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POLITICAL LIBERALISATION AND ECONOMIC REFORM IN DEVELOPING COUNTRIES

The last decade has seen unprecedented moves towards more liberal and democratic forms of political rule across the developing world. There have been expectations, in Africa and elsewhere, that such political changes would have a positive influence on economic reform measures. This Briefing Paper first describes the nature of the reforms and the links between political systems and economic management. It then examines some recent evidence of economic reform under new, and more democratic, political regimes in Latin America and sub-Saharan Africa.

The Nature of Reforms

The current process of *political liberalisation* has been characterised by a series of reforms which involve greater respect for individual and collective rights, greater freedom of association and expression, amnesties for political prisoners and the institution of new constitutional changes such as the replacement of single-party by multi-party systems and the introduction of regular, free and fair elections for political succession. Democracy has been held to be consolidated when the new 'political rules' are generally recognised and become habitual, when elected assemblies have more than token power *vis-à-vis* the political executive and there is civil control over the military.

A number of Latin American countries have progressed beyond the process of political liberalisation which began in the late 1970s and early 1980s, and appear to be in the period of 'democratic consolidation'. Several East Asian countries are in the political liberalisation phase. In sub-Saharan Africa, since 1989, there has been some political liberalisation following initial popular protests. Typically, these began with largely urban interest groups – unions, business people, students – seeking to improve their specific conditions but also protesting against government corruption, repression and mismanagement. The degree of political liberalisation has varied widely and, in Africa especially, it is premature to talk of the consolidation of democratic rules or norms.

Economic reform (or economic adjustment) can be broken down into those policies which effectively achieve macro-economic stabilisation through the use of rigorous fiscal and monetary policy, and those moves towards market liberalisation which involve more freely functioning markets for foreign exchange, credit and labour; reduced government intervention and regulation of marketing and pricing of traded products; the dismantling of state foreign-exchange management and import restrictions; and the introduction of more commercial principles into the management of public enterprises. There is near consensus that control of fiscal deficits and inflation is essential for the proper functioning of markets, though there are differences of view on the appropriate sequencing of some of the above reforms.

While domestic forces have been major influences on the rate of both political and economic reform in developing countries in the 1980s, the global movement towards greater freedom from the arbitrary power of the state, and external financial pressures, have also played a powerful role. In Latin America a major influence was the drying up of access to international finance after 1982; in sub-Saharan Africa donor pressure for economic and political reform was a key factor. In the 1990s the aid agencies are setting conditions for both political and economic reform before releasing programme aid to many poor recipient countries, mainly but not entirely, in sub-Saharan Africa. (See Box 1.)

Political Systems and Economic Performance

Until the mid-1980s there was a widespread belief that tough authoritarian government was good for economic performance and adjustment programmes. This view was based on particular experiences of reform following military coups (eg Brazil 1964, Chile 1973, Argentina 1976, South Korea 1961, 1980, Ghana 1983).

This view is now less widespread, despite successful authoritarian economic management in, for example, Singapore, South Korea and Taiwan. However, authoritarian governance has depended on the specific nature and quality of the political leadership as well as reliance on patronage systems for survival. There have been explanations of why authoritarian regimes take a short-term perspective and seek personal gains from state-protected and subsidised activities. In contrast, some authoritarian leaders have taken a longer view and have promoted policies of economic stabilisation and effective industrialisation and development, with bureaucracies competent to implement the strategy.

More systematic research has now been done on the economic performance of different types of political regime in the developing countries. This fails to show that more authoritarian regimes are better at controlling their public expenditure, budget deficits, credit ceilings or inflation. Nor does it show that economic growth has been greater under such regimes.

The economic reform credentials of democratic rule have similarly not been established. Nearly a hundred World Bank structural adjustment programmes were recently examined to discover the degree of initiative and commitment evidenced by the domestic political leaders and officials. No systematic connection was found with the type of political system or regime: a high level of commitment was demonstrated in some politically liberal countries (eg Costa Rica, Mauritius), but it was paralleled in some less liberal ones (eg Korea, Ghana).

Box 1: Donors and their Critics

In the 1990s, donors are setting the double requirement of political and economic reform as the condition for the release of aid to recipient countries. Political conditions have related primarily to improved behaviour on civic and political rights and on free and fair national elections. This has attracted three main criticisms:

- That donor understanding of appropriate and sustainable political changes has been weak. There has been excessive concern with multi-party electoral systems and insufficient concern with more fundamental issues of civic interest groups and political party mobilisation and articulation which will offer the public policy choices.
- That donors have not been explicit on how or why political liberalisation and wider participation in decision-making will ensure more effective implementation of economic reforms.
- That donors who set political conditions and consider their implementation of fundamental priority need to relax the pace and extent of their parallel economic reform conditions, since there may be considerable incompatibility between them, especially during periods of political transition.

Why Link Democratisation to Economic Reform?

Given this unsurprising evidence of the lack of a clear link between economic performance and type of government, why have donors and some developing country governments argued for the need to link political democratisation to economic reform programmes? One reason is the current attachment to the idea of an affinity between 'democratic 'and 'market' systems. It is argued, for example, that 'markets require democracy' to limit arbitrary political intervention in individual decision-making and to protect property rights and freedom of contracts.

The prospect of simultaneously combining political liberalisation with economic reform is problematical but the following arguments are put forward to support it.

- New governments with commitments to a fresh economic agenda can be fairly elected and can gain some trust and legitimacy from the public. The new political coalitions can include representatives of those interests – business, intellectual, religious, labour unions – which genuinely want a change in the way the economy is managed.
- A new democratic government can more easily enlist support for wide-ranging reforms if the political change occurred because of failures in economic policy associated with the previous regime.
- Such governments can blame their predecessors for their difficult inheritance and hence win some patience from the public in their adjustment effort.
- The freer association and expression accorded to a range of newer civic groups (or old ones freed from state dependence) can be influential in lobbying for economic reforms. Rural constituencies and small farmers are often seen as particularly important because, as domestic food and export crop producers, they should support, and benefit from, reforms in the marketing and pricing systems.
- A more open and consultative style of government should ensure economic and institutional changes worked out by compromise and consensus politics.

It is recognised, however, that in times of simultaneous political and economic change some tensions are inevitable, for the following reasons.

- Both processes involve 'new rules' that raise great uncertainties about how they will work – for politicians, interest groups, producers, workers, consumers, etc.
- With new and perhaps excessive expectations and demands from previously frustrated groups, it may be difficult to control budget spending and deficits and to ensure a more productive use of public funds.
- Politicians and bureaucrats are often inexperienced in their new political roles. They have to reconcile the 'insulation' of policy in order to achieve stabilisation and inflation control with the novel openness and responsiveness of more politically liberalised politics. This also requires them to resolve the conflicts of interest between newly articulate civic interest groups.
- Urban groups, which are often a major force in political liberalisation may well lose jobs and protected markets and face an increase in their cost of living from economic policy changes.

These are the main considerations which appear to influence the outcome of simultaneous efforts at democratisation and economic reform. How, in practice, are the tensions being resolved? We look first at middle-income 'new democracy' countries, particularly in Latin America, and then consider sub-Saharan Africa where the problems of economic reform seem most intractable.

Latin America and other Middle-Income New Democracies

Economic Stabilisation

In the middle-income countries, to date at least, the transition from authoritarian to democratic regimes has been associated with considerable macroeconomic instability. The transitions have tended to increase budget deficits and inflation though this has often been a legacy of the outgoing regime's desperate attempts to survive unpopularity through expansionist policies (Argentina 1983, Brazil 1985 and Poland more recently). But with very high inherited levels of inflation, incoming new democratic governments, in particular, have found it difficult to bring monetary policy under control, compared with established democracies.

In the first place, democratisation has heightened popular expectations and released hitherto suppressed social demands and grievances. These have sometimes coincided with misjudgments on the part of inexperienced and insecure newly elected politicians. Populist governments have emerged and typically this has generated a sudden expansion of public spending on the creation of jobs (eg Brazil, 1984–9). Nevertheless, in general, neither in election years nor in the years before or after elections, have there been larger fiscal deficits or higher inflation, perhaps because voters in these countries are not so obviously duped as is sometimes thought.

Secondly, when a country passes a certain 'threshold of crisis', public expectations about what the state can do seem to fall. Politicians become more experienced but also more aware that they will be held 'accountable' for the results of their stewardship. Hence they become more cautious and more realistic; they gain in authority and credibility by promising less than before (eg Menem in Argentina and Salinas in Mexico).

Where there have been 'democratic pacts' providing guarantees to the property-owning classes, it has been relatively easier to maintain control of inflation in the initial democratic period, although the situation tended to relax in the subsequent period when there is more political competition. On the other hand, when the transition to democracy has led to a temporary relaxation and the collapse of inflation control, it has then been followed by drastic 'shock treatment' to stabilise the economy. Both processes have placed a strain on economic adjustment and the consolidation of democracy (eg Argentina and Bolivia in 1982).

Thirdly, the margin for manoeuvre of the newly democratic governments been constrained by the legacy of their predecessor authoritarian regimes; the military (eg Turkey); influential business groups with ties to the old regime (eg Chile), and continuity of personnel (eg South Korea). Yet, from a longer-term viewpoint, wider public participation in policy-making, which goes beyond narrow democratic pacts, in Latin America especially, may fail to generate a wider 'social consensus' on either neo-liberal economic doctrines or on the priority for price stability as against the reduction of gross inequalities and the perceived obstacles to development.

Market Liberalisation

There is growing evidence, in Latin America and the Caribbean, of far-reaching external trade policy reforms (reduced and harmonised tariffs and QRs, export incentives, etc) which have accompanied or have been preceded by significant real exchange-rate depreciation often leading to macro-economic stabilisation. So far these have suffered no major reversals and the incoming democratic regimes in many countries have adopted the trade policy reforms despite serious political opposition. This evidence is inconsistent with concerns that democratic leaders are particularly vulnerable to powerful interest groups.

By contrast there has been much less progress in the domestic liberalisation of industrial activities; in other words reducing regulations that distort domestic product and labour markets. This situation may arise from sensitivity towards those interests which stand to lose from such changes during a political transition.

There has been slow and fairly limited reform of public enterprises driven by the pressures to cut the fiscal deficit. The threat of job lay-offs resulting from public sector reform has often met with strong opposition from organised labour. Yet in some cases public enterprise reform, managed by technocrats insulated from the political arena and receiving support from heads of state, has been partially effective. It may be reconcilable with the transition to greater democracy where the public has been apathetic and interest groups poorly organised, so the specific changes have not become the sparking-plug for opposition on the part of entrenched coalitional interests (eg India, Turkey and Mexico). There has been considerable privatisation in Latin America and the Caribbean. It is not obviously incompatible with political liberalisation provided that it is carried out in an open and transparent way – which has not always been the case – and does not arouse too much popular sensitivity about the underpricing of assets as a 'give-away' to favoured buyers.

Much economic reform has been initiated by governments under pressure from the conditions imposed by external financiers, rather than from civic interests and pressures within their own societies. Yet changes in economic policy changes can themselves have both a positive and a negative influence on the degree of participation by the public. This is illustrated by the situation in Jamaica where the introduction of a floating exchange rate made private business groups immediately aware of any relaxation in the government's control of public expenditure and inflation and caused them to press for more effective state budgetary control. At the same time, the undoubtedly unpopular ceilings set for budget deficits, encouraged less than transparent handling of public finances which made it very difficult for the public to know what was happening.

Sub-Saharan Africa

In sub-Saharan Africa, the movement towards political liberalisation largely dates from 1989. Constitutional changes have led to multi-party elections in Ghana, Gabon, Côte d'Ivoire, Cameroon, Mauritania, Kenya and Nigeria, although most of these have been marred by controversy. Countries with more genuine political liberalisation and freer elections include Cape Verde, Mali, Sao Tomé and Principe, Congo, Madagascar and Zambia, apart from more durable democracies like Botswana, Gambia and Mauritius. In Zimbabwe there has been greater openness and consultation with a wide range of independent interest groups. Regimes in some countries have continued to withstand the new pressures (Burundi, Djibouti, Equatorial Guinea, Sudan, Zaire) or are still at the stage of promises or in the planning phase (Tanzania, Malawi, etc). Some countries show signs of reversing their new political freedoms (Kenya, Benin, Nigeria).

National elections and the freedom to form different parties have provided only a first, partial step towards political liberalisation. Often the single governing party has been replaced by fragmented party systems. Effective opposition parties have rarely emerged or been allowed to emerge and have usually failed to offer alternative economic agendas (eg Tanzania), while pre-electoral debates have shown little concern with economic policy and programme issues (eg Kenya). Where more public debate has been encouraged it has indicated a low level of popular understanding of basic issues and hard economic choices. Indeed, public debate and elections can be viewed as more about the power of the state, personalities and human rights issues than economic policy choices.

The new 'electoralism' in Africa potentially offered scope for the election of governments representing fresh coalitions committed to more vigorous economic reform. Yet, so far, elections have resulted in only a few changes of government (Benin, Cape Verde, Mali, Congo, Madagascar and Zambia). In Benin quite substantial economic reform had already taken place before the political liberalisation. However, the open debate before the elections (1989) generated demands to which the new government did not have the means to respond, and the reform seems to have stagnated. In Zambia, political

Box 2: Political and Economic Reform in Zambia

Zambia since 1990 is a rare case in Africa of a country that has embarked on the difficult strategy of simultaneous political and economic reform. The new government typically in such a situation, has inherited a legacy of economic mismanagement and decline. How does the balance sheet look after two years of experience of the Third Republic?

Novel political developments were free and fair elections which produced a government led by the newly established Movement for Multiparty Democracy (MMD), the emergence of newspapers outspoken in their criticisms of government action, and a more active and wider range of civic interest groups.

Economic reforms have included a major devaluation of the exchange rate, liberalised foreign currency management and cuts in some subsidies. The large budget deficit has over two years been turned into a surplus despite delays because of drought. An ambitious five year privatisation plan has been initiated, labour markets have been liberalised and interest rates deregulated.

Other economic reforms, including the reform of public enterprises and relaxation of state control over food and export marketing and prices, have been slow in implementation and there has been public suspicion about the way privatisation has been handled. There has also been resistance to change from the unions and disaffection in the townships.

Some commentators have suggested that further economic reforms (which adversely affect the dominant interest groups in Zambia), if too long delayed, may not yield their benefits soon enough to enable the fragile democratic structure to survive, with the MMD itself already suffering from internal disputes and breakaway movements.

reform and the change of government have accelerated economic reform efforts. (See Box 2.)

A new government has not always been necessary to propel economic reform. In Gambia, after considerable economic deterioration, the incumbent government party was re-elected in 1985 on a strong reform platform. It has carried out significant liberalisation, devaluing the exchange rate, liberalising the price of groundnuts, the main cashcrop, and cutting the public sector workforce, while keeping the public fully informed. Authoritarian government in Ghana pursued major and effective economic reforms and stabilisation measures in the 1980s, well before the holding of national elections (though with limited political liberalisation) in 1992. Although successful economic reform efforts in the past were undoubtedly a factor in the re-establishment of the incumbent regime, the election itself weakened the previously successful fiscal stabilisation programme.

Elections have not removed incumbent governments elsewhere, in Kenya, Côte d'Ivoire, Cameroon and Nigeria, and the momentum of economic reform appears threatened. These elections were contested and when the results were rejected by wide sections of society, this weakened the legitimacy of the government and its confidence in embarking on stronger economic measures, and may result in some inertia.

So far there is limited evidence of opposition parties and individual MPs within newly elected assemblies articulating more effective criticism of government economic policy or scrutinising and following up misuse of public funds more vigorously. The traditional dominance of the executive over the legislature has remained little changed and this especially limits the scope for improvement in public expenditure management – an important economic reform*.

Despite some moves towards fiscal stabilisation during the years of political protest and liberalisation, much remains to be done to bring inflation under control. There has been widespread liberalisation of marketing and pricing of major food crops in the last few years and (to a less extent) of major agricultural exports, but the rate of progress seems to have had little to do with the extent of political freedom, elections or changes of government, nor with the influence of small farmers and rural constituencies which have been seen as a new force under more democratic systems.

A key to sustained development is a more competent, independent civil service, motivated less by loyalties of patronage and more by performance-related incentives. However, civil service reform has proved to be a long-term problem everywhere and difficult to achieve in the current political transition.

Overall, political reform in sub-Saharan Africa has thus far been only partial and, together with the survival of patronage networks, has generated somewhat unfavourable conditions for maintaining the momentum of economic reform. Partial liberalisation brings about a politically mobilised but discontented population and the continuance of governments which lack widespread public support or credibility, and seems likely to paralyse economic change rather than to galvanise it.

What Are We to Conclude?

Neither authoritarian rule nor continued political liberalisation offers an assured framework for economic reform. Several Latin American countries are in the process of consolidating democracy and there have been important economic reforms. In sub-Saharan Africa, partial political reform has so far not generated very promising conditions for democracy or economic reform.

Those seeking from outside to achieve simultaneous political and economic liberalisation will need to think through very carefully the pace and the means by which this is to be encouraged.

*A recent ODI study has examined the accountability of public expenditure management in developing countries with multi-party electoral systems – John Healey and William Tordoff (eds) *Votes and Budgets*, forthcoming.

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