
This work is licensed under a
Creative Commons
Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see:
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

(832)

(a) UNIVERSITY OF NAIROBI
(b) Institute for Development Studies
Working papers

LIBRARY
10 FEB 2011
INSTITUTE OF
DEVELOPMENT STUDIES

TECHNOLOGICAL INNOVATION AND
ECONOMIC GROWTH:
**What Do They Have in Common with
Competitive Democracy?**

by

Kiranga Gatimu

Working Paper No. 497

Institute for Development Studies
University of Nairobi
P.O. Box 30197
Nairobi, Kenya

February 1995

The views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of the Institute for Development Studies or the University of Nairobi.

This paper is not for quotation without the permission of the author, as specified in the Copyright Act, Cap. 130, Laws of Kenya.

RN 322571

IDS



095384

LIBRARY
10-10-1981
DEVELOPMENT
ECONOMICS

ABSTRACT

The paper discusses possible association between autocracy and economic growth deceleration in countries which inherited firmly entrenched Western socio-economic institutions in Africa. Autocratic rule leads to discretionary and arbitrary interventions with the workings of the market and creates the environment in which rent generating and rent seeking activities thrive. If entrepreneurship is to be a creative response to non allocative efficiency, existence of active array of democratic institutions, congruent with assumptions of the workings of effective market system, would provide on going process of socio engineering. Entrepreneurship that thrives under a pathological political environment, would be redirected away from unproductive and destructive tendencies, to wealth creation through technological innovation. The paper hypothesises that pluralistic and competitive political environment, can produce, 'optimal' governments, that is, governments that are elected to implement the mean preference of the electorate.

No views expressed in this paper are those of the author. They should not be interpreted as reflecting the views of the Institute for Development Studies of the University of Nairobi.

This paper is not for publication without the permission of the author, as specified in the Copyright Act, Cap. 100, Laws of Kenya.

1981-11-10

INTRODUCTION

While on a visit to Kenya, the Rt. Hon Sir David Steel, a Kenya educated British parliamentarian, made the following statement as reported in the media:

"The adage that 'Power corrupts and absolute power corrupts absolutely' is an accurate description of Kenya" (Sunday Nation May 30 1993).

The statement must be seen in the context of current movement away from autocratic rule under one party system within which Kenya has evolved a well entrenched structures of "personal rule" with the usual self-destructive tendencies observed else where in African history (Sandbrook 1986). But in stark contrast with authoritarian regimes in South Korea, Taiwan, and Singapore (which are also highly interventionist in the workings of the market), in Africa, government interventions in the economies of Ghana (before Jerry Rawlings,) Zaire, Uganda (before Yuwari Museveni) and elsewhere, have been the antithesis of development both through mismanagement and inefficiency. Indeed, the pervasive corruption in Africa, originates more from the misuse of political power than from any other sources.

Until recently, the relationship between competitive democracy and competitive economic growth has, generally been relegated among less important issues in economics. A few economists have, however, persistently suspected the existence of a link between policy environment on the one hand, and a country's propensity to develop on the other. Schultz (1981) observed that sometimes many public policies are anti- development because they have many disincentives for growth. In particular, they reduce the rewards to invest in both human and non human capital. Since economic growth is generally driven by technological changes that arise from intentional investment decisions made by economic agents, public policies have particularly powerful

effects on private incentives to invest in both disembodied technology and human capital related skills (King R.G. and Rebelo S., 1990, Romer 1990; Becker, Murphy and Tamura 1990; Rudiger, 1990; Easterly W., King R., Levine R., Rebelos., 1992).

What has created the apparent interest in good governance in Africa and elsewhere in the world in the last few years? The demise of communism has shifted the preferential function of Western governments to the extent that corruption, previously not considered as a concern, has come under a sharp focus. Mobutu and others of his kind, thrived on corruption for many years with the full knowledge and protection from Western governments. All along, Western firms benefited from the corrupt regimes in Africa through many forms of market rigging with full compliment of corrupt regimes.

In Kenya, the entry of the government in business to protect infant industries while promoting the growth of indigenous capital in order to create a capitalist class considered essential for economic growth and self reliance essentially amounted to, at least implicitly, giving the indigenous people the go ahead to use State facilities for creation of personal wealth. The late President Kenyatta allegedly warned bureaucrats and civil servants not to break the 11th commandment ("Thou shalt not get caught",) while engaged in rent seeking activities and expect him (Kenyatta) to intervene. Given Africa's social political condition at the time of independence, the continent had clearly not evolved social institutions to safeguard avaricious entrepreneurship and outright theft as a way of personal advancement. The recent Goldenberg scandal in Kenya stands as an example of how top level government officials conspire to loot from the State.

The State intervention to correct market failures routinely produced worse results than the "failures" themselves thereby making the cure to turn out to be worse than the disease. While State intervention in the economies of Korea and other countries in Asia that are ruled by autocratic regimes have always been pro industry, political intervention

by governments in African, in contrast, have been the cause, rather than a cure for economic stagnation. Why do government policies show no evidence of inclination to reflect the mean social preference of the voters?

Becker (1976) first postulated the hypothesis that an ideal democracy is very similar to an ideal free enterprise system in the market place. He however, acknowledged that an ideal democracy has optimal "separation of activities" which are not found in the market place. He then concluded that it may be preferable not to regulate economic monopolies and suffer their bad effects, than to regulate them and suffer the effect of political imperfection. This is because the impact of pathological political institutions is greater and worse than imperfection of a market under idealised competitive democracy, or so it seems.

In this paper I explore the consequences of political imperfections, the latter as measured by non-developmental and even in extreme cases, anti-developmental outcomes such as the graft for State contracts and outright theft by politicians and bureaucrats who are not accountable to the electorate, under a regime with all the trappings of neopatrimonialism where political power is used exclusively to benefit those in power. The type of entrepreneurship that such a structure generates manifests itself in sub-sets of activities labelled by Krueger (1974) as "rent seeking" activities and elaborated by Bhagwati and Srinivasan (1979), and by Bhagwati (1982) who introduced the terminology, "directly unproductive profit-seeking activities" as a general concept that embraces lobbying to install distortions with or without political legitimacy.

There is nothing inherently wealth creating in entrepreneurship. If entrepreneurs are defined as persons who are ingenious and creative in finding ways that add to their own wealth, power and prestige (Baumol 1990), it is possible in some cases, greed, outright avarice, and self-interest to motivate entrepreneurs to get what they want particularly if businesses remain highly profitable because of political

protection from competition if there is no transparency in the business environment within which they operate.

If, it is accepted that entrepreneurship is a creative response to X-inefficiency how can entrepreneurship coexist with X-inefficiency? (Leibenstein 1967) It is the nature of entrepreneurship that is important here. In stark contrast with creative entrepreneurship, destructive and even parasitic entrepreneurship thrives under rent-seeking / rent generating market environment.

Kratz (1992) and Baumol's survey shows that there is some linkage between X-inefficiency and rent-seeking. Kenneth J. Button and Jones (1992) have insisted, that market structure aspects are critical in determining the existence of non allocative efficiency (presumably with its potential of creating rent seeking activities.) Under certain conditions, economic agents may not necessarily achieve maximal efficiency both in their productive decisions and/or their behaviour.

"The degree of competitiveness in a firm market, the extent to which it is incorporated as a part of a public sector bureaucracy, and the nature of regulatory regime under which a firm operates are all primary sources of possible X-inefficiency" (Button and Jones 1992).

Harper (1984), World Bank (1989), and Marsden (1990) have persistently pointed out that African entrepreneurs, under hostile market environment, "rationally" refuse to allocate resources to long term investments. Instead they are observed to prefer short-term illicit activities such as dodging payments of tariffs and market rigging.

Baumol suggests that while the total supply of entrepreneurs varies among societies, etc. their allocation of entrepreneurial resource between productive activities such as innovation, (which no doubt takes a lot of rigour and energy) is heavily influenced by the relative pay offs society offers to other activities such as rent seeking, organised crime as softer options instead of rewarding creativity and innovation.

If, for example, an autocratic leader thrives on veneration and obedience, entrepreneurs are likely to venerate such leaders in order to gain protection and access to loans from, say government corporations, in the absence of political accountability, constitutional restraints and other democratic institutions. If indigenous entrepreneurship must function as the engine for economic growth in Kenya, business policy environment must be undergirded by existence of democratic institutions such as investigative journalism, etc. to ensure optimal control of government policies by the electorate. Presumably creativity and hard work would then be rewarded. As Kenyans have quickly realised, they needed much more than a multi-party parliament and, at least in some ways freedom of speech. Prior to the demise of communism, freedom of whatever kind became some endangered species in Kenya and other countries considered to be on the frontline to fight communism. Let me summarise entrepreneurship in economic literature before considering why the existence of competitive democracy as a necessary condition for innovative business environment.

Schumpeter (1934) is the most explicit economist who first conceptualised the entrepreneur as an innovator. But according to him, the entrepreneur is no more than a creature driven by instincts and clearly not by profit. Profit, avarice and other forms of self interest play no part in stimulating the entrepreneur to work. Consequently, Schumpeter's entrepreneur is hardly a risk taker.

Literature abounds on definition of the term "entrepreneur". It was first used by Richard Cantillon, (1680-1784) but was formally introduced in economics by J.B. Say, (1767-1832) who defined the entrepreneur as a speculator. Kirzner, following the Austrian school, depicts the entrepreneur as an arbitrageur, an equilibrating agent in a world of imperfect information. Frank Knight (1885-1973) like Cantillon, emphasise the uncertainty bearing role of the entrepreneur. In general, the entrepreneur is variously depicted as an actual factor of production (Say), as arbitrageur (Kirzner), as an innovator (Schumpeter) and as uncertainty bearer (Cantillon and Knight) according to Barreto's (1989)

account of history of entrepreneurship. Mark Cassons (1982) synthesis of the functions of the entrepreneur by defining the "entrepreneur" as "someone who specialises in taking judgmental decisions about coordination of scarce resources".

Mark Cassons further adds that such a person is invariably atypical. Entrepreneurs need not necessarily be wealth creators as Baumol has well argued. What clearly distinguishes entrepreneurs from the rest of economic agents, is the entrepreneurs ex post superior judgment as it appears to us mortal beings, but to the entrepreneurs such judgements are ex-ante! Entrepreneurship can be a creative response to non allocative efficiency only under certain circumstances.

Leibenstein first postulated the existence of a non allocative inefficiency. In its simplest terms, it simply means that economic agents may not necessarily achieve maximal efficiency in both productive decisions and effort. If X-inefficiencies exists, it follows that resource allocation will be greater if a turnaround towards allocative X-efficiency can be achieved. This could mean that a free lunch previously in the offing, would also evaporate!

With the exception of Schumpeterian instinctive driven innovative entrepreneur who innovates automatically and is clearly atypical, for many of us, creating a product takes effort and rigor. This includes non Schumpeterian entrepreneurs as well! X-inefficiency stems from decrease in the lack of intensity of environmental pressure on economic agent, particularly under monopoly. This results in lowering the level of concern with operational details of an organisation and consequently, less effort is expended.

According to Leibenstein, central to the process of creating a good or a service with market utility is effort as a factor. Surprisingly, effort is not a key factor in contemporary micro-economic analysis.

In general, neither individuals, nor firms, work as hard or search for information as effectively as they could. But when external pressure is felt by economic agent as a result of competition, the pressure translates into search for higher productivity points. Indeed, this leads to increase in pressure of new effort points which were previously undiscovered. In some cases, pressure may lead to high productivity, high utility effort points. This of course excludes Schumpeterian instinct-driven entrepreneur.

However, monopoly gives licence for high degree of discretionary behaviour. When monopolistic behaviour is founded on power and control, this becomes a licence for those in powerful positions to be arbitrary, sloppy and even results to use of bureaucratic arrogance such as witnessed in state enterprises. This is because one of the rewards of being a monopoly is lack of accountability (Kimenyi 1985). A highly inefficient firm could be reporting quite high profits, even if this really means that the cost of the firm's inefficiency are borne by the state or the consumers.

Y-efficiency theory and levels of productivity

Leibenstein pointed out self-evident truism: it is individuals, NOT institutions called firms or households, who have objectives and motives. It is individuals, NOT institutions, who actually maximise utility or profit within an enterprise. Effort is best understood as a broad band with upper and lower limits. It is perfectly possible for an individual to choose a low effort position and satisfy all aspects of a contract even when his output is suboptimal. This is because it is not possible to completely specify a contract. As a result, individuals do not work as hard as they could. They do not invariably maximise profits unless they are pressurised to move out from their self chosen comfortable effort range. Pressure to change induces firms to struggle against effort entropy and eliminate low and non functional activities.

The X-efficiency theory is extremely simple but helpful in understanding sources of motivation. Creating a new product or a service, there is a lot of rigor and energy intakes that are certainly above average daily run of the mill. Now what is the link between X-efficiency and competitive democracy? The introduction of power, control and authority changes the picture especially if the link between private interest in business and political interests are synonymous. Under a corrupt political regime, power can be bought to pursue business advantages by highly inefficient enterprises to win what they cannot achieve through competition. Political power enables those in power to manipulate administrative instruments to influence the behaviour of others besides satisfying individual desire for prestige and income in parastatals and the civil service. There are exceptions to this, however when an autocratic leader makes a strong commitment to, and is energetic in creating efficient economic incentives for competitive export market as was the case of Korea (Koo, 1992). The latent entrepreneurship was stimulated. Ghana, in contrast, had a higher per capita income than Portugal and its level of technology certainly was much higher than that of most South East Asian countries, before Kwame Nkrumah came to power. Two decades on, the economic decline was accelerating on a near free fall speed as a direct result of political autocracy.

In a regime where the distinction between free enterprise and political power is blurred and enterprise survival is a function of political patronage, entrepreneurs are likely to use up resources lobbying because political variables determine the success of an enterprise. Indeed, innovative entrepreneurial styles that are directly unproductive such as exploiting the loopholes in the law as in the case Goldenberg became routine. The danger is corruption becomes so institutionalised and therefore an acceptable way of getting rich. Firms in manufacturing are less likely to undertake costly search for the state of the art technology to better the best products in the world since the domestic market is a captive market, except for the light competition from small time smugglers and other racketeers whose existence would, in any case, be insignificant.

Supposing the autocratic leader has a high utility for innovative and technological diffusion? The impact of such leadership on the rate of innovation and technological growth would have immiserizing outcome depending on the initial conditions as well as by commitment to use what works. Korea, Tanzania, Argentina, Japan and India all had strong state intervention but the industrial policies produced very different results. Having an industrial policy is itself not enough (Vitta P. 1990). The ambitious efforts to industrialise Africa through public enterprises in Ethiopia, Zambia and Cameroon were largely a wasted effort because of the degree to which causes of X-inefficiency were not addressed. Take, for example, the case of two countries with strong industrial policy such as Zambia and Mauritius. In these two countries, the results of their industrial policy were very different. In Kenya, the government policy on import-substitution was undertaken without balancing protection from competing imports with export incentives that worked Low (1982).

Why did ineffective industrialisation policies continue to be pursued when it was obvious that they were clearly not benefiting the country? Is it a coincidence that decline in personal liberties as indicated by incidences of detentions without trials occurred with the movement towards one-party rule? Under any regime, there are always winners and losers. It cannot be suggested that all the politicians in Africa were collectively stupid.

A casual scan of the reports of the Government Auditor-General may be used as indirect reflection of increase in political dictatorship and indirectly, the desire for political support for business survival. It is at that time when the first generation of Kenya's politicians acquired wealth which increasingly became critical for political and business success. Foreign-owned enterprises clearly influenced the industrial climate by insisting on additional government protection ostensibly because of presumed "market" failure. Efforts to correct this did not bear positive results. In spite of local manufacturers. Export

Compensation Act of 1974 the overall anti export bias remained. "Of 34 foreign owned or in the sample of 55, 19 had explicit understanding with their parent companies which prevented them from seeking export markets as Low observed". It was clear from Low's study that the rate at which protection levels in the domestic market were to be reduced in favour of export had "to be decided both in the context of political realities and some reasonable adjustment of the time". Admittedly this is no more than circumstantial evidence that indigenous top politicians maintained ineffective development in policies as long as they benefited privately. Private preferential functions and personal objectives of civil servants and politicians were assumed to coincide with aggregate social preference Gulhati (1990).

The first generation of educated Africans clearly took advantages of 1971 Ndegwa commission. They moved swiftly to private sector or parastatal after taking the early "retirement" as recommended by Ndegwa commission, on attaining forty years of age. Policies which were to nurture indigenous capitalists at least implicitly assumed that human capital (education) and entrepreneurship were synonymous. The beneficiaries understood their function very differently. As Okoli is reported by Sand brook to have said "having succeeded in driving away the colonial masters, the victors fell back to distribute their booty". But capitalism on its own, is not the same thing as entrepreneurship as Kenyans are slowly beginning to realise (Swainson 1980).

With over-valued exchange rate, manufacturing firms had no incentive to push their products outside the protected market. Possessing preferential access to policy makers, whether through the use of political insiders or by other ways, enabled Asian owned firms to turn the effects of the over-regulated economy to their advantage. At the same time, the procedures of licensing created widespread rent generating opportunities. Politicians began appointing top bureaucrats on the basis of personal loyalty and as a reward for trust and not because of professional competence. The culture of "eating" had arrived. At most, this promoted inequalities in capital accumulation but

certainly it did not promote entrepreneurship.

The government of Kenya's report A Strategy for small Enterprise Development: Towards Year 2000 (1989) admits of existence of inhibiting general policy framework for businesses and cumbersome laws and regulations. Although the report is specifically addressed to small scale development as a supply side initiative, it is also relevant to the subject under discussion. It specifically mentions,

- overvalued exchange rate which make imports relatively cheaper in comparison with locally produced goods.
- Import quotas and tariffs,
- arbitrary and discretionary enforcement of tax collection,
- subsidies and concessions intended for encouraging enterprise growth that benefit other untargeted enterprise and
- licensing procedures with long bureaucratic controls.

Some of these regulations generate rent seeking activities as entrepreneurs compete for premium fetching opportunities (Porter 1972). He warned that import-substitution were discouraging exports since manufacturing firms had a domestic market that was sufficiently profitable. Avoidance of rigours of competition, can be taken as the single most serious threat to productive entrepreneurship. As Baumol noted citing examples from the U.S.A., such avoidance induces entrepreneurs to spend "literally hundreds of millions of dollars for a single regal battle" as a means of adding to their personal wealth. How did the firms owned by the Chairman for Youth for KANU 1992 (KANU being the ruling party under President Moi) gain access to seemingly unlimited credit from state institutions?

Whenever domestic prices diverge greatly from world prices, or the quality of the locally produced goods is judged inferior to imported rival items, smuggling emerges in a regulated market. Anybody taking a walk in Nairobi boutiques and hair saloons is likely to verify that the real protection to Kenyans textile industry by trade regime is substantially far below what custom officials expect. Whether protectionism should have continued to be pursued well after smuggling had taken over as is the case quantitative restrictions and total ban of textiles in Kenya remained an interesting question (Gulhati 1990).

Policy makers should first address causes of the market failures on export side as they balance incentives for export and domestic markets. It is a counterproductive policy which diverts entrepreneurial energies and resources away from the search for new markets and better manufacturing skill in order to produce low cost but high quality items. When entrepreneurs go for short term profits through bribing custom officials avoiding tariffs instead of allocating entrepreneurial resources to wealth creation, we have every reason to suspect that the policy environment is wrong. Entrepreneurship may, of course, be constrained by the initial conditions with regard to the level of human capital stock, infrastructure and markets as was the case at independence. Thirty years after independence, it is doubtful whether Kenyans are better off in relative and absolute terms using Human Resource Development Index and other measures of growth and welfare.

Although researchers who have been most unequivocal in support of the existence of X-inefficiency are scholars writing in the perspective of rent seeking tradition, Frantz (1992) alleges that ironically, it is these very researchers who argue that even if rent seeking exists, it is inconsequential. Rent seeking is supposedly a substitute for X-inefficiency. For example, if resources are used to remove initial distortion and achieves a first best optimal outcome, this would be welfare improving (Bhagwati 1982). Loss due to delays arising out of fuel rationing for example, are "pure" rents because the loss occasioned by the delay is of benefit to no one. Dey Harendra Kat (1981) is

unequivocal about the welfare loss from corrupt practices. Rent seeking can arguably be denied as of no consequence only through tortured logic as any Kenyan who has been confronted by bureaucrats and powerful politicians can verify.

Anyone who has been reading articles on corruption in Kenya since the beginning of the road towards democracy cannot do the consequences of corruption. Table I shows the welfare loss through rent seeking occasioned by trade policy in Turkey in 1978. It is reproduced in this paper purely for the purpose of illustration and elaboration. Whenever a country uses trade policy to restrict the degree of competition in the economy, we have every reason to suspect the existence of X-inefficiency and possibly rent seeking activities.

The table on page 15 taken from Dervis et al is reproduced for the purpose of illustration of output lost in Turkey in 1978. In 1978, Turkey suffered a near total economic catastrophe when previous gains in economic growth were reversed. All the foreign exchange evaporated and GNP growth per capita came to zero. The GNP deflator went up by 40 per cent in 1978 and by 50 per cent in 1979. The purchasing power parity price level went up by more than 50 per cent in 1977 and 1979 (Dervis et al 1982). The crisis created widespread panic. The state decided to introduce foreign exchange rationing for the purpose of balance of payment conservation. The foreign exchange shortage was so acute that even the very act of securing official allocation itself did not guarantee availability of foreign exchange from the Central Bank. Just as it happened in Kenya when foreign exchange control measures were introduced, parallel markets for foreign exchange sprung over night in Turkey in 1978. The black market exchange rate was the effective exchange rate, fluctuating from day to day.

Dervis et al wanted to confirm the approximate value of real resources that were being expended in rent-seeking. Column 1 in table 1 shows that the ratio of imported to the total intermediate inputs is 11.5 per cent. Premium rationing places the direct burden on the consumer.

"Although we do not have enough information to analyse the

The sectorial impact of import premia in 1978 (Turkey)

SECTORS	Ratio of Imported to the Total Intermediate	Premia Payments as % of value Added	Premia Payments as % of Total Cost	Output Loss Due to Rent Seeking as %
Agriculture	9.9	4.4	3.0	1.5
Mining	18.3	16.1	8.3	4.1
Food	1.9	14.0	2.1	1.1
Textiles	9.5	27.8	4.5	2.3
Clothing	4.2	9.9	3.6	1.8
Wood	4.1	12.7	2.8	1.4
Paper	11.0	9.4	8.7	4.8
Chemicals	33.1	128.8	27.6	13.8
Rubber	24.1	80.7	14.7	7.3
Petroleum Products	15.9	16.1	9.3	4.7
Non Metallic Mineral Products	10.3	32.8	9.0	4.5
Basic Metals	17.6	47.5	9.3	4.7
Metal Products	19.4	67.3	15.6	7.8
Non Electrical Machinery	41.3	131.3	25.5	12.7
Electrical Machinery	24.6	83.3	21.8	10.9
Transportation Equipment	18.4	35.5	10.6	5.3
Construction	16.0	12.4	5.6	2.8
Infrastructure	13.8	23.5	9.0	4.5
Services	4.5	2.1	1.6	0.8
TOTAL	11.5	10.0	5.9	3.1

Note: 'Petroleum and Petroleum Products' includes refining.
Source: Dervis et al. 1982, p. 354.

distributional consequences of the premia.... It is worth noting that the total value of premia in 1978 (128 billion TL) is approximately equal to the total value of direct taxes and three times the value of tariff collection" (Dervis et al, 1982). The study concluded that the hardest hit sectors were capital goods and, intermediate goods, with

consumer goods and non-tradables sectors following in that order.

The researchers further calculated the domestic resource cost of exports and imports. The calculations revealed that very large import premia causes major distributional shifts and leads to rent seeking activities that are clearly a waste of resources. The Turkish study is relevant in a narrative appraisal of the high cost of industrialisation in Kenya. The anti-export bias in manufacturing under feeble and ineffective political commitment has been the problem and not only because the global market sharing arrangement adopted by some multinational corporations had the effect of reducing the likely load of positive response to the availability of export subsidies. Just as the World Bank a report noted, there were powerful groups who benefited from the status quo (Gulhati 1990). Politicians and top bureaucrats were privately in a pact with foreigners to make the most from the situation. Interestingly, kenyans record of intensity of government control on civil and political liberties as measured by industrial strikes that were banned, detentions without trial and refusal to register pressure groups deteriorated under one party regime.

The empirical estimates of real resource costs expended to obtain premium fetching licences in turkey show that import rationing can generate side effect whenever imports and domestic commodities are imperfect substitutes. The implicit bias against exports with a net effect on reducing the country's ability to even save scarce foreign exchange is counter productive. Inward oriented development must rely on market restriction and state intervention. But this creates an environment for rent seeking activities in contrast to open export promoting policy. Freer trade and factor mobility reduces rent seeking by restraining the interest of powerful groups and cartels. Direct government entry in business through parastatals and indirectly through policy manipulation under one party rule must have generated rents to top politicians and bureaucrats in Kenya, who then began treating such rents as property rights. Every year, the Auditor General in Kenya issues reports with serious audit queries, but then since no action is

taken on the suspects, top bureaucrats and civil servants treat the reports as purely inconsequential.

The existence of autocratic regimes obsessed with the regimes own survival as the most important thing have been the rule, rather than the exception, in many countries in Africa South of the Sahara. Associated with this phenomena are incidences of rent seeking activities involving highly politicised civil service through coercion by the "strong man". The Zairian Civil Servant who is expected to survive on "rents" routinely generated in the course of his work is no exception on the continent. The difference between corruption in the Zairian Civil service, Nigeria or Kenya for that matter, is the degree to which corruption is widespread in any country in Africa, rather by its absence.

Whenever the distinction between private sector activities and the government is blurred, only "politically right" businesses survive! Self interest of various pressure groups, greed and avarice results in plundering of private and state property. This is self destruction (Vandermoortele (1985)).

Apart from the general welfare loss as a direct consequence of resources diverted to rent generating activities, the necessary pressure that must prevail to motivate market driven enterprises to search for new technologies evaporates. A business environment where X-inefficiency thrives cannot generate innovations. Entrepreneurial resource (which is a non tradeable attribute) is wastefully deflected from creative and rigorous activities to cultivating favours of the politicians and in pursuit of patronage. Lack of competition, guarantees a sheltered market and unrealistic prices for existing firms. Indeed, import substitution was the major obstacle for further industrialisation in Kenya precisely because it failed to balance domestic and external competition. As long as top bureaucrats and politicians who were in league with the foreigners continued to benefit, feeble and ineffective policies for industrialisation remained even when their failure was a common

knowledge.

Competitive Democracy and Entrepreneurial Resource Allocation

Baumol attempts to elaborate Schumpeter's theoretical model to include determinants of entrepreneurial resource, focused on "pay offs" to various activities as dictated by the "rule of the game", "The allocation of entrepreneurship between productive and unproductive activities, though by no means the only pertinent influence, can have a profound effect on innovativeness of the economy and the degree of dissemination of its technological discoveries (and even on propensity to search for new discoveries)". [The words in parenthesis are my addition]. I propose that idealised competitive democracy as an ever receding objective, has cathartic effect on the economy. It contributes to the social engineering of a culture that ultimately stimulates entrepreneurial resources which is then directed towards creative and innovative activities. Is it by coincidence that KANU purged or depoliticised trade unions and other organisation in the last two decades with the rise of neo-patrimonial rule in Kenya? Kenya's decline in economic growth in relative and absolute terms, during that period, can be taken as circumstantial evidence, that there is a positive/negative correlation between democracy (or its absence) and economic growth in Africa.

The economies of South East Asia including Korea are culturally characterised by collectivistic and large power distance variable. Uncharacteristically, these authoritarian political regimes, first adopted a policy of aggressive import substitution. But the incentives for sales in the domestic market were similar to incentives for sales in the international market, thus avoiding anti-export bias (Vittorio Corbo et al 1992). East Asian countries have clearly achieved economic growth without competitive democratic institutions.

In contrast with Asia, the institutional legacy of democracy in post colonial Africa clearly show that alternative development strategies which exclude competitive democracy had very slim chances of success. Most African States inherited Westminster style political institutions which assumes any citizen would encounter no artificial barriers to seek election in a political office as happen in Kenya's first experiment with multi-party politics in 1992. In political equilibrium, only those who satisfied the mean preference rating of electorate would command majority votes. Rulers would be accountable to the electorate. They would have no power to rig the markets as an act of safe guarding their self-interests. The electorate would determine the optimal size of the elected government.

Possession of political power would amount to no more than power to implement the "wishes" of the people. De-linking business from politics so that the two activities are not synonymous with each other would mean that firms would no longer seek refuge from rigours of domestic and external competition by manipulating political instruments. Admittedly, there are no countries in the World that do not protect their "infant" industries for sound economic reasons and with correct balance of incentives. What this means is that such protection is not a licence to be sloppy under rigged market conditions - it is optimal protection.

As Leibenstein observed, "monopoly gives license for a high degree of discretionary behaviour...to be arbitrarily, sloppy, bureaucratic, arrogant and non responsive to...demands". Protection not subjected to evaluation can be counter productive. This is because protected firms are unlikely to invest resources in research and development and in the search for new technology to better the best products in the market.

Przeworski and Limongi (1993) have considered whether democracy fosters or hinders economic growth. They reject the idea that democracy protects property rights and insists that this is a new invention. They urge that distribution of consumption caused by the market on the one hand and the interests of the voters must differ. This is because democracy enables

the poor to use the state to obtain social welfare. Under democracy the State is always responsive to pressure for immediate consumption by the poor. This lowers investments and growth because it reduces the profits of capitalists.

In contrast, benevolent dictatorship insulates the state from particularistic pressures especially from the poor. They, however, conclude that democracy does not favour growth any more than dictatorship. Indeed they are agnostic as to whether democracy fosters or hinders economic growth.

It must be pointed out that this type of conclusion emerged from pooled cross-country data. Individual country growth experience becomes insignificant under such cross country data. In Kenya's case the voters suffered more under one party system than before 1982.

The role of the incentives in steady State economic growth models is clearly well recognised by Segerstrom (1991) and Romer (1990). Models specific to policy effect on incentives to innovate are proposed by King and Rebelo (1990) but only recently have economist taken keen interests on interaction between economic and political liberalization in Africa. Explicit incorporation of political parameters in the general equilibrium models of economic growth has the prospects for invigorating economic growth. Anyang-Nyong (1987) observes that:

"at the centre of failure of African states to chart viable paths for domestic accumulation is the problem of accountability, the lack of democracy. The peoples role in the affairs of the government have diminished...the use of public resources as a possibility for viable indigenous process development is neglected or destroyed altogether."

In conclusion, there is a strong case for upholding the existence of democratic institutions as a precondition for stimulating creative entrepreneurial resources. "Democracy", like the idealised "perfect"

competition concept in micro economics, has extremely valuable contribution in inducing economic agents to be innovative. Under "perfect" competition entrepreneurial resources are likely to be stimulated away from inert to high effort points because there would be no dictators to rig the markets in their favour. Existence of free press which has to reflect the interest of its readers would stimulate investigative journalism. And since self interest, greed, down right avarice and not just utilitarian and philanthropic intentions abound, self policing agents, thriving on what they create through investigative press, would be motivated to invest resources to uncover corruption and other rent seeking activities as Kenya has witnessed recently at an optimal social cost when self-policing agents reciprocate in "watching the watchman".

Several magazines such as "The society", "Finance", "Law monthly" and the Presbyterian church magazine "Jitegemee" have been forced to enter the market place of ideas surviving, in some cases, on shoe string budgets. The self interests of their proprietors, more than philanthropy perhaps puts the pressure on them to reflect issues of major concerns to the voters as consumers.

Under democracy, self-interest is likely to be harnessed for productive activities. This happens when, for example self-interests drives consumers to form consumer organisations. Philanthropic institutions as judged by their intention, would themselves need to be kept in check. Avaricious "philanthropy" also bound.

The effect of democracy on competitive market is that inert effort areas as predicted by X-efficiency theory are likely to be reduced significantly. If entropy creeps in because of the intensity of competition in a homogeneous product, the pressure for firms to survive will motivate leading firms to make intentional investments on research and development in search for profit. In the search for the ever receding goal competitive democracy, citizens of the country are likely to find a cure to save themselves - or at least reduce incidences of

self destruction.

A trade policy which stimulates technological innovation in countries that inherited Western socio economic and political institutions, clearly cannot survive without a whole array of democratic institutions in place. There are welfare properties in economic growth models of Romer and Segerstrom. This is because technology is partly rivalous and non rival. Public policies are needed to address market failures in human capital devoted to technological development, occasioned by quasi-public good nature of technology.

If Korea and other newly, industrialised countries in South East Asia have achieved technological and economic growth while they can hardly qualify to be on the league-table of "democratic" institutions, this could well be as a result of cultural / religious variables in Buddhism with its strong emphasis on egalitarianism (Koo 1992). Other geo-political historical differences do not permit a simple comparison between South East Asian and African Countries to be made.

In Kenya's case, it was a British colony with a colonial legislature and infrastructure (with all the assumptions on how these operate) was simply grafted in 1963. The free market system which Kenya embraced at the time of independence in order to create wide and varied opportunities for rewarding and satisfying work, entailed simultaneous evolution of democratic institutions to provide checks and balances on the dark and dangerous sides of self interest that fuel competitive spirit. Thirty years on after independence, Kenyans are slowly realising that there may not be short cuts to competitive democracy. If self interest fuels competitive spirit in the economy the mechanism for ensuring that policing self interest at socially optimal cost is through allowing self interest to be controlled by "self interest" in an environment of free political competition. Entrenched self interest by various groups have made the transition in this direction extremely slow and painful.

BIBLIOGRAPHY

- Barreto H. (1989) The Entrepreneur in Micro Economic Theory Routledge.
- Baumol E.J. (1990) "Entrepreneurship: Productive, Unproductive, and destructive" Journal of Political Economy Vol. 98 No. 5 .PT11 pp. 893-921.
- Becker G.S. (1976) "Competition and Democracy" in The economic approach to human behaviour University of Chicago Press.
- Becker G.S., Murphy K.M. and Tamura K. (1990) "Human Fertility and Economic Growth" Journal of Political Economy Vol. 95 No. 5 pt. 2
- Bhagwati J.N. (1982) "Directly Unproductive Profit Seeking (DUP) activities" Journal of Political Economy pp. 989-10002.
- Bhagwati J. and T.N. Srinivasam (1979) "Revenue-Seeking: A Generalisation of Theory of tariffs" Washington D.C. The World Bank (Mimeo).
- Button K.J. Weyman-Jones Thomas, (1992) "Ownership, Structure, Institutional Organisation and measured X-inefficiency" AEA Papers and Proceedings Vol. 82 No. 2.
- Dervis K. et al (1982) General Equilibrium Models for Development Policy World Bank Research Publication. Washington D.C.
- Dey Harendra Kat (1981) "Corruption Delivery Systems and Property Rights" World Development Vol. 15 No. 7 pp. 899-910 Paternoster.
- Easterly W., King R. Levine R. Rebelo S. (1992) How do National Policies Affect Long-run Growth? World Bank.
- Frantz R. (1988) Ex-efficiency: Theory, evidence and application Norwell M.A. Kluwer.
- Frantz R. 1992. E-Efficiency and Allocative efficiency: What have we learned? AEA Papers and proceedings Vol. 32 No. 2
- Gulhati R. (1990). The making of economic policy in Africa Economic Development Institute. The World Bank, Washington D.C.
- Kimenyi Mwangi S. (1985) "Political Party Competition and Managerial behaviour An Issue Analysis in Parastatal Management: The case of Kenya parastatals". Eastern Africa Economic Review.
- King R.C. and Rebelo S. (1990) "Public Policy and Economic Growth: Developing neoclassical implications". Journal of Political Economy Vol. 98 No. 5 Pt. 2.

Koo, Bonno (1992) Socio-cultural Factors in the Industrialisation of Korea International Centre for Economic growth, San Francisco U.S.A.

Krueger A.O. (1974) "Political economy of rent-seeking society" American Economic Review pp. 989-1002.

Leibenstein (1966) "Allocative Efficiency is X-Efficiency" American Economic Review pp. 392-415.

Leibenstein H. and Shlomo Maital (1992) "Empirical estimates and partitioning of X-inefficiency. A Data Envelopment- Approach" AEA Papers and Proceedings Vol. 82 or 2".

Leibenstein, H. (1976) Beyond Economic Man Harvard University Press.

Low P. (1982) "Export subsidies and Trade policy: The experience of Kenya" World Development Vol. 10, No. 4 pp. 293-304.

Nyong'o Anyang' (1989) Development Vol. 15 No. 7 pp. 899-910.

Marsden K. (1990) African Entrepreneurs IFC, World Bank Washington D.C.

Porter R.C (1990) Kenya" Future as an Exported of Manufactures" Eastern Africa Economic Review.

Przeworski A. and Limongi F. (1993) "Political Regimes and Economic Growth" in the Journal of Economic Perspectives. Vol. 7 No. 3

Rodrik O. (1992) "Conceptual issues in the Design of Trade Policy for Industrialisation" World Development Vol. 20 No.3 pp. 309-320.

Romer P.M. (1990) "Endogenous technological change" Journal of Economy Vol. 98 No.6 Pt. 2.

Sandbrook (1986) "The state and Economic Stagnation in Tropical Africa" World Development Vol. 14 No. 3 pp. 319-322.

Scholing E. and Timmermann V. (1988) "Why LDC growth rates Differ: Measuring the unmeasurable". World Development Vol. 16 No. 11 pp. 1271-1294.

Schultz T. (1981) Investing in People: The Economics of Population Quality. Berkeley University of California Press

Segerstrom P.S. (1991) "Innovation, Imitation, and Economic growth" Journal of Political Economy Vol 99 No. 41.

Shleifer A. and Vishny R.W. (1993) "Corruption" Quarterly Journal of Economics.

Swainson Nicola (1980) "The development of corporate capitalism in Kenya 1918-1977" Heinemann Educational books.

Vandemoortele Jan (1985) "Cause of economic Instability in Kenya". Eastern Africa Economic Review Vol. 1 No. 1 pp 87-96.

Vitta P. (1990) "Technology Policy in Sub-Sahara Africa: Why the dream Remains Unfulfilled". World Development Vol. 18 No. 11 pp 1471-1480.

Vittorio Carbo and Sang-mok Suh Ed. (1992) Structural Adjustment in a newly Industrialised Country: The Korean experience, John Hopkins University Press, World Bank.

World Bank (1989) From Crisis to Sustainable Growth Washington D.C.