Introduction: the African business class and development

It now seems to me less important that the domestic bourgeoisie should be efficient – technically, financially or otherwise – as capitalists, as individual accumulators, than they should be competent politically as a class: that they should, as a class, recognise the requirements of capital accumulation for capital as a whole and be able to see to it that these requirements are met.[1]

In the late summer of 1981, in a hot and sticky Washington DC, staff members of the World Bank were strategizing how best to release a report entitled *Accelerated Development in Sub-Saharan Africa*.[2] Some were nervous about how the report might be received – and rightly so.[3] The content of those 200-odd pages proved highly controversial. They would also be enormously consequential, reshaping the role of the state in economies across the developing world for decades to come. In sub-Saharan Africa,[4] the impact of the report would be directly felt through policies of structural adjustment that linked access to development finance to a neo-liberal set of economic policies. Africa's growth prospects, the report argued, had been curtailed by the overreach of the state; what was needed instead was a greater role for unfettered market forces and for the private sector. The report represented nothing less than an agenda to revolutionize the respective roles of the public and private sectors in African economies. The attempt to implement that agenda, however, produced uneven results.

[1] Colin Leys, "Learning from the Kenya Debate," in *Political Development and the New Realism in Sub-Saharan Africa*, ed. David E. Apter and Carl G. Rosberg (Charlottesville, VA: University Press of Virginia, 1994), 230.
[2] Known, for short, as the Berg Report.
[3] Devesh Kapur, John P. Lewis, and Richard Webb, *The World Bank: Its First Half Century*, 2 vols., vol. 1 (Washington, DC: Brookings Institution Press, 1997), 717.
[4] Henceforth, I will use Africa as shorthand for sub-saharan Africa.

This book focuses on what are, from one perspective at least, a counterintuitive set of policy-making outcomes arising out of those efforts: During the neo-liberal era, the World Bank pressed African states to accord a greater role in the running of the economy and in economic policy-making to the private sector. At the start of the 1990s, the governments of both Ghana and Zambia were regarded as two of the most radical neo-liberal reformers in Africa and both expressed – and even displayed – some commitment to consulting business in the making of economic policy. By the end of that decade, however, the impact of the business community as a whole on economic policy-making in those two countries was negligible.

By contrast, at the beginning of the 1990s, neither the new government in South Africa nor Mauritius appeared likely supporters of neo-liberalism, and the World Bank enjoyed little policy leverage in either country. Moreover, in both instances, the state had little reason to regard business as a policy-making partner but instead regarded business with a considerable degree of hostility. Nonetheless, by the end of the decade, in these two countries business did have a significant and sustained impact on economic policy-making.

How do we explain these strikingly divergent results? My answer is that outcomes in South Africa and Mauritius differed from those in Ghana and Zambia for reasons that had little to do with the World Bank. Rather, policy-making in the former cases was shaped by the existence of strong institutions on both sides. Both business and government displayed high levels of capacity to engage in a robust and sustained set of exchanges concerning policy; to wit, business–government interaction fostered a process of constructive contestation in South Africa and Mauritius. In Ghana and Zambia, by contrast, the process more closely resembled neo-patrimonial collusion. In such a situation, where both the state and the local business community lack capacity, the state will win out, and where the state in question is neo-patrimonial, policy-making will probably be highly personalized.

Constructive contestation of policy is unlikely to occur where business is so weak that the state can act as it chooses nor where business is so strong that the state simply rolls over and serves business interests. Rather, it requires energetic policy contestation between two relatively well-matched protagonists, and that each player is both structurally powerful enough and organizationally efficient enough that its views must be taken seriously in resolving on any course of action. Policy processes are strengthened when the state is forced to engage in considered, inclusive consultation with important social actors – such as business.

Crucially then, it is not just the state but business too that must have a significant level of political capacity. Of course, the characters of these two actors are closely connected: how business looks and behaves depends in large part on the state, and the reverse is true too although perhaps less so. Nonetheless, the quality of policy-making in any given moment will ultimately depend on the nature of the state, the nature of business, and the consequent relationship between these two sets of actors.

The phrase "constructive contestation" implies a number of features about this policy-making relationship.[5] First of all, it signifies that it was a genuine process of *contestation*. In South Africa and Mauritius, business and government often had very different ideas about what optimal economic policies were, and their engagements over the content of that policy were not always entirely friendly. Indeed relations between business and government were at times marked by mutual suspicion and some coolness. This is in contrast with Ghana and Zambia where elements of the business community were instead very close to government – perhaps too close – and their interactions were often conducted on a highly personal basis.

The second element of the interaction is also important, however, namely that the policy interactions were *constructive*, i.e. it is not just that government's interactions with business were beneficial for the policy-making process but also that they were constructive in an architectural sense, viz. that they had the quality of actively constructing a particular kind of business community. In observable (if often unintended) ways, the states of Mauritius and South Africa fortified the ability of organized business to develop and defend a distinct set of interests. Moreover, while the state often mistrusted and disliked business, the interactions between the state and business were regularized and took place through institutionalized mechanisms. By contrast, in Ghana and Zambia, while the few businesspeople who enjoyed the favor of the state met with their political connections behind closed doors, the rest of the business community enjoyed little

[5] These ideas were developed also in discussions with Joe Carens and Amanda Dickins.

systematic access to policymakers. This resulted in the fracturing of the business community and the striking of individual bargains – a process that was unlikely to produce policy that was in the public interest or to foster the development of a powerful business class. My cases demonstrate then that not only are the character of state and business respectively important but also that states may be stronger (more developmentally effective) when they are weaker (constrained in policy-making).

There is another important respect in which an apparent weakness may in fact constitute a source of strength viz. with respect to ethnic divisions, often regarded as unambiguously detrimental to economic prospects. In particular circumstances these divisions may actually strengthen the capacity of business to serve as a robust policy partner. In Mauritius and South Africa, racialized and ethnicized cleavages effectively generated a kind of power-sharing arrangement, splitting power between two separate economic and political spheres. Public and private actors were thus forced to balance against each other, and their interaction was charged with a small but healthy dose of opposition. Such a process may well be in the interests of economic growth and the society as a whole. By contrast, elsewhere on the continent where there were few political imperatives for the separation of political and economic power, the workings of the neo-patrimonial state instead resulted in a fusion of political and economic elites, and policy-making strayed far from anything resembling the broader public interests, converging instead on the very particular needs of that small circle of overlapping elites.

These dynamics may well be true of many kinds of policy-making in many different parts of the world. I focus on *economic* policy-making because of its significance for broader economic outcomes and I argue that, all things being equal, a policy-making process characterized by constructive contestation is more likely to produce policy that serves the interests of a wider slice of the population than one of neo-patrimonial collusion. And I focus on *Africa* because its states continue to pose many of the sharpest challenges to those concerned with economic development.

Some might interpret my focus on the role of business in economic policy-making as indicating sympathy for the interests of business above all others in policy-making. This is to misunderstand the very nature of constructive contestation. If business were able to dominate economic policy it would be bad news for both the economy and the population. Rather, on a continent where it is all too easy for a small group of state-based elites to make policy in their own specific interests, it is preferable if the state, at the very least, is forced to negotiate and engage with one other set of organized and institutionalized interests, namely business. Ideally of course, one would wish to see the state consulting also other key social sectors – but this book is concerned with business in particular because of the role that it can play in economic development.

The subject of this book may also provoke broader questions about whether a market-based or capitalist route is best for African states. As important as this issue is, that is not the primary focus of this text. Rather, given that the dominant international milieu within which African economies currently operate is a capitalist one; that history has presented us with few happy examples of non-capitalist routes to economic development; and that neither of these two propositions seems likely to change anytime soon, my concern is with how best to make such a system work to the benefit of all. This challenge is especially difficult in a region of the world where the state seems remarkably ill-equipped to play a developmental role.

Constructive contestation – or neo-patrimonial collusion?

It is at least as true in Africa as it is elsewhere that the nature of business and of the economic environment within which it operates is shaped to a significant extent by the state. Granovetter uses the notion of embeddedness to demonstrate how personal networks and social institutions generate the milieu within which firms operate. This milieu can be positive, where developmental states generate trust, or it can be malign, where neo-patrimonial states encourage malfeasance.[6]

Of course, to argue that the market is mediated by the state is not novel. A distinguished line of thinkers that includes Polanyi, Gerschenkron, and Hirschman has long argued that the state is deeply implicated in the business of capitalist economic development.[7] As

6 Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91, no. 3 (1985): 498.
7 Alexander Gerschenkron, *Economic Backwardness in Historical Perspective, a Book of Essays* (Cambridge, MA: Belknap Press of Harvard University Press,

Weber taught us, a variety of capitalisms are "politically oriented"[8] – but the generality of this assertion obscures as much as it reveals. Politically oriented capitalists may flourish in many kinds of state–business relationships, from the felicitous developmental state, to varieties of corporatism, crony capitalism, and neo-patrimonialism.

How are we then to distinguish among these forms of capitalism? In the same way that Evans developed a typology of the state's interaction with the market,[9] we need a typology in turn of the market's interaction with the state. In the tradition of historical institutionalism,[10] this book employs a focused, comparative analysis of the relationship between business and government, highlighting three junctures which are critical for the formulation and development of business and of that relationship: colonialism, independence, and the neo-liberal reform era. In each of these three eras, the private sector emerges from and/or is "embedded" in an environment which is shaped by the state – to widely differing degrees. In South Africa and Mauritius, business enjoys some breathing room, a sphere of economic activity in which the business community can develop a discrete sense of its own interests. By contrast, for Ghanaian and Zambian business, their dominant mode of operation and incentives is driven by the state. In all cases, however, the state faces its own incentives and constraints, and the choices that political elites make in response to these are enormously consequential in sculpting the political economy.

The state of the state

Let us begin then with the state itself. When I use the term "state," I am concerned not with the entire administrative and political

1962), Albert O. Hirschman, *The Strategy of Economic Development* (New Haven, CT: Yale University Press, 1961), Karl Polanyi, *The Great Transformation* (Boston, MA: Beacon Press, 1944).

8 Max Weber, *Economy and Society: An Outline of Interpretive Sociology*, ed. Guenther Roth and Claus Wittich, 3 vols., vol. 1 (New York: Bedminster Press, 1968), 165.

9 Peter B. Evans, "Predatory, Developmental and Other Apparatuses: Comparative Political Economy Perspectives on the Third World State," *Sociological Forum* 4, no. 4 (1989), Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995).

10 Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44 (1996).

structure of the state but with those sectors of the state that exert the greatest influence over economic policy-making.[11] These include the cabinet, those top-ranking politicians who deal with matters of economic policy, and high-level civil servants in the appropriate ministries (such as finance, trade, and industry). This group can be distinguished from, but often overlap with, the political elite. The political elite include those commentators, advisors, analysts, and family members who are not necessarily formally associated with the state, but who exercise decisive influence over key policymakers within the state.

State capacity has received a great deal of academic attention over the past twenty years.[12] For our purposes, the understanding of state capacity articulated by Hobson and Weiss is probably most helpful viz. "the ability to mobilize and coordinate society's resources in such a way as to augment the overall investible surplus (and ultimately raise living standards)."[13] In addition to the penetrative and extractive dimensions of state power, these authors stress – as I do – the importance of *negotiated* power, arguing that "state strength increases with the effective embedding of autonomy."[14]

A wide range of analysts agree that the capacity of African states to develop their economies has generally been low.[15] Nonetheless, the African state has been particularly important in shaping African

[11] In particular, I refer to the national government. Arguably, in South Africa at least, a rather different set of business–government relations pertains at the provincial level as opposed to the national level; specifically, provincial-level interactions might present greater coincidence of neo-patrimonial and ethnicized connections. (Many thanks to Melissa Levin for this observation.) This is an important qualification that deserves a fuller treatment than is possible here.

[12] Michael Mann, "The Autonomous Power of the State: Its Origins, Mechanisms and Results," in *Political Geography: A Reader*, ed. J. Agnew (London: Arnold, 1997), Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in *Bringing the State Back In*, ed. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol (Cambridge University Press, 1985), Linda Weiss and John M. Hobson, *States and Economic Development: A Comparative Historical Analysis* (Cambridge: Polity Press, 1995).

[13] Weiss and Hobson, *States and Economic Development*, 4.

[14] Ibid., 7.

[15] The list is potentially very long. It includes Goran Hyden, *Beyond Ujamaa in Tanzania: Underdevelopment and an Uncaptured Peasantry* (London: Heinemann, 1980), Atul Kohli, *State-Directed Development: Political Power and Industrialization in the Global Periphery* (Cambridge University Press, 2004), Crawford Young, *African Colonial State in Comparative Perspective* (New Haven, CT: Yale University Press, 1994).

business communities – for two reasons. First, decolonization in the late 1950s and early 1960s coincided with the heyday of development economics when there was wide support for the view that Third World countries could catch up with the developed world if their governments substituted for the failings of private capital markets. This complements the Gerschenkronian expectation that the later the process of industrialization, the more the state would have to intervene to organize and invest capital.[16]

Newly independent African states thus came of age in an international context that warmly approved state-led and import substitution industrialization (ISI) development models. Most inherited very weak, small indigenous business communities but, in terms of the conventional wisdom of the day, this was regarded as no great obstacle. Governments employed a range of strategies to develop their economies. The constellation of social cleavages in each territory and how these mapped onto struggles over economic and political power would determine exactly how these instruments were employed and to what effect.[17] The result was often to place a large amount of discretion over the functioning of the market in the hands of a few state-based actors.

Second, the African state was unusually influential on the formation of the African business class not only because of this late, late-industrialization context, but also because of its particular character, viz. neo-patrimonial. Because I am concerned with how the neo-patrimonial state fashions the "rules of the game" for business too, I find Nicolas van de Walle's definition of neo-patrimonialism most useful:[18]

[16] Gerschenkron, *Economic Backwardness in Historical Perspective*. For a masterful treatment of this idea, see John Iliffe, *The Emergence of African Capitalism* (Minneapolis, MN: University of Minneapolis Press, 1983). Baran and Kurth also argue that it is important to consider the timing of a particular country's industrialization for the kind of economic development that follows. Paul Baran, *The Political Economy of Growth* (New York: Monthly Review Press, 1957), James R. Kurth, "The Political Consequences of the Product Cycle: Industrial History and Political Outcomes," *International Organization* 33, no. 1 (1979).

[17] See, for example, Nicola Swainson, "Indigenous Capitalism in Postcolonial Kenya," in *The African Bourgeoisie*, ed. Paul M. Lubeck (Boulder, CO: Lynne Rienner, 1987).

[18] Nicolas van de Walle, *African Economies and the Politics of Permanent Crisis 1979–1999* (Cambridge University Press, 2001), 51–2.

> Outwardly the state has all the trappings of a Weberian rational-legal system, with a clear distinction between the public and the private realm, with written laws and a constitutional order. However, this official order is constantly subverted by a patrimonial logic, in which officeholders almost systematically appropriate public resources for their own uses and political authority is largely based on clientelist practices, including patronage, various forms of rent-seeking and prebendalism.

Van de Walle is talking explicitly here about the state, but that state actively structures the economic context for social actors. Subversion of institutional authority and self-interested behavior is thus not unique to state officials but equally may describe how politically connected businesspeople behave in a neo-patrimonial political economy. In such a context, the distinction between the public and private realm – and the public and private sectors – may virtually disappear. Indeed, where the state is highly neo-patrimonial, it seeks to draw the business and economic elite further into an incestuous relationship with itself – and this pressure can be enormously hard to withstand.

Neo-patrimonialism is thus not restricted to the state nor is it a given condition; it arises out of ongoing tussles between leading political and economic actors. The social cleavages that may carve up political and economic power – or fuse them – play into these struggles and are similarly dynamic. Nonetheless, history matters for the institutions and for the milieu that it generates, and some factors will make neo-patrimonialism more likely. Chief among these is the extent to which the state succeeds in monopolizing the decision-making terrain.

The first question then to consider at any given moment is whether the role and power of the state is being buttressed at the expense of other political and economic actors. Here it is not just the level of intervention by the state that is important, but the character of that intervention too. What kinds of functions, responsibilities, and powers does the state assume? In particular, is the intervention in the economy developmental or neo-patrimonial?

One of the key determinants of the state's character operates via its revenue stream: Can the state safeguard its economic interests merely by controlling the leading sub-sector, or does it have to negotiate with a wider range of disparate economic actors? Are there incentives in place that might induce a state to diversify the economy? Finally, are there external sources of funding (such as international development aid), which allow the state to ignore domestic economic actors? All of these factors will determine the extent to which the state negotiates policy decisions with other local actors.

The nature of business

I use the terms "business" or "the business community" as a proxy for the private sector, and the term "market" to indicate the arena of economic exchange within which that sector acts. Because I am interested in national-level policy negotiations, I focus predominantly on the indigenous business community.[19] This is to be distinguished from the "economic elite," those key individuals and families who comprise the topmost economic stratum of their society. Such people are situated most often within the business sector but also include those occupied in large-scale agriculture and those associated with international capital. The economic elite thus overlap but are not strictly coterminous with the business sector.

While acknowledging the importance of state capacity to economic development, this book advances our understanding of a frequently neglected dimension of that discussion viz. the capacity of business. The markers of business capacity differ from those for the state, but contribute likewise to the mobilization of societal resources in a way that adds to, rather than merely consumes, available surpluses.

Perhaps the most obvious prerequisite for business capacity is structural power in the Marxist sense, i.e. the power that comes from the private sector's economic weight in the economy. One of the clearest predictors of a business community with real political capacity is the existence of an "independent economic base" for the private sector.[20] If business is sufficiently prosperous to fund its own organization without recourse to the state or external donors, it is in a

[19] Some may object to my characterization of South Africa's white business community as indigenous. In the late nineteenth century, the South African business community included a large number of expatriate and specifically British businesspeople. However, as suggested by the moniker "settler," many of these businesspeople subsequently settled in South Africa, made it their permanent home, and became, for legal and political purposes, South African citizens.

[20] Analogous to Barrington Moore's notion of what is necessary for a bourgeois revolution. Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston, MA: Beacon Press, 1966), xv.