Journal of Economic Perspectives—Volume 36, Number 1—Winter 2022—Pages 101–124

Political Distortions, State Capture, and Economic Development in Africa

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A classic question in economics is how to explain differences in economic growth and development across countries. For researchers focused on sub-Saharan Africa, the corresponding question has long been how to explain what Easterly and Levine (1997) memorably called the "African growth tragedy."

A standard starting point to study these differences has been to look at disparities in the factors of production like human capital and physical capital, as well as technology. However, growth accounting exercises suggest that such explanations account for, at most, 50 percent of this variation in salient settings (for example, Hsieh and Klenow 2009). Thus, the question became why the economies of countries were performing so much better or worse than one might expect based on their factors of production. For much of the developing world, newly developed explanations over the past 20 years include frictions in transportation, market access and information, inefficient regulation, as well as in the disparity in the enforcement of the rule of law, to name a few. That is, politics, technology, and history might all be relevant in explaining such differences in growth through inducing suboptimal choices by firms and citizens. With such mechanisms, there is a clear scope for policy to improve welfare by alleviating these frictions.

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For supplementary materials such as appendices, datasets, and author disclosure statements, see the article page at https://doi.org/10.1257/jep.36.1.101.

However, when it comes to Africa, the explanations for its economic development are mostly focused on long-run structural factors. In particular, mechanisms like colonial and pre-colonial institutions, deep-rooted historical factors, and ethnic diversity have been proposed as the key explanations for slow economic growth in Africa (for a review, see Michalopoulos and Papaioannou 2020). It has been extensively argued that certain political and judicial institutions set up by colonial powers—such as judicial systems, colonial concessions, and the organization of government—were designed for resource extraction, and thus, such specific institutions did not secure property rights and have had persistently negative effects on development outcomes since then (for example, Acemoglu, Johnson, and Robinson 2001). Another strand of the literature argues that the fractionalization and heterogeneity of cultures in Africa has induced conflict and the distortion of public good provision (for example, Alesina et al. 2016; Baldwin and Huber 2010 and references therein).

We find that such African-centered and historical arguments are limited in their ability to explain key facts and narratives about current African economic performance. Most notably, they miss the fast GDP growth rates in many countries (for example, Rwanda, Ghana, and Ethiopia have each doubled their GDP over the past 20 years), the changing political institutions in these countries (including the wave of democratization across Africa in the 1990s), and the regional variation in outcomes, even in contexts with the same colonial past or ethnic compositions. For instance, a very productive information technology sector in Kenya, or the increasingly productive agricultural sectors in Ethiopia, can coexist with less productive industries in the same country. As a result, such long-run theories often explain little of the underlying variation in the data: for example, slavery only explains 15–25 percent of the variation in current trust levels (Nunn and Wantchekon 2011), while pre-colonial institutions might explain less than 10 percent of the variation in current economic outcomes (Michalopoulos and Papaioannou 2013). This is not to say the structural explanations are unimportant; historical experiences certainly play a role in current outcomes. However, in our view, they are better thought of instead as constraints on current government, firm, and citizen decision-making. Within such a framework, researchers can think of counterfactual policies that may ease such constraints, without overemphasizing historical and deterministic explanations at the expense of policies taken by those agents.

As a result, in this paper we argue for researchers and policymakers to focus on political distortions to address the nature of economic development and growth in sub-Saharan Africa and elsewhere, and to move away from placing disproportionate emphasis on historical arguments. A political distortion is any situation in which a special interest group can direct economic development towards its own exclusive ends rather than towards increasing general welfare. It also captures situations in which the provision of public goods, public investments, and redistribution is instead primarily motivated by the narrow political interests of office-holders, or of its political connections, rather than by considerations of public interest and general welfare. This concept thus encompasses phenomena like "state capture,"

whereby private interests significantly influence state decision-making (whether through control of the bureaucracy, campaign contributions, connections, or some other channel), as well as clientelism and targeted redistribution, whereby politicians' actions reflect social ties and exchanges of government transfers for political support. Examples of such behavior are widespread in Africa and elsewhere, and frequently exact large costs on economic outcomes and citizen welfare. Salient cases include the Gupta brothers' capture of the South African state under the former President Zuma and the concession of the port of Lomé (Togo) to the French conglomerate Bolloré in exchange for undercharging consulting fees. Other examples, including at the local level, are discussed below.

Discussing economic development in Africa through the lens of political distortions has important advantages: it provides an umbrella concept which integrates the study of economic development across different regions, whether sub-Saharan Africa, Latin America, Western Europe, or elsewhere. As institutions and economic characteristics around the world look increasingly alike (as we discuss in the next section), the same can be said about political and economic incentives. This approach also leaves a wide scope for policy analysis, which is often largely absent from historical and more deterministic accounts. Political distortions are induced by strategic choices and influenced by incentives, which can be eased with alternative policies such as restrictions on campaign contributions, bureaucratic reform, audits, multinational initiatives for free trade, the availability of information through debates, and the introduction of new technologies within government. Such policies have been shown to be effective in a variety of settings and may present possible welfare gains in sub-Saharan Africa and the continent more generally.

In fact, the emphasis on political distortions can be complementary to other types of distortions studied in the economics literature. For example, the challenges of addressing market failures, or credit, labor, or information frictions, or providing banking credit to certain sectors, or implementing improved educational choices, all depend both on existing economic scenarios (including information, public infrastructure, and so on), but also on political institutions that are required to implement them, including those institutions in charge of contract enforcement. Hence, political distortions are critical in helping sustain and expand policy effectiveness. Indeed, political distortions are particularly prominent, because they are typically present whenever other frictions arise due to government policy.

In the next section, we review the arguments for long-run/structural explanations for African development and what they may miss in the data. In the following section, we provide examples of the way political distortions shape market structure and other economic outcomes. This includes how political connections can hinder public good and infrastructure provision, contract enforcement, and "Schumpeterian growth" (where innovative firms should be replacing old firms). Such examples are interpreted relative to theoretical models and discussed together with empirical work. Although our focus here is on sub-Saharan Africa in particular, we also mention some evidence from other countries and contexts and discuss how they can be informative for the sub-Saharan context under this common theoretical

framework. We then use the theoretical and empirical results to sketch an array of policy reforms that could limit political distortions. Some possibilities include banning corporate campaign contributions, reforms insulating regulators from firm influence, how the new African Continental Free Trade Agreement will help to reform governance, more widespread use of tools of participatory democracy (like town hall meetings), randomized audits of politician behavior, and the use of digital technologies for identification and tax collection.

Historical Explanations, Novel Facts, and Searching for a New Framework

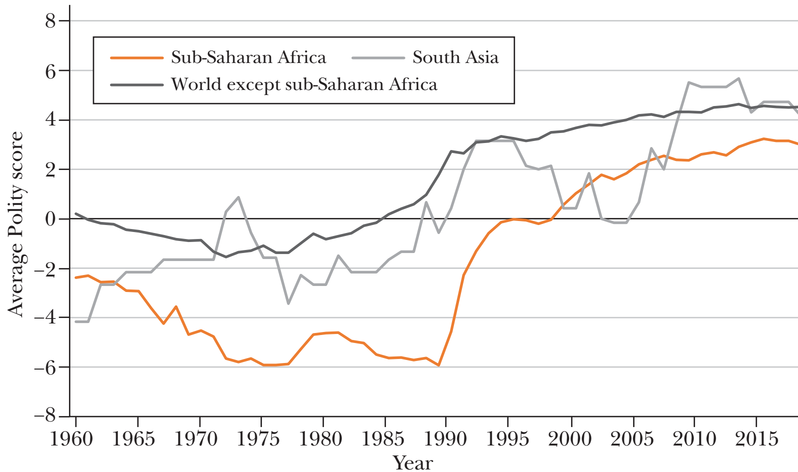
A substantial literature in recent years has focused on long-run "structural" mechanisms to explain patterns of African economic development, which focus on deep-rooted historical, technological, or social factors, including historical patterns of colonial and pre-colonial institutions. Such approaches have great value: for example, they can help make sense of patterns of persistence and path-dependency.

However, over the last few decades, Africa's political institutions and growth patterns have been converging toward global norms, with the emergence of constitutional democracies and the consolidation of the rule of law, alongside incredibly high rates of economic growth in some regions. In addition, there is extensive within-country variation in economic outcomes—such as GDP, trade, and consumption—even across regions subject to similar historical institutions (like slavery, colonial institutions, and others). Explanations of African economic growth need to incorporate these facts more than they do at present, as they deviate from Africa-specific historical or structural factors.

For example, sub-Saharan Africa saw a dramatic rise in democratic institutions of governance during the third wave of democratization in the 1990s, with Zambia, Cape Verde, and Benin as salient examples. This was spurred by the spread of democratic ideas, the end of the Cold War and the fall of the Soviet Union, the creation of robust local democratic communities, and the implementation of economic reforms (Huntington 1991). While only Botswana and Mauritius held regular multiparty elections by 1989, 33 of the region's countries had held at least two sets of elections by late 2003 (Crawford and Lynch 2012). Figure 1 illustrates this change with data from the widely used Polity V database, produced by the Center for Systemic Peace, which collects components of governing institutions in 167 countries. These components are merged into an overall scale ranging from –10 (think "hereditary monarchy") to +10 (consolidated democracy). Autocracies are scored from –5 to –10, and as Figure 1 shows, sub-Saharan Africa as a whole was in that category for much of the 1970s and 1980s. Since then, the Polity score for sub-Saharan Africa has risen substantially, approaching average world levels.

Economic outcomes in sub-Saharan Africa have also been converging to world norms. During the past 20 years, average GDP per capita in sub-Saharan Africa has more than doubled: from about $600 to close to $1600 (comparison using current

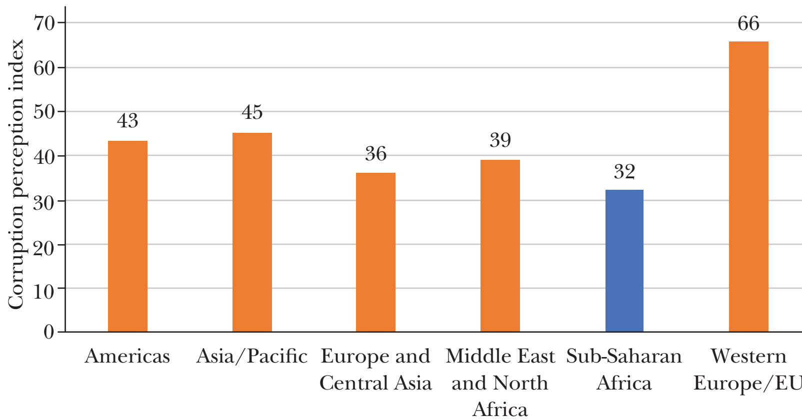
Figure 1
Institutions in Sub-Saharan Africa Converging to World Levels since the 1990s
(average Polity score by region)



Source: Center for Systemic Peace (https://www.systemicpeace.org/inscrdata.html).
Note: The graph presents the evolution of the average Polity scores (Center for Systematic Peace) per region, across selected regions. The score measures the level of democratic institutions and ranges from –10 to 10, with –10 to –6 defining "autocracies", and +6 to +10 "democracies." Levels of executive recruitment, constraints on executive authority, and political competition are all part of the score.

US dollars, World Development Indicators data, as of June 2021). This wave of economic growth across sub-Saharan Africa is admittedly uneven. But while some countries still lag, economic growth rates in Rwanda, Ghana, and Ethiopia over the past 20 years resemble those in China and India, and the regional growth rates for Africa are comparable to those in regions like East Asia and Latin America. Kremer et al. (2021) document this convergence in economic performance, institutions, and policies around the world since the 1960s. Along the same lines, Patel et al. (2021) provide basic evidence on unconditional convergence and sustained growth performance in developing countries. Finally, Transparency International reports a Corruption Perception Index which measures how country experts, entrepreneurs, and firm-owners perceive corruptions in government and in the public sector. The measure aggregates 13 different datasets and ranges from 0 (highest perceived corruption) to 100 (lowest perceived corruption). As shown in Figure 2, while corruption is perceived on average to be higher in sub-Saharan Africa than other regions, those levels are similar in magnitude to those in Eastern Europe/Central Asia and the Middle East.

Figure 2
Corruption Perception Index by Region



Note: The graph presents the average Corruption Perception Index (from Transparency International) by region. The score measures how citizens in each country perceive the corruption levels to be. The score ranges from 0 (highest perceived corruption) to 100 (lowest perceived corruption).

We do not find that such patterns can be easily explained by existing theories of development in Africa centered around pre-colonial or colonial institutions, or those based on ethnic compositions. To clarify our perspective, we focus on two of the main arguments about long-term historical and structural factors affecting economic growth in Africa: the types of colonial (or pre-colonial) institutions and the degree of ethnic fractionalization.

Consider the literature on how colonial and pre-colonial institutions are also perceived as one of the main drivers of development challenges in Africa (Michalopoulos and Papaioannou 2020). In one prominent example, Acemoglu and Robinson (2010, p. 22–23) argue that Africa's development has lagged because it has historically lacked strong centralized states, and state institutions were highly absolutist and patrimonial when they did exist. They argue that colonialism made the situation worse by imposing extractive land and labor institutions (as in South Africa and Kenya) and through excessive taxation and policies of indirect rule giving local elites even more power (as in Ghana). In a similar vein, Michalopoulos and Papaioannou (2013) find that pre-colonial institutions matter for development. More specifically, ethnic groups that had more centralized or more complex pre-colonial forms of political organizations have higher levels of development today.

The framing of these arguments suggests that Africa was predisposed to underdevelopment due to powerful historical constraints that cannot be easily overcome, although the evidence outlined above suggests that other mechanisms beyond long-run factors are at play.

Clearly, past political institutions (for example, regarding protection of property rights) have been a factor in disparities in public good allocations, with consequential outcomes today. However, they may not be the main mechanism by which such distortions occur. First, such institutions cannot explain the extensive variation in outcomes within countries with the same colonial or pre-colonial institutions. For example, even within the same country or regions, economic outcomes can differ significantly across sectors: the success of the information and flower sectors in Kenya, the airline sector in Ethiopia, or the movie industry in Nigeria coexists with less productive sectors in the same regions within the country. This is reflected in how such approaches typically explain only a minor part of the variation in per capita income across nations. A variance decomposition analysis in Nunn and Wantchekon (2011) suggests that slavery can explain about 15–25 percent of the variation in trust levels, leaving over 75 percent of them to be explained by short-term factors. Meanwhile, the relevant variable in the study on pre-colonial institutions by Michalopoulos and Papaioannou (2013, Table 2, column 1) has an R^2 of around 6 percent.

From our perspective, history clearly matters—but history is unlikely to matter more in Africa than elsewhere. States like Bihar, Jharkhand, and Uttar Pradesh within India have similar economic outcomes to the poorest African countries (Drèze and Sen 2013), but a very different colonial history. Other countries, like many in Latin America, also went through colonization with extractive institutions, but have reached quite different levels of development since then. In 1975, one could have easily made similar arguments about China—that it was underdeveloped due to a history of absolutism and communism (Mühlhahn 2019). However, studies on China soon started to emphasize how trade and public investment can spur economic growth (for example, Hu and Khan 1997).

Furthermore, the colonial persistence explanation might not apply equally well throughout the African continent. Huillery (2009) studies the persistent impact of colonial investments in education in Francophone Africa and finds that during the period of colonialism, investments tended to go to less politically centralized and prosperous areas. In Benin, except for the current capital city of Porto Novo, the first colonial schools and medical facilities were created in the periphery of the capital of the precolonial states, such as Abomey, Nikki, and Kouande (Garcia 1971), in contrast to the centralization argument outlined above.

The salient historical and structural considerations in the context of Africa have also often involved ethnic conflict (for an overview, see Michalopoulos and Papaioannou 2020), with consequential impacts on public good allocations and development (for example, Alesina et al. 2016; Baldwin and Huber 2010). This literature often assumes that stronger ethnic divisions will cause voters to have a stronger taste for redistribution targeted only to certain groups, together with support for clientelism and patronage. This point is developed in Easterly (2001), and then summarized by Besley and Ghatak (2006, p. 292): "[I]f externalities are limited to within ethnic groups, then there will be less total demand for public goods that benefits all groups such as roads and education." In the case of geographical

segregation, whereby each ethnic group occupies a different region, there would then be less demand for interregional travel or trade in fractionalized societies, suggesting less provision of countrywide public goods. A similar argument would imply less support for nationwide public education in the case of fractionalization in culture or language (Alesina et al. 2003).

While these mechanisms do have consequences on development in sub-Saharan Africa today, as discussed above, they struggle to explain the variation in outcomes within regions with the same historical ethnicities. That is, other factors beyond historical political institutions and ethnicity drive political behavior. For example, it seems that clientelistic appeals to co-ethnic citizens may depend on a variety of political, demographic, and urban factors.[1] Historically, and even today, many of the wealthiest areas and metropoles in Africa and beyond were also the most diverse ones due to the interactions from international trade and the resulting gains, suggesting the non-determinism of this factor. Indeed, the effects of ethnic conflict can be shaped over time, by public policy like fines or by social sanctions (Miguel and Gugerty 2005). Finally, it seems likely that conflicts across ethnic groups in power may be addressed when agents have a rich enough set of strategies. For example, looking at data from 15 African countries that together account for almost half of the continent's population, Francois et al. (2015) find that even autocratic leaders negotiate broader coalitions with other ethnicities in exchange for stability and rents.

Hence, we consider ethnic fractionalization as a common constraint on achieving optimal infrastructure or other public investments, but current policies can be effective even in the presence of ethnic divisions. For a concrete example, past public investments do have persistent effects over time: it is likely that roads built today will be concentrated in similar areas as roads built during colonial times. However, current policies may also help to correct distortions in government choices given existing infrastructure. In the case of Kenya, Burgess et al. (2015) find that during times of dictatorship, politicians preferred to spend on road-building in certain locations based on ethnicity. However, in periods of democracy, such distortions were not present. This occurred in a setting with the same colonial background and institutions, suggesting a positive role for policies on welfare consequences.

Another example is in international trade, where the lack of trade opportunities due to a variety of frictions may play a more significant role in welfare losses and lack of economic growth in sub-Saharan Africa than historical factors. Startz (2018) shows that significant welfare losses are incurred due to frictions in matching between intermediaries in trade in Nigeria. For example, a Nigerian sales representative may rely on production by intermediaries in China, but finding the appropriate matching producer in the market and enforcing production when effort

[1] Wantchekon (2003) offers evidence from Benin on the role of demographic and political factors, including local versus national appeals of such promises, while Ichino and Nathan (2013) provide evidence on rural-urban divides in ethnic appeal in Ghana, including the role of geographic factors and local context.

is unobservable may be very costly. Hence, decreasing information frictions through technology or by increasing the possibility of in-person visits through removing visa restrictions for business travellers may increase welfare gains by almost 15 percent. Relatedly, Bhandari (2021) conducts an experiment in Senegal and shows that the asymmetry in contract enforcement induces a breakdown in deals between buyers and sellers, particularly when one party knows the other is politically connected. In Togo and Benin, Blimpo (2015) shows how a lack of contract between owners and drivers of moto-taxis (and a simultaneous overreliance on kinship ties) can lead to excessive depreciation. Such results are in line with the long theoretical literature on moral hazard and trust, which indeed could be due to different ethnic or cultural backgrounds. Nevertheless, these newer results leave scope for policy interventions that could remove such spatial and contract enforcement frictions.

The Importance of Political Distortions: Political Connections, Patronage, and State Capture

We suggest an attention shift in the literature toward the role of distortions by the political process in understanding economic performance and development paths in sub-Saharan Africa. Political distortions are defined by a situation in which a special interest group can direct economic development towards its own exclusive ends rather than towards increasing general welfare. This may include provisions of public goods and redistribution that are chosen due to narrow political interests rather than for the welfare of the larger public. Political distortions affect growth by affecting resource allocation and economic decision-making: they often imply misallocation of public funds, inefficient public investments, distorting taxation, and altered market structure that arise through policies benefiting some firms instead of others. For example, some companies obtain concessions, such as beneficial tax breaks, custom duties, or regulation, through their connections to the bureaucracy and politicians. This can explain why regions with the same colonial or pre-colonial history may have very different growth trajectories. If subsidizing education or building infrastructure can significantly alter productivity, then the way such decisions are made, and whether they are efficient or represent citizens' preferences may be a powerful determinant of outcomes.

The term "distortion" alludes to the negative influence on welfare of these political decisions. However, quantifying their role is only possible relative to some established (efficient) benchmark. A theoretical framework that is sufficiently rich to unify all mechanisms by which political processes affect economic and growth outcomes does not yet exist. To illustrate, this section considers several examples that model how a particular political distortion can lead to a suboptimal economic outcome and how they relate to existing empirical evidence. These models are discussed side-by-side with empirical evidence. The former allows us to interpret the latter as distortions: they are deviations from a benchmark and negatively affect citizen welfare. While an exhaustive literature review on political distortions is

beyond the scope of this text (for discussion, see Martinez-Bravo and Wantchekon 2021) and empirical work in sub-Saharan Africa is still lacking, the following results establish empirical regularities that are targets of policy analysis and interpretable through the lens of established economic models with direct relevance to the region we study.

Political connections refer to a situation in which a firm has privileged access to a politician and may use that connection for its benefit. From the theoretical point of view, political connections may reduce costs and/or allow firms to enter new markets and become more profitable. In Akcigit et al. (2018), an incumbent firm can entrench itself by investing in political connections, which lowers its cost of entry (for example, by reducing red tape or through tax concessions). Those connections reduce the entry of innovating firms, because there is a connected incumbent already in the market. Hence, industries with more political connections are less innovative and see less productivity growth. Such connections have been shown to benefit firms through increased profits and stock prices: for example, Fisman (2001) shows that the stock market performance of firms with connections to the Suharto regime in Indonesia during the early 1990s suffered with negative reports about his health status. More recently, firms have been shown to gain from political connections in a variety of different contexts: for example, easier access to import licenses in Indonesia (Mobarak and Purbasari 2006); preferential lending in a dataset of 90,000 firms in Pakistan (Khwaja and Mian 2005); increased loans from state banks for firms in Brazil that make influence-building campaign contributions (Claessens et al. 2008); increased probability of bailouts for the Faccio et al. (2006) data on political connectedness across 47 countries; regulatory capture and favorable regulatory policies (as reviewed by Dal Bó, 2006); and more procurement contracts using data on political contributions by firms in Lithuania (Baltrunaite 2020). A substantial body of evidence, of which this is just a sampling, suggests that distortions from political connections can have significant effects on the allocation of resources.

One salient instance in Africa is the "godfatherism" phenomena documented by Joseph (1987) and Omotola (2007) in Nigeria. It is defined by a widespread and elaborate system of contractual arrangements, involving politicians, electoral brokers, and firms, in which the latter provide campaign funds for politicians in exchange for cabinet positions, influence over the bureaucracy, or market gains, such as increased market power in key sectors or procurement reservations.

Variation in contract enforcement, a main role for government emphasized in the political economy literature, is also a political distortion that may drive differential development. For instance, Goldstein and Udry (2008) find that agricultural producers in Ghana that are subject to stricter enforcement of property rights produce and invest more. In the macroeconomic framework of Aguiar and Amador (2011), the political friction is a party's inability to commit due to not knowing whether the party will be in power in the future. As a result, the incumbent government overvalues present consumption. The authors show that the speed of convergence and the levels of steady-state income in this economy

depend on the extent of political disagreement: with more disagreement, there is slower convergence. This environment embodies the notion that the availability of contract enforcement mechanisms can induce higher steady state income and higher economic growth, even in a democracy with political turnover. This finding is confirmed in other settings, such as in Senegal (Bhandari 2021, described above) and by Boehm and Oberfeld (2020) in a study of manufacturing plants in India. In the latter, weak contract enforcement increases a hold-up problem for plants requiring customized inputs, which in turn implies that both the intensive and extensive margins of input use are distorted. The aggregate welfare implications of such problems appear quantitatively meaningful.

Patronage refers to the discretionary appointment of individuals to public office or government positions.[2] The close connections of firms and private interests to state hiring practices may affect who gets hired, the quality of the bureaucracy, and which policies get implemented. These connections have been extensively verified in the literature. For example, Xu (2018) shows that connections measured by family ties and shared attendance of elite academic institutions induced higher salaries and worse public finance performance for connected bureaucrats in the British imperial civil service, but this effect disappeared after a ban on discretionary appointments. Often, such bureaucrats may receive future career benefits through "revolving doors" when they exit government for the private sector, as Blanes i Vidal et al. (2012) show in the case of lobbyists who formerly worked as staff for US Senators. To the best of our knowledge, the literature has not statistically shown the prevalence of this behavior in sub-Saharan Africa. Nevertheless, even in countries like Ghana and Nigeria, there are few laws, if any, guaranteeing merit-based appointments. Most of them are discretionary, as we discuss in the next section.

Another political distortion is the *targeted distribution of public goods*. For instance, politicians may prefer to spend more on infrastructure in preferred locations—say, for political loyalty or ethnic relationships—than would be optimal in a first-best world, as in the case (alluded to earlier) of road-building in Kenya (Burgess et al. 2015). This was also the case with the extensive public expenditure on roads, utilities, and white elephants in Côte d'Ivoire's Yamoussoukro, chosen to be a capital because it was the birthplace of President Houphoët-Boigny.

We can interpret such expenditures as distortionary within the early set-up of Barro (1990), which provides a clear and explicit role for politicians in the provision of public services. The author constructs a growth model that includes public services as a productive input for private producers. The model includes many producers (firms), with each firm choosing its own capital given government spending, although production depends on both private capital and public services. In the case of public services that can become congested and are excludable to some extent, such as highways, water and sewer systems, police services, and so on,

[2] While this is typically viewed as a negative phenomenon, it could be theoretically beneficial if the nominating party has private information that is used appropriately in selecting employees, as seen in Dal Bó et al. (2021) in Paraguay.

a firm's decision to expand its own capital increases the risk of congestion in public services available for other producers. This externality implies that governments have an explicit role in driving efficient and higher growth through providing public infrastructure, but distortions will arise if such taxation and public investment choices are not optimal, such as rents to certain groups in the population. Jedwab and Moradi (2016) show large effects of railroads in Ghana, as does Okoye et al. (2019) in Nigeria. In Ethiopia, Gebresillasse (2018) finds that the extension of rural roads generates increased productivity of 6 percent, with important mechanisms being increased information transmission (like take up of advice and modern inputs), as well changes in labor and crop allocation.

Finally, *regulation and technological adoption* are also areas subject to political distortions. The growth model of Acemoglu and Robinson (2006) centers around the role of an incumbent politician who may choose whether to pursue economic innovation or to block it. Technological innovation may change political competition by affecting the rents incumbents receive from being in office. The population chooses whether to keep or replace the incumbent after observing the latter's choice. The authors show that, in one equilibrium, political elites may block technological innovation for fear the innovation will reduce their term in power. By blocking technological innovation, these politicians become further entrenched and less productive firms are kept in the market, implying welfare losses.[3]

Many other examples of political distortions exist. Perhaps the most salient recent example of state capture—the control of state agencies and bureaucrats by special interest groups—in Africa involves the Zuma presidency and its relationship with the Gupta family's business empire in South Africa. After Zuma's election in 2009, the Gupta family used its friendly ties to the presidency to run the government as a "private piggy-bank" (as reported in Gevisser 2019). This involved the granting of numerous government contracts to Gupta-affiliated firms (Alence and Pitcher 2019), using influence with the president and his appointed (manipulable) bureaucrats. It is even alleged that the Zuma government outsourced picking the Minister of Finance and members of the Treasury to the Guptas—an especially obvious example of what Canen, Ch, and Wantchekon (2021) term "direct" capture.

Other times, the mechanisms by which political distortions occur may be hard to observe or done through intermediaries. To capture the latter, Canen, Ch, and Wantchekon (2021) define the notion of *indirect capture*, which occurs when firms use intermediaries (that is, non-bureaucrats) to influence policy implementation rather than when there are clear and direct interactions between firms and the

[3] This insight can also be viewed an example of the importance of property rights. In the set-up of Aghion, Alesina, and Trebbi (2007), improved protection of property rights implies a lower ability of incumbents to block new entrants and innovation. They further assume that innovation matters more for countries closer to the technological frontier. Hence, technologically advanced sectors benefit the most from the protection of property rights as it stimulates further competition and entry, inducing a more positive correlation between democracy and growth with proximity to the technological frontier. This correlation is validated in cross-country comparisons. Although this model implies the potential importance of political distortions, such distortions are not explicitly discussed in the paper.

bureaucrats in charge of policy. An example of indirect capture is lobbying. The United States is one of the few settings where data on lobbying expenditures is available: in that context, there appears to be sizable premia for lobbyist connections regardless of field expertise (Bertrand et al. 2014). Furthermore, Huneeus and Kim (2021) find that lobbying affects firm size and entry inducing large misallocation effects (in that study, 10 percent of the US economy). We refer the reader to Martinez-Bravo and Wantchekon (2021) for further examples.

In short, political economy incentives can meaningfully distort economic outcomes and welfare, which is the heart of the idea of political distortions. Theoretical models show how political distortions lead to suboptimal equilibria with effects on economic growth and consumption, debt profiles and fiscal sustainability, and endogenous technological innovation and the resulting firm productivity. These kinds of models structure empirical analysis by framing the empirical results relative to such benchmarks.

To identify effective policy solutions, we must be clear on the incentives and political factors behind the distortions at play. In our view, the framework of political distortions suggests we should think of the long-run structural conditions in Africa as constraints that affect regional inequalities and present-day choices by citizens, firms, and political elites. For example, a certain distribution of goods will arise through the investments colonial governments made or did not make, according to their state-making goals or historical accidents (for example, Huillery 2009; Okoye et al. 2019; Wantchekon et al. 2015). In terms of public goods, colonial administrations created schools and built roads in some places but not in others in order to maximize revenues to be extracted from the colonies (Ricart-Huguet 2021). The political distortions framework above allows us to think about which current institutional and policy reforms can help to correct these misallocations and the inequalities inherited from the past, along with achieving other development goals.[4]

Policy and Institutional Reforms to Reduce Political Distortions

Certain policies hold a promise of reducing political distortions and state capture given the framework and evidence above. The hope is that if such policies are enacted, they will reduce the effects of market distortions and offset some effects of past historical and structural events. We begin with three reforms that involve broad institutional change: campaign finance rules, regulatory and bureaucratic reform, and constraints imposed by multilateral reform (in this case, the new African Continental Free Trade Agreement). However, these kinds of systemic

[4] One could suggest that such political distortions may result from the historical factors outlined earlier. However, we are unaware of systematic evidence to that regard. In fact, the types of political distortions outlined above often vary across sectors or even across firms in a sector, all subject to the same historical and ethnic considerations.

reforms may be politically unpalatable or difficult to implement. Thus, we then turn to alternative policies that may be implemented in the short run and even at the local level and that may still curb state capture, mostly through revealing information to voters about previously unobserved/hard-to-observe behavior between firms and politicians. First suggestions include: audits of political jurisdictions, increasing the availability of information to citizens (say, via town hall meetings or debates), and using technology to improve transparency within the government.

Campaign Finance Rules

Political connections are often reflected in campaign donations: firms that have some preference or relationship with a politician (or wish to have one) offer funds for campaigns in exchange for beneficial policies or access to politicians if elected. It is then natural to consider that policies that limit such contributions would limit undue influence of political connections on policy. By curbing campaign contributions, firms would lose a mechanism by which it can influence policy, thereby restricting political connections and subsequent market distortions. Indeed, the positive welfare effects of such policies have been reinforced in the models of Prat (2002), Coate (2004), and Ashworth (2006).

There are many ways to implement restrictions on campaign contributions, from public finance of campaigns, limiting the amount of donations, or banning influential economic actors like corporations. Baltrunaite (2020) showed that a 2012 ban on corporate contributions in Lithuania decreased the winning rate of government contracts by "connected" firms (that is, those previously contributing to campaigns) relative to non-contributing firms. While pre-ban there was a 5-percentage point gap in the probability of winning a contract between such connected and non-connected firms, even after controlling for observables, this gap disappeared within a year of the policy. The ban also decreased the price the government paid in those procurement auctions. In sub-Saharan Africa, there is room to implement reforms of this type: Table 1 shows that less than 15 percent of African countries have banned corporate donations to candidates (compared to 26 percent elsewhere), and less than one-third restrict the amount candidates can spend, compared to 56 percent beyond the continent. In fact, even less restrictive policies are not as widely implemented: almost two-thirds of countries in Africa do not ban donations to candidates from corporations with government contracts. By comparison, vote-buying is already banned in most of the continent (almost 90 percent of countries), even though its financial cost (and arguably, its influence on policy) is much smaller than those from campaign contributions.[5]

[5] In the context of Africa, vote-buying has been widely studied and is often considered pervasive in Africa (for a review, see Vicente and Wantchekon 2009). However, we believe this political distortion is overemphasized. Vote-buying is already banned in most of the continent, as shown in Table 1. Moreover, the amount of money spent by firms in campaign donations is often magnitudes larger than those in clientelism and vote-buying attempts. Indeed, in Kenya, politicians are estimated to spend $2 for each vote, implying a total of $100 million if every voter received such a transfer (IDEA and Falguera et al.

Table 1
Campaign Finance Rules in Africa and Beyond

	Africa			*Countries beyond Africa*		
	Yes	*No*	*No data*	*Yes*	*No*	*No data*
Ban on corporate donations to candidates	14%	78%	8%	26%	68%	5%
Limits on the amount a candidate can spend?	31%	61%	8%	56%	39%	5%
Ban on donations from corporations with government contracts to candidates	12%	65%	23%	37%	54%	9%
Ban on donors to political parties/candidates participating in public tender/procurement processes	0%	37%	63%	5%	64%	30%
Ban on vote buying	86%	4%	10%	95%	3%	2%

Source: IDEA Political Finance Database
Note: The table shows the proportion of countries in Africa and those outside of Africa that have a certain policy on elections and political finances in place ("Yes") or that do not have them ("No"). The policies are the rows. Totals do not always sum to 100 percent because of rounding.

Of course, rules about campaign finance can often be circumvented, especially in low state-capacity settings. In sub-Saharan Africa, campaign contributions by firms are difficult to enforce and observe. Would such rules still be effective if firms could donate in alternative forms of campaign contributions that are unobserved or left unrestricted? Or if firms simultaneously donate to many candidates? Empirical findings, such as those in Avis et al. (2020), suggest that restricting campaign spending is still effective in those cases. They show that such restrictions in mayoral races in Brazil induced higher levels of political competition and more entry by less wealthy and established candidates. As a result, changes to political finance rules may be likely to constrain state capture in the African context when faced with similar incentives, even though implementation and enforcement is not perfect.

Insulating Bureaucrats and Regulators

Insulating bureaucrats and regulators from political influence is another possible reform to reduce political distortions. For example, one possibility is the use of elections to elect regulators directly, as argued in Besley and Coate (2003) using evidence from US states, thus giving regulators some insulation from separate political pressures to implement policies not supported by voters. It is also likely that results on bureaucratic reform from past studies could further inform such decisions. In a study mentioned earlier, Xu (2018) showed that the banning of discretionary appointments in the United Kingdom in 1930 yielded an improvement in public finance outcomes (with increases in tax revenues and public investments),

2014). However, each party in Kenya may already spend such an amount in a campaign. Put together, this suggests an increasingly important role played by policymaking and firms' interactions with policymakers.

and an equalization of salaries and promotions across previously connected and non-connected bureaucrats. Similar results have been obtained by Ujhelyi (2014) in the context of state-level reforms in the United States guaranteeing tenure to bureaucrats.

To the best of our knowledge, there is less systematic evidence of this in African countries, as policies protecting bureaucrats still appear to be widely below desired levels (as reported in the context of electrical power by Rodriguez 2017), although there has been an increasing focus on technical qualifications. While Nigeria, Ghana, and Kenya have civil service exams for entry and promotions, most bureaucratic appointments in Ghana are discretionary, for instance (Brierley 2021). And while changes in Kenya's 2010 constitution gave more control of cabinet and senior positions to the legislature, it is unclear whether that is necessarily welfare-improving (Opalo 2019). This seems to be a promising avenue for future research.

Multi-Country Initiatives: The African Continental Free Trade Area

Multi-country and continent-wide agreements are another source of policy change that can stimulate economic growth through limiting political distortions. In Africa, a salient example is the just-established African Continental Free Trade Area, whose goal is to stimulate business competition by reducing the costs of conducting business in the continent. It was founded in 2018, with trade under its terms starting in 2021. Participation in the new free trade area entails reforms such as the simplification of customs procedures and the reduction of contractual and costly licensing. These steps may reduce the uncertainty around contract enforcement and in search, as the common set of regulations implemented beyond the country's political system leaves less scope for political connections to play a role, reducing uncertainty in exchanges. For example, simplification of import duties restricts the possibility that they may be differentially given to politically connected firms.

Our argument suggests that gains from the African Continental Free Trade Area may come in two ways: the conventional gains from trade liberalization, and benefits from a reduction in political distortions and rent seeking. The standard arguments suggest that trade liberalization increases productivity within liberalized regions by reshuffling resources to more productive plants/firms (for an example from Chile, see Pavcnik 2002), through the removal of inefficient quotas (for an example from Chinese exporters, see Khandelwal, Schott, and Wei 2013), or through the decrease in markups due to increased competition (for an example from Taiwanese producers, see Edmond, Midrigan, and Xu 2015). Such reforms still have potential trade-offs, like an increase in income inequality (overviewed in Pavcnik 2017), or countervailing effects on misallocation (as modelled for Chinese manufacturing firms in Bai et al. 2019). However, the previous mechanisms suggest that the African Continental Free Trade Agreement would provide less opportunity for political discretion and hence, less returns from state capture for connected firms in participating countries. As a result, it holds the potential to spur valuable

institutional reforms even before conventional international trade effects are even considered.

Audits

Audits of political jurisdictions can increase accountability. This mechanism has been most prominently studied in Brazil due to its randomized implementation at the municipality level (for example, Ferraz and Finan 2008, 2011; Avis et al. 2018). In the Brazilian context, an independent oversight body at the federal level randomly audits municipalities, investigating their accounts and spending patterns for evidence of fraud or corruption. These audits appear to be effective at decreasing future corruption by making information on the politicians' behavior widely available, which in turn allows voters, lawsuits, and official institutions to punish the guilty parties. For example, Avis et al. (2018) find that audits may reduce future acts of corruption by approximately 10 percent. However, our own follow-up work extending the results of Avis et al. (2018), and available by request from the authors, finds that the effects are strongest for municipalities that are already below the median in the number of corruption acts. Hence, audits are effective at decreasing acts of corruption and malfeasance particularly in settings where such politicians are likely responsive, but they are unlikely to trigger the same extent of welfare changes without combining them with fundamental institutional reforms.

We are not aware of extensive evidence of audits being applied or evaluated within sub-Saharan Africa. However, the economic development and structure of some municipalities in Brazil seem comparable, for example, to regions of South Africa and elsewhere on the continent (Huchzermeyer 2002), and recent evidence from South Africa (Berliner and Wehner forthcoming) together with common political and economic incentives (discussed earlier) suggest they would be effective there as well.

Increasing Available Information

Increasing the quantity and quality of information available to citizens can happen in other ways, as well, and several African countries have taken steps along these lines. In Sierra Leone, Bidwell et al. (2020) found that screening public debates led to increasing information to voters—and the effect is significant enough to influence voting behavior, campaigns' responses, and ultimately policy outcomes. In Benin, Fujiwara and Wantchekon (2013) found that town hall meetings focused on programmatic debates also increase political competition (reducing the incumbency advantages in political strongholds) and reduce clientelism without affecting turnout.

Both town hall meetings and public debate screenings are low-cost policies that can increase information availability to voters with policy consequences. Such increases in information might not only affect the outcome of the election, but may also encourage the entry of different candidates. As discussed in Canen et al. (2021), the entry of new candidates with different preferences for consumer

welfare relative to firm behavior appears to be one of the few ways to decrease significantly the effects of political incentives on economic outcomes and voter welfare.

Technology and Transparency

Finally, technology can be used to improve transparency in government and, in this way, to reduce the potential for state capture through increasing available information to citizens and decreasing information frictions. This approach has received renewed attention, for example, in recent empirical studies on the use of biometric identification cards in the provision of public services in India (Muralidharan et al. 2016; Banerjee et al. 2018). In fact, Banerjee et al. (2018) find that the introduction of biometric identification cards in India led to beneficiaries receiving 26 percent more subsidies, with no effect on ineligible citizens. Another example is in its use for tax collection: see Okunobe and Santoro (2021) for an overview of such applications for Africa. For instance, technology can help identify the tax base, help enforcement of tax collection, and decrease the cost of compliance. Technology can also be used for creating satellite imagery maps that can improve the coverage of tax collection, as Ali et al. (2018) demonstrate for the city of Kigali in Rwanda. Within the context of our theoretical framework, such technology would reduce the scope for political influence and corruption (Kochanova et al. 2020). There has been increased adoption of technology in government policies, including the use of the well-known M-PESA mobile technology that has been implemented in revenue collection in Kenya (Safaricom Media Release 2019), and similar mobile technology is used in the Growth Enhancement Scheme providing subsidies to farmers in Nigeria. However, we are unaware of systematic evidence evaluating such policies in economics. We encourage further study in this area as well.

Conclusion

In this paper, we studied how political incentives may distort economic growth and development, with a focus in Africa and, in particular, sub-Saharan Africa. In doing so, we used the general concept of political distortions to provide a unified framework through which extant empirical evidence, in Africa and elsewhere, could be interpreted as inhibiting economic development. While this connection has been well-known in other regions, such as the United States or Latin America, this has been less emphasized in the African context relative to long-run structural explanations. As sub-Saharan African countries converge in development to others, the relationship between governments and firms also become more like that in other regions, as well. Hence, a unified theoretical framework based on political distortions allows us to transport the experiences, results, and policy considerations from other countries to the African context.

In our view, historical factors may act as constraints on political distortions, making it more likely that political distortions may be observed in some places.

However, historical constraints can be overcome. Recent papers and evidence that leverage variation *within* African countries clearly show that African economic development responds to policy interventions. Despite strife and conflict, countries like Ethiopia, Rwanda, and Côte d'Ivoire, to name only a few, have all maintained very successful economic trajectories over the last decade. Kenya has generated sustained growth because of newly founded institutions that have, in turn, encouraged a booming information technology sector, while Ghana has been solidly democratic for decades. This has been the case despite colonial pasts that would have suggested far less optimistic outcomes. Historical analysis is essential, but to understand how historical factors affect the present, it must explicitly tie in the strategies and policies chosen by current governments, firms, and civil society organizations. Thus, we propose that political economy research in Africa should focus on laws, markets, and social interactions between current key economic and political actors.

■ *We thank Gregory Amusu, Julio Arce Solis, Marco Castradori, Weonhyeok Chung, Kurtis Lockhart, Matthew Merrigan, and Shourya Sen for excellent research assistance. We thank Erik Hurst, Dozie Okoye, Ken Opalo, Nina Pavcnik, Heidi Williams and Timothy Taylor for very helpful comments.*

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