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Ethnic Diversity and Economic Instability in Africa

Interdisciplinary Perspectives

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Ethnic Diversity and Economic Instability in Africa

There is a growing consensus in the development economics literature that ethnic diversity is a significant factor in explaining Africa's poor economic performance. *Ethnic Diversity and Economic Instability in Africa* challenges this conventional wisdom. Drawing on the insights of historians, anthropologists and political scientists, as well as development economists, this book questions whether ethnicity is the most useful organising principle by which to examine the economic development of Africa, arguing that it is a more fluid and contingent concept than economic models allow. Instead, the authors explore the actual experience of ethnicity in Africa and propose new methods of measuring ethnic diversity and inequalities. Finally, some tentative conclusions are reached regarding appropriate policy reforms.

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Foreword

Over the last decade, we have witnessed greater political stability and higher economic growth in Sub-Saharan Africa. While expectations seem to be forming that Africa could be a new growth centre in the decades to come, there remains the risk of political instability and economic downturn. The recurrence of military coups, continued semi-authoritarian rule and weak governance are still observed in some parts of the continent.

Many previous studies attribute these risks to political mobilisation brought by ethnic as well as religious division in African societies. However, African history demonstrates that ethnic diversities do not necessarily cause political conflicts and economic instability. A more sophisticated approach is necessary to gain a better understanding of the conditions under which ethnic diversity could be a source of political and economic instability, and the factors that contribute to nation-building with social harmony and economic prosperity in the long run.

The Japan International Cooperation Agency (JICA) Research Institute adopted 'Ethnic diversity and economic instability in Africa' as one of its major research projects upon its establishment in October 2008. This project was organised in collaboration with the Research Institute for Economics and Business Administration of Kobe University, and led by Dr Hiroyuki Hino, Special Fellow of JICA Research Institute and Professor of Economics at Kobe University.

The research team comprises internationally renowned scholars from diverse disciplines including economics, political science, history, anthropology and law. This composition facilitated the research and analyses of the nature and consequences of interaction between ethnicity and economy that critically depend on historical contingencies, political structure, constitutional design and economic circumstance. I am gratified that scholars of such prominence have worked together as a team for two years.

This book is the first of a series of publications generated by this project. Each chapter discusses different aspects of understanding complex relationships between ethnic diversity and economic performance. One of the main findings is the existence of a vicious circle between ethnic isolationism and economic uncertainty, implying that the causal relations between the two are not one-way but circular. This finding confirms the importance of improving people's economic conditions so that their ethnic identities cannot be manipulated and exploited by political leaders for their own gain. For this purpose, inclusive development that mitigates both horizontal and vertical inequalities among ethnic communities and other groups must be achieved.

This orientation coincides with JICA's basic policy. Since I assumed the presidency of this organisation in 2003, it has incorporated the concept of 'human security' into its core principles and guidelines for aid programming and implementation. To empower people to live with dignity by providing basic economic means is a fundamental condition if we are to prevent recurrence of conflict and bring long-term political stability and sustained economic development to conflict-prone or -affected countries.

I believe that this book demonstrates the potential of interdisciplinary research in identifying the root causes of instability and in elaborating practical policies to transform ethnic diversity into a positive force for inclusive development in Africa. I hope that this volume will help to generate further interest in economic development in Africa in general and the influences of ethnicity in particular, among researchers, practitioners and policy makers.

Sadako Ogata
President
Japan International Cooperation Agency

Preface

Over the last two decades, the macroeconomic performance of most countries in Sub-Saharan Africa has improved substantially, with higher economic growth, lower inflation and improved balance of payments. Over the same period, however, income disparities have widened and poverty has remained entrenched. Social friction associated with greater inequality, as well as pervasive unemployment and underemployment, population growth and increasingly scarce land and water resources, have made many African economies potentially unstable and vulnerable to political and other shocks. Ethnic diversity, highlighted by socio-economic and political inequality, has contributed to ethnic clashes.

Empirical work in development economics has generally shown that ethnic diversity, i.e. the co-existence of numerous distinct ethnic communities in a country, has significantly lowered economic growth in Africa, possibly because it has led to sub-optimal provision of public goods. Moreover, it is generally assumed that ethnic diversity also contributes to heightened economic instability.

But we still need to ask if it can be shown empirically or theoretically that the observed instability of African economies can be attributed to the co-existence of ethnically distinct communities. Other equally important factors may also be at play. It is possible, for example, that it is the political exploitation of ethnic diversity, not diversity in itself, which makes such economies more unstable. One must also ask how far market forces are dominant in African economies, or whether the powers of the state remain even more pervasive than is often assumed. Further still, how fundamental are the differences between the preferences of a country's ethnic communities? Are they different enough to disrupt the ways in which one would normally expect an economy to work?

With a view to providing answers to these difficult questions, the Japan International Cooperation Agency Research Institute (JICA-RI) and the Kobe University Research Institute for Economics and Business

Administration (RIEB) initiated a joint research project in the Spring of 2009. A team of economists, political scientists, economic historians and anthropologists from Africa, Asia, Europe and North America was formed to undertake this research. Since then, this research team has held four conferences at which relevant papers were presented for debate. The first conference was held at Kobe University in July 2009, the second at Yale University in January 2010, the third in Naivasha, Kenya, in November 2010, and the fourth at Oxford University in July 2011. The members of the project team are listed in the Appendix.

This volume represents the first of a collection of papers presented at our conferences. It aims principally to arrive at a diagnosis of the aforementioned issues. A sequel to this volume will be devoted to policies that can help to transform ethnic diversity from a negative to a potentially positive influence, thus contributing to building nations where ethnic communities can work harmoniously to reap the fruits of economic development with growth, stability and equity.

We hope that this book will serve as catalyst, to stimulate further interest in interdisciplinary studies on the subject of ethnicity and development in Sub-Saharan Africa.


Hiroyuki Hino, John Lonsdale,
Gustav Ranis and Frances Stewart

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This book is a product of a research project entitled ‘Ethnic diversity and economic instability in Africa: policies for harmonious development’, which was organised and funded jointly by the Japan International Cooperation Agency Research Institute (JICA-RI) and Kobe University Research Institute for Economics and Business Administration (RIEB). We are most grateful to the JICA-RI for financing most of this project, and taking care of its administrative and logistical arrangements. The project was also partly funded by a Grant-in-Aid for Scientific Research from the Ministry of Education, Culture, Sports, Science and Technology, Japan (grant number: 22330085). Views and opinions expressed in the book are those of the authors, and do not necessarily reflect those of JICA or Kobe University.

We would like to express our sincere gratitude to Dr Keiichi Tsunekawa, former Director of JICA-RI, for his support of this project, and especially to Dr Chris Harrison, the Publishing Director of Social Sciences of the Cambridge University Press, for his encouragement, guidance and patience during the preparation of this book. Our thanks also go to the anonymous readers for their most helpful comments. Finally, we wish to thank Ms Elizabeth Wellman for her editorial assistance, Ms Takako Kitano of RIEB for her assistance in the overall management of this research project and Ms Eva Gladwell Mithamo of the Office of the Economic Advisor to the Prime Minister of the Republic of Kenya for her administrative assistance.

Hiroyuki Hino, John Lonsdale,
Gustav Ranis and Frances Stewart



Introduction: Findings of development economics and their limitations

GUSTAV RANIS

Introduction

There seems to be a general consensus in development economics, based on both cross-country regressions and individual country studies, that ethnic diversity, especially in the Sub-Saharan African context, is one of the causal factors behind relatively poor development performance. While much of the past relevant literature focuses on diversity's impact on economic growth, we also have evidence that it adversely affects income distribution and poverty as well as human development. But much less is known about the impact of such diversity on economic stability or instability in Africa.

It is generally accepted that more than two thousand ethnic groups, usually lacking the ability to exit from poverty, find themselves in Sub-Saharan Africa. Although some have expressed the view that land-locked conditions may have contributed to such marked ethnic diversity, the development economics literature generally takes ethnicity as exogenous and invariable over time. Indeed, most of the major findings of development economics fundamentally rest on the assumption that ethnicity is exogenous to democracy, geography and other factors that affect economic development. This is because those findings are derived mostly from the applications of statistical methods (cross-country regressions) which are invalid if this assumption does not hold. This is but one of the reasons why such regressions are, at best, the beginning, not the end, of wisdom.

Economic historians and anthropologists have long argued – correctly – that ethnicity is an identity that evolves over time in response to economic, demographic and political developments. To a large degree,

Paper presented at the Kobe Conference on Ethnic Diversity and Economic Instability in Africa: Policies for Harmonious Development, July 2009. The author would like to thank Hino Hiroyuki for his helpful comments and Yanjing Huang for her competent research assistance.

ethnicity is ‘constructed’ as evidence in Kenya and elsewhere amply demonstrates. Where there is no economic growth or where the economy is unstable, new ethnic alliances may emerge or ethnic antagonisms may be heightened. In other words, ethnicity and economic development (or growth) are mutually dependent – there is no simple, one-way causal relationship as commonly assumed in development economics.

We all agree that it would be a mistake to talk about ‘the’ African economy. Much of the development economics literature distinguishes African economies between natural-resource-rich country cases, coastal cash crop exporters and land-locked, internally oriented economies, each encompassing approximately one-third of the total population of Sub-Saharan Africa. But to economic historians and political scientists, such a demarcation is inadequate and could mask more fundamental differences.

Historians and anthropologists argue, again correctly, that economic characteristics of African countries – and their relative development – cannot be understood without reference to the impact of colonial administrations on the political and economic institutions in the post-colonial regime in each country. For example why have Botswana and Sierra Leone – both equally rich in diamonds – followed such sharply divergent post-colonial development paths? Equally important, interactions between ethnicity and the market – through trade of natural resources and labour and through contests for land – historically have shaped much economic development in Africa, with influences still in evidence today.

Therefore, long-term economic performance of African economies can be fully understood only on the basis of proper dialogue between economics, history, political science and anthropology. The purpose of this introduction is to provide a starting point for such a dialogue. In what follows we will offer (1) a summary of some of what seems to be known in the development economics literature with respect to the impact of diversity, however defined, on development; and (2) some preliminary hypotheses about diversity and economic volatility. Finally, we will provide a quick guide to the book, and briefly summarise and suggest some future research priorities.

Diversity and development

Following Barro’s lead (Barro 1991), some economists have detected no unique African explanation for Africa’s poor performance but blame

it all on poor policies and the well-known violations of Washington Consensus strictures – including the lack of openness, low savings rates and flawed monetary and fiscal policies – as well as lack of access to the sea, a tropical climate, Dutch disease, corruption and sometimes even the kitchen sink. Sachs and Warner (1997), for example, follow this line of reasoning.

On the other hand, Paul Collier (2007), as well as Collier and Gunning (1999) and Easterly and Levine (1997) point to the importance of ethnic diversity. Collier and Gunning, for example, claim that ethno-linguistic fractionalisation (ELF), accounts for 35 per cent of the growth shortfall in Sub-Saharan Africa, or for 45 per cent if closely linked poor policies are included.¹ José Garcia Montalvo and Marta Reynal-Querol (2005) prefer polarisation as the measure of diversity of greatest relevance in most country cases but share the general view of the importance of diversity's impact on growth.²

The main argument being put forward by such authors as Easterly and Levine is that polarised societies cannot agree on needed public goods and are more likely to engage in rent-seeking activities. Collier (1998) similarly points to ELF as reducing trust, increasing transaction costs and adversely affecting development generally. Bates (2000) does not embrace the ELF measure in the same way but agrees to emphasise that contacts and contracts, implicit or explicit, can be quite strong and can promote both human capital and human development within but not across groups. Habyarimana *et al.* (2009) provide a framework for examining ethnic versus rival explanations for the lack of productive collective action.

Most specialists on the subject seem to hold the view that Africa's generally low population density makes it difficult to generate the kind of trust which crosses ethnic boundaries that is required for the provision of public goods. Frequent human contact ensures the creation of the required social capital. Individuals as well as entire clans tend to look at each other and worry about patent inequalities, vertical as well as horizontal, rather than about their absolute levels of welfare. It is in this sense that, in ethnically divided societies, each group has its own

¹ ELF is measured by the probability that two randomly chosen individuals in a given country do not belong to the same ethnolinguistic group.

² Polarisation is measured by the degree of homogeneity within groups, the degree of heterogeneity across groups plus, most importantly, the small number of similarly sized groups.

egalitarian impulse, but that impulse does not extend across ethnic lines, either by virtue of insurance or altruism. This is in sharp contrast to the case of some of the more densely populated countries of Asia, where land scarcity and labour abundance have led to co-operation across ethnicities, especially in the case of intensive agriculture.

Development economists also argue that strong, within-group loyalty can hurt growth in another way. Namely, it does not pay for the individual member of a clan to be a successful stand-out, i.e. do well or get promoted, if this results in the rest of his extended family descending on him. Anthropologists too find this proposition rather convincing.

To measure ethnic diversity, Alesina *et al.* (2003) favour the ELF, while Reynal-Querol (2002) as well as Esteban and Ray (1994) prefer the concept of polarisation, a closely balanced, and therefore contested, ethnic majority dominance. There are findings showing that low levels of ELF as well as very high levels do not pose as much of a threat to development as intermediate levels. Others conclude that we should really be counting much more on polarisation when two contending parties are very close in terms of their power, which may lead not only to bad policy and bad development outcomes but also to less stability. The correlation between fractionalisation and polarisation is apparently positive and very high at low levels of ELF but zero or even negative at intermediate and high levels.

Diversity and democracy

While many authors have discussed the underlying causes of adverse development outcomes, many issues remain open for discussion, and some of these are by no means irrelevant to understanding the relationship between ethnicity and economic development. Issues which remain open for debate include the importance of initial conditions, including colonial heritage, natural resource endowment, the role of institutions, broadly defined, as well as the relevance of the extent of democracy (or lack thereof) in affecting the relationship linking diversity, growth and stability.

With respect to the initial conditions, the relative abundance of land and the low level of population density have already been mentioned. While economists are generally ready to accept kinship relationships as exogenously given, there can be little doubt that they are a substitute

for social security networks and that any inequality in the initial distribution of land and other assets has historically permitted clan elites to capture the commanding heights of politics. Unlike the case of the more homogeneous Asian superfamilies, we have here smaller kinship-loyal families, sustaining co-operation within the group, but without altruism travelling across ethnicities. Consequently, increased diversity leads to less collective action with respect to public goods and, at the aggregate level, to more engagement in free-riding, consequent lower growth and some of the other aforementioned adverse developmental outcomes.

As Avner Greif (1993) has also emphasised, citing European historical evidence, legal and political institutions foster intra-elite co-operation but inter-group non-co-operation. The same asymmetry exists with respect to social capital, relatively strong within ethnic groups but not extending across these groups. Within groups, there is bonding going on, which is relatively weak across groups. Bridging across groups is, of course, difficult, even if better for optimisation in the economic sense. The greater the extent of diversity, the more internal bonding occurs, with less bridging.

The strength of natural resource endowments represents another important dimension of the initial conditions. Natural resources are an important cause of the likely asymmetry between different ethnic groups, depending on the vagaries of nature and culminating in the reduced incentive of those blessed with relative abundance to provide public goods to others. In Nigeria, for example, a minority ethnic group sitting on oil is demanding a larger provision of national public goods, currently creating conflict. Moreover, resource-dominant groups are likely to suffer from some manifestation of the so-called natural resource curse, encouraging rent-seeking and weakening the pressure for economic or institutional reforms, all of which, of course, contribute to sustained unequal distributions of income, both of the vertical and horizontal type.

In this setting, local public goods are always preferred over national public goods and the same sort of asymmetries affect the overall quality of social capital which is based on intensive trust within rather than across groups. As Jonathan Temple (1998) points out, an initial unequal distribution of income generally affects development negatively. Similarly, Knack and Keefer (1997) support the position that trust is more pronounced, *ceteris paribus*, when incomes are more equally distributed.

Clearly, the spillover of social capital across ethnic boundaries, as well as the willingness to provide national public goods, depends very much on the overall distribution of income, both of the vertical and horizontal types, which are, to some extent, overlapping. As Fosu *et al.* (2006) point out, heterogeneous societies are better at private goods provision, working through the market, but not very good at providing public goods. Greif emphasises that land or mineral rights are usually critical and are not at all helped by dysfunctional institutions which obstruct egalitarian outcomes. Kinship groups can be useful in the private sector, as ethnic minorities benefit. But in the public sector they can be harmful because ethnic majorities benefit. What is not clear and what is worthy of investigation is whether diversity improves the quality of private goods via an increase in variety.

All of this argues for the possible importance of decentralisation. There exists, of course, a large volume of literature concerning vertical decentralisation, both pro and con, with the pros emphasising that local communities have more information and that they are likely to contain much less ethnic diversity than those at the centre, and the cons pointing to the greater likelihood that local elites will dominate. Vertical decentralisation is seen as reducing friction but may also, as some authors point out, lead to the creation of regional parties with less interest in public goods at the national level. In other words, if too many groups form at the local level, none is strong enough to control the state and none is in a position to mobilise an 'encompassing interest', *à la* Mancur Olson, at the national level. Diversity fosters trust within groups and, while vertical decentralisation is helpful at the local level, it reduces trust at the national level, as well as the provision of public goods, with results already referred to.

Others, including Bardhan and Mookherjee (2000), express some concern about the enhanced possibilities for corruption at the local level, often dominated by local elites. But the comparison between corruption at central and local levels is an unresolved issue that can only be settled by empirical, individual country analysis. In any case, with vertical decentralisation leading to smaller jurisdictions exhibiting less diversity, ELF is reduced, but there is a greater danger of polarisation with, for example, a large minority opposing the central government, as pointed out by Yuichi Sasaoka (2007). The fact is that most central governments are in the hands of a small elite using public goods to

exercise patronage of one kind or another, mostly in the form of civil service employment.

Much less attention is devoted in the literature to another kind of decentralisation – the horizontal type – shifting power from the executive, especially the finance ministry, to other ministries, to the legislative branches at all levels, as well as to the judiciary, thus providing greater access for minorities, which can make a large difference (Brancati 2006). Trust can be strongly influenced by such an independent judiciary, a feature rarely in evidence.

As far as I can surmise, the jury is still out with respect to the impact of democracy on all this. Alesina *et al.* (2003) have reported diversity as less serious in democracies because minorities are more likely to feel represented. Barro (1996) finds that democracy enhances growth at low levels of income and depresses it at intermediate levels. Most of the parliamentary systems turn out to be more stable than presidential ones, especially when there are many clans represented by various political parties. With ethnic diversity more pronounced at the centre, a diverse society benefits more from democracy, and a more competitive political system lowers rent-seeking and increases efficiency. Bates *et al.* (2004) report that authoritarian governments lower innovative capacity (TFP) and thus impede growth as well as development in other dimensions.

On the other hand, Besley and Kudamatsu (2007) point out that autocratic regimes may be extremely effective, possibly performing better than democracies if the electorate is sufficiently well organised. If central government elites are sedentary bandits, this may lead to resistance, possibly violence and lower growth, something that Bates *et al.* call ‘a political trap’. But if the bandits are of the roving type, this is more likely to generate instability as public goods become exceedingly scarce and are fought over. To conclude that democracy has little impact on growth but could have an impact on stability is a subject to which we shall return.

The role of markets in development in Africa is another open issue. In the private sector, minority kinship groups benefit from its relative impersonality while, in the public sector, minority kinship groups are disadvantaged and majorities benefit. Therefore, the ruling elite usually prefer the public sector, even if it is less efficient. With respect to particular production sectors, in agriculture the majority of kinship groups usually eschew social capital beyond their own jurisdiction. In

industry, to which minority groups are likely to gravitate, they benefit from the relatively larger, more urban, private activity. Hence, for any given distribution of political and economic resources, one might expect a more market-oriented, arm's length, impersonal system to be superior in terms of developmental outcomes. However, markets may also accentuate or even create horizontal inequalities, especially given an initial unequal distribution of natural resources (Mukherji 2009). Moreover, a strong market orientation is often associated with a lower level of public goods. It therefore gives minorities less of an obligation to respect the state in terms of taxes or any other indication of support.

Diversity and volatility

In contrast to the nexus of diversity, democracy and development discussed above, very little research to date has focused on the relationship between diversity and instability. We therefore present a number of preliminary hypotheses which may hopefully help stimulate future research.

There can be little doubt that the unequal distribution of natural resource wealth across different clans can be a cause of instability, as those who are not favoured by nature are likely to object and provoke political instability, leading to economic instability. There is clearly a tendency for those blessed by nature to deny public goods to the rest of the body politic across ethnic borders, if only to yield sporadically, when under pressure. This may be one reason why it has been found in several empirical studies that the intermediate level of diversity, as measured by the ELF, leads to the worst case of political instability and, therefore, economic instability.

Terms-of-trade fluctuations are likely to be another major source of instability, especially affecting the commercially advantaged clans relative to those which are less advantaged. There is ample evidence that terms-of-trade fluctuations have very much affected growth in Sub-Saharan Africa. It would not require much additional research to show that, within particular countries, the more diverse the society, the more likely that terms-of-trade fluctuations will lead to fluctuations in development, including growth, poverty and income distribution outcomes, since they are bound to affect different groups differently. Exposure to terms-of-trade volatility indeed is 50 per cent higher in Sub-Saharan

Africa than in other developing countries, after controlling for differences in income per capita. Food insecurity, also unequally affecting different clans and currently on the rise, can similarly enhance economic volatility and therefore demands analysis.

In addition, terms-of-trade fluctuations are usually managed poorly by governments (Ranis 1991). During downturns a government typically tries to supplement demand via government budget deficits and monetary expansion, while, during upturns, it becomes very bullish and tries to further enhance growth by means of foreign borrowing and, once again, domestic expansionary fiscal and monetary policies. Such asymmetry over the cycle often ultimately leads to crisis, to the imposition of import restrictions, to devaluations, and to other sudden changes in overall policy, all in a system under duress, all of which has the effect of generating instability. Easterly *et al.* (1993) indicate that terms-of-trade shocks explain much of the growth fluctuation in Africa. Country characteristics matter of course, but policies matter less than the extent of externally caused volatility, affecting different groups differently. Internal policies may add to the problem. For example, export marketing boards, which are still prevalent in some countries, have erratic price-setting policies, often favouring the commercialised regions of a country and contributing to overall volatility. To reduce such boom-and-bust oscillations one needs a democracy with relatively strong checks and balances, as, for example, in the Botswana diamond case.

It can also be assumed that frequent political turnover and regime change, which has been an endemic feature of much of Sub-Saharan Africa, leads not only to political but also to economic instability. It should not be difficult to trace the number of coups, changes in government and even ministers of finance, as causal agents in this respect. Oscillation between a market orientation and a controls orientation in policy, which is often referred to as sub-optimal for development generally, can also be considered a likely cause of instability, especially if these decisions are the result of continuous bargaining between different ethnic groups and the central government. Power-sharing as a solution, via proportional representation, mutual veto and decentralisation (Lijphart 1977) has not been much in evidence in Africa.

Decentralisation may also be a cause for concern. If it takes the usual form of delegation or deconcentration, instead of true devolution to local bodies in the form of fiscal decentralisation, reliance on

the centre's funds for public goods is retained. This maintains power in the hands of those who control lives and is likely to lead to lobbying, continuous bargaining, uncertainty, conflict and economic fluctuations. As Kimenyi (2006) points out, ethnic heterogeneity leads to the under-provision of non-excludable public goods, but it favours excludable patronage goods. Resistance against this system from minorities risks higher instability, especially if combined with the central government's inequitable tax and other direct interventions in favour of the elite, permitting trust to fluctuate and decline over time. Of course, if clan population proportions change, especially in closely split polarised societies, another reason for volatility makes its appearance. The possibility of alternating roving and stationary bandit regimes is not at all unrealistic and is also relevant to the issue of instability.

Another source of instability results from the gradual shift in much of Sub-Saharan Africa from traditional communal land ownership, with virtually unlimited supplies of land, to private ownership and modern property rights, as land shortage, combined with population increase, leads to titling, insecurity and volatility.

Finally, agents of globalisation may well contribute to economic instability. Examples here include the following:

- (1) Remittances from abroad may be aggravating horizontal and vertical inequality because certain better-off ethnic communities are more able to adapt and migrate abroad.
- (2) Unequal development of private capital markets is also likely to have a differential impact on different ethnic groups.
- (3) It is no secret that foreign aid agencies often play favourites, supporting natural resource-rich regions or politically attractive clans from their own foreign policy points of view, thus exacerbating both horizontal and vertical inequalities and causing political as well as economic instability. More generally, multilateral financial institutions and bilateral aid agencies have not been sufficiently aware of or sensitive to the impact of the policies they advocate and the projects they implement on the provision of public goods to different communities, causing horizontal inequalities. Aid-funded projects are likely to induce rent-seeking, favour the affluent, weaken the social fabric and represent instability – creating political and economic shocks. Moreover donors are often driven to make abrupt changes in the priority they attach to different sectors or regions.

- (4) Non-governmental organisations (NGOs), which are increasingly numerous in quantity and influential in terms of resources, but weak in terms of cohesion and accountability, are also often found to be competing with each other and jockeying for favour among privileged ethnic groups, thus making a contribution to an increase in volatility.
- (5) Finally, it is generally acknowledged that global warming has been associated with an increased incidence of different kinds of natural disaster. As such exogenous shocks become more frequent they are prone to contribute increasingly to instability in Sub-Saharan Africa, customarily affecting the poorer groups as well as different ethnic groups disproportionately. Receding rangelands, a consequence of desertification, is threatening the livelihood of pastoralists. Drying rivers are reducing cultivatable lands. The frequency of tsunamis and the threat of rising ocean levels are increasing. Such shocks are sure to cause inter-community or ethnic conflicts, and to produce 'climate change refugees'. In other words, climate change will likely increase economic instability in the ethnically diverse countries of Africa.

Introduction to the book and some concluding thoughts

In the overview of the development economics literature presented above, I have tried to cite as many as possible of the known facts and conclusions that have come to my attention from research on the subject of the impact of diversity on growth. I have also presented best guesses, not yet based on the literature, of what causal links between diversity and instability might be worthy of future examination.

This book offers to move beyond the main findings of development economics, begins to broaden the scope and depth of analyses and elaborates new hypotheses. We will do so by generating a dialogue among economics, economic history, political science and anthropology.

In [Part I](#), we seek to gain a fuller understanding of ethnicity as it relates to the economy. John Lonsdale ([Chapter 1](#)) sees himself as providing the historian's contingent piece of grit in the economists' model oyster. Believing in the unpredictable interdependence of ethnicity and economy, and in the different implications of different markets (in land, labour, power, foodstuffs etc.), he rejects the utility of ELF, arguing that new vertical inequalities within intra-ethnic moral economies are as politically significant as new inter-ethnic horizontal

inequalities, and suggests that the modern reversal of Africa's factor values between land and labour needs to be at the centre of analysis. Brown and Langer, economists, then show that how diversity is best measured clearly depends on the empirical reality and the question being asked (Chapter 2). Surveys (e.g. Afro Barometer) have also revealed that while ethnicity is one of the important identities in most African countries, its relative prominence shifts over time, depending on political and economic circumstances (e.g. Chandra 2009). Bethwell Ogot, an African historian (Chapter 3), then argues that 'negative ethnicity', comprising ethnic characteristics that negatively affect politics and economy, is by no means a universal quality of ethnicity in Africa, and subsequently explains how it arose historically.

In Part II, we investigate whether ethnic diversity is indeed a causal factor of the poor economic performance of Africa. We offer three distinct perspectives from constitutionalism, political history and spatial economics. Yash Ghai, constitutional scholar, reviews the history and the current state of constitutionalism in Africa (Chapter 4). His review leads to a conclusion that true respect for constitutionalism has largely been absent in Africa because ethnic trust and allegiances allowed post-colonial elites to create nationhood where economy – and civil society – was subordinated by the state. Under such conditions, market economy has remained unable to function since independence. Bruce Berman, political scientist and historian (Chapter 5), argues that one must understand ethnicity and markets in historical context since there is no straightforward causal relationship between ethnicity and economic instability. One must analyse the impact of colonial and post-colonial states on the construction of markets and ethnic communities, including the horizontal inequalities between and the vertical inequalities within ethnic groups. More recently, neo-liberal structural adjustment policies have both undermined states and sharpened the economic inequalities and instabilities that have in turn exacerbated inter-ethnic conflicts.

On the other hand, armed with district level data of actual ethnic composition in Kenya, Nobuaki Hamaguchi, an economist (Chapter 6), finds that the existence of ethnically similar communities in proximity raises the per capita income of that district, which suggests that ethnic diversity could potentially be welfare enhancing due to gains from trade between ethnic communities with different economic strengths.

But because of territorial confinement, ethnic dissimilarity works like physical distance, and thus limits gains from trade to a cluster of ethnically similar communities.

In [Part III](#), we attempt to gain a more cohesive understanding of the relationship between ethnic diversity and stability, based on inferences from anthropology, quantitative analyses and economic experiments. Parker Shipton, an anthropologist, argues that territorial confinement of ethnic communities has exacerbated the pressures of a rapidly rising population, increasingly scarce land and eroding soil fertility, and has aggravated already severe economic hardship ([Chapter 7](#)). This has led ethnic communities to become even more inward-looking and to seek protection of their own interests, which further raises economic instability and uncertainty. Shipton's hypothesis is that the restriction of movement of Africans – imposed by the national borders of rich countries and harsh geography – is a major contributor to the territorial confinement.

Brown and Stewart ([Chapter 8](#)) model a number of relationships that may determine economic instability as I conjectured above. They find that ethnic diversity itself does not appear to be correlated with instability. Rather, it is the degree of inequality among ethnic groups (horizontal inequality) that is closely correlated with instability. To test whether ethnicity influences stability and the welfare quality of the market economy, Shimomura and Yamato ([Chapter 9](#)) conduct market experiments in which individuals belonging to two ethnic groups exchange two goods. The preferences of the people engaged in exchange and the distribution of the initial endowments are controlled in order to derive the pure effects of ethnicity. The experiments were conducted in Kenya. The results showed that trading between ethnic groups can stabilise markets and also bring about a more equitable outcome. However, more thorough experiments will have to be conducted before definitive conclusions can be derived.

Looking further ahead, it is suggested that careful attention be given to decentralisation, which may be stabilising if it is accompanied by fiscal devolution, but not if the centre retains the bulk of resources and is able to favour culturally aligned groups and those already favoured by nature at the local level. Thus, the best sequence seems to be economic reforms followed by both political and fiscal decentralisation. Comparative studies of constitutions and the extent of adherence to them are relevant. The role of foreign capital, especially foreign aid

and NGO flows – possibly, but not necessarily contributing to instability – must be examined.

The basic normative issue before us is how enhanced and non-volatile trust can be generated in the presence of diversity and how the related issue of sustainably encouraging the provision of national public goods can best be tackled. This is where economic historians, anthropologists, political scientists and development economists can most usefully apply their combined talents. As Platteau and Baland (1994), aptly put it ‘how generalized trust ... can be established ... is probably one of the most challenging questions confronting development scholars’.

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