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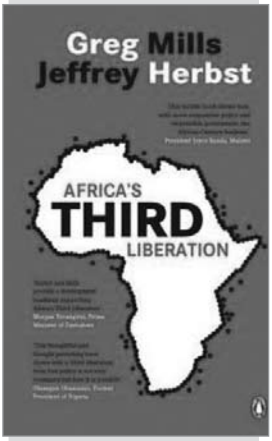

AFRICA'S THIRD LIBERATION
by Greg Mills and Jeffrey Herbst
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BOOK REVIEW

Africa's Third Liberation by Greg Mills and Jeffrey Herbst – a further review

Individually and working together, Greg Mills and Jeff Herbst have compiled an impressive body of work on the challenges Africa faces in the 21st century. And, while there are problems with the rigour of the methodologies they prefer to deploy, there is much to be learnt from the resulting texts, which are invariably well-written, informative and accessible.

Africa's Third Liberation: *The new search for prosperity and jobs* presents itself as both an analysis of the state of African economies in the early 21st century and as a manifesto for engineering rapid growth over a sustained period of time. Noting that Africa is a complex, diverse set of economies with wide variation in natural and human endowments, historical experiences, institutional architectures and economic potential, Mills and Herbst approach their task by describing in a few pages some of the challenges facing a variety of African states.

While each case study is interesting and provocative, precisely how and why each country is selected and why one particular challenge has been elevated above others in describing the current status quo is not always obvious. In relation to South Africa, for example, the focus is on labour market regulation, welfare policies and failed industrial policies. In Kenya, on the other hand, the bulk of the entry relates to the failure to build a tourism industry, and the shoddy state of Jomo Kenyatta International Airport. In Angola, the issue is corruption and inequality, while in the Burundi the focus is on the difficulties entailed in avoiding genocide.

No doubt, many of these represent policy failures and all can be described, as Mills and Herbst do, as reflective of an approach to governance more concerned with distributional outcomes than with growth, but crafting a common programme for growing the economies of all these countries sometimes means a descent into abstract generalisations. It is, however, growth that the authors believe is the *sine qua non* for successful development in Africa and its liberation from poverty. This is, of course, correct.

Economic growth: simplified

In some respects, at least, there is little mystery about how economies grow: they use what assets they have more efficiently and productively, and they accumulate more productive assets (especially human and physical capital). At this level of abstraction, in other words, growth is a cake baked with only two ingredients: (i) the improved utilisation of existing assets and (ii) the accumulation of more productive assets.

If this is a simple recipe, there is further good news: at least in relation to the first ingredient – improved utilisation of existing assets – we generally know what needs to be done because it is almost always the case that free exchange in a market economy will result in productive assets being put to their most productive use. Having said that, creating a market economy that achieves this goal is not easy. It took humanity many thousands of years to develop key institutions – like private property and enforceable contracts – necessary for market economies to work well. Indeed, a great many societies (and most in Africa) have not done so, usually because vested interests have worked to prevent this from happening. Mills and Herbst are right to point to this as a key reason why African states have failed to grow faster, and, seen in this light, their insistence that states should "get out of the way" – that they would govern better by governing less – is not unreasonable.

In the absence of such an institution, the existence of which is a mirage in most African states, state intervention opens the doors for massive corruption and inefficiency, which drains countries' potential to develop rather than promoting it.

Much more complicated, both conceptually and operationally, however, is the second ingredient in the recipe for growth: the accumulation of productive assets, most of which, in the absence of wars for control of populations and territory, would be human and physical capital. Here policy design and prescription is, I think, more difficult than Mills and Herbst allow. Their recipe consists of some macroeconomics (openness to trade, fiscal conservatism), a pro-business orientation by policy-makers, wage moderation, lots of "leadership", and some industrial policy (they don't like governments' trying to pick winners but seem to favour special economic zones buttressed with lots of tax and trade incentives to help get countries into low-end, labour-intensive manufactures).

No doubt, there is a lot that can be achieved like this, especially if it results in moving labour from unemployment or low productivity agriculture and services into more productive employment in manufacturing. But, impressive as the many case studies the authors offer of more-or-less successful policy development in South East Asia, the Middle East and Central America, one cannot help but feel that these examples – which produce 15,000 jobs here, 50,000 there, will barely touch sides in Sub-Saharan Africa. This is a region, after all, where some 60 million jobs are needed today just to get the proportion of adults into paid employees up to the global norm of 27%. The world market for underpants and cheap T-shirts isn't big enough for that. No, over the long-term, these countries need to accumulate new assets if they to grow sustainably. But achieving this requires confronting deep-rooted coordination failures which are unlikely to be resolved simply through sound macroeconomics and tax incentives.

Capital accumulation and coordination failures

Consider, for a moment, the act of faith involved in commissioning the construction of a thirty-storey skyscraper in downtown Nairobi. In the best case scenario, and assuming that that the land, skills and technology are all available to construct the edifice, investment a building of that kind would be paid off over many, many years. That being so, an investor interested in such a project would have to be reasonably confident that Kenya's economic development over the next few decades would be such that occupancy levels would hold up and rents would be paid. But how could he be?

One way of thinking about the challenge is to see it as one of coordination since my decision to invest in the building depends on the decisions taken (and yet to be taken!) by many others. Some of these are decisions by government: will the municipality invest in the systems needed to clear the rubbish and manage the traffic; will the next government avoid the temptation to impose extortionate property taxes? Other factors influencing our property magnate's decision are the actions of hundreds, maybe thousands, of private actors whose decisions will shape the future growth path of the economy. If they don't invest in the long-term, the economy won't grow enough to ensure the building pays for itself.

The bad news, of course, is that neither the sophisticated institutions nor the faith in the future can be quickly transplanted into an African setting where instability has been the norm, institutional capacity is often non-existent, and even national consciousness is a recent invention.

How societies achieve coordination of this kind is something of a mystery. The communist bloc tried it through central planning, and failed. China is a partial exception to this rule, but its model depends on the unprecedented, non-replicable savings rates of its people, which are an artefact of the one-child policy (which ought really to be called the four grandparent policy) combined with massive financial repression. By contrast, developed countries in the West achieve coordination over the long term through a combination of enormously sophisticated institutions (political and economic) and a deeply set, nearly unconscious sense that the future will be something like the past, but a bit richer. This is a something much deeper and more enduring than "investor confidence" and this has to do with a sense of permanence and continuity. The bad news, of course, is that neither the sophisticated institutions nor the faith in the future can be quickly transplanted into an African setting where instability has been the norm, institutional capacity is often non-existent, and even national consciousness is a recent invention.

In such circumstances, short-term, "distributionist" thinking on the part of government, labour and even business is entirely rational and predictable: since no-one has particular faith in the future, there is no reason for anyone to delay gratification whether by curbing corruption, moderating wage demands or investing for the long-term. Coordinating a change in these incentives is likely very difficult. How, one must ask, would a visionary leader committed to clean government emerge from Angola's MPLA? Why would business believe that such a leader would survive the implementation of his agenda?

Mills and Herbst have produced an enlightening and informative book that, while not quite succeeding in identifying solutions to the core challenge facing Africa, serves as a reminder that many of the continent's problems are of its own making. If their suite of solutions seems inadequate to the task, this has less to do with the quality of their work and writing, and more to do with the intractability of those challenges.