6

CONCLUSION

Then sheathes . . . in calm repose the vengeful blade,
For gentle peace in Freedom's hollowed shade.

—JOHN QUINCY ADAMS, *ALBUM*, 1842

THE STUDY OF THE POLITICAL ECONOMY of development is the study of prosperity and violence.

Economic development occurs when persons form capital and invest, making present sacrifices in order to reap future gains. It occurs when they form economic organizations that productively combine in complementary arrangements, such that the product of the "whole"—be it a city or a firm—exceeds the sum of what can be produced by its parts. When people invest and combine, the city then displaces the village, the firm displaces the farm, urban-based industry forms the core of the economy, and prosperous societies emerge from the great transformation.

Political development occurs when people domesticate violence, transforming coercion from a means of predation into a

productive resource. Coercion becomes productive when it is employed not to seize or to destroy wealth, but rather to safeguard and promote its creation.

The political roots of development productively join with the economic when specialists in violence realize that they can best survive and prevail by promoting the prosperity of their economic base. Under such circumstances, owners of capital will believe their promises to refrain from predation. Knowing that predation would be politically unproductive, they will be willing to invest. In such circumstances, those with power will also be willing to delegate authority to those with resources and skills, enabling them to combine and to organize and, literally, to govern economic organizations. When their ability to survive, politically, depends upon the capacity of others to produce, economically, then specialists in violence will vest their power in those who will invest their capital.

In elaborating upon these themes, I have explored materials from history and from the contemporary developing world. Differences in the use of violence mark differences in the development experiences of nations in the two eras. In medieval and early modern Europe, those who governed were specialists in violence; the job of the state was war. In the modern period, the global environment checked the tendency to fight. In so doing, it separated the need to arm, and thus to survive, from the need to enhance the wealth of the nation. It therefore modified the trajectory that had once characterized the process of development.

Exceptions to the rule often prove informative, and I therefore return to the case of Brazil. Brazil was the only nation in Latin America that sent its military to fight in World War II. Its army joined that of the United States in Italy, where its troops experienced the realities of modern warfare. Upon their return home, Brazilian officers were appalled by the inability

of civilian politicians to comprehend the gap between the demands of modern war and the capacity of their country to meet them. Without a massive increase in the industrial capacity of Brazil, they realized, they could never safeguard their state should another country seek to impose its will. Focusing on the vision of lavish abundance and profligate destruction that they had witnessed in combat, when they later took power, the officers impatiently drove Brazil along the path to industrial development, accelerating the Brazilian miracle—and laying the foundations for its subsequent crisis of debt.

Other developing nations have also encountered the realities of modern war. Turkey did so in World War I. In World War II, so too did the nations of the Pacific Rim: Japan, Korea, China, and Taiwan. In such nations, governments learned to treat the national economy as a military resource, to be nurtured and fed rather than plundered. Targeting projects and sectors whose progress they deemed essential to security—the creation of a shipyard, for example, or the development of a chemical industry—warriors and bureaucrats sought investments from capitalists and businessmen. Recognizing the imperative driving those in charge of policy, those with capital calculated that their governments were sincere in wishing that their ventures succeed, and so invested. Those in charge of the state also recognized the necessity of investing their power, delegating its use to entrepreneurs and businessmen and permitting them to organize. By safeguarding firms and investments, and by placing the power of the state in the hands of those who would use it to form economic organizations, those who oversaw the use of violence sought to lay the economic foundations for military security in the nations of the Pacific Rim.

Elsewhere, the global system that prevailed after World War II provided sufficient safeguards that political elites did not tend to treat economic policy making as a matter of political survival. The strategic setting in which they operated did little to render credible their assurances to those with capital; nor were they driven, as a matter of state security, to place their power in private hands, enabling those with wealth to structure means to govern the organization of economic activity. Lacking the spur of the risk of survival, in most developing countries, those with power confronted few incentives to deploy coercion in an economically productive manner.

Differences in the structure of power at the global level have thus produced differences in the use of violence at the national level. Variations in the incentives faced internationally thus help to account for differences in the behavior of states over time and, within the modern era, over place.

EXTENSIONS AND IMPLICATIONS

Capital provides one source of growth; the organization of economic activities provides another. In conclusion, I seek to deepen our understanding of the political economy of development by exploring more closely the use of power to defend, or to fail to defend, the accumulation of capital and the formation of economic organizations.

ACCUMULATION

I begin with a case—that of the cocoa industry in Ghana. As incomes rose in the advanced industrial nations of Europe, people consumed greater amounts of chocolate, which they prized for its flavor and for the stimulation it provided when consumed as a beverage. Merchants rounded the cape of West Africa, entered its harbors, and placed a growing volume of

orders for the beans from which chocolate is made. And people from the coastal cities of West Africa moved inland to establish cocoa farms in the tropical forests of the region.

So dense was the undergrowth of the West African forest that scores of workers had to be hired and kept on for seasons in order to clear and establish a cocoa farm. Investors had to construct roads, bridge ravines, and lay pontoons over rivers before they could evacuate the product from the forest and transport it to coastal ports. The seedlings, moreover, required years of growth before yielding a crop. The development of the cocoa industry therefore required large amounts of capital.

In a fascinating study of the political dimensions of this transformation, Kathryn Firmin-Sellers (1996) traces the history of Akyem Abuakwa, an indigenous state in the forest of what is now Ghana. She focuses in particular on one Nana Ofori Atta, the respected and wily paramount chief of Akyem Abuakwa in the early years of the rise of the cocoa industry. Aware that investors would withhold their capital unless assured of property rights, Nana Ofori Atta sought to strengthen the power of his chiefdom so as to defend the rights of investors. But Ofori Atta was also aware of what Barry Weingast (1995, 1) has called "the fundamental political dilemma of an economic system"—that "a government strong enough to protect property rights . . . is also strong enough to confiscate the wealth of its citizens."

To address this problem, while seeking to enhance his executive powers, Nana Ofori Atta also sought to place visible and credible limits on his political discretion. He introduced reforms in the government of the "tribe" such that he, the chief, became accountable, both politically and financially, to a council beholden to private civilians. The council approved all taxes. It could depose the chief. It paid him. And it paid the salaries of

the administrators and police whom the chief superintended. Given the structure that Nana Ofori Atta devised, Firmin-Sellers argues, it became clear that the chief could not use his power to prey upon the private sector; if he desired greater revenues for his government, he would have to use his powers to promote the creation of private wealth. Indeed, Firmin-Sellers stresses, investment appears to have boomed, as Nana Ofori Atta had intended. By placing his financial and political fortunes in the hands of a civilian council, Nana Ofori Atta appears successfully to have signaled that he would use his powers to advance the interests of those who created, and enjoyed, the wealth of the cocoa industry.

As we have seen, the tale told by Firmin-Sellers finds its parallel in history. The creation of parliamentary forms of government creates incentives for those who possess power to employ it in the interests of those who possess wealth. It provides assurances to those with capital that, should they invest—and so increase the wealth of the nation—those who control the instruments of coercion will refrain from appropriating the value that they generate.

In exploring the differences between governments in rich and poor nations, it is useful, once again, to return to the history of Akyem Abuakwa. Under the stewardship of Nana Ofori Atta, the kingdom prospered. But with the coming of independence, Kwame Nkrumah, the first president of Ghana, sought to promote the industrial development of the nation. To secure the capital by which to finance his plans, Nkrumah imposed a government monopoly on the export of cocoa and high levels of taxation on the earnings of cocoa farmers. The forest kingdoms, including Akyem Abuakwa, organized in opposition to Nkrumah's policies. In response, the government destroyed the political power of those kingdoms, branding their governments

as "tribal" and therefore as a threat to the future of the nation. The policies pursued by Nkrumah's government and, indeed, by many that followed led to a withdrawal of capital from farming, to a decline in the production of cash crops, and to the impoverishment of Ghana.

The creation of limited government may not be sufficient to secure high levels of investment, much less the growth of national economies. But assurances to investors surely are necessary to secure the formation of capital. Too often, in the developing world, politicians fail to induce the selection of policies that offer attractive prospects to investors. And institutions too rarely impose limits upon those who would use power to prey upon the wealth of others. The use of coercion for predation is too little checked; its use to promote the creation of wealth is too weakly motivated. Political risk therefore clouds the prospects offered to those with capital, thus hindering investment and retarding the development of nations.[1]

ORGANIZATION

Economic development results not merely from the formation of capital but also from the creation of organizations. In particular, it results when the state confers upon private citizens the

[1] In connection with this argument, it is useful to contrast the conduct of governments in resource-rich nations with that of governments in nations less favorably endowed. In both, governments search for revenues; but they do so in different ways. Those in resource-rich economies tend to secure revenues by extracting them; those in resource-poor nations, by promoting the creation of wealth. Differences in natural endowments thus appear to shape the behavior of governments. While other factors clearly pertain, this argument may shed light on differences between the conduct of governments in, say, resource-poor Asia, which appear willing to safeguard the creation of wealth and to promote the creation of powerful private economic organizations, and the conduct of governments in, say, resource-rich Africa, which often behave in a predatory manner.

authority to reward, or to penalize, others, thereby making it in their private interests to behave in ways that enhance the collective welfare. When the charter conferred by a king empowers a citizen of a city to compel those who benefit from the construction of a wharf, the deepening of a river, or the building of a bridge to share in the costs of its construction, then the government unleashes incentives that generate the creation of wealth and promotes the development of the economy. And when a manager can impose costs upon one division of a firm—as by compelling it to speed its production, or to change its product line—such that other units might benefit, to the advantage of the larger enterprise, then the governance structure of that firm itself becomes a source of value, enhancing the worth of the enterprise. The orchestration of complementarities, the building of teams, and the organization of productive enterprises require that economic agents possess the authority to govern.

Coercion, once tamed, can thus be productive.[2] While its delegation by the state does produce economic benefits, it can also impose costs. And to induce development, these costs must be minimized.

Collusion With the power to organize, private agents can increase their earnings. They can do so by organizing efficient means of production, increasing total output, and thereby contributing to the growth of the economy; alternatively, they can do so by colluding, limiting production, and forcing up prices, thereby enriching themselves at the expense of others. The

[2] Just below the surface of this argument lurks a critique of the now fashionable literature on "social capital" (see Putnam 1993). While those who extol the power of social capital look to society as the source of productivity, I instead look to the state, and see the existence of the private capacity for governance as resulting from the choices made by those with political power.

capacity to organize can thus result not only in productive organization but also in collusion, whose primary beneficiaries may become rich, but only because they have lowered the incomes of others.

The capacity to organize may thus be a necessary condition for economic growth, but clearly it is not sufficient. Among other necessary factors, it would appear, is the spur of competition. We know that large, complex, and highly organized firms dominate the industrial base of Sweden, Switzerland, and other small industrial economies. But because the governments of these nations keep their markets open, these firms must compete against others located in other nations; they cannot convert their large size into market power. And we know that when markets are large, they may remain competitive, even though containing large firms. It may in fact take several large firms, each operating efficiently, to satisfy demand in the market, meaning that in nations such as the United States, large firms may confront large competitors.

Not only economic competition but also political competition plays a role in shaping the use of power by economic agents. Under central planning, the economies of the Communist nations of Eastern Europe and the former Soviet Union had been dominated by a small number of large enterprises; and with the transition to private ownership, managers, bureaucrats, and well-placed politicians had gained control of these firms. Joel Hellman (1998) notes that the new owners formed organizations that attempted to restrict market competition and pressure groups that lobbied for government bailouts. What distinguished successful transitions from those that stalled, Hellman argues, was the degree to which these short-term winners faced political competition from those who would have been harmed by their efforts to collude. When political parties competed for

power in these transition economies, politicians possessed incentives to champion the interests of the many, who stood to lose from the political efforts of the privileged few. Rather than letting the short-term winners adopt policies that caused the reforms to stall, by appealing to the power of the broader electorate, political challengers forced the government to press on with economic reforms and to reaffirm market-oriented policies. Hellman thus suggests that political contestability, as well as market competition, shapes the way in which power is employed by private agents.[3]

While the delegation of public power to economic agents may energize growth, then, it also poses significant dangers. Just as military captains once employed their power to seize wealth through battle, so too can captains of industry employ their power to secure redistributive gains in the marketplace. When public power is delegated to economic agents, it must be conferred upon those who face competition for it to be used productively.

Redistributive Politics Not only firms but also communities can constitute productive forms of economic organization. Already noted is the manner in which the elites of Akyem

[3] A similar argument could be made for the United States, where popular—indeed, populist—opposition to the power of cartels led to the passage of the Sherman Antitrust Act. A key question in comparative political economy thus becomes: Under what conditions does the desire to limit the use of economic power produce legislation designed to promote market competition, as opposed to legislation that would publicly regulate it, as by nationalizing large firms?

Also relevant is the comparative analysis of the coffee industries in East Africa and Colombia. Single-party systems dominated the nations of the first, while in Colombia political parties competed for control of the government. The single-party regimes of East Africa stifled the creation of wealth-creating economic organizations in the coffee sector, whereas the government of Colombia vested public powers in an organization that enhanced the profitability of coffee production. See Bates (1997).

Abuakwa restructured public power so as to secure investments in the forest economy of inland Ghana. To this account could be added others. Local communities throughout the developing world impose taxes upon themselves, in terms of money and labor; organize; and invest in the construction of water supplies, market centers, and schools. Through such actions, community activists, cultural leaders, and ethnic organizations lay clam to space in the political structures of the developing nations and contribute to the growth of their economies.

Such groups supply needed services, create valuable infrastructure, and promote the improvement of public infrastructure. Using their powers, they promote economic development. But not only can the power they possess be employed to create value. It can also be employed to destroy.

Recall the discussion of lineages and kinship groups with which this book began. As each increases in size numerically it also increases in size geographically as its households segment, migrate, and occupy new territories. With the growth and spread of kin and communities, groups come to contest the positions of others, laying claim to land, water supplies, grazing rights, and markets. As the Kikuyu spread down and out from Mount Kenya, for example, they entered the lands of others and initiated a protracted process of negotiating, and fighting, over contested terrain. When local communities employ their capacity to organize, they may launch not only valuable projects, but also campaigns to lay claim to the resources possessed by others.

One outcome may be violence. In the rich highlands of East Africa, the diamond fields of Sierra Leone, and the river basins of Colombia, rural communities have taken up arms and the battles they fight disrupt the national political order. Less dramatically—although of equal significance, perhaps—competition among such communities weaken the incentives that constrain the behavior of governments. When communities compete among themselves, governments—even those that are electorally chosen—can slip the bonds of accountability.

To grasp the point, return to the case of Ghana. Nkrumah was able to seize the wealth of Akyem Abuakwa and other cocoa-exporting chiefdoms when he gained the backing of poorer groups, to whom he promised to transfer that wealth in the form of government projects. What was true in Ghana is valid more generally. When a government can retain power by forming coalitions among ethnic communities, and when it can use that power to seize revenues from those outside this core constituency, then no group can afford to withhold its political support, for fear of becoming the object of political predation. Redistributive local rivalries can produce a pattern of politics in which citizens compete to back the government in power, thus freeing it from the restraints normally associated with political accountability. The benefits created by the organized efforts of such groups at the local level may thus be outweighed by the losses they induce at the national level, since they provide a political environment in which unproductive governments can remain in power. Competition among communal groups might appear as a sign of vigorous civic life. But it may also constitute a political pathology because it may enable governments to remain in office while using their power not to create wealth, but to capture and redistribute it.

The case of Uganda helps to illustrate this argument. In many ways, Uganda resembles Ghana. While not bordering an ocean, Uganda nonetheless possesses a long shoreline, with towns and cities lying along the coast of Lake Victoria. Like Ghana, it possesses an impoverished north, where families subsist by herding cattle and growing sorghum and millet. And it possesses as well a prosperous forest zone, from which most of

its wealth flows from the production of cash crops. As was the case in Ghana, following independence in Uganda, a socialist politician took power. Like Nkrumah, Prime Minister Milton Obote played the poor communities off against the rich, seizing the wealth of those who had invested in the creation of coffee farms in the forest in order to secure the revenues for industry and for the financing of projects that would benefit the poorer communities. Pitting one group and one region against others, Obote held on to power, even while pursuing policies that impoverished his nation.

THE FATE OF UGANDA, like that of Ghana, thus illustrates how governments can exploit the rivalry among local communities and survive, politically, even while failing to generate economic growth. But Uganda also provides evidence of a second major danger. Those political leaders who helped to organize ethnic political communities in Uganda also succeeded in arming them, transforming them into militarized movements.

It was these forces that I had encountered in Bugisu, the coffee-growing district on the slopes of Mount Elgon. It was these forces too that had terrorized the colleagues with whom I worked, demoralizing them as parents and professionals and plunging them into grief for those killed by marauding soldiers.

I returned several times to Uganda, the last as a member of a team dispatched by the World Bank to advise and assist in the reconstruction of its war-torn economy. Upon my departure, I sought a framework within which to grasp what I had experienced there. And I still recall the palpable shock I felt when reading the paragraph by Hobbes that concludes "and the life of man,

TABLE 6.1

Terms of World Bank Mission to Uganda, 1982, and Thomas Hobbes, Leviathan, *1*

THE WORLD BANK	THOMAS HOBBES
The Mission shall advise on measures to:	
Promote industrial development;	"there is no place for industry, because the fruit thereof is uncertain;
Promote agricultural production;	"and consequently no culture of the earth;
Promote foreign trade;	"no navigation, nor use of the commodities that may be imported by sea;
Accelerate physical reconstruction;	"no commodious buildings; no instruments of moving, and removing, such things as require much force;
Strengthen and revitalize the research and education system, in agriculture and more generally;	"no knowledge of the face of the earth; no account of time; no arts; no letters;
Secure political order.	no society; and what is worst of all, continual fear, and danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short."

Sources: "Terms of World Bank, Structural Adjustment Mission to Uganda, 1982." Thomas Hobbes, 1651, *Leviathan,* in William Ebenstein, *Great Political Thinkers,* 3rd ed. (New York: Holt, Rinehart and Winston, 1961), p. 368.

solitary, poor, nasty, brutish, and short." For clause by clause, the fatalist lines in that paragraph echo the terms of the mission that had been sent out to promote development in the nation (see Table 6.1).

Hobbes wrote in reaction to events that occurred long ago. But his words disturb because they respond to much that is felt and seen in the present day, when, for too many in the developing world, insecurity remains the norm and development a dream that cruelly eludes their grasp.

CENTRAL TO DEVELOPMENT is the passage of time. In Uganda, the future was uncertain. Less dramatically, perhaps, it has been in other developing counties as well. Control over the means of violence remains in the hands of private parties; kin, community, and political rivals have yet to be disarmed. In such circumstances, much that is elevated cannot be attained; much that is desirable cannot be secured. By addressing the relationship between prosperity and violence, this book has investigated the political foundations of development.