MANAGING ECONOMIC CRISIS IN BOTSWANA:

A POLITICAL ECONOMY ANALYSIS

By

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In loving memory of my father: kindred spirit, mentor. Forever my hero.

And to my family:
My mother, whose iron will inspires me.
My sister, whose love is my beacon in raging storms.
And my brother, whose creativity feeds my soul.

All that is good in me, originates in you.

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ABSTRACT

There is a deep and broad literature in economics that attempts to understand why many countries mismanaged their economies in the early 1980s with inappropriate economic policies that perpetuated and in some cases worsened the state of affairs. This literature is unable to adequately explain why African nations have performed poorly compared to other regions of the world. Botswana is similar to other African nations in that it is dependent on the export of one natural resource (diamonds) and has a less than homogenous ethnic composition. It has, however, managed its economy prudently over the previous three decades and avoided excessive debt and balance of payments crisis. The case of Botswana in southern Africa, therefore, is a better model than the Asian Tigers to provide policy lessons for Africa.

This thesis identifies four factors that influenced Botswana's success. The most important factor, and the one from which all others flow, is the existence of a common economic interest that unites social divisions and is an export industry. The existence of this factor provides fertile ground for the other three, which are political stability; the existence of welfare programs that reduce the risk faced by households from natural or economic disaster; and the existence of incentives to consider non-elite interests thereby increasing the effectiveness and efficiency of welfare programs. The implications that can be drawn from these factors are two-fold. The first is for development action, which is to increase the connection between government and the populace in a way that binds social divisions. Promoting export industries that can involve the whole society in employment and ownership can accomplish this. The second implication is related to the endogenous growth literature. This study implies that the disproportionately stubborn growth problem in Africa could be modelled with proxies that attempt to measure the breadth and depth of the common interest among social divisions. Suggested measures may be an intra-distribution of wealth and an inter-distribution of industries within and between ethnic fragments in a society.

THESIS INTRODUCTION

It can be argued that the world economy experienced one of the most cataclysmic upheavals to date with the oil shocks of the 1970s. The ramifications of this economic shock are still with us today in the form of extreme debt burdens in the non-industrialized world. Economic scholars have attempted to understand why many countries mismanaged their economies in the early 1980s with inappropriate economic policies that perpetuated and in some cases worsened the state of affairs. There are countries that reacted well or managed to avoid an economic crisis altogether (e.g. the "Asian Tigers") and countries that mismanaged their economies (e.g. Nigeria). Scholars have re-modeled policy prescriptions based on an analysis of successful economies such as the Asian examples of Vietnam or Korea. The use of these countries as examples may be less than ideal in the context of countries with different economic resources or ethnic composition. The case of Botswana in southern Africa is one that is more typical of sub-Saharan Africa in that it is dependent on the export of one natural resource (diamonds) and has a less than homogenous ethnic composition unlike many Asian Tigers. Botswana has managed its economy prudently over the previous three decades and avoided excessive debt and balance of payments crisis, unlike many of its African neighbours. In this respect, it is a better source of policy prescription than the Asian Tigers, which have been used in the past.

This thesis will identify the most important factors in Botswana's successful management of economic crisis in the early 1980s and 1990s. These factors will enable us to draw implications for the rest of Africa and African-focussed economic growth literature. In order to establish the success factors in economic management in Botswana and draw implications for Africa, it is necessary to understand how the policy-making process works in both Botswana and other less developed countries. This thesis begins, therefore, with an enquiry into the literature surrounding policy-making in less developed countries. We begin in Chapter I with a summary of several case studies of adjustment programs in various countries and regions of the world. These studies show that a study of economic reforms in crisis should be divided into two operational steps. The first step is the decision to reform, initiation, and the second step is the implementation of reform. It is necessary to make this distinction as there are different forces originating in society and the state that attempt to influence these two steps.

The study of initiation is the most relevant to our purposes to determine how and why Botswana was willing and able to initiate appropriate economic reforms in crisis. There are three conclusions drawn from the case studies on conditions for successful economic reform. Appropriate economic reforms will be difficult to initiate if there is mass support for the status quo or if small groups with disproportionate influence, or political resources, support the status quo. Finally, reform is difficult if economic divisions in society fall along other social division, be they ethnic, religious, regional, etc. Embedded but autonomous governments who worked with the different groups in society to develop consensus and approval of reforms most often successful. The second section of Chapter I will describe the available political and economic theories of policy-making that are relevant to the conclusions drawn in the first section. The most descriptive theories of policy-making in Botswana and other less developed countries are theories that are society-centred, focussing on interest group influence on states of various strengths. This section reviews Marxism, Pluralism, Elitism, and Collective Choice.

The next step in our analysis is to describe the economy and society of Botswana. Chapter II provides background information that will be useful in understanding the motivations of the government and interest groups during economic crisis in influencing economic policy-making. We begin with an overview of the economy and its sectors. The most important sectors in Botswana are the export cattle industry and diamond mining. It is obvious from this analysis that the average Batswana is highly dependent on the cattle industry for income, employment, investment, and food. The government on the other hand is highly dependent on the diamond industry to fund recurrent and development expenditures. Economic trends are described, which show that Botswana has performed well over the past 30 years with steady, positive growth in income. Looking at changes in economic growth and government revenues identifies economic recessions. The second section in this chapter describes the political environment and social divisions in Botswana society. It is important to consider the structure of government institutions as well as the substance of the democratic process. Botswana is a fully functioning, multi-party democracy with a relatively independent media and justice system. The social divisions in Botswana are along demographic, language, tribal, economic, and ideological lines. The most important divisions for an understanding of the economic policy-making process are tribal, economic, and ideological. These groups are the most powerful in their direct and indirect influence on the political elite.

From the economic analysis in Chapter II, the recessions that were as a result of terms of trade shock are isolated. The goal of this chapter is to describe these terms of trade shocks, the impact they had on the Botswana economy, and the response of the government. This response will be assessed in relation to neo-liberal economic policy prescriptions as being appropriate in the circumstances. Both recessions were complicated by severe drought, which not only magnified the recession but also affected the public reaction to macroeconomic reform initiatives. It will be shown that the economic reform packages introduced in both the 1981 crisis and the 1989 crisis reflected conservative assessments of the depth and breadth of the crisis and that the government responded forcefully and appropriately in those circumstances.

The final chapter is really a synthesis of the previous chapters. The goal of Chapter IV is to determine how and why the government of Botswana was willing and able to initiate appropriate economic reforms in crisis. The chapter begins with an assessment of the support and opposition to reforms from various groups with varying levels of influence on the political elite. It is shown that the economic elite were in favour of the reforms and that the general population was opposed. Opposition to reforms was mitigated, however, by the existence of drought relief programs that supplemented incomes offsetting the negative effects of currency devaluations and wage freezes introduced in reform packages. The appropriateness of reform initiatives is a direct result of the character of the economic and political elite. The political elite is shown to be representative of a unified economic elite that draws its members from all social divisions in Botswana with a common interest of wealth maximization in the cattle industry through the use of capitalism. This broad-based character of the economic elite facilitates the existence of a democratic structure in Botswana and therefore gives voice to the non-elite opposition interests. The drought relief program is a direct result of this voice and was extremely beneficial in easing the initiation of economic reforms.

The final conclusion of this thesis draws from the conclusions of Chapter IV and identifies the factors essential to Botswana's successful management of economic crisis. There are four factors that influenced the Botswana's success. The most important is the first from which all others flow. First is the existence of a common economic interest that unites social divisions and is an export industry. The existence of this factor provides fertile ground for the other three factors, which are political stability; the existence of welfare programs that reduce the risk faced by households from natural or economic disaster; and the existence of incentives to consider non-elite interests thereby increasing the effectiveness and efficiency of welfare programs. The implications that can be drawn from these factors are two-fold. The first is for development action, which is to increase the connection between government and the populace in a way that binds social divisions. Promoting export industries that can involve the whole society in employment and ownership can accomplish this. The second implication is related to the endogenous growth literature. This study implies that the disproportionately stubborn growth problem in Africa would be modelled with proxies that attempt to measure the breadth and depth of the common interest among social divisions. Suggested measures may be an intra-distribution of wealth and an inter-distribution of industries of ethnic fragments in a society.

CHAPTER I

Introduction

This chapter represents an enquiry into the various theories that describe the governmental policy-making process. The literature on policy-making is deep and broad, having been the subject of philosophers, political scientists, sociologists, and economists since the beginning of the formation of government for that very purpose. This chapter is divided into two parts: a summary of case studies of structural adjustment programs in less developed countries and a description of the relevant theoretical literature on policy-making drawn from the case studies. The chapter begins with important definitions of politics and the method and means of influence on policy-making through the ownership of political resources. For this purpose, we refer to the writing of Robert Dahl, who is considered to be one of the foremost thinkers on politics and power. There are several case studies of less developed countries that are reviewed in the next section of the chapter in order to draw conclusions on which policy-making theories are relevant to the less developed country context.

The chapter then goes on to broadly describe the two main bodies of literature on policy-making that stem from political sociology and political economics with the presentation of a synthesized schematic of the policy-making process. The final section is detailed overview of the relevant theories. In this section, the two main bodies of literature have been consolidated and categorized into society-centred and state-centred theories to reflect the two types of interests that influence the policy-making process.

This discussion considers the theories of Marxism, Corporatism, Pluralism, Collective Choice, and Elitism.

Defining politics

The eminent political sociologist, Robert Dahl (1984), has defined a political system as "...any persistent pattern of human relationships that involves, to a significant extent, control, influence, power, or authority" (p.10). Dahl meant to create a broad definition of a political system, which would include relationships outside of the traditional government sphere of influence. Our study confines itself to the government political system and the actors directly or indirectly involved in the policy-making process. An actor is a decision-maker or a person with an interest in a policy issue that may actively seek to influence the decision-making process, by using political resources to interact with decision-makers and influence the outcome of the policy decision. An actor may also indirectly influence the decision-making process by means of their status (i.e. constituent).

Based on the ideas of Robert Dahl, the following sub-sections will provide a definition of political power and explain why the distribution of power varies between actors. These concepts will become important in chapter three where we apply and assess these ideas against a real-life scenario in Botswana. The section will move forward to identify and briefly explain the history of two streams of thought describing policy-making: political sociology and political economy. Finally, a schematic of the policy-making process will be introduced which combines the influences of these two streams of thought and is briefly analysed for potential weaknesses to be explored in Chapter three in discussion of Botswana.

Political resources and influence

Dahl (1984) describes political influence or power as a relation between actors such that one actor's preferences affect another's actions or predispositions. The means by which an interested actor may exert influence is through the use of political resources. Political resources are anything that can be used to sway the specific choices or the strategies of another individual. In addition to financial resources, this includes social esteem, control over information, charisma, the rights pertaining to public office, religious/ethnic status, suffrage, education, and even energy level. Influence may be explicit, whereby an actor uses various methods of obtaining their desired outcome. An explicit method of influence may take the form of persuasion. Persuasion can be rational (persuasion using truthful information), manipulative (persuasion through deception), an inducement (rewarding), the use of power (sanctions for non-compliance), coercion (sinister use of power), or physical force. A second explicit method of influence is trained control in which a decision-maker has been conditioned to act in the interests of the group by means of persuasion and inducements in the past. The third method is where an actor may seek to influence a decision-maker by unilateral or reciprocal control.

Reciprocal control is a method whereby each actor modifies their behaviour in exchange for the offers or promises of the other. Influence may also be implicit, which means that an actor will modify their behaviour based on the anticipated desires of another.

Distribution of political influence

Most political systems are characterized by an inequality in the distribution of political influence. Dahl (1984) describes three factors responsible for this inequality. The first factor is the difference in the endowments of political resources. If political resources are such things as education, social standing, and financial resources, there will inevitably be individuals born into more heavily endowed circumstances than others. This in turn will affect the second reason for inequality in influence, which is the variation in the skill or efficiency in which political resources are used. Individuals are given opportunities throughout their lives to learn how to effectively use political resources. The quantity and quality of those opportunities and learning experiences may be directly related to the cause of the endowment differences in the beginning. The third factor is the extent to which political resources are used to influence political decision-making. This factor may be influenced by the first two factors, endowments and experiences, and refers to an individual's distributional decisions, to use resources for achieving political ends.

Less Developed Country Context

In the early 1980s, many less-developed countries faced severe economic crisis. The crisis came about, broadly speaking, as a result of an economic recession in the developed world and commodity price fluctuations combined with heavy debt burdens accumulated during the previous decade. In the beginning, the crisis was treated as a temporary problem. Countries facing macroeconomic crisis sought emergency relief funds from the IMF to stabilize their economies until the world recession abated. After nearly a decade of stabilization measures, it became painfully obvious that the crisis was not abating and less-developed countries were still facing severe balance of payments and inflationary problems, even after the state of the world market had improved markedly.

The question on the mind of every scholar of macroeconomic theory at the beginning of the 1990s was: *Why did reform in less-developed countries not occur in a timely and efficient manner?* It is believed by the IMF and other international financial institutions that the normative policy prescriptions for the ailments of national economies should not be culturally or development-dependent. If these prescriptions work for a variety of culturally distinct developed nations, academics see no reason why they shouldn't work for less-developed countries as well. Eminent scholars in the field of development economics have researched a number of less-developed country case studies of the reform process ex post[1]. The countries in the case studies vary in regional location, level of development, political regime type, international affiliation, and political system characteristics. Stephen Haggard, a political scientist, and Robert Kaufman, an economist, published a summary of the findings of these case studies in *The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State*. The main conclusion made by Haggard and Kaufman is that reform, when it finally occurred, was best initiated and consolidated by embedded but autonomous states with cohesive bureaucracies. An embedded state is one in which policies and activities are, to some degree, legitimized by the populace. Legitimization can range from active participation to electoral consent of the platform. This must, however, be balanced by a certain degree of autonomy in pursuit of an economic reform program. We will briefly summarise the findings of the case studies, using Haggard and Kaufman's work, for the purpose of determining which policy-making theories are most appropriate for the less developed country context.

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[1] For some notable examples, see Paul Mosley, Jane Haffigan, and John Toye, *Aid and Power: The World Bank and Policy-Based Lending in the 1980s* (London: Routeledge, 1991), John W. Thomas and Merilee S. Grindle, *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries* (Baltimore: John Hopkins University Press, 1991), Jeffrey D. Sachs, ed., *Developing Country Debt and the World Economy* (Chicago: University of Chicago Press, 1989), Jeffrey D. Sachs and Susan M. Collins, eds., *Developing Country Debt and Economic Performance*, vol. 2 & 3, (Chicago: University of Chicago Press, 1989), Lance Taylor, *Varieties of Stabilisation Experience: Towards Sensible Macroeconomics in the Third World* (Oxford: Clarendon Press, 1988), and many others.

Theory and evidence of social influence on policy reform

The conclusion made by Haggard and Kaufman, in summarising the findings from the case studies, focussed on the impetus for policy reform initiation. We will assess the society-based political influence on policy-making from the case studies and identify the relevant theory behind this evidence to make an assessment of the implications of society's impact on the policy-making process. This analysis will consider the theoretical implications of the problem of collective action for interest group formation, evidence of the nature of interest groups, the lack of interest group influence on reform initiation, evidence of the impact of the electoral process on the timing and substance of reform, and evidence of corporatist coalition-building in an attempt to gain consensus.

Collective action problem

The problem of collective action is especially relevant for conceptualising the less developed country context. The problem is that a group with a similar interest that is large and widely dispersed will have difficulty organizing itself into a coherent body, able to exert influence over the policy-making process. In many less developed countries, the policies that contribute to economic instability traditionally favour the urban elite and discriminate against the rural poor. This discrimination in turn affects the political resources available to influence the agenda-setting and decision-making process. In a case study of 13 countries and 19 governments, Joan Nelson (1990) finds that the rural poor, who were usually a majority in the case studies, had much to gain from economic reforms, however this rarely translated into political support for reforms. If there was an elite land-owner class, they were usually benefiting from the status quo through subsidies and beneficial taxes, and therefore, did not politically support reforms. Nelson argues that this problem of collective action is magnified in less-developed countries due to highly unequal distribution of political resources. It would follow that the magnitude of the inequality implies that it is less likely that unorganized groups will be considered in the decision-making process.

Composition of interest groups

Interest groups form around a variety of different issues in the less-developed country case studies. Labour groups, mainly urban based, have varying levels of power and influence and tend to be fragmented on an elite/mass basis. Producer and business groups, for the most part, are slightly more fragmented than labour groups, and are split based on an export/import or a liquid/fixed capital basis. Groups also form on the basis of ethnic, religious, and regional divisions. To the extent that the division of these groups coincides with economic cleavages, economic decision-making can be very difficult. If political parties form along economic and class cleavages, then the government, in reforming policy, has no choice but to appeal to groups that draw their membership from more populous distributive interests. Parties that cut across class and sectoral cleavages, where the voice of opposition to reform is muted by the ruling elite in the party, find that reform initiatives are more easily initiated. The type of regime, authoritarian or democratic, may influence the ease of initiation in that only populous interest groups have much influence in authoritarian regimes due to the suppression of government opposition. The case study conclusions were explicit in stating that regime type had no influence on the initiation of policy reform, due mainly to the fact that democratic governments were so varied in their response to economic crisis and, therefore, regime type could not be singled out as a factor of strong influence.

Influence of interest groups

Surprisingly, labour and business groups had very little influence on policy reform initiation in and of themselves (Bates and Krueger, 1993). Bates and Krueger studied eight countries and found that interest groups became powerful only after their claims were taken up by other more populous interest groups. On its own, business tended to be "ineffectual (as in Turkey and Zambia), often fragmented (as in Ghana, Ecuador, or Brazil), or quiescent (as in Chile)." Labour was "compliant (as in Ghana); peripheral (as in Zambia); or repressed (as in Chile or Korea)" (p. 455). Governments were able to negotiate or force reforms with individual interest groups by forming corporatist-style coalitions. Combined interest groups often overwhelmed governments and slowed or even stopped reforms (Nelson, 1990). For example, organized and unorganized labour consume the same private goods and are both users of public goods.

People in the economy can share interests through the exchange of goods and, therefore, will see it to be in their common interest to organize temporarily to fight reform or to ask for it. The power of the populace was observed through these combinations of interest groups and the electoral process.

The case studies were explicit in stating that none of the countries studied had corporatist groups that resembled those described in corporatist theory (to be discussed later in this chapter). That is to say that there were no peak organisations representing the interests of various groups, negotiating with the government. What is interesting, however, is that most successful policy reforms were ones in which the government obtained approval from interest groups by purposely building corporatist relationships with which to discuss reform and build consensus. Bates and Krueger (1993) describe why the corporatist model works well for policy reform:

> In a corporatist system,...[t]he process of bargaining may be facilitated and superintended by national politicians; in many cases, the leaders of the national associations are themselves brought into government. When labour and industry, to illustrate, form peak associations and join the central government, it is argued, then each gains the ability to make concessions knowing that it can monitor the response of the other and use governmental power to penalise the other should it renege on bargains. Possessing the capacity to credibly threaten punishments to those who renege on bargaining, groups possess the resources needed to make them willing to initiate concessions. This structure of interest-group representation, it is argued, thus empowers political elites to secure adjustments in economic policies (p. 460).

Following in the logic of Olson, interest groups become more rigid and structured over time. This phenomenon was observed in the case studies. The reaction by governments was to actively form coalitions, bring them into government, and, behind closed doors, break the stalemates.

A recurring factor in the timing of policy reform is the electoral process (Bates and Krueger, 1993). In almost all case studies, programs of policy reform occurred in countries that had just experienced a change in government either by the electoral process or by force. When governments approached elections, monetary and fiscal policies were loosened and interest groups had the power to dictate terms for reform. This was an expected outcome given the self-interested assumption that politicians' primary motivation is to stay in power. After elections, the government normally made use of a "honeymoon" period, when opposition was weak and interest groups had less influence due to the distance to the next election. As well, a change in government usually freed decision-makers from the previous government's interest group obligations.

The electoral process and environment also influence the policy choices of leaders (Bates and Krueger, 1993). In Ecuador, for example, presidents cannot seek a successive term and therefore were much more willing to introduce unpopular policy reform that followed ideological formulations. If the legislative branch may be re-elected, their political motivation will differ from the president. Depending on which institution has control over economic policy-making, the reform process will be affected by these different motivations. Additionally, the political environment plays an important role in forming the preferences of the political elites. If the political arena consists of many parties holding narrow bands of interest in the political spectrum, as in Ecuador, then the ruling party does not have much room to manoeuvre in policy-making before it can expect opposition from its own supporters. If the political environment consists of a small number of polarized political parties, as in Chile, then the ruling party has more room to manoeuvre before its own supporters cry foul.

Theory and evidence of state-centred influence on policy reform

The consensus is that for reform to be timely and have a broad scope, governments should have an autonomous central executive with broad support. For the most part, successful reform programs occurred after a change in government, and the new government often attempted to create the necessary autonomy by strengthening the power of the executive in relation to the legislature, empowering technocrats in the policy-making process, and embedding technocrats in the political arena. The following is a summary of the theory and evidence from the case studies supporting this view.

Strengthening the executive

In many country cases, pre-crisis economic policy-making was in the domain of representative institutions. After changes in government, there was predominantly a shift in control over the policy-making process to the executive branch of government (Bates and Krueger, 1993). Control over financial institutions was an essential factor in the successful implementation of policy reform initiatives. If control was not obtained, reform was subjected to status quo interest group influences and reforms were neither consistent nor stable. Financial institutions were usually in the hands of (or 'captured' by) powerful interest groups prior to government restructuring initiatives. The strengthening of the executive office flies in the face of the conventional wisdom of the time, that the economy needed less government influence.

Empowering technocrats

The reform process usually began after changes in government (Nelson, 1990). Reforms were introduced by groups, which had organized sufficiently to capture enough power, and took control of the government to implement change. As discussed above, moves were made to strengthen the executive office of the government. In addition, the financial policy-making function was restructured to make it more autonomous and cohesive. Technocrats, who reported directly to an executive body, or usually the president, controlled the majority of successful reform programs. Superficially, therefore, it appears that the key to choosing good policy is to have plutonic technocrats, mainly academics with no political following, making the decisions or at least having a highly influential role in the process. One must go beyond this observation, however, and look at the causal factors empowering technocrats to make policy. There are two ways identified by Bates and Krueger (1993) in which technocrats gain control over the process. The first is a deliberate devolution of this power in an attempt to avoid the distributive politics former politicians fell into in the past. The second is a process that institutionalises the policy-making process to solidify and isolate the triumphant interests.

Distributive politics is a common game played by most politicians around the world. Politicians want to attain or remain in power and reward their supporters using their power to reward the constituents that helped them in this endeavour. This practice is individually efficient; however, collectively, it can result in economic and political crisis. New governments recognise the long-run futility of this process when they are in opposition to the government, and therefore they devolve control over policy-making to technocrats, within their office, when they are in power. This can be difficult to accomplish politically, however, even for a new government. Nelson (1990) concluded that it is at this point that third party institutions such as the IMF and the World Bank have been effective in restructuring initiatives. This holds robustly true, however, only for intermediately strong states that are politically divided but possess strong technocratic skills and capabilities. Strong states usually have their own vision and will challenge the authority of international financial institutions; weak states possess no capability to plan broad policy reform or to overcome divisive politics.

The second process whereby technocrats are given control over the policy-making process is through the institutionalization of the financial policy-making process. The government that has newly taken power seeks to isolate the policy-making process in order to entrench their interests in the policy-making process. The truly successful reform programs encouraged the politicization of technocrats to seek support for policy programs from the triumphant interest groups and dialogue on a regular basis with corporatist groups. In this way, the political elite keeps abreast of what technocrats are doing. If policy is not pleasing the interests of powerful groups, the political elite will hear of it and in this way can get the policy-making back on track. This restructuring effectively establishes ex ante controls of building loyalty and ensuring popular participation.

Other consequences of strengthening the state

In addition, the institutionalization of policy reform programs facilitates a necessary condition for investment. Investment is necessary in order to get an economy back on its feet and entrench the policy reform program. However, business interests require stability and certainty in policy initiatives in order to invest. If the likelihood of policy reversal is high, investment will be slow or non-existent. The technocratic control over policy-making with the blessing of politicians provides the stability of policy choice conducive to investment. It is necessary to mention that the cohesiveness within the economic policy-making group impacts the timing and scope of reform initiatives. If there exist multiple divisions within the policy-making group, reforms are often piecemeal, short- and medium-term oriented only, and often delayed.

Theoretical directions

The case studies described in the above analysis leads one to consider both society- and state-based theories of policy-making. The theories that are relevant are the Pluralism and Collective Choice are both theories that accurately describe the collective action problem prevalent in less developed countries as well as the interest group formation and composition observed. The concept of political resources will be reviewed to understand how groups have and use their influence. The theory of Corporatism is relevant for the findings on government consensus building and politicization of the bureaucracy. Finally, the theory of Elitism will be discussed for its ability to describe the need for autonomy and strength of the state for successful reform initiation.

The literature on politics and power

There have been two major schools of thought contributing to a discussion of politics and power of decision-makers. The first and oldest group is the political sociologist school, which focusses on behavioural and structural institutional models of politics. The second school is the political economists, focussed on applying basic principles of economics to politics. An essential concept in political sociology is that human actions are the result of individual preferences, and these preferences are influenced by political cultures (values and beliefs) and ideologies. Sociologists and political scientists choose to focus on the social influences and constraints on individual choice (Udehn, 1996). A distinct concern is with the study of group-interest (as distinct from individual self-interest). This study manifested plurality and class-based forms of political theory, as it was recognised that power lay outside the legislatures with interest groups and the state apparatus. With the rise of Fascism and Totalitarianism, political sociology expanded to include Elitism and Corporatism to explain modern democratic policy-making. In contrast, in the second half of the 20th century, political economy took up the analysis of politics, which began by applying the assumption of rationality as the basis for individual preferences.

The policy formation process

Economic policy and policy in general are formed by the influence of various forces such as government, political opposition, bureaucracy, interest groups, media, voters, and international politics and economy (Van Winden, 1988). From within the policy-making process, there are two sources of power. The first is the power to make decisions and the second is the power to set an agenda of issues to be and not to be considered (Bachrach & Baratz, 1963). When combining all sources of power based on the definitions and streams of thought described above, a schematic of the policy-making process can be drawn. The schematic below was taken from Meier (1991) and adapted by the author to show the influence of both political sociology and political economic theories:

As can be seen in Figure 1, decisions flow from the policy-maker and there are many possibilities for influence within the process. Most academics agree that the forces of influence can come from within the state or from society. This schematic comes from the current literature in political economy; however, it makes assumptions that are questionable and deserve further analysis. The first noticeable assumption is that the economist is a technocrat (apolitical academic) and is isolated from society and state-centred forces. We will see in the second part of this chapter, through our review of less-developed country experiences, that this is in fact not the case. It is important to note that economic policy prescriptions themselves are not above political influence, however, this concept is beyond the scope of this paper. Second, in this schematic, there is an assumption that societal and state forces are equal in their impact on the policy choice and implementation stages of the policy-making process. This assumption will be questioned and shown to be inaccurate in an analysis of Botswana in Chapter IV. Third, this schematic points to a fundamental shortcoming in much economic policy reform literature. In the schematic, policy choice and implementation are two separate stages of the policy-making process, and are therefore, subject to different forces of influence. Very often economic policy reform literature lumps these two steps together. This is an important distinction to make in understanding why countries have mismanaged their economies and in prescribing management techniques to combat problems. The second part of this chapter identifies the different forces commonly impacting these two steps in the policy-making process and leads us to focus our discussion on the initiation of policy reform or the policy choice step as shown in the above schematic. Fourth and finally, the schematic does not show the possibility of influence from the decision-makers onto society and the state.

Theories of Policy-Making

It has been established in the previous section that power stems from the ownership of political resources, which are distributed to people and groups in society. It is also possible that parties outside the domestic sphere may hold political influence. The following section will summarize many of the theories that have relevance for an understanding of the economic policy-making process in less developed countries. These theories were either developed distinctly for this purpose or, as in the case of the voluminous theory of Marxism, speak to this topic within its own broader purpose. I have chosen not to discuss theories of international influence on domestic policy-making, except to refer to the possible existence of this influence. In the context of economic policy-making in crisis, the policy prescriptions themselves are an ideology, for the most part, imposed on less-developed countries through international institutions of finance. The economic crisis itself can be seen as impetus enough for the consideration of reform and to make it desirable, and therefore, the influence of international forces in crisis is minimized. As we shall see in a review of less developed country case studies, the initiation of policy reform is significantly dependent on internal social and state forces.

Society-centred theories

Society-centred theories of policy-making consider the agenda-building step as an input to the policy-making process, which is performed by society. Information processing and analysis, decision-making, and implementation of policy are performed by the state. Both political scientists and political economists have society-centred theories on how policy is made. The two main theories are Pluralism (and its economic version, Collective Choice) and Marxism.

Marxism

In his commentary on capitalism and the societies that maintain them, Marx observed that these societies were characterised by class conflict. The state arises, in Marxist thought, as a mediator between classes who are in conflict over power, and is essentially an instrument of capitalism. The state has two main priorities, the first being to create the technical requirements necessary for the smooth running of the economy and second, to provide the ideological environment required for the acceptance of capitalist domination (Udehn, 1996). To exploit the working class, the dominant class, under the principles of capitalism, uses the government. It "is a committee for managing the common affairs of the whole bourgeoisie"[2] The government, in Marxist thought, has little autonomy in the policy-making process and plays a mediator role between fragmented advantaged groups. It is assumed that these fragmented groups are the producers in the society. Marxism also assumes that the state serves capitalism above all else, which is a reflection of the interest of the ruling class.

Neo-Marxist theory takes this idea a step further and declares that the state is really the guardian of the public interest, and is the instrument of hegemonic forces through the use of ideology (Poulantzas, 1978). The state, according to neo-Marxists, can have some autonomy at times when fragmented class conflict results in no coalition of the dominant class, or when economic crisis occurs. The state will autonomously intervene to preserve the dominant class ideology on behalf of the public interest. A leading voice of the Frankfurt school of German critical theory, Jurgen Habermas, presents a strand of neo-Marxist thought dictating that the state is forced to intervene autonomously in the market, on behalf of the public interest, due to the market's inherently unstable nature and negative externalities (Udehn, 1996). The state, in this case, must constantly balance its desire to let the mechanisms of the market work on their own with the need to remedy its failures. This interference can result in costs to society such as inflation and budget deficits. The important idea to embrace from Marxist literature is that the state is the instrument of capitalism or the hegemonic ideology of the

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[2] Marx and Engels, 1848/1967 as quoted in Udehn, 1996, p. 49.

time, and will intervene only to preserve the conditions necessary for maximum efficiency.

Corporatism

Corporatism as a theory existing today began in the early 1970s but can trace its roots back to the rise of fascism in Europe. There are two main perspectives in the corporatist literature, a state-centred and a society-centred approach. The state-centred approach to corporatism was pioneered by Gerhard Lehmbruch (1979). Lehmbruch saw corporatism as a theory of policy formation, whereby the state licenses the organisation of interest groups into a peak organisation. The peak organisation is then brought into government to input into the policy-making process. This group has what Lehmbruch referred to as a representational monopoly, having literally one foot in the state and one foot in the private sector. In this strand, the state has the power to form and disband the peak organisation and uses it only as an instrument in the policy-making process. This strand of corporatist theory is particulary relevant for the less-developed country context.

Philippe C. Schmitter (1979) became highly influential in the society-centred strand of corporatist literature. In this strand interest groups themselves form peak organisations in order to negotiate with government for rents. In simple economies, individuals or producers may have privileged access to government through kin or overlap of the public and private spheres. As economies become more complicated and diverse, the state becomes separated from the private sector and formal structures are designed to gain access. In this form, corporatism is a form of pluralist democracy, where interest groups influence policy-making through creating a structure so powerful that the state must bring them into the government.

The corporatist relationship has been labelled "tripartite" by Marxists (Udehn, 1996). This describes the state, capital, and labour as the three actors involved in the government's attempt to manage class conflict. Regardless of the motivation, partnerships are formed between peak organisations and compromises are made. This type of political manoeuvring must, by its nature, be unstable. Compromise may be found between capital and labour; however, there are many issues on which they differ. As well, the peak organisations represented fragmented interest groups that may have common and uncommon interests. Power is constantly shifting between interest groups and between labour and capital on the whole, which would make the relationships and therefore corporatist forms of organisation short-term and unstable.

Pluralism

Pluralist theory has been developed out of observations of the democratic tradition where interest groups compete, bargain, and form coalitions with each other for resources distributed by the state. In this theory, many small interest groups, formed on the basis of economic, ethnic, religious, and ideological similarities, dominate society and the governing process (Easton [1967], Smith [1976], and Eckstein [1960]). The policy-making agenda is initiated and determined by the interest groups, with the state having very little autonomy in the decision-making process. Policy is formed through coalition and compromise among interest groups over appropriate policy choices. In the original form of the theory, interest groups all have equal access to the state and, therefore, policy is the sum of equal forces of input. The state is a reflection of the pressures exerted on it, which may include groups, the electorate, the bureaucracy, the party, and the international community.

Classical pluralism

Classical theorists recognise that it is possible for some interest groups to be advantaged over others. The degree to which groups have access to political resources and play by the rules of the game will determine their relative influence on the policy-making process (Truman, 1951). There are some mitigating factors on the influence of asymmetrical resource ownership by interest groups, which can be classified as external and internal to government. External factors are the formation of countervailing groups within a policy issue and the influence of unorganised groups. In most policy issues, a countervailing group will form in opposition to an existing interest group. Both groups will attempt to influence the policy outcome from the government and in this way the power of an interest group is mitigated and power concentration is avoided. There may exist scenarios in which, due to the problem of collective action, an interest group does not form to oppose the demands of another group. Classical pluralists argue that the political elite takes unorganised groups into consideration in satisfying their personal interest of re-election.

An internal factor that mitigates the concentration of power is the structure of government itself (Eckstein, 1960). In a democracy, most policy issues are discussed in cabinet or in the legislature where different departments, parties, and groups can provide input as to the effect on other interests of a particular policy. In this way, interests outside the relationship between a powerful interest group and the government are heard in the decision-making process. Two other factors are the variety of resources available to groups and the fragmentation of powerful interest groups. Resources can be money, votes, charisma, ethnic/family/crony ties, etc. Therefore, groups without money may still be effective in influencing policy by using other resources, which mitigates the concentration of power in the hands of the rich. Finally, one cannot assume that an interest group is monolithic and united in its pursuit of policy influence. Often, the fragmentation that exists in interest groups, especially business, will prevent them from exerting too powerful an influence on the policy-making process. For example, traded and non-traded, export and import industries will have differing opinions on the outcome of policy and will often not speak with one voice, thus mitigating the concentration of power.

Subsequent theorists have questioned the influence that unorganised interests, cabinet ministers, and the legislative process have on policy-making.[3] The likelihood that one issue will sway an election is very small and this group is highly fragmented with divisive opinions. Practically speaking, it is highly unlikely that cabinet or legislative input will result in influence on policy when ministers may not have the time to fully brief themselves on issues, or the majority government can push bills through without taking opposition interests into consideration. There are some problems with the classical pluralist theory. The theory ignores the organisation of the state and its interests and it makes no concession for the role of ideology in the policy-making process. The theory also does not recognise that some groups are denied access to the process and it fails to identify the influence of unobserved power or power without any action by an interest group.

Reformed pluralism

In a highly influential addition to the pluralist literature, Richardson and Jordan (1979) challenged the classical pluralist hegemony in *Governing Under Pressure*, where they explain that the policy-making arena is rarely perfectly competitive. The oligopolistic, and sometimes monopolistic, nature of the relationship between government and interest groups creates something they refer to as policy communities. These communities are institutional relationships between government and interest groups. The characteristic of these relationships can range anywhere from fully corporatist to fully networked or pluralist. A community develops its own rules and beliefs on the alternative policy choices available. In this way, it may limit access to

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[3] This summary has been taken from Smith (1990).

interested groups without a conscious decision to do so. The result for government is that the policy-making process is stable and limits the costs and difficulties associated with increasing the groups' inputting on decisions.

Richardson and Jordan, while making an important addition to the pluralist literature, undermined their own argument in a couple of ways (Smith, 1990). First, they stated that the complexity of the political arena makes the system tend towards pluralist networks in policy communities. Second, they stated that even the most closed communities have countervailing groups existing within them. This strain of literature fails to recognise that the presence of countervailing groups within the process does not mean that these groups also have influence. As well, this strand of pluralist literature has still not addressed the influence of ideology and the structure of relationships has been ignored.

Neo-pluralism

About the same time as pluralist literature was feeling the impact of the ideas of Richardson and Jordan, a much more cynical view of the influence of business was introduced. Lindblom (1977) postulated that business has a much more privileged status in the policy-making process than previously understood. He based this conclusion on the observation that government needs the economy to be successful and therefore will make a decision in favour of business without any action by the group. Lindblom argues that countervailing powers do not mitigate adequately the concentration of the power of business. This idea also allows ideology to enter pluralist theory. This strand of literature recognises that groups can have unobservable power, which is created through the organisation of society. Power is unobservable when it does not require action and it can influence the composition of the agenda. In this sense, issues that directly threaten the interests of business can be left off the agenda.

Smith (1990) levels criticisms of this strand of pluralist literature in that it does not explain how business exercises its veto. Nor does it explain the rise of trade unions or public interest groups, which are able to obtain policies that directly oppose business interests. Lindbolm does not address the dependence of business on government to protect property rights, regulate industry, manage the economy, and arbitrate internationally. Furthermore, Lindblom fails to identify the form of organisation that allows this power structure to operate, which is necessary in order to explain differences in policies between nations with similar interest group privileges. Finally, neither neo-pluralism nor reformed pluralism addresses the influence of politicians, bureaucrats, and the military on the government/interest group relationship or the policy-making process.

Collective choice

Political economists began by applying a methodology of individualism to the study of political behaviour. As one of the major concepts in normative economics, methodological individualism states that the individual is the cornerstone of any analysis of human behaviour[4]. An individual has certain objectives and preferences that are characterised as self-interested. In any situation, individuals will therefore choose to maximise self-interest, which is based on their own prioritised preferences. One can predict aggregate behaviour based on the assumption of individual self-interest and the constraints imposed by institutions of the state.

Collective behaviour

One problem of the system model in the policy-making process described above is that it assumes a single, central decision-maker and ignores the political bargaining process involved in the democratic policy-making process (Arrow, 1963). Attempts to address this inadequacy have spawned a body of literature referred to as Public Choice theory in economics, which uses the principles of collective behaviour as its foundation. The Collective Choice literature has been discussed in one form or another, in politics and economics, by such classic thinkers as Karl Marx and Adam Smith to the modern day with Mancur Olson and Gordon Tullock.

In the tradition of pluralist thought, political economists considered the question of the influence of interest groups on the state. Scholars challenged the idea that interest groups were of equal force and that policy decisions would be efficient. One of the leading theorists in the analysis of collective economic behaviour is Mancur Olson, with his groundbreaking text, *The Logic of Collective Action*. He posited the idea that

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[4] This definition is taken from Mueller, 1997.

collective action takes the form of a number of advantaged small groups engaged in competition for privileges and income transfers. This logic can be demonstrated by showing that the benefits that arise from collective action, when dispersed among a small number, will outweigh the costs of involvement to each individual aligned with the coalition. Therefore, interests that attract only a small number of people (i.e. producers) are much more likely to form a coalition. A larger interest group (i.e. consumers) will likely fall prey to a "free-rider" problem where it is individually costly to take action for collective benefits that are spread thinly over the large group.

The natural progression of Olson's argument is that competition among small groups will lead to rent-seeking activity and deadweight welfare losses in the economy, impinging on economic growth (Tullock, 1967). The term "rent-seeking" refers to payments of resources, the opportunity cost of which is productive output in the economy, to obtain privileges and transfers as taxes, subsidies, tariffs, quotas, etc. Economic policy in this theory is therefore driven by interest groups (Magee, 1997). Politicians will be motivated to maximise votes and will meet the demand for transfers and privileges to the point that it maximises electoral support. Public choice theory, therefore, dictates that after applying the principle of methodological individualism to politics, the findings of collective choice state that political efficiency will result in economic inefficiency. Public policies will be based on what politicians require for political stability and re-election rather than what the principles of economic theory would dictate. A further discussion of how the motivations of politicians affect policy-making is below in concepts of state-centred politics.

State-centred theories

There are two main actors, politicians and the bureaucracy, that are the focus of state-centred theories of political power and policy-making. Both groups of actors are highly correlated with one another, so there is much overlap in the theories. The relationship between the government and bureaucracy is one of power. Government usually has hierarchical control over the bureaucracy but the bureaucracy has control over information. This relationship defines the interaction.

Elitism

Alexis de Tocqueville wrote about elitism in the early 1800's in reference to democracy in the United States. He described a danger that was arising as society changed and began to lose its traditional social associations. He saw the potential for a totalitarian state when the only relationship in society was between the individual and the state. The totalitarian state would be composed of the elites and act like a parent towards the masses, but without the motivation to see the child grow and evolve into adulthood. He saw this as avoidable, given the richness of societal organisations in the United States and a preponderance towards voluntary organisation (Tocqueville, 1835). Elitism arose again in post-WWII American society when, in 1956, C. Wright Mills wrote a controversial book entitled *The Power Elite*. He postulated that power in the United States was concentrated in the hands of a number of economic, military, and political elite. He saw society as a mass of apathetic and irresponsible people, who are easily manipulated by the elites.

The classical elitism of de Tocqueville arose out of early theories of democracy and the conservative aristocratic view of equality of the masses. The classical elitist believed that elites were necessary due to human nature and the nature of organisation in society.[5] Organisation, by definition, requires that there exist the rulers and the ruled. Vilfredo Pareto (1901) used a psychological approach to show how human nature requires that there will always be an elite. He defined residuals (individual motivations for attaining power) and derivations (ideologies) as being something innate in human beings, driving the quest for power and the means to attain it. The masses, in this line of thinking, are something to be feared and should be limited in their freedom to use constituent power, as they will only act irresponsibly. These scholars are therefore against democracy and socialism. Elitism applied to policy decision-making would dictate that the political elite makes all policy decisions based on its own preferences and without regard to the interests of groups outside the government including bureaucracy. Many scholars have posited, therefore, that authoritarian regimes would have less difficulty making economic policy that counteracts the effects of economic crisis. As we will see in our summary of case studies, there is no evidence supporting this hypothesis.

Conclusion

This chapter has summarised the findings of case studies of structural adjustment programs in less developed countries in order to determine the most relevant policy-making theories. The results of the case studies are summarised in the first part of the chapter and some very interesting conclusions can be drawn. It appears that in order to understand the influences on policy reform in less developed countries, the process must be broken down into two parts: the initiation and the implementation of reform. This thesis is determined to understand how Botswana was able to initiate reforms and therefore, this is the focus of our theoretical discussion.

In less-developed countries, the initiation of reform is strongly influenced by the pluralist, collective choice theory of policy-making. When an economic shock occurs, social conflict over the need to reform economic policies such as government expenditures and exchange rates will ensue. The nature of this conflict and the influence it has on the ability of government to initiate reform depends on the nature of the social cleavages, the popular appeal of the status quo, and the political resources available to the interest groups. If social cleavages fall along economic lines, the initiation of reform has shown itself to be more difficult. If the status quo has popular support, crossing social fragmentation boundaries, again, initiation of reform will be difficult. Alternately, if

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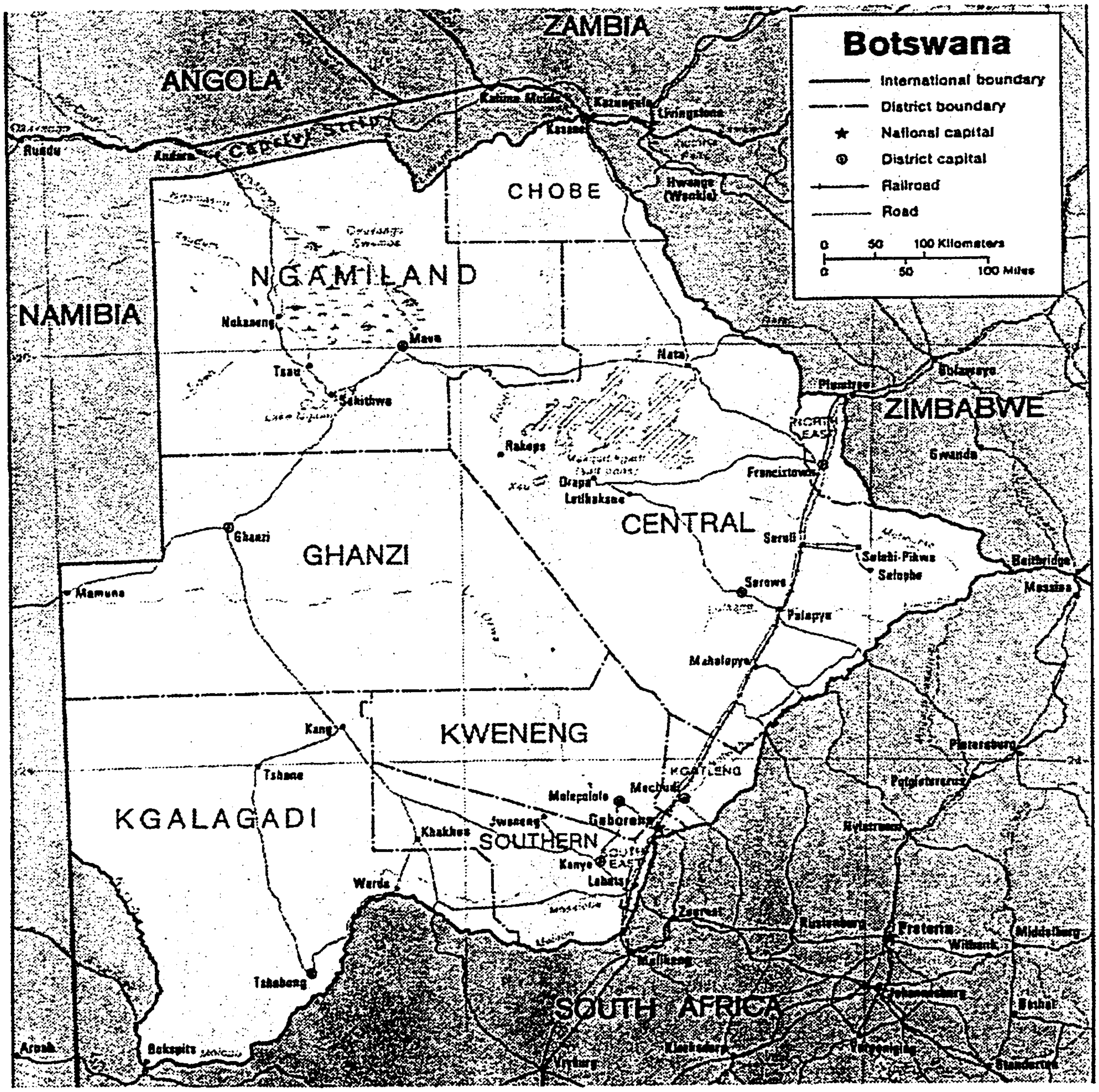
[5] Three of the main conservative aristocrats were Gaetano Mosca, Vilfredo Pareto, and Robert Michels.

reform has popular appeal, but political resources are concentrated in the hands of elites, the problem of collective organisation is magnified and reform will be difficult to initiate.

CHAPTER II

Map of Botswana



Introduction

I have chosen to analyse Botswana in this paper because it is a sub-Saharan African country, surrounded by hostile neighbours, dependent on mineral resources, and land-locked in one of the poorest and strife-ridden regions of the world. In this sense, it resembles many other African nations who are struggling to pull themselves out of poverty. This is where the resemblance ends, however, in that it is a country that has successfully managed two terms of trade shocks since independence and has managed to avoid internal, ethnic based or diamond related strife. Botswana stands out from its warring and/or corrupt neighbours as a shining jewel with one of the highest and most consistent growth rates in the world over the last 30 years and a relatively efficient and effective economic bureaucracy. With an economy that is highly dependent on mineral resources, it has been proclaimed a small miracle that Botswana has performed so well through the world recessions and commodity price shocks of the early 1980s and 1990s. Given that sub-Saharan Africa has had very little success with economic management in the past, it is has become very important to understand the underlying reasons for Botswana's success in initiating reforms. It would be extremely beneficial if the lessons learned from Botswana's success could be adapted for the African experience in general.

This chapter will provide an overview of the Botswana economy and society by describing the different economic sectors, policy goals, government structure, political environment, and social divisions. The first part is a description of the economy, which begins with an analysis of Gross Domestic Product including composition, trends, and the identification of recessionary periods. This part then moves into an analysis of the sources of government revenues and the government's explicit economic policy goals throughout the period since independence. This analysis includes consideration of policies concerning government expenditures and investment, exchange rates, and interest rates. The second part of the chapter is a description of Botswana society. It will explain the constitution and government institutions in relation to policy-making, and analyse the social divisions. It will be shown that there are several divisions important for an analysis of the influences on economic decision-making in Botswana that fall along demographic, language, tribal, economic, and ideological lines.

The Botswana Economy

Botswana is a land-locked country bordered by South Africa to the South, Namibia to the West and North (the Caprivi Strip divides Angola from Botswana), and Zimbabwe to the East. It shares a common border point with Zambia at the confluence of the Chobe and Zambezi rivers. The population in the 1991 census was 1.33 million, an increase of 41% on the 1981 census, and is expected to reach 1.7 million in 2001 (EIU, 1996). The population growth rate was officially 3.48% over the 10 years between censuses. The successful performance of the Botswana economy is reflected in the stability of income over the past thirty years; the low levels of debt accrued; the avoidance of balance of payments crisis; the increasing diversification of the economy; and the distribution of the benefits of mineral exploitation to the population through education and welfare programs. Each of these issues will be addresses individually in the following section.

Gross Domestic Product

The following section describes the composition of GDP in Botswana and the trends in composition and growth during the period since independence. From this analysis periods of recession due to terms of trade shock can be identified.

Agriculture

During the 1970s, agriculture's share of GDP decreased dramatically as the diamond mines came on line and agreements were signed with DeBeers for production sales. Although agriculture's share of GDP has been decreasing since independence, it is still a major source of income for most Batswana (Table 1). The largest sector within agriculture is cattle ranching. More than two thirds of the country is covered with sands and sediments that make arable agriculture very difficult and ineffective. The land is better suited to grazing cattle, sheep, goats, and wild animals. As well, the rain levels are highly variable year to year as well as within the season, making cattle ranching, which is less dependent on the seasonal swings, a more stable industry. The eastern part of the country and the Limpopo River Valley are more suitable for arable agriculture, receiving higher rainfall than the western and Kgalakgadi areas (Colclough and McCarthy, 1980).

As we can see from Table 1, the GDP of agriculture was increasing up until the beginning of the five-year drought of 1981 to 1986, at which time 82% of the population was classified as rural (Harvey and Lewis, 1990). Typically, 2/3 of GDP in agriculture is attributable to gross sales of livestock (EIU, 1996). In 1966, at the end of the previous drought, the national cattle herd numbered less than a million head. By 1974/75, the numbers had increased to 3 million together with almost 2 million sheep and goats (EIU, 1996). The large increase was due primarily to investments in water resources, particularly boreholes, enabling grazing further West than previously possible. This level of grazing was widely believed to be too large for the capacity of the land (Colclough and McCarthy, 1980).

In 1965, the Botswana Meat Commission (BMC) was set up as a parastatal corporation, which took over ownership and operation of the abattoir at Lobatse. Two additional abattoirs have been established to date. The BMC has monopoly export rights but is operated under local citizen and government control. Farmers sell their cattle through marketing co-operatives or local traders. The principal markets for Botswana meat are the United Kingdom and South Africa, each of which took approximately 40%

of total throughputs in the early 1980s, with South Africa's share decreasing to 23% by 1993 (EIU). The European market was opened to Botswana in 1975 with the signing of the Lomé Convention. This Convention allows imports but imposes levies. With regards to Botswana and beef imports, 90% of the levy is rebated on a fixed quota of 17,360 tonnes per year (Harvey and Lewis, 1990). Extensions on the agreement have been obtained after intense negotiations and lobbying on the behalf of Botswana politicians. The European market prices are usually 20-50% above other markets; therefore, the highest value meat is sold to the European market with the rest going to South Africa up to the limit of its quota, and then other international markets.

Mining

Mining quickly grew to take the largest share of GDP in the first 20 years of independence, dwarfing all other sectors put together (Table 2). Mining's share of GDP climbed from 12% in 1976 to a peak of 53% in 1988 due to sales of stockpiles. There currently exist three diamond mines on two deposits. The largest is Orapa, which was discovered in 1967, began construction in 1969, and production in 1971. Expansion was agreed in 1975 to include a smaller but higher quality mine called Letlhakane. In 1976, another deposit was discovered at Jwaneng. Construction began in 1979 and full production was reached in 1982. Botswana's diamond exports make up 30% of total sales to the Central Selling Organisation, a monopoly organisation controlled by De

Beers in South Africa, which makes 80-90% of world sales of diamonds (Harvey and Lewis, 1990).

Botswana is rich in other mining resources such as copper-nickel, coal, soda ash, salt, gold, semi-precious stones, and oil & gas; however, only copper-nickel, coal, and soda ash have been exploited to any great degree at this point. A major copper-nickel mine agreement was established at Selebi-Phikwe in 1972 but was not as successful as the diamond mine operations. Production of Soda Ash began in 1991 at the Sua Pan brine deposits in Magadikgadi in the northeast. Soda Ash Botswana is the operating company, the majority of which is owned by a South African company. The plant has failed to meet production capacity or export targets as of 1996, due mainly to severe competition from South Africa and the recession of 1992 (EIU, 1996).

Manufacturing

The manufacturing sector of Botswana has exhibited strong growth over the past three decades. This sector is highly dependent on the regional economies of Zimbabwe and South Africa for exports and imports respectively. The two trade agreements applicable to the region, the Free Trade agreement with Zimbabwe ending in 1987, and the Southern Africa Customs Union, encouraged regional trade at supported prices.

The manufacturing sector may be a small percentage of GDP; however, the implications for the future of the Botswana economy are large, given that the mining industry provides comparatively very little employment. In addition, Botswana manufacturing firms benefited from very little subsidization or protection, which made them relatively more efficient than their counterparts in other sub-Saharan African nations. Firms are mainly smaller and privately owned. Public participation has not seemed to hinder profitability and there was rarely a shortage of foreign exchange, nor barriers to the purchase of imports as inputs (EIU). Manufactures, excluding the Botswana Meat Commission grew at just over 20% per year from the mid-1970s to the early 1990s. Employment in manufacturing grew at 24% per year during the 1980s, peaking at 10% of total jobs in 1983 (Harvey and Lewis, 1990).

Construction

The construction sector was vibrant but performance fluctuated throughout the 1970s when the bulk of construction employment was involved in the creation of mining infrastructure. The periods 1969 to 1974 and 1978 to 1981 were boom years for employment and income in this sector due to the construction of the Orapa/Selbi-Phikwe and Jwaneng mines. Residential and commercial building construction characterized the sector throughout the 1980s and 1990s. The parastatal, Botswana Housing Corporation, is the main purveyor of building contracts for urban residential housing.

Trends in GDP and recession identification

Botswana has experienced phenomenal economic growth in the thirty years since independence averaging 16% in the 1970s, 11% in the 1980s, and 5% in the 1990s (WB[1]). More importantly, there have not been any large and sustained negative fluctuations in the growth of income over this same period. It is possible to isolate the occurrence of recession through an analysis of per capita GDP growth rates and historical facts (Figure 2). One can see that there were a number of growth rate drops throughout the previous thirty years. The first considerable drop was in 1974, when growth dropped from 17% in 1973 to 5% in 1974. This recession was brought on mainly by the slow-down in construction of the Selebi-Phikwe and Orapa mines. The second drop was in 1981, when growth went from 8% in 1980 to 4.7% in 1981. This drop was precipitated by a world recession that reduced the demand for diamonds and forced diamond producers into a production quota. The third drop was in 1984, when growth went from 9.7% in 1983 to 5.5%. The drop in growth at this point was a continuation of the problems afflicting the diamond industry and the drought conditions in Botswana. Finally, growth dropped in 1989 from 10.4% to 5.7% and continued downward to –0.7% in 1993 before recovering to a modest 4% in 1996 and after. This drop was the result of many factors from a slow down in the demand for diamonds; another severe drought in southern Africa and Botswana; dropping prices in other commodities such as meat and copper-nickel; and a scandal that hit the Botswana Housing Corporation effectively cancelling all building contracts for two years. An analysis of the recessions caused by terms of trade shocks (1981 and 1989) will be the focus of this paper in order to consider macroeconomic policy reform initiatives.

Fiscal revenues

Government revenues flow from two main sources. The first and largest source is mineral revenues. The company Debswana, which operates all the diamond mines in Botswana, is 50% owned by the government and 50% by De Beers. In addition to equity revenue in the form of dividends, there are royalty and taxation revenues. A second source of revenue is the Southern Africa Customs Union agreement between Botswana, Swaziland, Lesotho, and South Africa. It is a complicated document that essentially splits customs revenues based on import levels. Until 1976, this was the largest source of revenue that funded the major mine construction projects, whose inputs were almost wholly imported. Other sources of revenues are Bank of Botswana profits, which are considerable given that almost 99% of the Bank's assets are foreign reserves; and grants from abroad, which averaged 17% of total revenues from 1971 to 1982, 6% from 1983 to 1988, and 2% from 1989 to 1996 (EIU).

Policy goals

The Botswana government has two main macroeconomic goals, which are both stated and implicitly obvious in an analysis of policy decisions taken (Hill, 1991). The first is to ensure that the benefits of mineral exploitation are spread throughout the population of Botswana, and the second is to foster economic diversification. With the first goal in mind, private sector wages were tied to the public sector level through an Incomes Policy that was maintained until 1990. Regular salary adjustments occurred every other year throughout the 20 years after independence. Additionally, development expenditures contributed to infrastructure for the economy and social institutions such as education and health care. The government decided to maintain a conservative approach to deciding on the level of investment.

With respect to the second goal, it was necessary to ensure that the effects of Dutch Disease did not take hold in Botswana during export boom periods. Dutch Disease occurs when a rapid increase in export revenues causes the real exchange rate to appreciate and results in a loss of competitiveness in other tradable goods. To the extent that booms in export revenues are permanent, increased prices and market adjustments will result with a more efficient allocation of resources. However, if relative prices of non-tradables and wages increase during a temporary boom, the adjustment back to normal afterwards would mean a real welfare loss and wasted resources.

Expenditures

The Botswana government has prepared five-year National Development Plans from the beginning of independence. Within this plan mineral resource production and revenue forecasts are prepared and development spending is budgeted based on these figures. In addition, one of the important restraints on government spending in the last half of the 1970s was consideration of labour (Gaolathe, 1997). Each part of government was allocated labour for the purposes of budget planning, which put restrictions on planned spending. This restraint became even more stringent after 1982, when highly educated government employees were allowed to work in the private sector (Harvey and Lewis, 1990). In the latter half of the 1980s, development expenditures increased considerably and it has been argued (Gaolathe, 1997) that labour restrictions became less of a constraint.

Botswana's record of budget management is extremely good in the context of sub-Saharan Africa. Small deficits were incurred throughout the 1970s; however, 1983 marked the first year of a surplus, which continued through the recession of 1989. Relatively little debt was accumulated during the 1970s, and most of it was on soft terms. The debt-service ratio was only 4% in 1984 compared with 18% for sub-Saharan Africa overall (Harvey and Lewis, 1990). The large mining projects of the 1970s were self-financing with foreign investors taking most of the risks. Expenditures followed revenues except for a couple of lags for unexpected revenue drops. Development expenditures only decreased in one year, 1992, but quickly regained lost ground in 1993 and continued their steady increase (Figure 3). The increase in development expenditures has not been at the expense of foreign reserves. Reserves were significantly depleted in the 1981 recession; however, they have been steadily increasing at a similar rate as development expenditures, barely impacted through the 1989 recession.

Investment

Botswana has taken a conservative approach to investment in the economy. Profitability and sustainability were major considerations in the analysis of a development project throughout the period after independence (Harvey and Lewis, 1990). At independence, there was practically no physical infrastructure whatsoever. Education, health facilities and access to clean water were the priorities of the government and the rural electorate (Figure 4). By the early 1980s, emphasis had switched to employment creation, income distribution, and diversification.

There have been many criticisms of the government's spending patterns over the years, particularly in the mid-1980s (Gaolathe, 1997). It was felt that the government could have allocated more to development expenditures than it did. After the 1981 recession, foreign reserves were built back up at an accelerated rate and by 1987, the government felt it was able to increase development expenditures at an increased rate than previously experienced. Given that the Jwaneng mine had come on line in 1982, the increase in expenditure was not unwarranted. Expenditures on education and health care seemed to produce positive impacts in the society throughout the 1970s and 1980s resulting in an increasing secondary enrolment ratio, decreasing child mortality rate, and an increasing life expectancy (Table 3). Unfortunately, the ravages of the AIDS virus have taken their toll in the 1990s, and these indicators have subsequently regressed (Samatar, 1999).

The government's arguments against increasing development expenditures beyond the levels chosen are three-fold (Hill, 1991). First, there is a shortage of trained personnel to implement projects. This would increase upward pressure on wages as well as increase the number of expatriate workers in the country. Second, the uncertain nature of booms and busts in diamond revenues makes the risks high of misinterpreting a temporary boom and overestimating the return on investment. Thirdly, indirect investment through lending to the private sector is risky due to the history of arrears. In this way, the government has justified a conservative approach to their investment program.

Exchange rate

Botswana introduced the Pula in 1976, before which the South African Rand was the currency in circulation. At the time of introduction, civil servants were subjected to multiple simulation exercises in which a number of possible alternative policy actions were explored in response to possible economic scenarios. This research and policy analysis came in handy in the subsequent decade. In the early years and into the mid-1980s, the main concerns were inflation and income distribution as demonstrated by several revaluations. However, later on, the competitiveness of the manufacturing sector was a large concern, which demonstrates the greater complexity of the economy by the mid-1980s (Harvey and Lewis, 1990).

John Cuddington (1988) recommends that a country ensure that expenditures are carefully thought out, domestic investment is profitable, and exchange rates not be allowed to appreciate during boom periods. It is extremely important that government expenditures are based on forecasts of long-term revenues and are maintained during business cycles and international price swings to ensure that the swings are not magnified. The decision between investing domestically and building international reserves should be based on profitability and short-term absorptive capacity. Rates of return on investment should be maximized and capacity should be a constraint in order to avoid inflationary pressures and wasted resources. Finally, the exchange rate should not be allowed to appreciate to avoid reallocation of resources from otherwise efficient non-boom tradables.

It appears that the exchange rate policy was successful in warding off Dutch Disease. The manufacturing sector has been highly successful over the 30 years since independence, given the low level of skilled labour. The textiles industry, for example, grew 17.5% annually during 1974-85; other manufactured exports have on average grown 9% annually (EIU). Crop prices have been increasing over the years, which may be a strong indication that the Pula is not appreciating, given that prices are calculated using the import price and transportation costs. Catherine Hill (1991) speculates that the fall in meat prices and agriculture production levels would have been greater if the Pula was appreciating significantly.

Interest rates

Botswana has a number of goals that feed its interest rate policy. The first is to encourage more lending by commercial banks; second is to encourage short-term capital inflows or outflows according to balance of payments conditions; third is to encourage long term savings in the banks; fourth to provide parastatals with loans slightly below commercial rates; and, fifth is to avoid interest rates that are below inflation (Harvey and Lewis, 1990).

When foreign reserve levels permit, Botswana lowered its interest rates below its trading partners to encourage the short-term outflow of capital (late 1970s and mid-1980s). This is done on the premise that high reserves and high liquidity increase the political pressure to increase spending. The increase in rates in the 1982 adjustment package was done primarily to maintain credit capacity for small businesses. Given that unskilled labour is abundant in Botswana, the goal of positive real interest rates is to avoid the incentive to replace labour with cheap capital. Unfortunately, real interest rates were negative through most of the 1980s and 1990s.

Botswana Society

The second part of this paper is an analysis of Botswana society. The first section will consider the government institutions in which economic policy is made. These institutions include the Constitution, central and local government, and a brief history of political parties. We have determined in Chapter One that initiation of economic policy-making is highly influenced by interest groups in less developed countries; therefore, the second section will describe Botswana's social divisions and organizations.

Political Environment

An analysis of the governing institutions in Botswana shows that it is indeed a fully functioning multi-party democracy with relatively free and fair elections, a representative assembly, an impartial judicial system, and a critical media.[6]

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[6] Various sources for the description of government institutions are Harvey and Lewis (1990), Samatar (1999), EIU, Botswana Government, and Picard (1987).

The Constitution

Botswana obtained independence in September 1966. The Constitution was introduced at independence and provides for a bicameral parliamentary system with legislative power invested in the National Assembly. The Assembly consists of a Speaker, the Attorney General (non-voting), 40 elected, and four appointed seats. Representatives are elected every five years with universal suffrage and the four appointed members have a mandate directly from the President. Executive power is invested in the President, who is also the head of state and commander-in-chief of the armed forces. The President is elected to the National Assembly and is appointed by a majority of the National Assembly. The Cabinet is appointed by the President and is responsible collectively to the National Assembly.

The Constitution contains a code of human rights enforceable by an independent judiciary and a House of Chiefs. The president on the recommendation of the Judicial Service Commission appoints the chief justice and judge president of the Court of Appeal. Rural justice is handled by customary law and is heard by tribal courts associated with the village *kgotla* (gathering of the village members), with chiefs acting as court presidents. Chiefs are constitutionally non-political in Botswana, and if a chief wants to run for political office, he must resign his chiefdom. The House of Chiefs is intended, therefore, as a non-political body that advises on traditionally relevant issues, customs, and institutions (including customary courts and law). There are 15 members of the House of Chiefs: eight ex-officio members are the chiefs from the major tribes; four are elected every five years from minor tribes in the districts of Chobe, Kgalagadi, Northeast, and Ghanzi; and the House of Chiefs elects the final three themselves. When parliament is dissolved before an election, the House of Chiefs is dissolved except for the eight ex-officio members.

Central government

There are currently ten ministries, which include State, Agriculture, Commerce and Industry, Education, Finance and Development, Health, Labour and Home Affairs, Local Government Lands and Housing, Minerals Energy and Water Affairs, and Works Transport and Communications. In addition, there is the Department of Foreign Affairs, the Directorate on Corruption and Economic Crime, the Attorney General's Chambers, the Office of the Auditor General, the Independent Electoral Commission, and several parastatals including the Botswana Meat Commission, the Botswana Housing Authority, and the Botswana Development Corporation. In his book, *State and Class Leadership*, Abdi Samatar (1999) argues that the Botswana government created effective and stable public institutions that facilitated good governance by (a) resisting the pressure to localize technical and professional levels; (b) insulating the public service from political intervention; and (c) clearly demarcating the political and economic boundaries within which policy-making may operate.

The most relevant ministry for economic policy and development is, of course, the Ministry of Finance and Development Planning. This ministry typified the above characterization of public service. The former President, activist, and close political ally of the first President, Seretse Khama, Quett Masire was the Vice President at independence and the first Minister of Finance. He built the Ministry from scratch using former colonist expatriate technocrats and slowly incorporating highly skilled Batswana as they became available (Picard, 1987). The Ministry was highly centralized and autonomous, dominating all other ministries. The government parameters for action at independence support the conclusions in this chapter that the political elite were also the economic elite. These were to ensure that relations with South Africa were not endangered and that the Ministry would not promote any interests that directly competed with the cattle industry (Samatar, 1999).

Local government

The district boundaries of modern-day Botswana are based on the 1899 demarcation of tribal lands and reserves (Figure 6). In each district there are District Councils, which are elected at the same time as the National Assembly. The Constitution guarantees a government majority in the District Councils, however, so the government may appoint members to those councils that have elected opposition majorities. The Councils were established through the Local Government Act of 1965, which transferred many responsibilities from the traditional tribal administration such as primary education, basic health services, the development of rural roads, and village water supplies. The poor performance of the Councils in the early years in implementing development projects prompted the establishment of District Development Committees and Land Use Boards, whose members are appointed by government and tribal authorities.

The District Administration is responsible for tribal administration and has a Commissioner, who is appointed by government. Both the District and Tribal Administrations are holdovers from the colonial days and are formally politically neutral. The District Commissioner reviews customary court cases and hears appeals; is responsible for ensuring that security plans are in place and updated; is responsible directly to the President for implementation of security plans and restoration of order in emergency; and, initiates prosecution of political leaders that exceed the bounds of custom in campaign rhetoric. In effect, the Commissioner is the watchdog of the President (Picard, 1987).

Political parties

Botswana is a multi-party democracy, with free and open elections and reasonable opposition access to the media. However, it has effectively been governed as a one-party state since independence. The evolution of political parties traces its roots back to the 1920s and 1930s, where the first nationalist ideas began to take form.[7] The precursor to the Botswana Democratic Party (BDP) is the Bechuanaland Protectorate Federal Party (1959), which supported a representative parliamentary system with a strong but non-partisan traditional administration. This idea has its roots in the thinking of Simon Ratshosa (died in 1939) who recognized the increasing authoritarian and dictatorial character of the chiefs under the colonial administration and saw an elected parliament as the answer. The young, educated nationalists surrounding future President, Seretse Khama, hereditary heir to the largest chiefdom in the country, formed the BDP in 1962. Khama had been forced to renounce his ties to the chieftainship in order to return to the country after marrying a white English woman, in what was commonly referred to as the "Seretse Affair".

There were two main opposition parties throughout the 1970s and early 1980s; however, the Botswana National Front (BNF) slowly emerged as the official opposition when the Botswana People's Party (BPP) was left out of the National Assembly from

1989 onwards. The BNF was led at a formative time, by a former chief of one of the most powerful tribes in Botswana. Chief Bathoen II of the Bangwaketse, lent his support to Seretse Khama and the BDP in the 1965 elections on the assurance that the government would incorporate the traditional form of governance into the new model. He was quickly disillusioned as President Khama effectively relegated the House of Chiefs into a mute body with no veto or power. Bathoen II and Tshekedi Khama (uncle to Seretse) were highly influential in the traditionalist thinking of the 1920s and 1930s. As Ratshosa was proposing a radical new modern nationalism, Bathoen II proposed a "progressive chieftaincy". The main thrust was progressive economic development with a bureaucratization of the chieftain administration. He ran against Quett Masire in the 1969 elections, won, and was appointed opposition leader, replacing the BNF founder, Kenneth Koma. Koma received his doctorate in Moscow and called for socialism and revolution in the initial years of independence. The BNF, with Koma back at the helm since 1979, has subsequently renounced these two radical ideas for a more pragmatic platform, appealing to the impoverished with free education, no taxes for the poor, and rapid localization of the bureaucracy (Harvey and Lewis, 1990). It is a tenuous, left-of-centre coalition of urban dwellers and traditional rural conservatives, whose support has grown as the proportion of urban dwellers has increased. This demographic change

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[7] Most information on political parties has been taken from Holm (1988) and Picard (1987).

combined with the recession resulted in 37% support, 13 of 44 seats for the BNF in the 1994 election.

It was after the banning of the ANC and the Pan African Congress following the Sharpesville Massacre in 1960 that the BPP was formed, with many of the founding members originally political refugees from South Africa. The party concentrated on the racist nature of the colonial administration, speeding up the movement to independence. The party platform, however, did not appeal much to the rural vote, whose world was dominated by traditional black authority. The party split in 1964 into the BPP, led by Philip Matante, and the Botswana Independent Party (BIP), led by Motsamai Mpho. The BPP appealed to the Kalanga population in the Northeast District and the BIP appealed to the Bayei people, a non-Tswana group, of which Mpho was a member. The Northeast District is therefore a hard-core BPP area and the Ngwaketse area in the Southern District is the home of Bathoen II and the BNF. Some in-roads have been made into other non-Setswana speaking areas, such as the Ghanzi District, by the BPP through active campaigning.

Social Divisions

It was determined in Chapter One that the largest influence on the initiation of economic policy-making in less developed countries comes from interest group organizations rather than state institutions. In order to analyze the influences on economic policy-making in the identified recessions, therefore, it is necessary to outline the social divisions and organizational structures within Botswana society. The divisions that have been found to have the most impact on policy-making can be grouped into the headings: demographic, language, tribal, economic, and ideological. .

Demographic groups

In 1991, the population of Botswana was 1,326,706, up from 961,000 in 1981 (Picard, 1987). Over 80% of the population lives in an 80-mile wide strip in the Eastern portion of the country. Government employment and economic diversification into manufacturing have steadily increased since independence so that the proportion of people living in cities neared 50% of the population in 1991 from 18% in 1981 (EIU, 1996). Wage earners are concentrated in the cities, employed mainly in the government civil service and industry. Batswana employed in South African mines peaked in the mid-1970s at 31,000 people and was at approximately 21,000 people in 1986 (Harvey and Lewis, 1990). Poor rural families rarely relied solely on subsistence farming and cattle ranching. Many wage earners were members of rural families and regularly sent money home. In their 1987 survey of four villages in different Districts of the country, Farrington and Marsh found that the majority of every village had a partial source of income from a wage earner (Khakea had 48%).[8]

In the early years of independence, the urban vote, including bureaucrats, was concentrated in the opposition BPP and BNF parties. Given the relatively small size of this group, however, urban needs were largely ignored.

Language groups

There are two main languages in Botswana: Setswana and English. The national language is Setswana and the official language of governance is English. In the early 1980s, there were 700,000 Setswana-speaking people living in Botswana (80% of the population), 2.7 million in South Africa, and small numbers in Zimbabwe and Namibia. There were 120,000 Kalanga-speaking people in Botswana, a Bantu people who had been partitioned from another 190,000 in Zimbabwe through colonial boundary setting. There were approximately 30,000 San or "bushmen", 14,000 Kgalagadi, a branch of the Sotho peoples, and 14,000 Europeans. Given that the use of English is widespread and cannot be claimed by any one tribe or social group, language has not been a source of division on its own. The Kalanga tribe however, are known for their opposition to the government and will be discussed in more detail in the following section.

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[8] As quoted in Harvey and Lewis (1990)

Tribal groups

There are ten administrative districts in Botswana and eight main Tswana tribes. The Central and Southern regions hold the two tribes that have been the most powerful since the colonial days. Chief Bathoen II of the Bangwaketse tribe and Tshekedi Khama from the Bamangwato tribe were the only chiefs to challenge in the high courts the 1934 Proclamations, which imposed indirect rule in the former colonial Botswana (Bechuanaland). The chiefs from each of the eight tribes have a permanent seat in the House of Chiefs. The first President of Botswana, Seretse Khama, came from the Bamangwato tribe and Quett Masire, the first Vice President and Minister of Finance came from the Bangwaketse. Regional representation in the National Assembly does not necessarily represent individual tribes when they are small, however, the representatives try to campaign throughout the region to garner political support.

Some of the minority tribes are Bantu groups such as Kalanga and Bayei or Sotho groups such as the Kgalagari. The Kalanga tribe is related to the Matebele of Zimbabwe, and accounted for 13% of the total population in the mid-1980s. They live in the land-hungry, overpopulated Northeast District, where the majority is not Setswana speaking. The District has been a hotbed of opposition to the government over the years. Elections have continuously returned BPP representatives to the National Assembly and non-BDP majorities to the District Councils, forcing the government to stack the Councils with its own representatives in order to maintain control. In addition, the leader of the BNF in early 1969 was a Kalanga named Daniel Kwele. As a consequence of prejudicial rumour mongering, the BNF was fearful of nominating Kwele as Presidential candidate for the elections, instead nominating Bathoen II. Kwele was appointed Northeast District Council Secretary by the government in order to neutralize his political influence (Picard, 1987). He and the Council were outspoken critics of government policy throughout the 1970s.

Tribal rivalries, although present, do not appear to influence politics or economic policy making to a large degree. This may be due to the fact that economic power rests with the owners of cattle and water, which is spread relatively evenly across the elites of most tribes in Botswana. Louis Picard (1987) discussed an example of tribal rivalry in his description of the reason that BPP representatives were chosen in the Northeast District. This was not only for the BPP's opposition to the BDP, but also related to the fact that people felt that the BDP representatives were too closely related to the Bamangwato tribe, a traditional rival.

The San, representing 4% of the entire population in 1993, have traditionally been the lowest social group in the Botswana stratum. Historically, this hunter-gatherer group has held a serf-like status in society. An investigation by the League of Nations in the 1920s on allegations of slavery was the beginning of a foreign outcry on the treatment of the San in southern Africa. Many foreign aid donors have attempted to address this injustice over the years, however, it is a contentious issue, and the government is very sensitive to foreign "meddling". The Ghanzi District, where nearly two fifths of the population is San, has recently seen a rise in political participation due to strong campaigning on the part of the BNF in the region. The 1989 election saw the number of people voting more than double and two San elected to the District Council.[9]

A majority of white, European farmers live in the Northeast District that have disproportionate influence with the government over policy due to their connections with the senior bureaucrats from colonial days. There are smaller groups of several thousand each including the Kaa (Setswana-speaking), Tswapong (Sotho), Yei, Koba, Mbukushu, Subiya, and Damara.

Economic groups

At independence, Botswana was highly rural. Given the nature of the soils in the East and the desert conditions in the West, the main agricultural production was from cattle processing rather than crops. By 1993, not much had changed in terms of agricultural GDP, of which 80% was attributable to beef processing (EIU, 1996). This sector is characterized by a large gap between small farmers and large cattle ranchers. The gap began to widen during the 1970s, when richer ranchers began a slow migration westward facilitated by the drilling of water boreholes in the desert and the Tribal

Grazing Land Program passed as policy in 1975 (Harvey and Lewis, 1990). In 1970, 50% of the rural population owned 5% of the national herd, where the wealthiest 6% owned 40%. In 1981, 65% of rural farmers were categorized as small with under 20 head of cattle and 6% had 100+ head ranches. In 1990, 76% of the poorest farmers had 30% of the national herd and 2% had 40%. These numbers show the degree of separation between the poor and wealthy in a sector that impacted the majority of Batswana.

The economic elite therefore derives their income from cattle ranching. Additionally, government salaries are increasingly becoming an important driving force for the creation of middle- to high-income elites in the country. The bureaucratic elite makes up a large interest group in Botswana society, given that in the mid-1980s, there were close to 30,000 people employed in central and regional government offices. In 1984, the per capita income in the country was around $900 per year and yet there were six grades of civil servants with starting salaries of more than $1,800, with the top salary over US$20,000 per year. The civil servant salary was rarely the only source of income, especially after 1980, when civil servants were allowed to invest in private enterprise. There was also a high correlation between status in the civil service and cattle ownership (Picard, 1987). In a country where the traditional form of wealth is cattle ownership, investment of savings often takes the form of cattle purchases. Mining does not impact

[9] Most information on the status of the San in Botswana has been taken from Hitchcock and Holm (1993).

economic elites given that the sector's largest influence in the economy is indirect, through government expenditures. Unfortunately, the direct influence of mining is the contribution of only a few thousand jobs.

Non-traditional commerce began to take on more importance in the 1987 boom period after the government allowed civil servants to invest in private industry (1980). The Botswana Development Corporation is the original instrument for industrial development in Botswana since 1970. This parastatal identified economic opportunities and found investors for projects in which it was allowed to hold a minor interest. The Financial Assistance Program was a grant-giving institution approved in 1982 to encourage entrepreneur business development. By 1993, the FAP had supported 4,000 projects, with 48% of small-scale enterprises owned by women (Samatar, 1999). The majority of businesses, however, remained foreign- or white-owned.

Ideological groups

One of the most important divisions of the elites in Botswana, that continues to this day, is between the traditional chiefs and the elected politicians, originally referred to as the "New Men". These groups are related in that the New Men are the sons and nephews of the traditional royalty or at least have some aristocratic background. New Men tended to be younger and better educated than the traditional leaders and more modern thinking in their outlook. During the colonial administration, traditional families were educated in the prestigious schools of South Africa and England. They had usually spent time in wage employment before coming back to Bechuanaland to rule the newly independent nation.

Both these elites were united in their capitalist vision of the future Botswana and both had strong ties to the cattle sector, being owners of large herds. They differed only in their vision of the role of traditional authority in the new state. The chiefs want to maintain traditional authority and regain the control lost after independence. Their philosophical thinking has its roots in the ideas of Bathoen II and Tshekedi Khama, and normally takes a somewhat socialist or communal leaning. The New Men believe in representative democracy, but also recognize the need to maintain traditional forms of leadership. After independence, the authority of chiefs was, for the most part, transferred to the District Councils and Commissioners. Only the customary courts remained in the hands of the chiefs.

There have been two chiefs that have vocally provided opposition to the BDP government in the time since independence. The first was Bathoen II, who forsook his chieftainship after 40 years in that position to oppose the New Men politically. His fight has been discussed in the previous section on political parties. The second chief opposed to the BDP was Chief Linchwe II of the Bakgatla tribe in Kgatleng District. Linchwe wanted to fuse traditional governance and socialism and participated in opposition unity discussions before and shortly after independence, but has not given up his chieftainship and is, therefore, supposedly non-partisan. After having witnessed Bathoen's successful transition to politics, the government gave Chief Linchwe the position of Ambassador to the United States from 1969-1972 in order to contain any political opposition from traditional sources during the 1969 election campaign (Picard, 1987).

Conclusion

This chapter has provided a broad analysis of the Botswana economy and society. The various economic sectors, GDP trends, government revenues, and macroeconomic policy goals were analyzed. The most fiscally important sector has, of course, been the mining sector, which has contributed, on average, 40% of GDP for our period of study. This sector has been the source of government funding for the major urban, utility, and transportation infrastructure constructed to date, and also stimulated growth in other sectors such as manufacturing and construction. The agriculture sector is the most influential sector as it has the largest impact on people's lives. It is no coincidence that the two major recessions in the period of study occurred at the time of the drought. Close to 55% of Batswana still depended on agriculture as source of income in the 1989 recession. Beef prices have been decreasing and the state of the rebates on Lomé Convention levies have always been precarious, adding to instability in the sector. The manufacturing sector is a large source of employment and non-mining export revenues next to beef exports. This market is highly dependent on other regional economies, however, and therefore has been somewhat unstable. Secondary economies in trade and services are growing rapidly as urban dwelling increases, causing strains on serviced land capacity. GDP growth has been phenomenal in Botswana since independence with the 1970s seeing the highest growth from the construction of infrastructure. Several recessionary periods have been identified in 1974, 1981, 1984, and 1989. The recessions caused by terms of trade shock, 1981 and 1989 will be the subject of analysis in the following Chapter.

Botswana can justly be described as a fully functioning, multi-party democracy. The substance of the political system, however, is that the governing party, the BDP, has a firm grip on power. They have garnered practically a majority of the vote within its traditional strongholds, the Bamangwato and Bakwena tribes. The governing party constitutionally rules the local government, however, elected representatives are placed on the District Councils, which are often from opposition parties. Effectively, the tribal authorities, prevented constitutionally from political affiliation, rule local politics and the District Councils are used as intermediaries between central government and the *kgotla* where community approval of policies is sought. The social divisions within Botswana society run along demographic, language, tribal, economic, and ideological lines. The most significant divisions for political purposes are the tribal, economic, and ideological organizations. It was found that the economic elite derives their wealth from cattle ownership and every tribe, except for the San, has an economic elite with these interests.

A source of political tension has been the ideological divide between traditional authorities, influential at the District and tribal level, and the "New Men" who run the central government.

CHAPTER III

Introduction

The last chapter was able to identify several recessions that occurred in Botswana over the past 30 years. For the purposes of this thesis, I will only consider those recessions that were as a result of a terms of trade shock. Terms of trade shocks are uncontrollable events that can have a large impact on macroeconomic indicators and can require severe adjustments unsupported by the populace. A country like Botswana and even the region of Africa, who are dependent on export markets, require timely and responsible reactions to these types of shocks.

This chapter will do two things. The first section will briefly outline the economic theory behind adjustments to terms of trade shocks. This can be used as a benchmark in order to summarise Botswana's reaction to the recessions and boom of the period of study. The second section will describe the two terms of trade shocks and what happened in Botswana, providing a broad overview of what caused the shocks, the government reaction to the shocks, and an assessment of the appropriateness of the reaction. The two shocks were separated by a boom period, which will be described in order to provide continuity and background for the analysis of the second shock in 1989.

Theoretical benchmark[10]

A terms of trade shock like that which occurred in 1981 in Botswana impacts export revenues and requires that the government analyse the market and decide whether the shock will be permanent or temporary. If a shock is deemed to be permanent, a permanent reduction in expenditures is required. In this scenario, the budget constraint will be to ensure that the present value of future expenditures is equal to or less than the present value of revenues less the present value of debt obligations. Furthermore, the government must decide how it will facilitate a change in the allocation of resources to factors of production. The permanent decline in an export sector will result in the movement of resources out of the effected sector and into more profitable sectors. The task before the government will be to find ways to minimize the negative impact to exchange rates and economic sectors in the transition period.

If the terms of trade shock is temporary, a government may borrow to maintain consumption in the knowledge that income will increase to pay the debt tomorrow. The permanent-income hypothesis states that a society will choose to smooth income evenly over time and must save or dissave when income is higher or lower than the permanent level. The problem of uncertainty, however, makes this analysis very difficult. A conservative government may decide to treat the shock as permanent, reducing consumption rather than borrowing in order to avoid unmanageable debt in the event that the shock was misinterpreted. This is an intertemporal decision in that the decision is whether to effect consumption today or tomorrow. The costs associated with an error in judgement are certainly higher if a permanent shock is treated as temporary than if a temporary shock is treated as permanent, as has been witnessed by many less developed countries after the 1980s. As we shall see in the following subsection, Botswana took a conservative view to the shocks of the 1980s and 1990s by reducing expenditures.

1981 Recession

In 1981, the world went into a deep recession, which took commodity prices with it. As was seen in Chapter 2, GDP growth declined to 4.7% from 8% in 1980. Demand for diamonds declined, which forced the government to assess stability of future revenue sources.[11] Simultaneously, one of the worst droughts to hit Botswana in the second half of the century came on with a vengeance, hitting the agriculture sector hard, where the majority of Batswana were employed or derived a source of income. In the 1981 census, it was determined that 55% of the population had agriculture as a source of income, and

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[10] The following theoretical discussion was taken from Obstfeld and Rogoff (1998) and Cuddington (1988)
11 Note: Prices of the CSO have never dropped below previous levels. Botswana prices will vary with the mix of diamond values. In the 1970s a surcharge to clients was added rather than decrease prices or impose a quota. During the 1982-85 quota period, the most saleable diamonds were purchased by the CSO and the rest were stockpiled.

for rural Batswana, cattle are a store of wealth. It is, therefore, indicative of the scope of the drought that the national herd decreased from a peak of three million shortly before the drought to 2.3 million in 1987 (EIU, 1993). Real agricultural GDP began to fall in 1977 and didn't recover until 1989 (Harvey and Lewis, 1990). Water shortages hindered construction projects in urban centres, often halting work altogether. The recession was mitigated by the commencement of production in 1982 at the Jwaneng diamond mine, which increased Botswana's quota level for sales of diamonds. Botswana had been forced to stockpile an estimated 20% of annual output from 1982-85 (EIU, 1996).

Manufacturing did not experience a slowdown at all in performance (see Table 5) and the impact on the construction sector was as a result of the end of construction on the Jwaneng mine and water shortages that prevented projects from being initiated or continued. By 1984, growth in the construction sector was 12%, however, the lack of serviced land began to be a serious impediment to growth in the sector (EIU).

As is visible from Figure 7, the impact of the diamond production quota was to decrease revenues enough to throw the government budget into a deficit. Diamond revenues decreased from US306 million in 1980 to US162 million in 1981, and increased to US238 million in 1982 (see Table 2). The deficit was not large in magnitude, however, and did not last for long.

Government response

The relatively short duration of the budget deficit was as a result of an increase in Botswana's share of the production quota due to the addition of the Jwaneng mine in 1982 and, to a lesser extent, a cutback in the growth of government expenditures. The government also introduced an adjustment package in 1982, which included a 10% devaluation of the Pula, a wage freeze, a credit squeeze, a sales tax, and increased interest rates. The value of the Pula was rising against the Rand in 1981 and early 1982, and therefore the devaluation could be considered a technical adjustment of the previous revaluations (1979 and 1980) and a way of reducing real spending, rather than a change in policy towards income distribution (Harvey and Lewis, 1990). In 1985, the Pula was devalued 15% after it rose against the Rand from R1.07 to R1.27 (Harvey and Lewis, 1990). It was politically impossible to suggest no wage increase in 1985 to avoid the loss of international competitiveness; therefore, the devaluation occurred despite the impact on the poor.

The government was concerned about the balance of payments, and therefore along with the devaluation, interest rates were increased to bring short-term capital back into the country and ensure the availability of credit for small business. The lack of demand and absorptive capacity in the economy and the restrictions on foreign capital investment by banks increased bank liquidity despite the slowdown in diamond revenues in 1982. Interest rates were decreased in 1984 and 1985 in an attempt to stimulate demand, however, reductions in inflation offset these initiatives. In 1986, banks were allowed to set their own interest rates to a maximum of 15% (Harvey and Lewis, 1990).

Assessment of response

The Botswana government appeared to have assessed this economic shock as temporary and avoided reducing expenditures accordingly. This was a reasonable assumption considering that the main source of the problems for Botswana was diamond and not energy prices. Botswana was a member of the diamond production cartel, and so privy to detailed market information and analysis, and the demand issues were merely a result of the world recession. In addition to that, they knew well in advance of the recession that the Jwaneng mine was coming on line and would soften the blow of a production quota. Total expenditures continued to grow, although the rate decreased from 36% in 1979 to 10% in 1980, 22% in 1981, and 11% in 1982 (IFS). The share of development expenditures in total spending was reduced in the period of the recession and did not again reach 1980 levels of 43% until 1989 (EIU).

Measures were introduced to bring short-term foreign currency back into the country and maintain the competitiveness of non-mining exports. These were necessary adjustments to ensure adequate funds to cover expenditures and avoid a reallocation of factor resources out of non-mining resources. Especially important, politically, of government expenditures at the times was the drought relief program, and the textiles and other manufacturing was a growing source of employment. These measures also served to reduce consumption of imports and investment in business expansion, a precaution against balance of payments crisis.

In summary, the government response to the economic crisis was adequate and efficient. The measures introduced were necessary to reduce consumption to avoid a balance of payments crisis and a reallocation of resources out of non-mining exports. The only negative comment that can be made is that the response was somewhat delayed, given that the evidence of a slowdown in growth and revenues was evident in the middle of 1981 and the reform package did not get introduced until 1982.

1987 – 1988 Boom

It is generally agreed that the period 1987 to 1988 was a boom period for the Botswana economy (EIU, 1996), some pinpoint as early as 1985 (Hill, 1991). Development expenditures peaked at 44% of total spending including lending in 1989, the highest point since 1975; and, recurrent expenditures at 68% in 1993 (EIU). Budgetary surpluses were incurred throughout the period as windfall revenue from the sale of stockpiled diamonds in July 1987 and a vibrant world market for diamonds kept government revenues high and facilitated increased spending without incurring debt. In

1987, De Beers purchased the entire stockpile for cash (undisclosed), 20 million shares, and gave the government two seats on the De Beers board (Harvey and Lewis, 1990).

The National Development Plan for 1985-91 forecasted a decline in the growth of revenue and proposed an allowance of only 6.8% growth in recurrent expenditures (Harvey and Lewis, 1990). Actual growth over the period, however, averaged 29% (IFS). Hill (1991) has hypothesized that emphasis was placed on projections of long-term revenues to define spending levels in this period, rather than strictly labour constraints, resulting in what appeared to be excessive spending in relation to prior years. It is possible that the pressures on the government to spend became too heavy, especially after the last recession, and therefore, the increase was allowed to expand, heedless of absorptive capacity (Figure 8).

Non-mining GDP increased 26% in both 1987 and 1988, which comprises sectors with the highest levels of employment. Gaolathe (1997) has speculated that the output of the economy during this period exceeded what would have been realized in normal employment and capacity utilization levels. He cites demand pressures such as long order waiting lists in the vehicle and building sub-sectors; no evidence of idle capacity in any sectors; increased household credit levels from 18% in 1986 to 39% in 1990; and skyrocketing rental and property values. Certainly, as Figure 10 shows, import demand rose exponentially over the period, so much so that a revaluation of the Pula for 5% was required in 1989 to offset imported inflationary pressures.

It is perhaps useful to point out that there were constraints within the construction sector due to the lack of serviced land available for urban construction, despite a new program introduced in 1987 to address that issue specifically (Harvey and Lewis, 1990). This will have contributed to the increased property values and perhaps been a constraint on growth during the period.

1989 Recession

The scope of this recession is indicative of the increasing complexity and diversity of the economy over the previous decade (Figure 11). Growth in GDP declined from 10.4% in 1988 to 5.7% in 1989, reaching its all time low of –0.7% in 1993. There are a number of factors responsible for this poor performance, which affected all sectors of the economy, unlike the 1981 recession.

The first factor was a slowdown in world demand as a result of another world recession. This recession affected beef and copper-nickel prices in the late 1980s, reducing demand for these products and initiating the recession in Botswana (Figure 12). The recession hit the diamond market hard, which was also complicated by an increase in supply due to smuggled Angolan diamonds and Russian sales outside the CSO. The combination of supply- and demand-side changes resulted in a 25% reduction in quotas in September 1992, implemented across CSO clients in 1993 (EIU). Despite the decreased production quotas in diamonds, the level of government revenues increased slightly through 1993 by changing the mix in values that were sold (Gaolathe, 1997). In 1994, revenue decreased 17%, however, the decline was short-lived when 1995 saw an increase of 22% as the world market for diamonds began to recover (EIU). The second factor influencing the 1989 recession was that the construction sector experienced a decline when a scandal at the Botswana Housing Corporation resulted in the cancellation of the majority of public sector building contracts on subsidized housing and commercial properties in 1993 and 1994. This put additional pressures on the rental market and property values. In addition, the high cost housing market experienced an oversupply, where house prices and the rental market fell in early 1993, leading to accumulation of household debt and a drop in the demand for durables (Gaolathe, 1997).

The third factor in the recession was a drought that came on in late 1991. The effects of the drought were also felt in Zimbabwe, an important export market for the growing textiles sector, which reduced exports in this sector considerably (EIU). The drought began to worsen in 1993 and conditions in Zimbabwe were made worse when the Zimbabwe Dollar was devalued in 1994, further reducing the demands for textiles in Botswana. Employment in manufacturing and construction reached a peak of 12% and 15% respectively in 1991 and declined for the subsequent three years (EIU, 1996).

The fourth factor in the recession was a significant increase in inflation levels. The heady days of the boom in 1987 to 1991 had caused demand pressures to escalate. As a result, Botswana experienced the highest inflation rates since independence, peaking at 17.7% in June 1992 (EIU). The majority of Botswana's imports originate in South Africa and therefore, Botswana's inflation has historically been highly correlated with South Africa's. This is not entirely the case anymore, however, and some other factors leading to this level of inflation were a 5% devaluation of the Pula in October 1991; an extension of the sales tax in February 1991; a technical widening of the CPI calculation; increased food prices due to drought conditions; and increased wages (EIU, 1993). Inflation levels fell as a result of the recession and decreasing demand, especially in the construction sector (EIU, 1996).

Government response

Interest rates began to rise in 1990 and reached a peak of 14.25% in 1992 and 1993. The Pula was devalued in 1990 by 10% to offset the decline in export earnings, and in 1991 by a further 5% to reduce import purchases and increase competitiveness of manufactured exports (EIU). In 1989, a new Minister of Finance and Development was appointed; who began a slow down in capital expenditures that had been allowed to grow significantly in the previous boom period, as was discussed in the previous section. The real growth in both development and recurrent expenditures declined from 1989, however, the level of recurrent expenditures was only reduced once in the entire period, an 8.5% decrease in 1994. Development expenditure growth was reduced from 1989, and the level declined twice in 1992 and 1994 (Figure 13). A budget surplus was maintained throughout the period until 1995, when a fall in returns in the international bond market reduced profits by P500m, putting the accounts into a deficit (EIU, 1996).

Assessment of response

The result was that import levels, consumption, and inflation decreased in 1992 as a result of increasing interest rates, the Pula devaluation, the completion of the Soda Ash facilities, and reduced government expenditures (EIU). The reduction in import demand helped to offset the effect of declining exports on the trade balance. Again, this economic reform package reflected the overlying assessment that the terms of trade shock was temporary, but should be managed conservatively with no new debt. The government decided to reduce consumption patterns and slow the growth of expenditures rather than increase debt to avoid a balance of trade crisis. Only the growth in government expenditures was reduced, rather than the level of expenditures. In the period after both recessions, consumption and government expenditures returned to pre-recession levels and actually increased exponentially in the case of the 1981 recession, showing that the government assessed the shocks as temporary.

In summary, the 1989 recession was managed effectively by textbook macroeconomic policy reform. These reforms seemed to be delayed, as in 1981, implemented in 1990, a full year after the growth in GDP was reduced. In all fairness, however, the recession was slower to materialize in 1989 compared to 1981 due to the many complicated factors that affected the reduction in GDP. In this respect, the reaction time was improved over 1981.

Conclusion

The Botswana government made some very hard decisions on expenditures and exchange rate devaluations during the two economic crisis periods, which appear to have been founded in solid economic analysis and research. The government's greatest strength in its economic policy choices was its conservatism. Within the fiscal policy realm, government expenditures were the greatest source of economic growth in the economy and, unlike many sub-Saharan African countries; the growth of expenditures was steadier and lower than the growth in revenues. The levels of development expenditures were subject to realistic constraints such as skilled labour, resultant recurrent costs, and budget constraints. Within the formal planning process, the government calculated the present value of revenues and expenditures and determined a consumption level in line with these calculations. Investment was, for the most part, required to meet set levels of profitability given the above constraints, and results were studied and reported on a regular basis.

In crisis, the government chose to reduce expenditures and draw down foreign reserves rather than borrow against future re-adjustments in revenues. This was a conservative policy choice as the fluctuations in the terms of trade were widely considered to be temporary. Concessionary long-term loans were used to finance infrastructure projects and short-term liquidity was built up in foreign reserves to guard against such risks as drought, neighbour country transportation access, Foot and Mouth disease, production interruptions, or retaliatory sanctions from South Africa.

In the monetary policy realm, it was necessary to manage conflicting objectives within exchange rate policy. The government's objective was to ensure both the diversification of the economy and a just income distribution. These two goals were often at odds, given the large composition of import purchases in the average household and the desire to maintain competitive, non-mining export sectors. The progress on diversification was positive in that a booming export-manufacturing sector does exist and income distribution was helped through various rural programs and an Incomes Policy.

Weaknesses exhibited by the government were a brief period of over-spending and a slow reaction to economic bottlenecks. The 1987-88 period was a boom period for the economy, generated from increased government expenditures, high bank liquidity, and the lack of drought conditions. The pressure to spend was very high, given the windfall revenues from sales of stockpiled diamonds and the history of short-lived economic crisis in 1981. The lack of serviced land for urban construction was sorely needed, and a program to address this shortcoming was ineffective in addressing this issue.

CHAPTER IV

Introduction

The purpose of this chapter is to synthesize and analyze the information in the previous chapters in order to determine how the government was able to initiate appropriate economic reforms in response to economic crises. The final goal of this thesis is to identify Botswana's success factors in managing economic crisis and draw implications for Africa and further study. This chapter concludes that the ability to initiate appropriate reforms was dependent on elite support and the character of this elite. Furthermore, the ease with which the government was able to initiate reform was increased through the mitigation of opposition through the existence of a drought relief program. This program directly and indirectly compensated poor rural cattle owners and urban low wage earners.

It was established in Chapter II, through an analysis of GDP and historical fact that terms of trade shocks did indeed occur in Botswana in 1981 and 1989. Both of these shocks negatively affected the level of fiscal revenues and put downward pressure on the exchange rate. In order to avoid a balance of payments crisis, economic reform packages were introduced with the goal of reducing consumption and maintaining competitiveness of the non-mining export sectors. The crises and reform packages were analyzed in Chapter III. This chapter concluded that reforms were appropriate in terms of neo-classical economic theory.

The first section of two in this fourth chapter will show that reforms were supported for the most part by the economic elite however the general population was opposed. Supplementing the incomes of the opposition group through a drought relief program mitigated opposition to reform. The second section will outline the policy-making process in Botswana and analyze the influence of different social divisions on that process. This section will demonstrate that elite support enabled the government initiate reforms, but it is the character or nature of the economic elite that facilitates the initiation of *appropriate* reforms. In addition, the democratic process facilitates the existence of opposition to reform, which is fundamentally important in explaining the quality of drought relief programs and their effectiveness in mitigating that opposition. The decision-making process is synthesized in a schematic similar to that described in Chapter I however subtle differences exit. It will be shown that the political decision makers are members of a unified economic elite, which draws its members from all social divisions in Botswana. The broad-based character of this elite prevents Botswana from falling into the poverty cycle experienced by other African countries. This elite uses the state in two ways that closely parallel Marxist theories of decision-making. The first use is as a mediator between wealthy classes from different social divisions using a capitalist ideology. The second parallel is the creation of state autonomy to facilitate the elitist government decisions in economic crisis, which are supported by the dominant economic class. The government is constrained, however, by two forces arising out of the democratic process. The first is the interests of the rural poor and minority tribes. The government feels threatened by influential traditional authorities that could easily mobilize this latent force. The second is tenuous political support from tribes other than the Bamangwato and Bakwena.

Political influence and economic reform

We have reviewed the literature on economic policy reform in less developed countries and surmised that social and political influences are highly detrimental to a government's ability to implement economic policy reform in crisis. We have described the economic impacts of two recessions experienced by Botswana in 1981 and 1989 including an outline of the economic reforms implemented at that time. In our analysis we determined that the government demonstrated the will and ability to implement difficult reform initiatives in crisis. The following section will determine the links between social group influence and the economic policy reforms taken. We will assess the degree of social support for reform and the difficulty of initiation given the structure of social cleavages and the distribution of political resources. Broadly speaking, the majority of Batswana, as rural farmers with multiple sources of income, were not supportive of economic policy reforms. Reforms decreased income for this group by devaluing the Pula. Opposition however, was mitigated by the existence of a drought relief program, which increased income. The economic elite is highly dependent on the export cattle sector and government expenditures in the form of salaries. For the most part, the elite was in favour of economic policy reforms, however, some reforms were opposed. As we will see, the government took actions that attempted to counter the opposition by both popular groups and the elite.

Political support by elites

The unified economic elite was in favour of devalued exchange rates in order to maintain the competitiveness of the export cattle and manufactures sector. The construction sector however, relied on imports of materials and equipment for government housing contracts. Devaluation increased input costs and did not affect sales. Construction, however, was a small sector and did not have much real influence on its own. Interest rate increases and a credit squeeze serve a dual function in that they stimulate the return of foreign reserves and reduce consumption. Foreign investors will take advantage of relatively higher interest rates thereby increasing foreign reserves. For the most part, real interest rates had been negative for most of the 1980s, resulting in an outflow of foreign reserves. Additionally, higher interest rates discourage borrowing and spending in the domestic economy, thereby reducing consumption. The credit squeeze alone would have been sufficient to meet the government's need for foreign reserves in 1982; however, without interest rate increases, domestic firms would be unable to get credit (Harvey and Lewis, 1990). The government increased interest rates as a mitigating reform to minimize opposition to the credit squeeze.

Bureaucrats did not support a wage freeze in either recession. In the first recession, the popular thought among policy analysts was that government spending had been too conservative and wages were not increasing adequately (Hill, 1991). Many bureaucrats knew the level of foreign reserves in the Bank of Botswana and therefore, were in a position to pressure the government to spend. The opposition to a wage freeze, however, was mitigated by the fact that many influential bureaucrats invested their wealth in cattle and therefore, salaries were not their only source of income. The autonomy of the government of Botswana from bureaucratic and other interest groups is well documented and the political support for the governing party was highest among bureaucratic elites due to their ethnic origin (Samatar, 1999). These factors all combined resulted in a weak opposition to the salary freeze in 1981. The same factors hold true for the second recession; however, the opposition to the freeze was even weaker due to the elimination of the Incomes Policy. Only public sector wages were frozen in the second recession, reducing the number of people affected by the freeze.

Neither elites nor the general population would have supported a reduction in government expenditures. It was the feeling of the majority of the population that the spoils of mineral exploitation were not adequately trickling down to the masses in the form of wages or education expenditures. The programs in place through government intervention could not have been reduced for political reasons. In the absence of drought relief programs, opposition to reform would have been much higher than it was.

Rural and urban poor

During the recessions, the majority of Batswana were rural farmers, dependent on multiple sectors for income, particularly the cattle sector, subsistence agriculture, and wages earned in an urban centre or in South Africa. Multiple sources of income often act as insurance against instability in crop and cattle agriculture (Collier and Gunning, 1999). Additionally, a large proportion of expenditures were for imports of food and other necessities. Wage freezes in 1981 affected both private and public sector wages as the Incomes Policy was in effect at this time; however this was not the case after the elimination of the Incomes Policy in 1990, where only civil service wages were affected by a freeze. The private sector consists mainly of lower-wage construction and manufacturing jobs. These wages would inevitably find their way back to the rural areas through the network of family and close friends. In 1981, the wage freeze combined with currency devaluation and sales taxes on fuel, resulted in a real decrease in income. Exchange rate devaluations immediately made imports of food and necessities more expensive. Unemployment in low-wage jobs increased in 1981 due to water shortages as a result of the drought. The combination of these effects resulted in a serious crisis for this social group in 1981.

Drought affected many sectors as shown above, but its greatest impact was on arable agriculture and cattle herds. The drought relief program was planned in the late 1970s when the government commissioned a report and symposium, which predicted the occurrence of drought in the 1980s (Harvey and Lewis, 1990). It cannot, therefore, be reasonably stated that this program was implemented to counter opposition to macroeconomic policy reform, however, the result was just that. The program mitigated the loss of income experienced by rural and urban poor by providing alternate sources of income, food, and subsidized farming inputs. The overall effect was an insurance system that supported more than those directly affected by drought in the rural areas, but also those in the cities that lost employment as an indirect result of the drought.

In the second recession, private sector wages were not affected by wage freezes, due to the elimination of the Incomes Policy. At this time, however, inflation was high and the drought was also putting upwards pressure on prices. Construction sector unemployment had increased due to the cancellation of contracts in the early 1990s, and lower prices in export markets for beef reduced income in this sector. Combined with the currency devaluation, the impact of these effects was a reduction in the real income of rural and urban poor. Again, the drought relief program provided income insurance preventing widespread opposition to devaluation.

Process of decision-making

The following discussion outlines Botswana's decision-making process including an analysis of the economic elite as political elite; the Ministry of Finance as it relates to the political elite; the unity and division-crossing character of the economic elite; and the political resources of social divisions. The schematic (see Figure 14) presents a picture of the decision-making process where the Ministry of Finance creates policy prescriptions for the political elite who is more heavily influenced by the economic elite than any other force. The latent power of unorganized interest groups is represented in this picture.

Political elite

The political elite includes less than 300 people in the cabinet, the National Assembly, the House of Chiefs, and members of the District Councils. Cattle are the largest source of wealth for the economic elite and are also a preoccupation of the majority of the political elite. In a survey of three southern districts, 29% of all families owned 25 cattle or more, however, among the District Councillors, 62% had more than 25 cattle, and 42% had more than 50 head.[12] The statistics of members of the National Assembly were similar in that during the first three parliaments, 27 members were large

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[12] Holm (1972) as quoted in Picard (1987).

cattle owners, 1 was a small cattle owner, and 14 were unknown (Samatar, 1999). Additionally, in the same study, almost all cabinet members own more than 200 head of cattle and seek to become commercial ranchers (Holm, 1988). This shows that the majority of political elites at the centre and regional levels are also the economic elites in each District of Botswana society.

Ministry of Finance and Development

The Ministry responsible for prescribing economic policy is the central player in the development of appropriate economic policy. The staff is highly educated Batswana of aristocratic origin and foreign expatriates employed on a merit basis (Samatar, 1999). The Ministry reports directly to the President and is the highest department in the bureaucratic hierarchy. In 1980, Quett Masire, who was the first Minister of Finance, became the President. The close relationship between the Ministry and the President ensure that economic policy follows the objectives of the political elite.

Political resources of the economic elite

Political resources are, for the most part, endowed on Batswana at birth. The economic elites are the cattle owners who are either traditional authorities or come from aristocratic families. Highly educated bureaucrats have considerably more political influence than the rural poor, however, these people have historically been educated outside the country and have come from aristocratic families. This is slowly changing, however, as the University of Botswana builds advanced programs. The skill in which political influence is used is also important in the case of traditional authorities. At independence, traditional authorities were uneducated. It was their sons and nephews who were the "New Men", educated at foreign schools in the United Kingdom and South Africa. The political system as it exists today is a direct result of the traditional authorities' lack of skill in using their political resources to attain the political system that would maximize their benefit (Harvey and Lewis, 1990). Traditional authorities are now required to be non-political. This affects the decision of chiefs to use their political influence to achieve change. Most tribal chiefs are unwilling to give up their aristocratic title and influence to seek change through political opposition to the government.

Dominant class unity

In his book on the role of leadership and colonial legacy in Botswana, Abdi Samatar (1999) discusses why Botswana has implemented such successful policies. He argues that autonomy from interest groups is essential for successful administrative institutions and that the unity of the dominant class is an essential characteristic of an autonomous state. Samatar goes on to show that class unity can be measured by the existence of a common ideological orientation and resource base. The dominant class in Botswana was united by its desire to pursue goals of wealth maximization. The politicians, being large cattle-owners, desired to see increasing commercialization of cattle ranching, the white farmers wanted to pursue their own ranching and industrial projects free from constraints, and the bureaucrats wished to increase their salaries through promotion in the civil service. The pursuit of rapid economic development through exploitation of diamond resources in a capitalist system satisfied all these demands and acted to unify the political elite.

Economic elite and social division alignment

Aside from the San, each tribe in every district has a hierarchy of cattle owners, with the top end being extremely wealthy. Therefore, each tribe has an influential economic elite with similar objectives. We have established that the political elite is the economic elite and therefore, the loop is closed in ensuring that tribal interests are mirrored in policy-making. In the same vein, the non-elite, rural poor cross tribal divisions. There are some tribes in regions that are significantly poorer than others, but this distribution of poverty tends to follow geographic boundaries, not tribal. The people of the Western desert regions tend to be less well off (Picard, 1987). The mining industry, while concentrated in the Central and Southern Districts, does not provide many jobs and therefore, the majority of people from all Districts must travel to obtain wages.

There do not appear therefore, to be major regional differences in economic standing among tribes, which has enhanced the ability of the government to initiate reform. Labour is free to move within the country to pursue work opportunities and each

District has representation in the Legislative Assembly. This is not to say that there have not been troubles in the past with regional domination. For example, there are quotas in the European and South African cattle export markets, which have higher prices than the world market. Excess sales above the quotas must be sold in the lower priced world market. The more slaughter that is demanded, the lower the average price obtained for cattle exports. Domestic quotas are established when domestic slaughter demand exceeds capacity. The large quotas tend to be held in the Southern Districts and therefore, there has been conflict between Northern and Southern producers for increasing the slaughter capacity of the nation (Harvey and Lewis, 1990). Two additional abattoirs have been built: a small operation in the city of Maun in Ngamiland District in 1983, and another in Francistown in 1990. The construction of these two abattoirs demonstrates that regional economic divisions have been overcome for policy-making.

Many economic elite interests are aligned with urban interests. The high concentration of waged labour in the cities compared to the countryside endows the cities with a relatively greater degree of wealth and many of the bureaucratic and political elites maintain dwellings in urban areas. Therefore, the degree of urban political influence over economic policy reform initiation has the potential to be quite high. There are factors, however, that mitigate the political influence of the urban social division. First, as explained earlier, many people in the cities are directly aligned and financially support rural families. In addition, the bureaucratic and political elites often maintain cattle herds as a store of wealth and investment. These characteristics of urban life act to unify economic objectives of the urban/rural division.

There are two additional language and ideological social divisions that are not in any way aligned with economic divisions within Botswana society. The language division is also a tribal division, which as explained above, has an economic elite with similar objectives as other tribal economic elites. The Francistown District, home to the Kalanga-speaking minority tribe, has been quite influential in opposing government policy over the period of study, and very influential political elites have origins in this District. Tribal authorities in Botswana are disproportionately within the economic elite. Chiefs are often the largest cattle owners in their regions and therefore, their economic interests are aligned with the political elites and policy-makers.

Importance of broadly supported economic elite

In an insightful article written by Paul Collier and Jan Gunning (1999), disproportionately slower growth in Africa is explained in the following manner:

> In essence it is the following, Africa stagnated because its governments were captured by a narrow elite that undermined markets and used public services to deliver employment patronage. These policies reduced the returns on assets and increased the already high risks private agents faced. To cope, private agents moved both financial and human capital abroad and diverted their social capital into risk-reduction and risk-bearing mechanisms. (p.100)

Newly independent governments were a highly educated elite separated from the rest of the population. This conclusion complements our findings. The important concept in Botswana is that the economic elite is a united class of people from different social divisions that are well represented in government, right up to the President. The economic elite is not, therefore, "narrow". This unity of divisions promotes political stability during economic crisis and enables the government to respond in a timely and effective manner to crisis.

Secondly, Collier and Gunning observe that the narrow elite undermines markets through their interests in import-substituting industries. At independence, the majority of industry in African countries were owned by minority groups, be they European, Chinese, etc. Botswana, at independence, possessed no industry aside from cattle. The British had administered Bechuanaland as a labour reserve for South African mines and made very little if any capital investment in the country (Harvey and Lewis, 1990). The extreme poverty and scarcity of capital at independence directly affected the interests of the new economic and political elite. In addition, the cattle industry was an export industry, unlike the import-substituting interests of other unsuccessful African political elites (Collier and Gunning, 1999). By focussing on a non-mining export industry, the political elite increased Botswana's openness to trade. Openness to trade is statistically important in explaining Africa's poor economic growth performance and is an important component of neo-liberal economic theory (Collier and Gunning, 1999). The favouring of import-substituting industries leads to government interventions in the market that thwart efficient allocation of resources and decrease productivity. Collier and Gunning cite many examples such as taxes on export agriculture; subsidized urban prices; and banking system controls on interest rates and credit.

The final observation from Collier and Gunning's work that is relevant to Botswana is that the legitimacy and accountability of the political elite has directly influenced the effectiveness of the public service and the low level of corruption. Many unrepresentative governments in Africa are under pressure from a narrow base of supporters. The lack of freedom for public protest ensures that public services benefit this small pressure group and project performance tends to be poor. Other groups gain access to the government through bribes and payoffs. These governments tend to be weak and autocratic encouraging uncoordinated and competitive corruption. Botswana has one of the most efficient and effective public sectors in Africa with a very low level of corruption (Raphaeli et al., 1984). The efficiency of welfare programs such as drought relief can be attributed to the effectiveness of the public service and the existence of public protest.

Role of the state

There are two ways in which the policy-making process in Botswana operates along Marxist lines. The first parallel is that in Botswana, the state acts as a mediator between social divisions (or classes) within the economic elite, using a common interest (cattle) and a mutually agreeable ideology (capitalism). Social divisions such as traditional authorities and young, educated bureaucrats draw their wealth from investment in cattle, which creates a common interest and unites these elites as described above in the preceding section. The unified elite has chosen capitalism as its ideology of choice to further economic gains. The state explicitly agrees to uphold the elite interests through use of the agreed upon ideology until which time a new dominant class arises. The state also mediates between different economic classes, the economic elite and latent, unorganized forces to mitigate opposition to government policies.

The second parallel is to Neo-Marxist thought, which is the creation of an autonomous state capable of making economic policy loyal to the dominant class interests and ideology in economic crisis. The manifestation of this in Botswana can be interpreted to also mirror parts of Elitist theory on decision-making in the sense of a paternalistic elite making policy on behalf of the ignorant masses. Embedded autonomy was also an essential characteristic of successful economic reform in the case studies detailed in Chapter I. The substance of the state, however, more closely resembles Neo-Marxist rather than Elitist thought given the demonstrated concern for those outside the elite through such things as the investment in education programs; the introduction and implementation of the drought relief program; the revaluation of interest rates in the early 1980s; and the Botswana Housing Corporation. State autonomy will ease the initiation of difficult economic reforms that face opposition. Samatar (1999) argues that state autonomy in Botswana was facilitated by a number of factors including a unified dominant class; the absence of other mobilized social groups; and popular and determined leaders with foresight.

Constraints on the government

There are two factors constraining the power of the economic elite to monopolize power over the government decision-making process. The first is the ethnic basis of voting that is prevalent in Botswana elections. The second is the latent power of the, as yet unorganized, rural poor and minority tribes. These two groups indirectly influence the decision-making process and policies chosen.

Ethnic influence on political elite

The BDP has had its strongest show of support within the traditionally strongest tribes in Botswana, the Bamangwato and the Bakwena. Popular support has not fallen below 73% in any of the Districts within the two tribes since independence (Holm, 1988). Interestingly enough, the change in Presidential leadership to Quett Masire in 1980 due to the death of Seretse Khama did not hamper these statistics. This is particularly interesting considering that Masire comes from one of the rogue opposition tribes, namely the Bangwaketse, who has consistently voted for their former chief, Bathoen II and the BNF. This shows that tribal affiliation is with the party and not the leader. This support does not necessarily mean complete satisfaction with government policies; however, the general feeling within BDP supporting tribes is that to vote against the BDP would be an act of "communal disloyalty" (Holm, 1988).

Outside these two Districts, the BDP has not faired as well, taking only 54% of the vote in 1969 and 1984 (Holm, 1988). In 1994, the opposition increased their number of seats to 13 from three, taking 37% of the overall vote, the highest share since 1969 (EIU, 1996). The increase was attributable to an increase in the number of urban seats, all won by the BNF. Historically, opposition has come from three fronts: the rural minority tribes such as the Kalanga in the Northeast; the traditional rural authorities which have turned political, such as Bathoen II and the BNF party; and, third, the dissatisfied urban voice. The BDP has been most concerned with opposition from rural ridings rather than the urban vote. John Holm (1988) shows that the urban vote tends to follow ethnic patterns, such as the large town of Selibe-Phikwe. This town has continuously supported the BDP as most workers come from the nearby Bamangwato tribe. Areas of the capital, Gaborone, exhibit the same characteristics. The urban vote also demonstrates the satisfaction or dissatisfaction with the current economic climate, as support for the opposition tends to increase in elections that follow recessions, especially in urban voting. The 1984 and 1994 elections were immediately following large recessions where an economic policy adjustment was to freeze wages. It was possible to ignore the urban dissatisfaction vote in the past, given the urban/rural composition of the country. This is slowly changing, however, as the country is becoming more urbanized.

Latent power of rural poor and minority tribes

A discussion of the relevance of the concept of the free rider problem is necessary given that, on the surface, it appears that the rural poor, who are the majority, have not organized in opposition to the ruling class and its economic agenda. This is obviously true, however, there are a number of factors that can be argued to affect this lack of organization other than the problems of collective behaviour. The first is that the rural poor have access to their political leaders through the *kgotla*. Policies are at least given the appearance of public consultation through this institution. Second, rural life in Botswana is still essentially a traditional life with the chief as the central authority. Many rural poor would not aspire to organize outside this traditional structure (Picard, 1987). Third, the government has been sensitive to the latent potential to organize around traditional authorities and has therefore, implemented mass programs without bias to regions and tribes. These programs have addressed the needs of rural poor (drought relief) and traditional authorities (Accelerated Rural Development program).

The BDP see the greatest political threat from an alliance of non-Setswana speaking minorities and discontent traditional authorities (Picard, 1987). The chief has influence with the general populace through the *kgotla*, the community forum, and can garner support or opposition for programs and election campaigns without much effort. In fact, the *kgotla* is the only means the government has of communicating with most of the rural and isolated population, which the chief has ultimate control over. The BDP has reacted to the rural threat of opposition in three ways. First, it has used the District administrations to keep an eye on tribal chiefs and the political activity within their region, often warning the President directly of any overtly political conduct by chiefs (Picard, 1987). It must be remembered that the international threat from South Africa during the white minority rule was very real as a threat to Botswana's national sovereignty. The surveillance of possible government opposition was rendered acceptable in this climate.

Second, the BDP has played down its ethnic base and actively recruited or co-opted potential opposition into the fold (Picard, 1987). Before the 1969 elections, Chief Linchwe was offered an ambassadorship in the United States in order to keep him from overtly supporting the opposition during the election. Daniel Kwele of the Kalanga tribe was offered the position of Secretary to the Council after he was rejected as Presidential candidate in the BNF. He continued to vocalize opposition to government policy; however, he could not play a political role from his position in the bureaucracy. The third method of political containment practiced has been to ensure that government programs are implemented equally across all Districts and tribes. John Holm (1988) quotes an expert examining the drought relief program who concluded that it was impossible to target the most vulnerable groups because the government is obsessed with the political need to not appear to favour a particular region or ethnic group.[13]

In this way, the rural poor and minority tribes do not have to organize in order to affect the decision-making process. The countervailing force that this group has on the power of the economic elite can be found in pluralist literature on decision-making. This theory states that powerful interests will be prevented from monopolizing and capturing the government by the formation of countervailing groups who oppose the interests of the powerful group. Possession of political resources by a group such as this is only possible in democratic state structures as this influence is endowed solely through the political process of elections and party affiliation.

Conclusion

The purpose of this chapter was to determine how Botswana was willing and able to introduce appropriate economic reforms in crisis. The principal finding is that the reforms were supported by a majority of the economic elite, who possess a disproportionate amount of political resources. Two aspects of the character of the economic elite are important in understanding why this simple finding has resulted in such success. First, the economic elite draws members from all social divisions in

Botswana society. The effect of this unity is to minimize these divisions and the inefficient conflict that can arise after a terms of trade shock. The second aspect is that the unifying interest of the economic elite is a non-mining, export industry (cattle), which is precisely the type of industry that appropriate neo-liberal policy prescriptions are designed to protect.

This is not to say that initiation of appropriate reforms was easy in Botswana. There was opposition to reforms by the more numerous but less politically influential, however, programs such as drought relief inadvertently offset any loss in income arising from the initiation of economic reforms. Opposition to reform has been evidenced in elections that follow recessions, where the political opposition has consistently increased its share of the vote. In this sense, the possession of political resources is necessarily contingent on the existence of a democratic process in Botswana. The broad-based nature of the economic elite allowed democracy to flourish in Botswana. The government's fear of the organization of the rural poor and minority tribes is real and results in effective welfare programs that directly affect the types of economic reforms introduced.

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[13] Tabor (1983) as quoted in Holm (1988).

THESIS CONCLUSION

The objective of this paper was to identify the factors important in understanding Botswana's success in initiating appropriate economic reforms during the economic crises of the early 1980s and 1990s. It is hoped that the factors identified can be applied to other sub-Saharan countries in their quest for stability and development. The following section summarizes four factors drawn from the above study and describes the implications of these factors for Botswana and other sub-Saharan African countries.

Common interest

One of the most important factors in Botswana's success is that the division of the economic elite in Botswana society, who are also the political elite, crossed other social boundaries. The economic elite in Botswana is defined by ownership in the cattle sector. Economic elites can be found in almost all tribes in Botswana, effectively muting any tribal-based opposition to economic reforms. This applies to the non-Tswana minority tribes in the Northeast as well as the less powerful Tswana tribes. Additionally, economic elites can be found in the urban demographics given the propensity to use cattle as a store of wealth for the rich urban dwellers. The majority of poor urban dwellers form part of a network of family and friends, tying them back to rural, cattle-dependent farms. The very poor rural people that do not own cattle are often employed in the cattle sector on large ranches in their region (Harvey and Lewis, 1990). In fact, there is not one social division in Botswana that does not depend on the cattle sector in one form or another.

This common interest ensured that most Batswana on some level accepted the need for economic policy reform, even if they opposed the reform due to the potential for personal loss. This fact served to mitigate opposition to reform and ease the initiation process. A common interest ensures that traditional authorities support economic reforms. This group is a potential source of political opposition to the government and can easily mobilize the rural masses against government initiatives if so desired. One must also consider the nature of this interest. Given that it is practically a universal concern, which crosses demographic divisions, economic policies have not favoured urban groups over rural ones, a typical problem in other less developed countries. Policies therefore, have ensured that the urban political influence is mainly along ethnic lines, which has been shown to ensure a common interest and increase the ease of economic reform. In addition, the economic interest is a non-mining, export industry in an economy dependent on a commodity (diamond) export market. Neo-liberal economic policy prescriptions are ideal for protecting this industry.

Stability

The second factor is the stability of the economic and political elite. This group is also unified by their ideological orientation. Unity of ideological orientation is not as secure as the resource base, however. The traditional authorities have often flirted with socialist ideology, and in fact the long-time leader of the BNF, a former traditional chief, had an unapologetic socialist platform. This has subsided in recent years as the country has come to accept the ideas of capitalism. The unity of economic interests, however, has contributed to the stability in Botswana in that traditional authorities have not had a large enough personal incentive to seek change. The costs of politically challenging the government involve the abandonment of tribal authority and power. The spoils of a political victory would be ideological change only. A parallel with Marxist thought is obvious here in that the ruling class is using the state to ensure the hegemony of its preferred ideological paradigm. Class struggle, if it occurs, will surely arise from an economically oppressed group, who do not see their interests represented in government. In Botswana, we have shown that, other than the San tribe, this group does not yet exist.

Welfare programs

A third important factor in the successful initiation of economic reform in Botswana was the existence of a drought relief program at critical initiation points. It was mostly poor rural people, who faced a decrease in real income, who had the most to lose from the implementation of the reform programs. Reform packages froze wages, devalued the Pula, and imposed a sales tax, all of which directly affected income and decreased purchasing power of cattle-dependent communities. Additionally, the drought affected urban industry by cutting off water supplies and forcing layoffs. The drought relief program transferred income to the rural poor at the same time as the reform packages were decreasing their income, effectively offsetting each other. Therefore, the existence of the drought relief program and the timing of the droughts were essential factors in the successful initiation of economic reforms.

What the drought relief program also did, aside from transferring income, was ensure that the demographics of the population did not change and in fact became more rural. Faced with a loss in wealth from sales or the death of cattle, the drought relief program ensured that rural people were not forced to migrate to the urban centres to search for wages and income. Unemployed wage earners were able to return to families and friends in the rural regions for support. In effect, the program mitigated the urban opposition to economic reform initiatives by thinning the urban population base. The Botswana government would have been ill prepared to deal with the consequences of a large demographic shift to urbanization. Typically, problems arise in the provision of housing and employment. These problems may quickly escalate and lead to strong political opposition to reform, pressure for subsidies, environmental degradation, extreme poverty, and ethnic rivalry.

Incentive to consider non-elite interests

One of the important tenants of the Classical Pluralistic theory of decision-making is that government will consider the interests of less visible groups and the collective good. For this concept rests on the notion that there exists a democratic structure that facilitates decision-making. The premise is that it will be politically expedient to consider the interests of the unorganized majority. It has been shown that the political elite is subject to ethnic influence. Voting patterns have shown that political alliance is more strongly correlated with ethnic or tribal divisions than with political platforms. In this sense, the government knows that it is susceptible to alliances along these lines, especially in light of the political resources owned by traditional authorities.

In response to the potential threat from ethnic divisions, the Botswana government has exhibited the same kind of behaviour dictated in the Classical Pluralist theory. This can be seen in its design of the drought relief program, Housing Corporation, and education programs. In addition, programs have been implemented with an eye to equality to ensure that the government does not appear to favour any one group. One could argue, therefore, that the potential threat of opposition organisation has created a political need to please groups that are not within the economic or political elite. These programs, therefore, substantively meet the needs of those with few political resources. In sum, the multiparty, functioning democracy of Botswana can be shown to be a direct influence on the quality of the public programs. This argument, however, does not necessarily extend itself to an explanation of the existence of the programs. There is evidence that these programs were initially implemented to meet the needs of the cattle sector and the economic elite, and therefore, the argument that democracy is the driving force behind all public programs is muddy.

Implications

In analysing the above factors, it is possible to see that a hierarchy exists. The factor of primary importance is the existence of a common interest that transcends social divisions within the society. The other three factors are of secondary importance and their value flows directly from the primary factor. A breakdown in the existence of a common interest will directly affect the stability of the political system, the existence of welfare programs, and the incentive to cater to non-elite interests. In addition, the foundation of democracy in a country like Botswana will be destabilized and could lead to a reversal of the gains made with respect to democratic institutions. This analysis supports the observations by Collier and Gunning (1999) that very often, what happened in African countries after independence was that a small, highly educated elite, were separated from the masses and formed the government after independence. This elite institutionalized their unrepresentative nature in an autocratic government supported by a narrow economic interest, usually an import-substituting industry. This led to inefficient government intervention in the economy, an unresponsive public sector, and corruption. A government such as this will not follow appropriate economic policy reform in crisis.

This discussion leads to two conclusions for action and study. The conclusion for future action for development in Africa is that one of the most beneficial pursuits for changing the success of economic reforms in sub-Saharan Africa is to work towards increasing the connection between the political elite and the populace by building a common economic interest among important and powerful social divisions in a society. The objective is that the political elite unifies divisions in society rather than marginalizes them and is accountable to all people in the society. This will ensure the implementation of risk-reducing welfare programs and therefore reduce opposition to risk-enhancing economic reforms.

The second conclusion is for the future direction of studies that attempt to model disproportionately slow growth in Africa as compared to other regions. These studies have been unable to find adequate proxies for measuring the social capital within civil society and between the government and civil society (Collier and Gunning, 1999). Proxies in the endogenous growth literature have been measures for the degree of democracy and ethnic fragmentation. It seems that the existence of democracy in a country may be endogenous to the equation for growth performance in that the character of the political and economic elite will determine if democracy is the ideology chosen to manage a society and it is, therefore, this character that is better suited to describe the potential success of a country's economic policy. Ethnic fragmentation is only the first step in the process of describing the underlying character of the economic elite. The degree of fragmentation will describe the number of social divisions in a society. The important characteristic in understanding Botswana's successful economic elite was not the number of fragments in the society but the commonality of their interest or social capital. Ideal proxies will measure the breadth of the supreme economic interest within the society. Examples of such measures that may describe this commonality could be the intra-distribution of wealth and the inter-distribution of industries of ethnic fragments in a society.

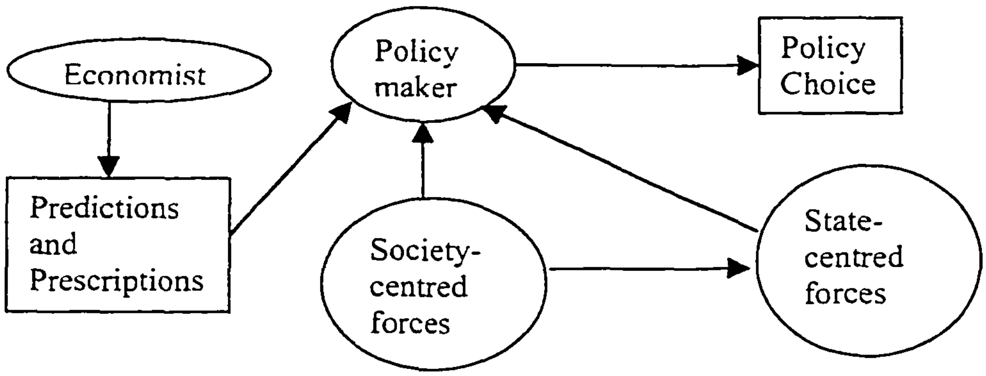
One can imagine what would happen to Botswana if the common interest that unites tribes and traditional authorities is destroyed by the appropriation of diamond revenues by political elites for personal gain, as is typical of many single resource-rich countries in sub-Saharan Africa. This new source of wealth would negate the need to invest in cattle and immediately diversify the resource base that is unifying the ruling class. In addition, the priority of the diamond-rich political elite would change to assuring the health of the diamond export sector rather than the cattle sector. Policy prescriptions in economic crisis may differ than in the past if the priority has changed in this manner. This could be a foreseeable source of conflict within the political and economic elites. As was shown in the previous section, there is potential for opposition from traditional authorities, however, it has remained latent due to the lack of net personal gain from this pursuit. Wealth from diamond revenues would change the stakes and inevitably invite the organization of opposition under the guidance of traditional authorities. A potential threat to democracy therefore exists, given the history of opposition by traditional authorities and their support for socialist ideology.

In addition to political destabilization, the existence of welfare programs and the quality of those programs will be in jeopardy if the priorities of the government and the distribution of political resources change. A government whose priorities are diamond exports may not be whole-heartedly interested in implementing or maintaining a drought relief program, or any other type of welfare-oriented program. This would directly affect another one of Botswana's major economic reform success factors.

In conclusion, the lessons that can be taken from this study are that Africa has the potential to improve its growth performance exponentially. Botswana's growth patterns were the highest in the early years, mainly due to the level of poverty when it first gained independence. Botswana may have been lucky in the circumstances it was left with when it gained independence in 1965. The new government was forced to start from scratch and was able to exploit diamond resources found shortly after independence. What this paper shows, however, is that these initial conditions in Botswana are not dependent on the origins of their existence. They can be created and nurtured by a government that is legitimate and accountable to its people and by a people who strive for growth and the health of their economy as a whole.

FIGURES

Figure 1: The Economic Policy-Making Process



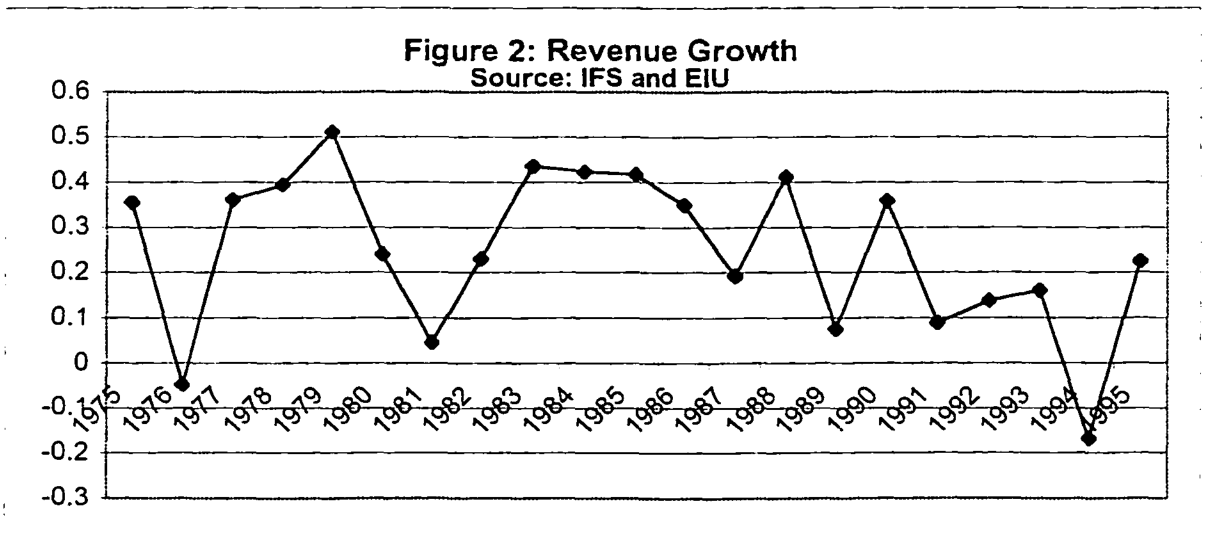


Figure 3: Savings

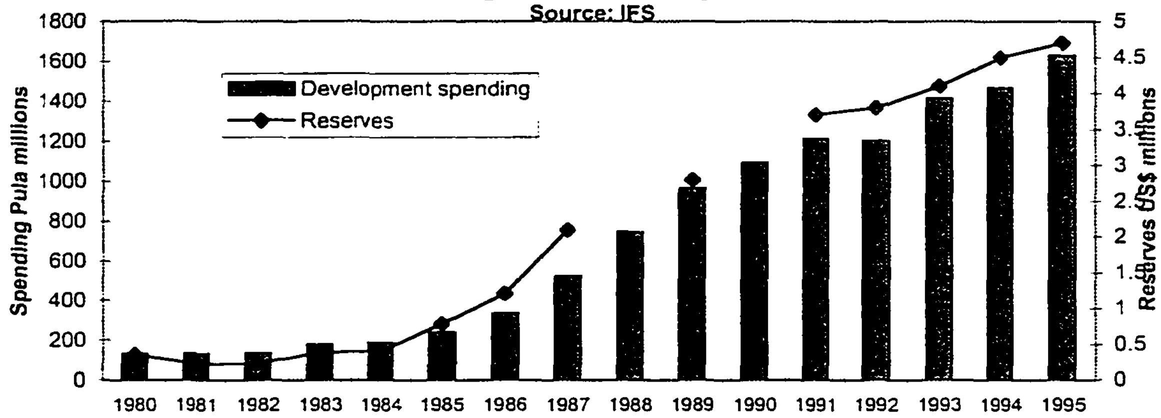
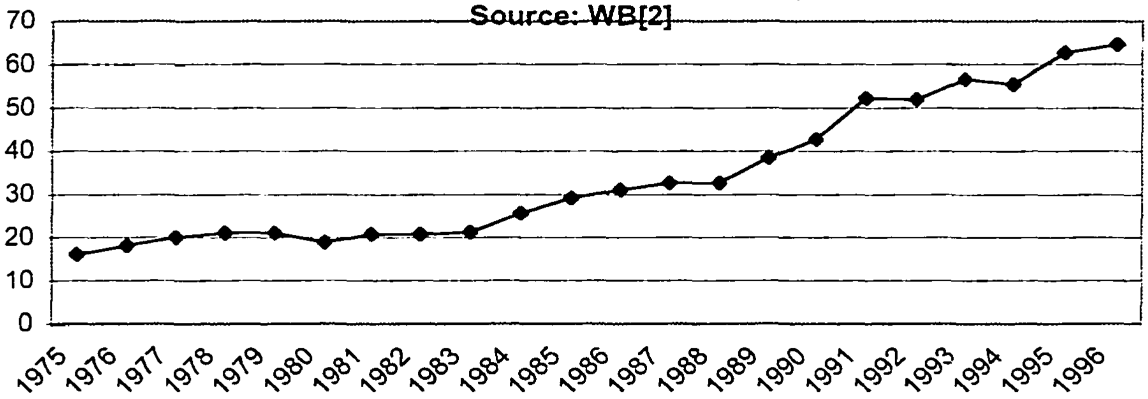


Figure 4: Secondary School Enrollment (% of Applicable Age Group)



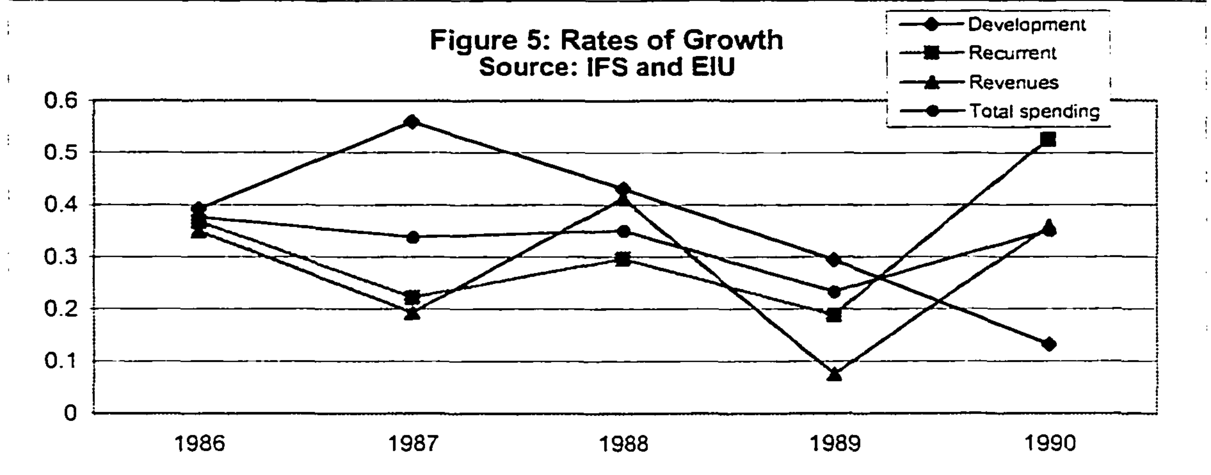
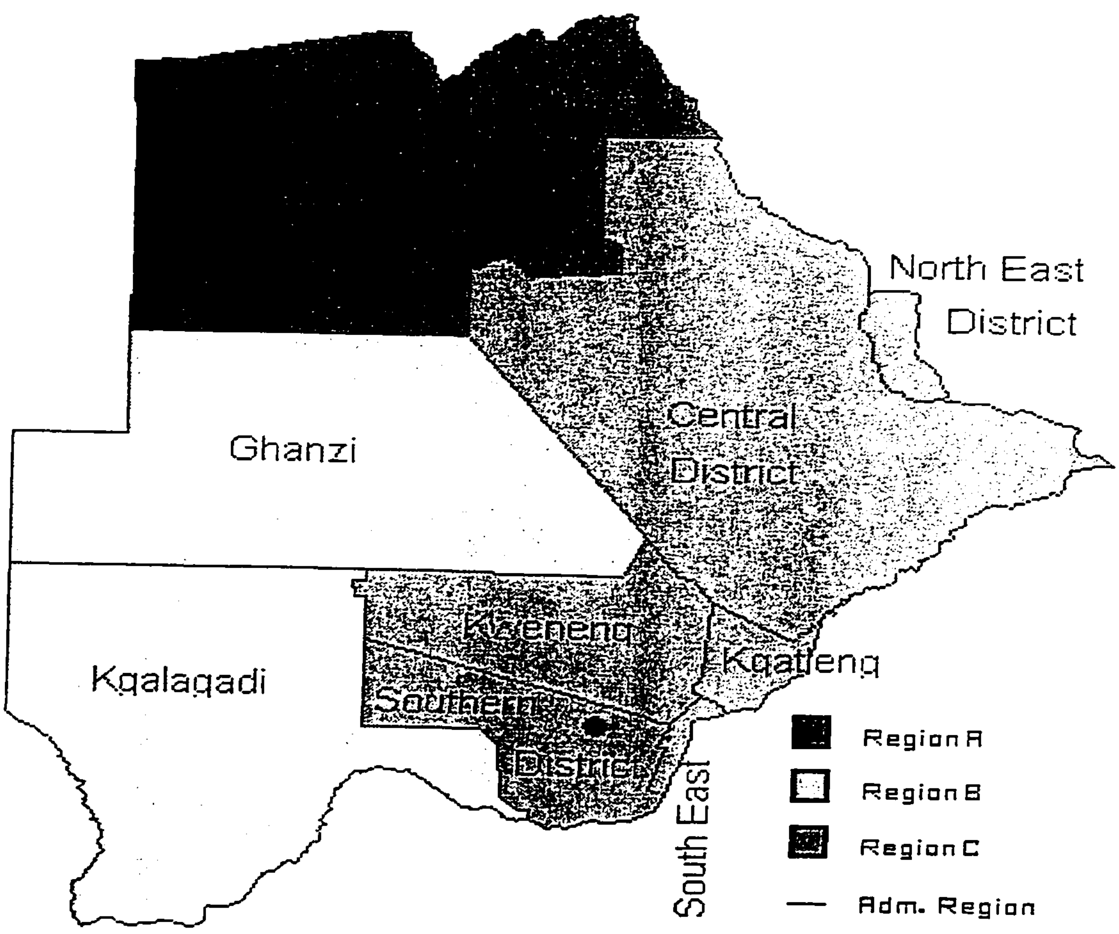


Figure 6: District Boundary Map



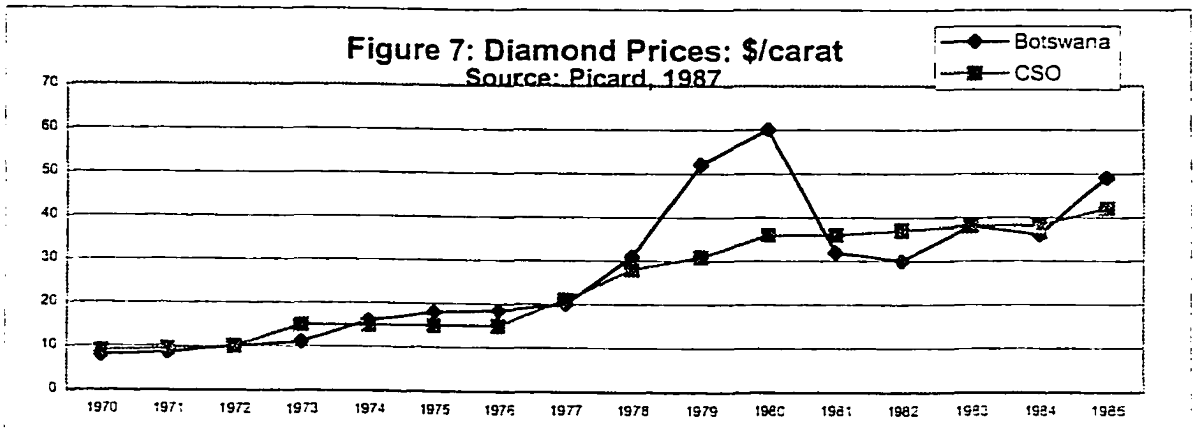


Figure 7: Diamond Prices: $/carat
Source: Picard, 1987
Botswana
CSO
0
10
20
30
40
50
60
70
1970
1971
1972
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985

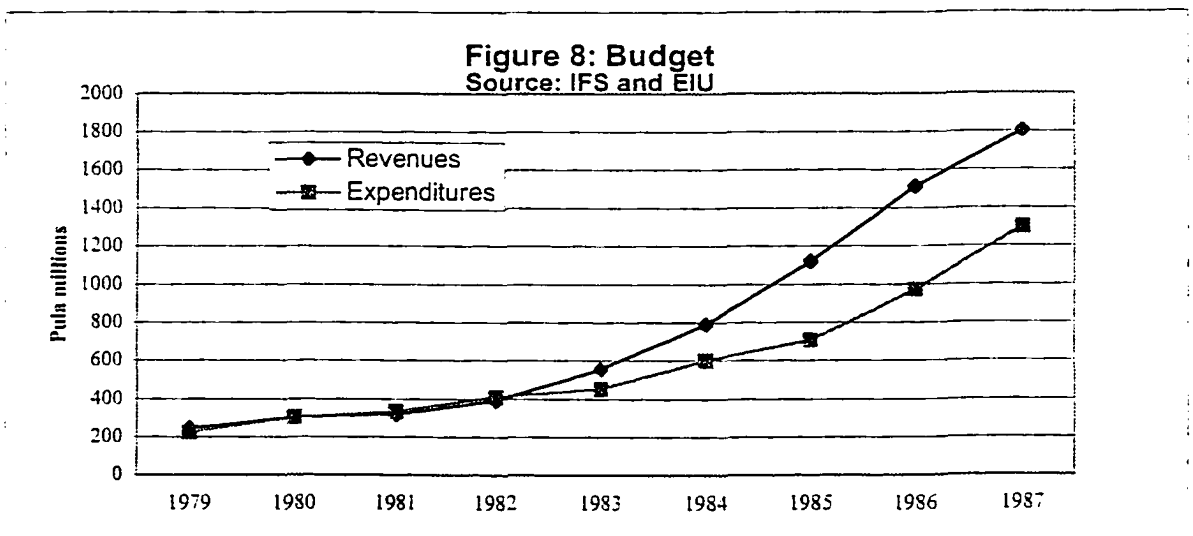


Figure 8: Budget
Source: IFS and EIU
Revenues
Expenditures
Pula millions
0
200
400
600
800
1000
1200
1400
1600
1800
2000
1979
1980
1981
1982
1983
1984
1985
1986
1987

Figure 9: Revenue Breakdown
Source: IFS and EIU

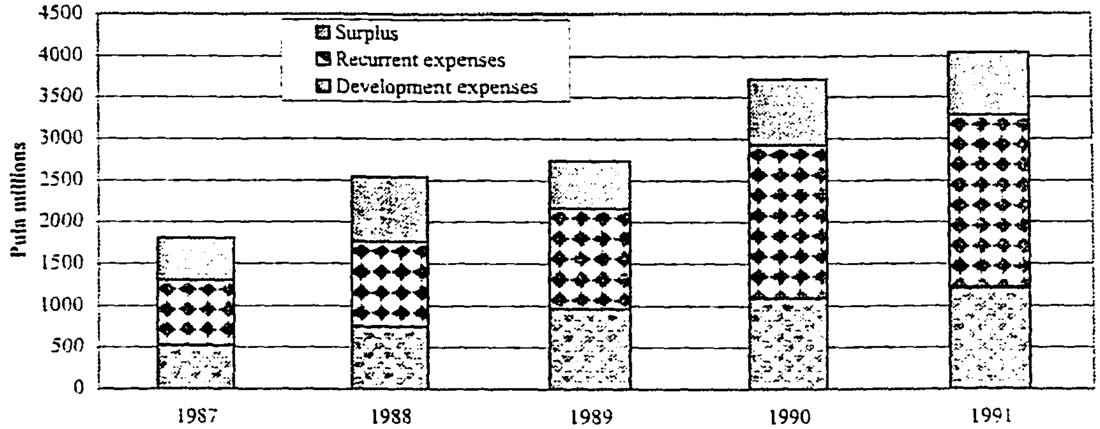


Figure 10: Real Imports
Source: IFS

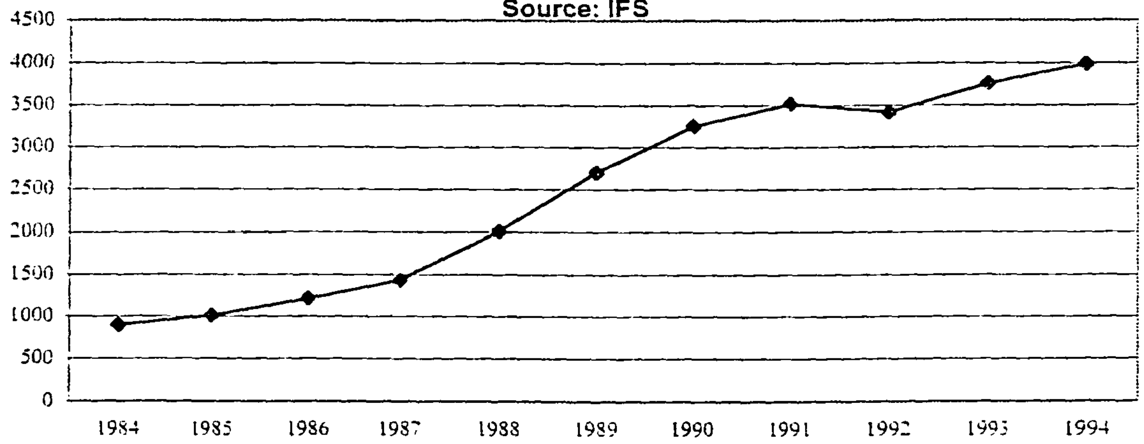


Figure 11: Real GDP
Source: EIU

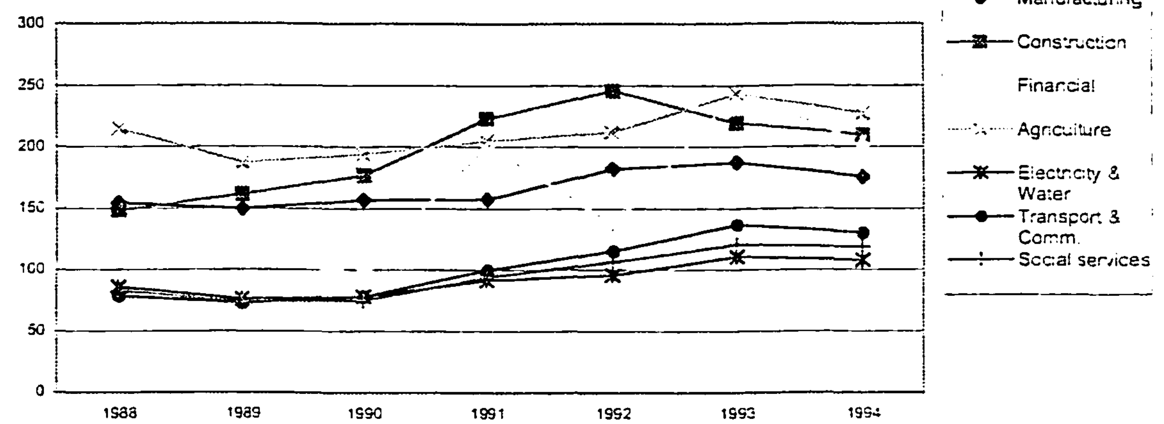
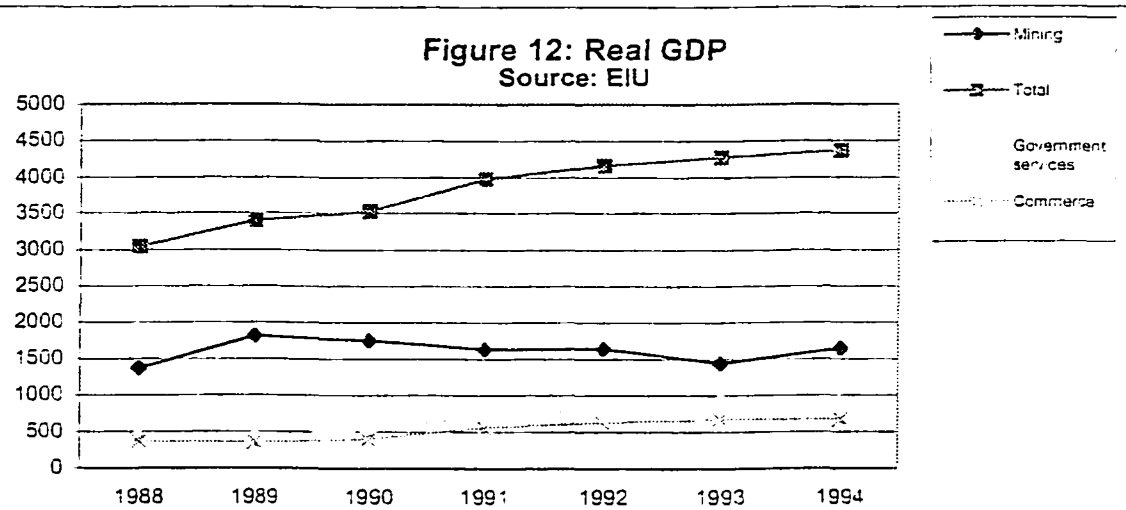


Figure 12: Real GDP
Source: EIU



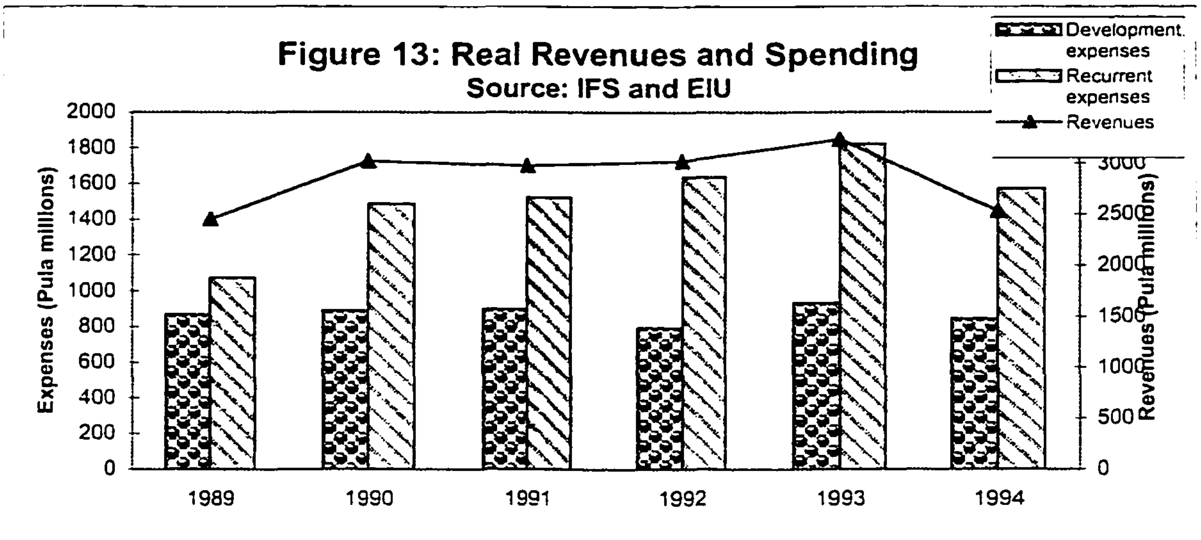
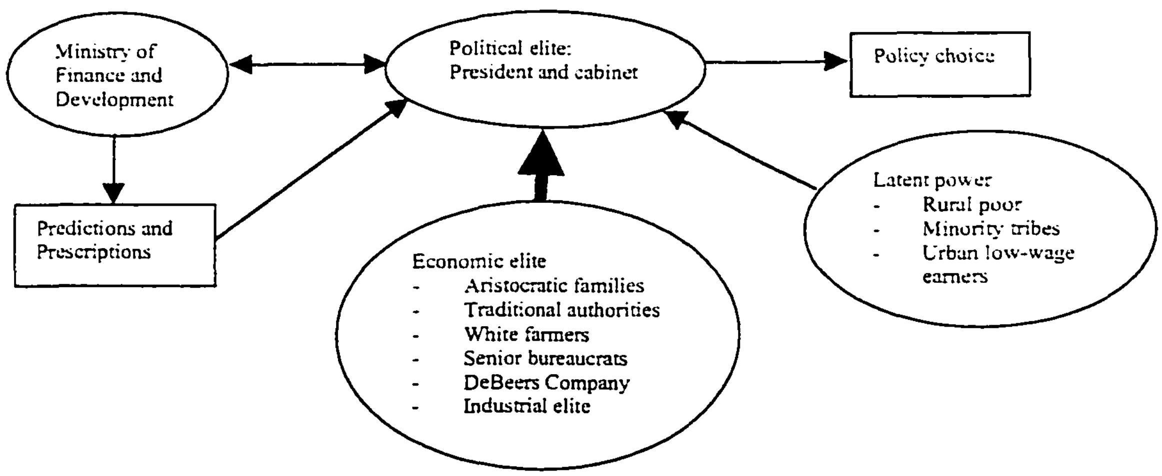


Figure 13: Real Revenues and Spending
Source: IFS and EIU

Figure 14: Schematic of Botswana's Economic Decision-Making Process



TABLES

Table 1: Composition of GDP

	1976	1986	1988	1993
Agriculture, fo	24	4	5.5	5.2
Mining & quar	12	47	53.3	37.4
Manufacturinc	8	6	4.4	4
Construction	7	3	4.7	4.8
Electricity & water			2.2	2.5
Transport & communications			2.1	3
Trade, hotels	16	18	10.3	15.2
Financial services			2.7	4.6
Government s	14	13	12.5	20.6
Social & personal services			2.3	2.7
Other	19	9		
Total	100	100	100	100

Source: EIU country profile, Harvey and Lewis (1990), Bank of Botswana annual report

Table 2: Diamond Exports
Pula millions

	Total exports	Diamond exports	Diamond expc as % of total	Botswana exports as % of CSO sales
1970	18.3	3	16.4	0.7
1971	30.34	5	16.5	1.2
1972	44.81	20	44.6	3.1
1973	59.2	20	33.8	2.2
1974	81.99	30	36.6	3.5
1975	105.04	32	30.5	4.1
1976	153.17	37	24.2	2.8
1977	156.65	46	29.4	2.6
1978	192.68	75	38.9	3.6
1979	367.25	186	50.6	8.8
1980	391.3	238	60.8	11.2
1981	347.8	135	38.8	11
1982	494.3	243	49.2	18.9
1983	707.5	464	65.6	26.4
1984	857.1	616	71.9	29.7
1985	1384.3	1049	75.8	30.5
1986	1619.3	1226	75.7	25.6
1987	2664.7	2253	84.5	43.7

Source: International Financial Statistics, Harvey and Lewis (1990)

Table 3: Mortality and Life Expectancy Trends

	1970	1980	1990	1997
Mortality per 1	139	94	62	88
Life Expectan	52	58	57	47

Source: WB[2]

Table 4: Tswana Tribes and Districts
% of Setswana-Speaking Population

Tribe	%	District
Bamangwato	45	Central
Bangwaketse	16	Southern
Bakwena	16	Kweneng
Batawana	9	Southern
Bakgatla	7	Kgatleng
Bamalete	3	Southern
Barolong	2	Southern
Batlokwa	1	Southern

Source: Picard, 1987

Table 5: Sub-sectors and Employment in Manufacturing
Pula million, 1980 prices

Sub-sector	1980	1982	1984
Dairy and agr	1.1	2.4	0.2
Beverages	3.2	9.6	7.7
Bakery produc	0.3	0.4	0.4
Textiles	4.5	5.9	6.4
Tanning and l	0.7	-0.4	0.3
Chemical proc	0.6	1.6	1.9
Wood and wo	0.5	0.4	0.3
Paper product	0.6	0.8	1.7
Meal products	-0.3	1.4	5.3
Other manufa	4.3	10.9	6.4
Village industr	4.7	5.2	5.6
Total	20.2	38.2	36.2
Employment	5600	7200	9500
BMC	9		7.8
Total	29.2		44
Other as % of	4.1		6.3

Source: Harvey and Lewis, 1990

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