure ==>
2. Irrigation projects and the like; publicly aided production

- a. Socially, the total cost of these programs almost invariably exceeded the total product
- b. Privately, schemes were profitable, often immensely so, for those gaining access to them
- c. Intense competition for access to state-sponsored schemes [=political resource]
  3. Schemes usually took resources from small-&-many and rationed benefits to privileged few [Olson]
  4. Still, projects too small to impact prices or supply of food much; must serve socio-political purposes [rents]

### C. Inputs Subsidized: manipulate input prices to attract resources to farming & evoke greater output

1. The means employed privileged “modern” large-scale farming. Mechanisms:
  - a. Lack of import duties on inputs (when duties on everything, removing one is a real benefit)
  - b. Subsidies for seeds, fertilizer, and physical capital (tractors etc.)
  - c. Subsidized and/or guaranteed loans of financial capital
  - d. Land claimed from traditional uses (“waste” or “unused” land) and distributed at boon prices: land-use rights “reform” from public to private ownership
2. Implications for the countryside:
  - a. Small farmers rarely get the subsidized inputs; benefits go mostly to large farmers often at expense of small
    - (1) contrary to some analysts condescension, small farmers know about subsidies, understand benefits of fertilizer etc. & want subsidies to get them, but they’re simply unavailable. This is not some “village-farmer anti-market attitude”
    - (2) scarcity & rationing ==> benefits are allocated to elite for their political & economic benefit
  - b. Paragraph on p. 59 “Using political connections...the savannah region.” describes process
  - c. Policy response to urban food-supply problem ==> entrance of urban elite into countryside and adoption of techniques altering socioeconomic pattern there (large-scale farming and inequality)
  - d. Elsewhere in developing world, agricultural elite antedated drive for industrial modernization, so that drive spurred struggle between old landed & new industrial privilege. In Africa, not, but as development & agricultural landed interests continue to grow, that struggle should develop there too.

## V. The Emerging Industrial Sector (ch. 4)

### A. Industrial dev. strategy: protect new firms from int’l & even domestic compet. Y costs to consumers

1. Even if policy starts as means to conserve for. exchange, quickly become means of industrial protection
2. Quota licenses & for-ex permits quickly become political resources to committees that allocate them
3. Can and often are used to help establish domestic monopolies
4. Used to 8 incentives for domestic production (by assuring monop. power & profits); esp. in manu. & esp. esp. in manu. of final consumption goods (textiles, bikes, processed food & bev, shoes, clothes, etc.)

### B. Shelter from domestic competition, & concentration/consolidation of industry:

1. Trade restriction often detailed to specific firm restrictions; can be used to hinder even domestic compet.
2. Quotas & licenses often distributed prop. to previous mrkt share; thus freezing existing mrkt dist. to °
3. Economies of scale in production *and in lobbying*, coupled with small size of domestic markets in Africa & trade restrictions, dictates highly concentrated domestic-production industries ==> market power
4. Other policies too have fostered concentration by favoring large & capital-intense production, which, with the above conditions, also tends to produce market power
5. *Consolidation* of industry often not mere unintended consequence, but actively sought by policymakers

### C. Typical pattern: protection => over-expand => merges, bankrupts, & consol’s => dom. monop. => 8

effective lobbying, & market power & so & extorting of extra-normal profits & & protection

D. Consequence: over-capacity in highly concentrated industries sheltered from competition => inefficient, excess-cost production

E. Discussion:

1. Most people's income in one/few activities, spend in many producer typ. dominate consumer interests
2. To get protection, individ. producers need allies & log-rolling among related monopolistic industries b/c each industry's share in other's consumption low so their overlapping interests in protection is large in comparison
3. True of all industries except those whose products are large share of consumption (i.e. input costs) of others, most prominent example of which is food agriculture
4. Plus, protection for industry => increased returns to factors used in those industries (urban cap. & lab.)
5. => pro-industry, anti-agriculture alliance: urban capital and labor v. rural (esp. small farmers of food)

## VI. The Market as Political Arena and the Limits of Voluntarism (ch. 5):

A. Governments often act against the interests of esp. small farmers by...

1. Sheltering domestic industry and thus raising price consumption goods,
2. Suppressing price of agricultural products, and
3. Subsidizing agricultural-input prices but rationing them to only elite few.
4. How do they get away with it in such predominantly rural, small-farming nations?

B. Coercion: of course, coercion may be ultimate source of power, but it's generally insufficient basis for govt. One key reason rurals don't organize & rise against govt is fear, but another is that...

C. Cheaper options exist: "Use the Market Against the State". If policies reduce return to certain agr.:

1. Harvest less; i.e. withdraw from unprofitable activities (*elasticities*)
2. Alter the production mix; i.e. shift production into other crops (*cross-elasticities*)
3. Leave agriculture altogether; i.e. shift work to non-agricultural labor market (another *cross-elasticity*)
4. Smuggling (esp. in less easily monitored production & elsewhere that conditions favor)
5. Well-known that people generally respond to economic incentives in these ways;
  - a. Peasants no different: they use market against state to defend their incomes as best they can
  - b. Note how natural economic (& political) responses impact conduct & effectiveness of agricultural policy
  - c. Also, not saying adverse policies harmless: substitutions into second-bests (else they'd be doing it already).

D. Collective Action: markets offer only private solutions, and peasants often fear repression if attempt to org. public ones. Plus, org. to & prices=usual free-rider prob, yet some CA occurs. Who? How?

1. [Olsonian Logic] Size distribution of industry is key in determining effectiveness of CA organization
2. Evidence: Michael Cohen (1974) findings regarding Ivory Coast interest-group responses to Presidential invitation to dialogue include no small-scale agriculture representative. Petitions to Adebayo Commission in Nigeria: 2/627 came from groups "readily identifiable" as farm-producer groups
3. Thus, farmers inactive and lose to industry in the competitive struggle for political favor

4. For agr. industries/crops with large farmers, it's a different story
  - a. Usually, they aim for their own advantage, which may not perfectly mirror small farmers'
  - b. Even when small farmers gain by large farmer actions, large farmers generally gain more
  - c. ==> two hypotheses:
    - (1) as # large farmers in Africa ↑, farming community will grow more politically assertive & ind/agr struggle intensify
    - (2) in countries w/ more concentrated agriculture (more large farmers), agr. policies will be more favorable to farmers

## VII. Rental Havens & Protective Shelter: Organizing Support of Urban Beneficiaries

- A. Re-evaluating period's failed hopes, many analysts accused leaders of "cynical manipulations of popular hopes with self-interested proposals of programs of questionable merit." Somewhat so, but:
  1. Many leaders had sacrificed a lot to end foreign rule, end racial oppression, & escape colonial bondage
  2. "Above all, they did so to seize control of the state...[to get] the power to create and implement public policies and thereby secure greater prosperity" (p. 97).
  3. Policies mostly compatible w/ ec. dev. lit. of times, &, indeed, w/ development histories of dev'd ctrys
  4. Policies not undertaken w/o regard to public interest; what's notable is how, once enacted, they became entrenched beyond their initial impetus
- B. Rents: restricting exchange => excess demand => scarcity value => distributable rents
  1. "**Administratively generated rent**: a value in excess of the market value which has been created by an administratively generated fixity in the supply of a commodity" (p. 99)
    - a. Rents can be distributed as political favors or to get bribes=>vested interest maintain & increase distortions
    - b. Example: Western Nigeria: price of export crops kept artificially low
      - (1) ==> public revenues that were used to subsidize loans to capital
      - (2) ==> excess demand for capital (because loans cheaper than market equilibrium)
      - (3) ==> loans have to be rationed = a profitable and therefore potentially political resource
        - (a) occasionally these loans made directly to themselves
        - (b) corporations owned by lead political figures received loans
        - (c) one company even published the party newspaper and counted most party leaders employees
    - c. Example: over-valued currency => excess demand for foreign goods (cheaper than eqbm b/c of currency value) => rationing => political and personal resource for rationers (p. 101)
      - (1) again, many converted this privilege directly into wealth
      - (2) but also political resource:
        - (a) in one case, "Kwesi Armah gave the right to negotiate with petitioners to certain members of parliament; they then became his protégés with grateful clients of their own.
        - (b) usually, members of parliament wrested rather more direct control from their bureaucrats
    - d. "Political attractions...obvious, & help explain why, when given the choice b/w market & non-market means for achieving same end, African governments often choose interventionist measures" (102).
  2. Non-competitive rents: "increases in earnings of firms created by ability of prices in protected industry to rise above the level that would be sustained if the industry were subject to competition" (p.103)
    - a. The Firestone deal in Kenya:
      - (1) government gives Firestone a virtual monopoly of Kenyan market for ten years
      - (2) company shares w/ govt the right to name its distributors & also was able to place supporters in managerial positions
    - b. Extra-normal profits are allocated politically as jobs and perks:



- (1) tendency of political elites to hold directorates in private and state-owned firms
- (2) staff appointments made irrespective of merit, redundant staff, disciplinary measures relaxed
- (3) became quite overt in some places, a “natural” part of day-to-day politics, the understood spoils of office: President Moi in Kenya and Mobutu of Zaire were notorious in this respect

## VIII. Origins of Political Marginalism (ch. 7): Evoking Compliance from the Countryside

### A. Coercion: One primary target of government coercion are opposition parties

1. Use control of courts & legal system to harass them, to ban them, & to arrest & imprison their leaders
2. Because most Africans are rural small-holders, it’s natural that an opposition would have to appeal to them ==> by taking out opposition, government is beheading agricultural opposition to its policies
3. Instruments of the most forcible coercion are often used against political entrepreneurs rising from agricultural issues. Government “must” take them out (and does) for two reasons: survival and policy

### B. Rural Demobilization

1. Govts also use their control of market to divide rural opp. by coopting lead figures in rural agr. sector
2. This helps explain the paradoxical coexistence of tax and subsidy of rural agriculture: (a) Patronage and (b) Rationing access to farm inputs becomes key to consolidate political power in country side
3. Violence + Rationing ==> Narrow Political Organization in the Countryside: Vulnerable b/c few in numbers and elite, and b/c expensive [implications?]

### C. Public Services and Projects: Constructing a System of Spoils

1. The Pork Barrel in Africa
  - a. MP’s emphasize their ability to secure schemes and projects for their districts
  - b. Citizens seek & expect to get material improvements from those with access to public power
2. The quest for political support ==>
  - a. Production schemes rather than pricing policies [why?]
  - b. Number, location, and staffing of these projects
3. Summary: “Through coercion, governments...interests as a whole” (pp. 117-8).

## IX. Commonalities and Variations: The Politics of Agricultural Policy

### A. Commonalities

1. Fledgling urban/industrial interests, labor and capital ally in:
  - a. Demanding protection from competition ==>
  - b. Demanding low-cost food ==>
2. Developmental states seek to advance industrial interests, so:
  - a. Tax agriculture to get revenue to promote industry ==>
  - b. Create a sheltered industrial order ==>
  - c. Enforce low-cost food strategies ==>
  - d. Revenues and rents for personal and political use
3. Govts recruit strategic allies in countryside by focusing on selective incentives & threat of violence

4. Bureaus that implement the government intervention create rents ==>
  - a. Revenue for government ==>
  - b. Revenue for private consumption by bureaucracy ==>
  - c. Patronage ==>
  - d. Intervention creates structure of power & privilege that bureau has interest in maintaining
5. All of which ==> mass of rural producers suffer from adverse policies, repression, and leader cooptation
  - a. ==> cannot effectively organize to pursue their collective interest, so =>
  - b. ==> seek private benefits by lobbying/bribing & “use market against the state” as they can

## B. Sources of Variation

1. History:
  - a. Marketing boards in E. Africa typically formed by producers, in W. Africa by states and trading interests ==> E. African producers retain greater % of world price
  - b. Which groups were instrumental in successful struggle for independence? Where urban/industrial, more anti-agriculture and v.v.
2. Who are claimants for resources from agriculture? What matters is nature of their “revenue imperative”
  - a. Government:
    - (1) level of government commitment to spending programs (e.g., left/right)
    - (2) availability of non-agricultural fund sources (e.g., oil)
    - (3) magnitude of fiscal resources more generally
    - (4) greater non-agricultural revenues ==> subsidies to inputs for food and allowance of higher prices to export crops; but if more of budget is from agricultural revenues, this is too costly
  - b. Processing industry: larger fraction of output consumed by domestic processors ==> greater pressure on government to keep food prices down
  - c. Poorer nations ==> greater pressure to keep food prices down
  - d. Firms:
    - (1) greater/lesser proportion of costs given by wage bill, and
    - (2) greater/lesser degree to which cost increases can be passed on in prices
3. Characteristics of Production
  - a. Nature of crop: export typically=direct intervention; food typically=complicated, indirect
  - b. Size distribution of producers: Olsonian logic
  - c. Relative advantage of producers and marketers of crop:
    - (1) the greater (lesser) the disparity between the producers return from growing this and the next best crop for her, the \_\_\_\_\_ [stronger or weaker] their position relative to regulators
    - (2) the greater (lesser) the disparity between this crop and the next best for the consumer, the \_\_\_\_\_ [stronger or weaker] the producers’ position relative to regulators