18 Ethnic Rent-Seeking, Stability and Institutional Reform in Sub-Saharan Africa*

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1 INTRODUCTION

Empirical evidence shows a positive and statistically significant relationship between investment and output growth. Variations across countries in economic growth largely reflect differences in investment. Such variations crucially depend on the perceived risk of investment. Other things being equal, lower risk and higher present values, imply a higher level of investment. Thus, cross-country variations in investment rates, and therefore economic growth, reflect differences in the risk of investment.

Political institutions affect this process critically. The enforcement of contracts and protection of property rights provide a necessary foundation for investment and growth. Investors make long-term commitments where this foundation promises to be stable over time. Stable institutions associate with lower risk and higher present values. On the other hand, unstable institutions cause a higher discount rate, thereby reducing the present value of investment. Politically stable institutions therefore associate with higher rates of economic growth. Because democracies are more stable than dictatorships, democratic governments have higher investment and growth than those under dictatorial rule, *ceteris paribus*.

Dictatorships, however, are not created equal: some are quite stable; others fairly unstable. A stable dictatorship can produce high investment and growth. A secure ruler has a long planning horizon and therefore may implement policies that increase society's long-run output. Monarchies with clear lines of succession and minimal instability have long planning horizons, and make long-term investments. Many dictators, however, are relatively insecure, and subjects face uncertain enforcement of contracts and protection of property rights. Insecure rulers have short planning horizons and don't enforce long-term contracts. Instead, such rulers maximize short-run wealth. As Olson (1993) observes insecure autocracies do not consider future output, and resemble roving bandits.

Institutional stability is crucial to growth in Africa. Sub-Saharan African countries have experienced high levels of political instability since the 1950s. There is no doubt that this instability has contributed to their poor economic performance. Even where rulers have long tenure and where stability exists, economic performance has been dismal. This raises several questions. What explains political instability in Africa? Are there peculiar aspects in African societies that makes them prone to instability? Why do many politically stable countries also perform poorly in economic growth? What institutional reforms could produce political stability and growth?

2 INTEREST GROUPS AND INSTITUTIONAL STABILITY: THEORY AND EVIDENCE

Political instability generally occurs when some interest groups attempt to displace a ruling coalition outside the established constitutional procedures. Although not the only reason, political instability emerges from the competition of various interest groups to control the instruments of transfers.

The interest-group theory of government teaches that public policy outcomes reflect the interplay between the demanders and the suppliers of wealth transfers. Well-organized groups benefit from transfers and other, less-well-organized, groups supply those transfers. Politicians broker wealth transfers with the primary goals of maximizing their tenure in office. Political stability therefore requires that brokers of transfers establish mechanisms to extract rents from some interest groups to distribute to other competing groups. If rulers maintain an acceptable sharing formula and also extract rents without provoking rent protection, stability will prevail. Factors that disrupt the flow of rents necessarily distort the rent-seeking equilibrium and increase the probability of instability; changes in the ability of groups to resist transfers disrupt the rent-seeking equilibrium. Instability may also occur if rulers extract a brokerage fee that interest groups consider to be unacceptable. In essence, political stability involves establishing appropriate mechanisms for extracting rents, establishing an acceptable sharing formula, and charging an acceptable brokerage fee.

Kimenyi and Mbaku (1993) identify various African interest groups that compete for wealth transfers, including farmers and urban dwellers – such as civil servants, military personnel and private-sector employees. Farmers are the largest interest group and generally contribute the largest share of national output. This group, however, is poorly organized, and the least effective in influencing public policy; urban dwellers, although few in number, influence public policy more effectively. Rulers must address the interests of urban dwellers, who can destabilize the government. Consequently, rulers generally extract rents from farmers to transfer to urban residents. Since urban residents can destabilize the government, a stable political equilibrium must adopt a sharing formula acceptable to these groups; thus political stability is a rent-seeking equilibrium.

The most important characteristic of these interest groups in Africa is ethnicity. Members of a particular ethnic group consider themselves to be different and seek to maximize the well-being of their members. Most interest groups have important ethnic components. Many interest groups are organized around ethnicity. Consider, for example, political parties: in virtually all Sub-Saharan African countries, political parties are organized around ethnic groups. Even when coalition parties emerge, they are soon dominated by one ethnic group. Similarly, where political parties form around an ideology, they are soon dominated by ethnic groups. Thus, political party competition in Africa essentially implies ethnic competition to supply legislation. Once in power, leaders seek to transfer benefits to the members of their supporting coalition, often a particular ethnic group. This means that other ethnic groups are suppliers of rents and probably engage in rent protection, or seek to capture the instruments of transfer. Clearly, the more complex the ethnic composition of a country, the higher the probability of instability. In many African countries, trade unions also reflect ethnic divisions.

Ethnic groups are also associated with geographical regions; this is referred to as geoethnicity. Although the boundaries that define ethnic regions are generally fuzzy, they nevertheless exist and are generally respected by neighbouring groups. Thus the various ethnic groups have their own territory, and members of other ethnic groups are generally considered to be outsiders. Ethnic units may be said to form what could be referred to as ‘ethnic nations’. Geoethnicity increases ethnic rent-seeking. A tax on a particular agricultural commodity is often a tax on a particular ethnic group; similarly, development project in one region provides benefits to a particular ethnic group. Consequently, ethnic groups have strong incentives to capture the instruments of transfer. We therefore expect the degree of ethnic heterogeneity (indicating ethnic competition) to play a crucial role in explaining political instability.

Ethnicity closely mirrors religious heterogeneity. Religious affiliations frequently correspond to ethnic affiliations, and this is most important where both Christian and Muslim religions exist. Here, religion cements the existing ethnic divisions. Religious homogeneity with ethnic diversity can reduce ethnic divisions, which increases institutional stability. Like ethnicity, religion is important in the formation of interest groups in Sub-Saharan Africa.

Empirical evidence supports the theoretical assertions of interest-group theory. Kimenyi (1989) found that political instability in Africa reflected competition to capture instruments of transfers between *permanent interest groups* – religious and ethnic. Kimenyi and Mbaku (1993) modelled the determinants of political stability as measured by the duration of political regimes (DURATION). The independent variables included: index of religious homogeneity (RELHOM); index of ethnic homogeneity (ETHNHOM); percentage of total population living in urban areas (URBAN); annual growth rate of urban population (URBANG); percentage of gross national product (GNP) originating from agriculture (PGAGRI); ratio of military spending per soldier to per capita income (MISPY); total population (000s) (POP); civilians per soldier (SOCIV); population density per square kilometre (DENSITY); per capita income in US $ (PY); annual growth rate of GNP (GNPG); percentage of income originating from the public sector (SCG); and a binary variable to take into account whether leaders came to power by way of a military coup (BYCOUP). The primary interest group variables included a measure of ethnic and religious homogeneity, share of output from agriculture, military spending, and measures of urbanization.[1]

A model of the determinants of the duration of regimes is estimated assuming a Weibul distribution. The basic idea was to estimate how each of the independent variables affected the probability of the survival of a political regime. The maximum likelihood estimates of the parametric survival model are shown in Table 18.1. The interest group variables RELHOM, ETHNHOM, PGAGRI, MISPY all had the expected signs. The coefficient on RELHOM was positive and statistically significant at 1 per cent. This indicates that, the higher the degree of religious homogeneity, the more stable institutions were likely to be. The coefficient on the index for ethnic homogeneity was positive.

Table 18.1 Likelihood estimates of the parametric survival model

DURATION = –3.246	+ 0.871 RELHOM	+ 0.0039 ETHNHOM	+ 0.00246 URBAN	– 0.0239 URBANG	
	(0.232)***	(0.0078)***	(0.0078)***	(0.0016)***	
	+ 0.341 PGAGRI	+ 0.0391 MISPY	+ 0.0438 SOCIV	–0.000081 POP	+ 0.0201 SCG
	(0.0091)***	(0.00945)***	(0.106)	(0.000064)	(0.019)
	+ 0.0112 PY	– 0.00041 GNPG	– 0.886 BYCOUP		
	(0.125)	(0.00034)	(0.202)***		

Notes:
1. Assumes constraint risk failure.
2. Standard errors in parentheses.
3. Asterisks denote significance at 1 per cent (***), 5 per cent (**) and 10 per cent (*).

As expected, ethnic homogeneity increases stability, because competition for rents amongst tribal groups is lower in more homogeneous populations. The larger the availability of easily extractable rents – as measured by PGAGRI, the more stable were the institutions. Once of the most important explanatory variables appears to be the MISPY – the measure of the rents to the military. The larger the relative share of rents that go to the military, the greater the stability of institutions. However, the mere size of the military (SOCIV) was not an important determinant of stability in Sub-Saharan Africa.

Contrary to expectation the more urbanized countries appear to have the more stable governments. One possible reason is that a larger urban population may effectively constrain the military from overthrowing civilian regimes. The variable for the growth in urban population (URBANG) had a negative and statistically significant coefficient. This suggests that an increase in the number of rent recipients relative to suppliers of rents may create disequilibrium, and hence instability. Regimes that come to power by way of a military coup are more unstable. Population size, share of public-sector income, the per capita income, and the rate of economic growth do not appear to affect stability.

The empirical results reported here lend support to the interest-group theory. Stability largely depends on the type and relative strength of various interest groups. The results reveal that permanent interest groups such as ethnic and religious groups are crucial to institutional stability in Africa. Clearly, the high degree of population heterogeneity (ethnic and religion) explains the unusually high levels of instability in Sub-Saharan Africa.[2]

3 INSTITUTIONAL REFORMS TO ACHIEVE STABILITY AND ECONOMIC GROWTH

Because rulers primarily maximize their tenure, they adopt strategies and institutional arrangements that facilitate rent extraction. The extraction retards growth even though it is used to purchase stability. Thus, on the one hand, inefficient government policies involve social costs and retard growth (Tullock, 1967; Krueger, 1974; and Posner, 1975), but on the other hand, such rents represent political resources that are exploited to gain political support and perpetuate the government in power (Bates, 1983a; Brough and Kimenyi, 1986). To achieve both growth and stability, reforms must reduce ethnic rent-seeking.

Several studies, such as Brough and Kimenyi (1986) and Kimenyi (1989), show that policy-making in Africa largely reflects the interplay of tribal competition for rents. Rulers adopt policies that concentrate benefits on one or a few tribes while distributing the costs over many others. Transfers may involve taxes, subsidies, regulations, public projects, or even government jobs. Government policy deliberately benefits one ethnic group at the expense of others. As a result, identifying with one ethnic group has a high pay-off and provides access to transfers at low cost.

Bates (1983b) argues that ethnic groups in Africa evaluate their relative well-being by comparing their level of modernization with that of other groups. Because most goods and services from the modern sector are distributed by the state, intense competition exists between ethnic groups to control the instruments of transfer. Ethnic leaders use their capacity to provide the components of modern life to generate political support. Consequently, successful African leaders (as have leaders throughout history) design patronage to dispense jobs, contracts, commercial loans, scholarships, and so on to members of their ethnic groups. Chazan (1988) notes that strong ethnic identification provides an effective channel for the extraction of state resources. Lonsdale (1981) suggests that African tribes are the most cost effective constituency for mobilizing pressure to gain state access.

The survival of African regimes requires leaders to extract rents at low cost. Centralization and the abandonment of constitutionalism expands the power of rulers and the scope of government activity, thereby facilitating the extraction and distribution of rents. The expansion of the civil service has provided one means of distributing favours (Ayoade, 1988). A World Bank study (1981) reported that public employment had reached between 40 per cent and 74 per cent of total recorded paid employment in seven Sub-Saharan African countries where data were available. This study also reported that incremental expenditure on public administration, defence, and education outstripped economic growth in these countries. Expenditure on public administration and the military grew at almost twice the annual growth rate of GDP in twenty-one of Sub-Saharan countries (World Bank, 1981; Kimenyi, 1997).

While public-sector expansion has provided African leaders with the opportunity to distribute favours, it also requires that leaders design policies to extract rents from other groups. To succeed, rulers must create an inefficient system of property rights, permitting the extraction of resources from some groups to transfer to others at low cost. North (1981) argues that rulers adopt inefficient property rights because they can raise more revenue in this way. In Sub-Saharan Africa, where most rulers are insecure, creating inefficient property rights has become the norm.

Institutional arrangements in Africa that encourage ethnic rent-seeking but hinder growth trace their roots to colonial rule, which placed different ethnic groups under the same authority (Crowder, 1968). Leaders of independent African governments opposed any arrangement that granted local autonomy to ethnic groups. Instead, the leaders adopted policies that increased centralization and eliminated any institution that relied on ethnicity for its organizational base. Such institutions were considered to be harmful to national unity because they created divisions between people. Local governments were systematically weakened and all decision-making powers were concentrated in the centre. The new leaders argued that highly centralized unitary states balanced resource allocation across regions. Similarly, single-party systems were justified in that they rose above individualism, regionalism, ethnicity and class-orientation (Wunsch, 1990). In this way, the leaders concentrated power in the central government, united ethnic groups by outlawing political competition and used the government to redistribute resources.

The adoption of these political institutions has had disastrous effects. Eliminating local autonomy and introducing centralized unitary governments produced ethnic competition for resources and power. Not only was decision-making far removed from the people, but the leadership also made inter-ethnic transfers. The resources that were channelled through the public sector shifted ethnic interaction from cooperation and market exchange to competition in political markets.

Centralization and ethnic integration created lucrative rent-seeking opportunities. By placing many ethnic groups under one central government with powers to make inter-ethnic transfers, the unitary states provided ideal conditions for ethnic discrimination. Leaders could effect transfers from some tribes to others. These powers make it possible to force transfers from one group to another, including the reallocation of rights to favour privileged groups. The creation of these insecure property rights adversely affects growth.

Stability and economic growth are unlikely to emerge in Sub-Saharan Africa in the absence of radical institutional reform. Reforms must aim to reduce ethnic rent-seeking and to constrain the powers of government. The most viable approach to reduce ethnic competition is to provide ethnic autonomy. Kimenyi (1996 and 1997) argues that the creation of federal polities that exploit geoethnicity could achieve this goal. Ethnic competition for rents could also be reduced by providing local government with significant autonomy. Finally, stability and growth require a return to constitutionalism.

Whether African countries retain unitary systems of government, or establish federal systems, an urgent need exists to decentralize decision-making to a local level. Decentralization would allow the ethnic groups to design and implement their own policy. Decentralization provides local communities with the opportunity to determine the extent of interaction with other communities. Decentralization can significantly reduce coercive state powers and reduces the inter-ethnic contacts that result in conflict.

The current chaos in Sub-Saharan Africa largely reflects the lack of appropriate and enforceable constitutional rules. Most important, the constitutions have not constrained the powers of government. Whether the countries retain unitary, but decentralized, states, or adopt federal arrangements, it is essential that they rewrite their constitutions to constrain the powers of government effectively.

Possibly the most effective constitutional mechanism for limiting government power is the separation of powers (Siegan, 1994), to limit the opportunity that leaders have to manipulate laws to their advantage. Combining executive and legislature power increases the probability that laws serve special interests, and allows rulers the opportunity to oppress particular groups.

The separation of powers in ethnically heterogeneous countries minimizes the probability that one ethnic group will dominate policy outcomes. Thus, even though one group may dominate the legislature, and may pass laws that are favourable to members of a particular group, legislation will probably be overridden by another branch of government. As such, the separation of powers protects individual and group rights. In addition to the separation of powers between the branches of government, the constitution needs a *bill of rights*. These rights include civil and political, social, and economic rights. Property and economic liberties need to be protected by a constitution. Siegan (1980) has argued forcefully that legislators must not adopt laws that interfere with property and economic liberties. The protection of property rights and economic liberties enhances the peaceful coexistence of ethnic groups. Lowering political control reduces the value of political leadership and thus reduces ethnic competition for control of government. In addition, leaders would have limited ability to discriminate against members of other ethnic groups. Thus, the protection of property rights and economic liberties shifts competition away from political to economic markets.

These proposals seek to constrain the powers of government and minimize ethnic rent-seeking. The goal is to improve relations among ethnic groups, creating secure property rights and promoting market exchanges. Even with increased autonomy, all groups remain united under the countries they belong to. In some countries, however, the ethnic divide is so wide that these reforms are not sufficient to unite the groups. Therefore, in some countries, stability can only be achieved if groups secede and establish autonomous nations. Kimenyi (1995) concludes that attempts to prevent secession will only create more conflict and instability. Thus, one viable solution is to permit those groups that want to separate to do so. In essence, cases exist where stability and growth require radical reforms such as the establishment of new independent nations.[3]

4 CONCLUSION

African countries experience a high level of political instability. Institutional instability reflects intense interest-group competition to capture the instruments of transfer. Instability will be associated with low levels of growth. Nonetheless, even relatively stable countries have had poor economic performance, because stability emerges as a result of the adoption of policies and institutional arrangements that involve wealth extraction from some groups to others.

Although many interest groups compete for transfers, ethnicity represents the most important interest group. To achieve growth and stability simultaneously, radical institutional reforms need to be introduced. Reforms must be designed to reduce ethnic rent-seeking. Possible reforms include the establishment of federal polities, decentralization, and the adoption of a constitution that limits the coercive powers of the state, and guarantees the protection of property rights and economic liberties. Reforms should increase ethnic autonomy and exploit geoethnicity. In some cases, the establishment of new autonomous nations through secession may be the only way to achieve stable institutions that are also conducive to economic growth.

Notes

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1. Data sources, variable definitions and details concerning estimation of the model are provided in Kimenyi and Mbaku (1993).
2. The importance of ethnicity in explaining instability is confirmed by models for the determinants of institutional stability where stability is defined as a composite index that takes into account coups and attempted coups, riots, and the age of the nations.
3. Kimenyi (1995) points that Africa's boundaries are maintained through coercion. African countries do not represent consensual units of collective choice, and boundary changes should be expected with democratization.

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