

**Look Botswana, No Hands!
Why Botswana's Government Should Let the
Economy Steer Itself**

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I. Introduction

This paper is a study of how the institutional levers of government affect economic activity. The underlying logic is that changes in the “rules of the game” can affect economic outcomes. When changes in the rules of the game leave property rights more well-defined, the production possibilities curve shifts outward; if we move towards the collectivization of property rights, the production possibilities curve shifts inward.

Unfortunately, most revisions of property rights laws in the developing world have involved inward shifts of the production possibilities curve (PPC). In sub-Saharan Africa, poor government decision-making has left many countries no better off today than they were at the end of colonialism. When communism collapsed in Eastern Europe and the former Soviet Union, we were able to observe just how costly the command and control approach of communism can be to individual well-being. Yet, many parts of the world have yet to learn from past mistakes. There remains a deep desire, in the individuals in power, to control economic systems and the people living within particular regions. Only time will tell how far the PPC shifts inwards in places like North Korea, Zimbabwe, and Rwanda.¹

Despite their best efforts, governments seldom improve economic outcomes. We do not have a useful model for how a government can go about reforming an underdeveloped economy. In fact, one would be hard-pressed to find more than a handful of cases where underdeveloped countries have been successful in making the jump to middle-income or high-income economies, though there are a few exceptions worthy of detailed examination.

¹ The relationship between political institutions, policies, and growth has been the subject of a great deal of debate among economists. Most recently, Glaeser et al. (2004) find that good policies, especially when pursued by a dictator, lead to better political institutions and higher economic growth.

This paper explores one of these exceptions. Since independence, most African countries have endured an “African growth tragedy” (Easterly and Levine 1997). In many of them, the overall level of development today is no higher than it was in 1970. Like most African countries emerging from colonialism, Botswana was an extremely poor nation at the time of independence. Unlike most other African countries, Botswana managed to escape Africa’s poverty trap. Without much foreign aid, and in the absence of a large state, Botswana went from being the third poorest nation in the world in 1965 to an upper-middle income nation today. Between 1966 and 1996, it was the fastest growing nation in the world. While so many newly independent African nations chose anti-capitalist, statist routes as they emerged from the devastating experience of colonialism, Botswana’s leaders chose the path less traveled.

Why did Botswana’s leaders and citizens choose to approach development differently than most African countries? More importantly, how did their decisions affect economic development? Botswana grew because it made steady strides to secure property rights and limit the government’s role in the economy. To return to our PPC discussion, Botswana’s leaders actually followed basic microeconomics. They sought to expand the production possibilities curve by changing the rules of the game for the better. Botswana’s economic success was really quite simple; by choosing to respect the rule of law, protect property rights, and limit the government’s scale and scope, Botswana was able to enjoy steady economic growth.

I should make one final note regarding my research methodology. Since sub-Saharan African data is often inaccurate, dirty, or completely lacking, I use original, on the ground field work and conventional data sources to support the claims being made

throughout this paper. The research approach readers will find in this paper could be described as an ethnographic approach.² My research is based on seven weeks of fieldwork, a lengthy review of historical examinations of Botswana, and an extensive survey of the University of Botswana's historical archives. In all, my team of researchers conducted 35 interviews with businessmen, government officials, expatriates, and local citizens during the summer of 2004 in Botswana. By being on the ground in Botswana, we were able to get a better feel for the policies that are promoting and hampering growth. One final note: dates and locations of all interviews are provided, but several of the respondents preferred to remain anonymous.

II. Botswana's Experiment with Limited Government

Botswana's experiment with limited government and fairly open markets began immediately after it gained independence from Great Britain in 1965. Immediately following independence, Sir Seretse Khama became prime minister of Botswana. The following year, Khama became the first elected president of Botswana.

Khama had been trained in the United Kingdom and had married a white Englishwoman named Ruth Williams in 1948. Together, he and Ruth had to work hard to fight anti-apartheid sentiments. Because of their interracial marriage, they were prohibited from returning to Botswana. By the mid-1950s, the ban on Khama's return had escalated into an international news story. Human rights groups were outraged, and the British government was criticized for actively encouraging and upholding a racist protectorate. While the crisis was undoubtedly difficult for Khama, it did make him the

² For more on ethnography, see Fetterman (1989) and Rose (1990).

most popular and charismatic political figure in Botswana by the time he was allowed to return to his homeland in 1956.

At the beginning of Botswana's independence, President Khama faced some huge obstacles. Botswana was thought to be Africa's poorest nation. According to the British government's Report on Economic Survey Mission (1960), Botswana was "close to the poorest" country in the world and had "dismal economic prospects [that were] based on vague hopes of agriculture, salt, and coal." A newly independent, landlocked country in sub-Saharan Africa, it was desolate and sparsely populated. It was beset by the typical problems of poor African countries—famine, illiteracy, lack of adequate portable water, minimal health facilities, and a lack of other social amenities—and had virtually no infrastructure. Over 80 percent of the population was dependent on subsistence farming, and the government did not have enough tax revenue to balance its budget.

In many ways, the British government was thrilled to be getting rid of this costly protectorate. Experts were providing gloomy predictions for Botswana's future: Botswana would become heavily indebted to the British Empire; it would never be able to become independent of South Africa; and the new nation would most certainly struggle to develop. But, the experts ended up being wrong about Botswana's prospects, as Botswana broke most economic ties with the British Empire in their first decade of independence and grew faster than any nation in the world between 1966 and 1996.

The formula responsible for Botswana's success was a rather simple one. Botswana did not grow because some kind of unique factor emerged to help them escape their post-colonial poverty. Nor did Botswana grow because they were blessed with nice land and beautiful coasts; Botswana is an arid, landlocked country in sub-Saharan Africa.

Botswana grew because its ruling elite made deliberate choices to increase economic freedom, and they avoided engaging in predatory practices. For some reason, Botswana's leaders were not interested in lining their own pockets at the expense of Botswana (the proper term to describe people from Botswana).³

In the early years, guided by the leadership of Khama, Botswana took a no-nonsense approach to development. The new government tried to constrain spending by developing National Development Plans (NDPs). The NDPs allocated government spending and established developmental goals for a five-year period; for example, the first plan focused on macroeconomic stability and fiscal balance. Projects were only approved if they passed an economic feasibility test and/or a social rate of return test.⁴ Unlike many organizations using cost-benefit estimates, Botswana's government was quite conservative in estimating the economic and social benefits of different programs. Even Seretse Khama was constrained by the NDPs. According to Derek Hudson, a former expatriate and important reformer in Botswana's earlier years:

They did a lot of good things, at the beginning. One of the most famous stories is that to build the roads, from dirt to hardtop, roads were ranked according to

³ For more on the role political institutions played in Botswana's development, see Beaulier and Subrick (2005).

⁴ The projects given first priority must pass both tests, but passing at least one test was a necessary condition for projects to be given consideration. Former Bank of Botswana deputy, Derek Hudson, provided information on the NDPs. During the interview, Mr. Hudson also told us that recent governments have not been strict in adhering to economic and social feasibility tests. According to Mr. Hudson, "things got bad" towards the end of President Masire's term as commissioner of economic feasibility studies:

...just before Masire retired as commissioner of economic feasibility studies, he wanted to build an ostrich farm. While driving to the airport with me, the commissioner says that this would never make a profit, let alone pass the social rate of return test, but he decided to build the farm anyway. Once a person disobeys the law of economic feasibility, you sort of create a rut where others attempt the same thing...never mind what the economists say.

Interview with Derek Hudson on 21 July 2004, 12:30 pm to 2 pm at Fishmonger Restaurant at the Riverwalk Mall in Gaborone, Botswana.

economic return. One of the roads passed by the house of the first president [Seretse Khama]. The planners offered to build his road first, even though it did not pass the rate of return tests, but he refused and said, 'I'll wait my turn,' and he did.⁵

Today, Botswana is beginning its eighth National Development Plan. The NDPs have served as an effective constraint on government. They cannot be amended without the unanimous approval of the legislature. Any individual legislator looking to increase spending on some particular pet project can count on resistance from some group. Thus, the only spending programs that gain approval are ones that all parties view as essential.⁶

Khama's claim was that his reforms were not based on any one ideology, but were instead grounded in "certain fundamental values" that are considered "universal" (Carter and Morgan 1980: 294). However, if one were to try to put a label on Khama's overall reform approach, the most appropriate one would be pragmatic classical liberal or classical liberal realist. While he did depart from a pure *laissez faire* approach by intervening from time to time and by supporting state aid to the poor during a severe drought in the mid-1960s, his policy stances were far more free market and libertarian than those of any other leader in sub-Saharan Africa.

As early as 1968, Khama was making statements like the following: "...our main concern for this country is to lessen its dependence on external aid, and ultimately to make it economically viable" (Carter and Morgan 1980: 295). He was less outspoken about domestic policies, but the overall results of his reforms suggest that he was

⁵ Interview with Derek Hudson on 21 July 2004, 12:30 pm to 2 pm at Fishmonger Restaurant at the Riverwalk Mall in Gaborone, Botswana.

⁶ The idea of unanimous consent for additional government spending seems like it came straight out of Buchanan and Tullock (1962). Even though I was unable to find evidence indicating an intellectual connection between Khama's policies and Buchanan and Tullock, the fact that the government behaved *as if* they had read Buchanan and Tullock led to far better policy.

committed to low taxes, low government spending, balanced budgets, and free commerce.

Botswana's new ruling party also chose to adopt many of the common law rules that the British had introduced during the colonial period. Unlike most African countries, Botswana did not call into question every aspect of the British common law system once it gained independence; compared to other sub-Saharan African nations, Botswana bucked the trend by keeping some of the British institutions in place. In places like the former Belgian Congo, Ghana, and Togo, newly independent African leaders went about trying to recreate entire legal and economic systems, in response to the scars left by colonialism; rather than admit that some colonial institutions added value, leaders tried to get rid of anything connected to the colonial period. As Ayittey notes:

The African leaders' rejection of colonialism and Western institutions was an understandable reaction. But in their overzealousness to eradicate all vestiges of Western colonialism, virtually all sense of purpose and cultural direction was lost. After independence, many African leaders, proclaiming themselves "free and independent under black rule," hauled down the statues of European monarchs and erected, not those of Martin Luther King, Jr. or Kankan Musa, but of another set of white aliens—Marx and Lenin [Ayittey 1992: 10].

There were no statues of Marx or Lenin in Botswana. Rather than run from institutions left behind by colonialism, they embraced some of them and erased only the parts of colonialism that seemed inefficient or deplorable. As we try to explain Botswana, then, it is important that we make note of how their commitment to many English laws was fairly unique in post-colonial Africa.⁷

⁷ The question of why Botswana kept British colonial institutions in place in the post-colonial period while other new nations chose to scrap colonial institutions has been the subject of a great deal of debate among development economists and local citizens in Botswana. Beaulier (2003) argues that Khama's training in the United Kingdom and cosmopolitan attitude led to Botswana's post-colonial leaders being more willing to work with British institutions. Acemoglu, Johnson, and Robinson (2003) argue that Great Britain's "benign neglect" during the colonial period left Botswana with nothing to be angry about in the post-colonial period. In a personal interview, an expatriate, who preferred to remain anonymous, offered an

In the early period, the government's overall size was also kept in check. If we believe the conventional measures, Botswana's government spending as a fraction of gross domestic product in 1965 was 23 percent of GDP. There is reason to believe that the size of Botswana's government was actually much smaller than its reported size. In the immediate post-colonial period, Botswana's economy was far more informal than it is now, but informal activity was not accounted for in GDP estimates of Botswana. Therefore, Botswana's GDP was underestimated. As Botswana grew and the government stabilized, production shifted from the informal economy to the formal economy. With this shift in economic activity, a more accurate accounting of Botswana's growth level and government size resulted.

Between 1965 and 1972, Botswana experienced a steady decline in the size of government. Khama and his post-colonial leaders were actively promoting reforms that resulted in rapid growth and tremendous improvements in individual well-being. As Tanzania's former president, Julius Neyerere put it, "[Khama] devoted his energies to considering how—not whether—to maximize the people's freedom" (Carter and Morgan 1980: x). Throughout Botswana's early years, Khama's platform emphasized self-reliance, economic freedom, anti-apartheid governance, "good neighborliness" with South Africa (while still condemning their racist rule), and openness to foreigners and trade.

Botswana in general—expatriates and natives alike—deserve a great deal of credit as well. Khama alone would not have been able to enact his policies if Botswana were

alternative explanation: on a per-capita basis, Botswana had the most British expatriates during the post-colonial period. These individuals were quite influential in government decision-making, and they were effective in locking in British legal and political institutions. This interview occurred 12-2 pm on July 26, 2004 at Gaborone Sun & Casino in Gaborone, Botswana.

lacking trust in Khama or skeptical of arguments for minimal government. The Batswana showed a great deal of patience and tremendous ingenuity in developing their new nation. Citizens were quite active in helping the Botswana Democratic Party (BDP) develop its 1965 manifesto by giving the BDP feedback on early drafts and attending political meetings. Some of the key features of the BDP's original platform included promises to:

- (1) Safeguard the liberty of the individual by the maintenance of law and order, and guarantee every individual citizen the rights of man as defined in the Constitution.
- (2) Not allow any form of discrimination, whether political, social or economic, against any minority racial group in the country...Neither shall the laws of the country recognize any preferential considerations of a political, economic, or social nature for any tribal or racial group.
- (3) Keep the judiciary independent of the Executive.
- (4) Not to destroy any communal associations or bonds based on such common interests as religion, language, culture, etc.
- (5) Treat all men as equal before the law.

The fact that the Botswana Democratic Party offered such a liberal (in the classical sense) platform immediately following colonialism, and the fact that 80 percent of voters supported the BDP, tells us something about the general mindset of citizens in Botswana. The hearts and minds of the Batswana were committed to liberty and constitutional restraints to a much greater extent than those of citizens in other countries where concerns about social justice and race dominated the post-colonial debate.

The Batswana did more than lay out some general principles that look good on paper. They engaged in a number of actions that reflected a genuine commitment to the principles of equal opportunity, non-racism, and tolerance. For example, a number of civil society organizations, like the Village Development Committees, school

committees, and leisure clubs, emerged around the time of independence. Many of the new clubs provided crucial social capital; others actually allowed for the open debating and criticism of current political issues. Quite often, Khama and other legislators would join local citizens at meetings to take criticism and discuss current issues. As former Bank of Botswana governor and long-time citizen of Botswana, Quill Hermans, put it in a personal interview:

In the early days, we often got together right around the corner from here [Grand Palm Hotel and Casino]. Sometimes we would talk about ways to help the youth out through tennis programs and recreational clubs. Often we would talk about the more pressing needs of the nation. Khama frequently attended these meetings, and he sat there with us like an equal who was genuinely interested in results rather than ideology.⁸

When it came to foreign policy, the Batswana welcomed foreigners and dissidents with open arms. The increase in immigrants was not only humane, but it undoubtedly improved Botswana's work force and productivity. In a number of different speeches between 1965 and 1975, Khama explicitly told refugees that they were welcome in Botswana. Even though the welcoming of refugees led to greater tensions with hostile neighbors, Khama argued that welcoming refugees was consistent with the higher "principle of universal self-determination." As Khama put it,

Whilst we respect the principles of non-interference in the affairs of other sovereign states, we are as a non-racial democracy bound to raise our voice in international forums in support of the principle of universal self-determination. The same sense of duty and our geographical position means that we must continue to provide a refuge for those who have found themselves unable for one reason or another to continue to live in neighbouring minority-ruled territories. (Carter and Morgan 1980: 83-84)

Refugees were not treated as second-class citizens in Botswana. Quoting from Khama once more,

⁸ Interview with an anonymous businessman from 12-2 pm on July 26, 2004 at Gaborone Sun & Casino in Gaborone, Botswana.

We have granted refugees recognition of their status and done all within our power to settle them and assist them in beginning a new life in Botswana. All we ask in return is that refugees should respect our laws and our national principles, and refrain from activities which are prejudicial to our security... (Carter and Morgan 1980: 84)

Khama's commitment to refugees was not just rhetoric, as Botswana attracted thousands of refugees during Khama's rule.

Taken as a whole, the policies of openness, toleration towards others, and a respect for the rule of law allowed for entrepreneurship, economic development, and social development. This period of limited government and economic freedom led to one of the most rapid national growth explosions we have ever seen. Between 1965 and 1975, Botswana's average annual rate of growth was 10.74 percent. To put that number in perspective, Botswana's per capita income went from \$372 in 1965 to \$1032 in 1975; if the United States were to grow at this rate for a 10 year period beginning in 2003, the average annual income in the U.S. in 2013 would be \$90,200.

III. The Growth of Government in Botswana

Botswana's experiment with limited government ended sometime around 1975. The period from the mid-1970s to the present is a difficult period to understand. On the one hand, Botswana was able to continue to grow at a rapid rate. From 1975 to 2003, Botswana's growth rate averaged a strong 5.1 percent per year. Cattle ranching became a less significant source of income, and the service sector became more significant.

Tourism also became an important source of revenue, as visitors from South Africa, Western Europe, and the United States began to learn of the beautiful wildlife in the Okavango Delta and Chobe National Park. According to Botswana's Ministry of Trade,

Industry, Wildlife, and Tourism, export revenue from Botswana's tourism business is second only to the diamond industry.⁹ Botswana's network of paved roads and its air travel expanded at rapid rates.¹⁰ The quality and quantity of education increased steadily during this period.¹¹

On the other hand, the steady growth in income and the discovery of diamonds in 1972 led to massive increases in government spending and taxation.¹² Some of the legal and constitutional constraints placed on legislators were relaxed after 1975. Khama's administration became more concerned with income inequality, so they successfully established an Agricultural Board, in 1974, that was responsible for setting price floors on grain. In the early 1970s, a number of new textile industries were subsidized by the government to help create jobs in underdeveloped communities. Rather than cut their losses on a struggling copper-nickel mine in the mining town of Selebi-Phikwe, Botswana's government continued to pour money into upgrades of the mine under Khama's watch.¹³

⁹ See http://www.botswana-tourism.gov.bw/tourism/tourism_s/tourism_s.html for more information on Botswana's tourism industry.

¹⁰ According to the *World Development Indicators* (2004), Botswana's number of air departures per year increased from 1600 in 1979 to 7300 in 2002. Evidence on paved roads is more anecdotal, but according to Donald Stephenson of the Bank of Botswana, Botswana went from having "25 to 50 kilometers of paved roads at independence to a country that is essentially paved. According to the *World Development Indicators* (2004), Botswana had 10,000 kilometers of paved roads in the year 2000. Interview with Mr. Stephenson took place at the Bank of Botswana on June 23, 2004 from 8:30 am-10 am in Gaborone, Botswana.

¹¹ The fraction of students completing primary and secondary school has been rising steadily since independence. At the same time, literacy rates have increased from approximately 50 percent in 1965 to nearly 90 percent in 2000.

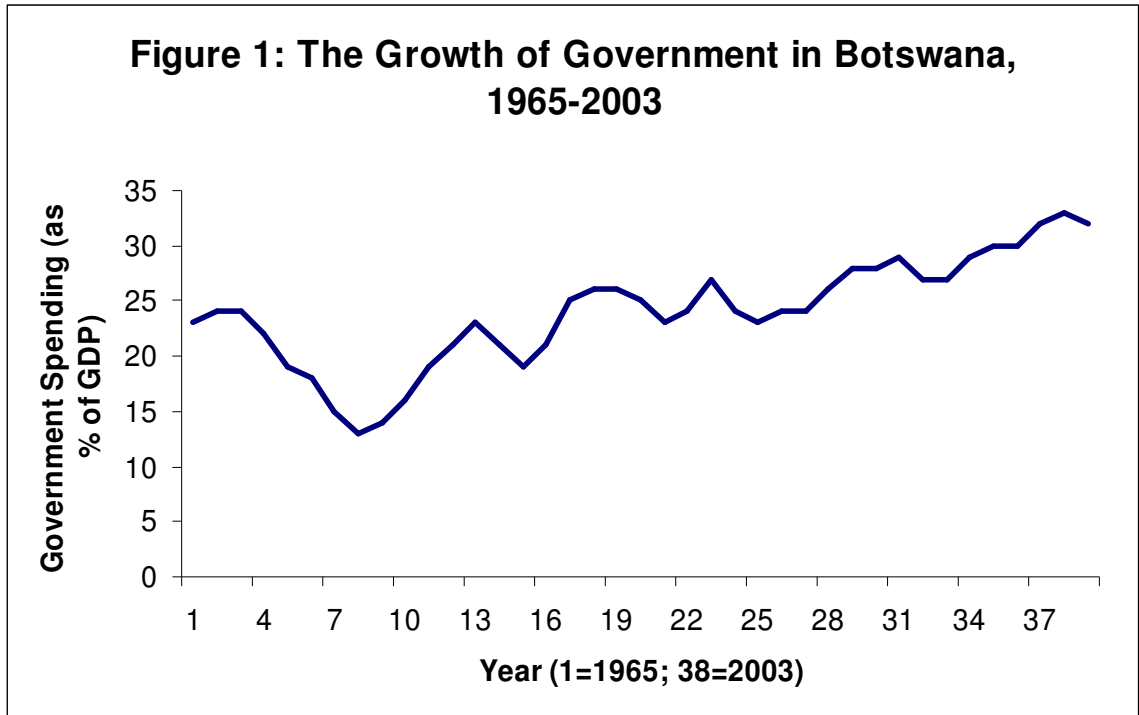
¹² According to Ribson Gabonowe of the Department of Mine, "Botswana's diamond mines have increased production from 4 million carats per year in the early 1970s to more than 30 million carats per year today.": Interview with Mr. Gabonowe took place in the Department of Mines, Education Building on June 16, 2004 from 10:30 am-12 pm in Gaborone, Botswana.

¹³ Support for Selebi-Phikwe has continued since Khama's death. While visiting Selebi-Phikwe, we had the opportunity to interview a number of people connected to the mining industry. Despite the fact that

Around the same time, the government decided to end their monetary connection with South Africa by abandoning the rand and creating their own currency, the pula. Khama argued that Botswana was “trying to extricate [themselves] from a situation in which [their] economic life and future [were] decided...by others in foreign capitals.” To make this break from South Africa, the government created a central bank responsible for monetary policy. While cutting ties with South Africa’s monetary regime undoubtedly gave Botswana a greater sense of autonomy and control over their monetary policy, with this autonomy came greater risks of monetary mismanagement.

When one tries to make sense out of Botswana, it is clear that the governmental apparatus established in post-colonial Botswana in 1965 was a far cry from the government of modern-day Botswana. As Figure 1 indicates, the government’s size has been steadily increasing since 1972. Today, the size of government in Botswana is alarmingly large. According to the *World Development Indicators* (2004), government spending as a percentage of gross domestic product accounted for one-third of all economic activity in 2003. Moreover, the trend throughout the 1990s and early 2000s has been one in which government spending in Botswana has been increasing quite rapidly; between 1995 and 2003, Botswana’s government spending increased at an average annual rate of 8.3 percent per year. While Botswana has continued to grow, despite the increases in government spending, this overall growth in government should be cause for concern.

Selebi-Phikwe is unprofitable and will one day be closed, most of the people we interviewed felt that the government should support the mine to make the costs of shutdown more bearable.



Source: *World Development Indicators*, 2004

One of the biggest changes in Botswana, occurring in the mid-1970s, involved spending on national defense. Until 1976, there was no conventional military establishment in Botswana. There was a small para-military unit, the Police Mobile Unit, attached to the police force. This unit was in charge of handling strikes, protests, and other minor disputes.

The lack of an army in the early years was the result of deliberate government action based on two different arguments. First, the government thought the best defense was no defense. In other words, if Botswana had strong international ties and complete vulnerability, another nation (like Great Britain or the United States) would step in to handle any invasions. The second reason they chose not to have a national military in the

early years was based on concerns that developing a military would provoke the hostile apartheid governments of South Africa or Ian Smith's corrupt regime in Rhodesia.

Botswana's government decided to begin developing a national defense as their income increased, as they felt more concerned about protecting diamond interests, and, perhaps most importantly, when they felt threatened by South Africa due to a number of violent raids by South Africans who crossed the border into Botswana. By the mid-1970s, Botswana had become an asylum for refugees from a number of southern African countries and had allocated land on which international organizations like the Red Cross, Amnesty International, and the United Nations could establish refugee camps. This tolerant stance incensed the South African government, and they launched a number of raids into Botswana. The raids were usually aimed at refugees, but a number of innocent Botswana were also killed between the mid-1970s and 1987.

Rhodesia was also enraged by Botswana's openness. A Rhodesian organization known as the Selous Scouts raided a number of villages just inside of the Botswana-Rhodesia border. They attacked villages to try discouraging "freedom fighters" from welcoming refugees.

The frequent and brutal raids created a problem for Botswana's government. In all, the raids had resulted in hundreds of civilian deaths (in addition to the refugee deaths). By the late 1970s, the affected groups, and many citizens who were not directly affected, were lobbying hard for national defense; Khama ultimately gave into their demands. Shortly thereafter, the Police Mobile Unit was converted into the Botswana

Defence Force (BDF). Since its establishment, the BDF has expanded enormously, and it now takes up nearly 15 percent of total government spending.¹⁴

The shift from the Police Mobile Unit to the Botswana Defence Force might have been an understandable and acceptable increase in government. The public attitude regarding the establishment of a national defense in Botswana was based on this kind of sentiment:

It was a very uncertain and scary period. I think most people bought into the idea that every democratically elected government is responsible for the security of its people. Therefore, the decision was taken to establish an army.¹⁵

Fear of attacks also led to a shift in the way Botswana viewed emigrants. With the raids came a concern that openness was provoking violent responses from other countries. By the late 1970s, Botswana's government was beginning to take measures to restrict foreign access by inspecting vehicles crossing the borders and by allowing random searches of vehicles within Botswana's borders. Even when the raids ended around 1987, the xenophobic policies persisted; Botswana simply shifted their fear from a fear of raids to a fear of foreigners (particularly Zimbabweans) entering the country and taking good jobs. Police have been granted free reign to search vehicles and inquire as to where travelers are going (much like U.S. Customs, but Botswana allows these actions both at the borders and throughout the country).¹⁶

¹⁴ Since its creation, the BDF has been heavily criticized. The BDF's emergence was controversial in part because Khama's son, Ian, was appointed Lieutenant Colonel of the BDF. Ian Khama was quite aggressive and quite successful in extending the BDF's role to include an anti-poaching branch, patrol boats to monitor the border with Zimbabwe, and air fighters.

¹⁵ E-mail response from an anonymous businessman and expatriate from Botswana. E-mail was received on October 6, 2004 at 6:43 am.

¹⁶ In fact, the biggest inconvenience we encountered during our time in Botswana was not a lack of technology, poor sanitation, or crime, but, rather, the constant inspections and checkpoints we encountered whenever traveling around the country.

Even if a case can be made for developing a national defense and being afraid of foreigners because of the increased uncertainty of raids, there were a number of other areas in which the government's scale and scope increased rapidly around this same time period. As mentioned above, the government took on a larger role in agriculture and industry. In addition, there were: new spending programs, such as Citizen Entrepreneurship Development Agency (CEDA), to support the diversification of industry; environmental awareness projects created by Atmospheric Pollution Act of 1971 and the Agricultural Resources (Conservation) Act of 1973; and legislation pushed by the labor rights movements, like the Mines, Quarries, Works and Machinery Act of 1978.

In the early 1970s, the idea that all people should receive ever-higher levels of education was in vogue internationally. Botswana followed the rest of the world by rapidly increasing education spending. Between 1975 and 1999, education spending (as a percentage of GDP) increased from 6 percent of GDP to 9 percent. While the fraction of GDP being spent on public education might not seem too high, GDP was also growing at a rapid rate over this time period. In other words, the overall share of the pie going to education did not change much between 1975 and 1999, but the size of the slice grew tremendously.

When we look at the annual rate of change in public education spending between 1975 and 1999, Botswana's education spending has increased at an average annual rate of 13.2 percent per year (*World Development Indicators* 2004). As Table 1 also indicates, education spending has been increasing quite rapidly since 1970.

Table 1: Rate of Change in Public Education Spending, 1970-1999

Year	Level (Current USD)	Average Annual Rate of Change During the Preceding Decade
1970	\$4,108,424	N/A
1980	\$63,655,440	31.5%
1990	\$185,028,060	11.3%
1999	\$452,168,730	10.4%

Source: *World Development Indicators, 2004*

Early on, the government sought to provide “free” primary education to all children. Soon, this was extended to cover students interested in secondary education. Later on, benefits were extended to students studying at the University of Botswana. Again, while there are undoubtedly gains from education, Botswana’s commitment to engage in massive public spending to cover education expenses resulted in higher levels of government spending, new laws like the National Policy on Education of 1977, and new bureaucracies like the Teachers Union.¹⁷

The collective result of new spending on a number of different fronts was big government. In just over a decade, Botswana was beginning to make the transition from a small government to a big government. When we look at it now, four decades after Botswana gained independence, Botswana’s government has gone from being fairly limited to a behemoth, comparable in size to many Western countries. Increasing demands for governmental goods and services have brought about an expansion in government size. As one citizen put it, “Botswana are no longer asking ‘What do we

¹⁷ The National Policy on Education of 1977 (NPE) sought to improve the quality and quantity of education, guarantee nine years of schooling to all children, and push the curriculum in a direction that emphasized national values of democracy, development, self-reliance, and unity. For more on the National Policy on Education of 1977, see http://www2.unesco.org/wef/countryreports/botswana/rapport_1.html.

need to do to develop?’ Instead, they are asking, ‘What are you going to promise to give me if I vote for you?’”¹⁸

When we blend the various and seemingly isolated spending programs together, the reasons that Botswana has turned into a large nation-state become clear. The government’s decision to make promises to a number of different groups of people desiring government services has resulted in an increased tax burden for citizens and investors, a slow and steady erosion of civil liberties, a loss of individual responsibility, and the loss of a government committed to the promotion of sound economic policies.¹⁹

Khama’s government essentially began the reform process with a blank slate. There was a minimal amount of governmental infrastructure, and interest groups were almost nonexistent. During this period, promoting good policy was not especially difficult. Khama and the BDP were enjoyed high levels of support, and they did not have to worry about disappointing any well-organized groups.

Over time, though, the number of interest groups and the money flowing into interest groups increased rapidly. With more interest groups, the BDP’s decisions

¹⁸ Interview with an anonymous reporter at the President Hotel in Gaborone, Botswana from 3-5 pm on July 20, 2004.

¹⁹ A number of local citizens in Botswana argue that the government is the only institution responsible for the loss of individual responsibility. According to Peter Freedman, an economic consultant for the Ministry of Mines, Energy, and Water Affairs, there is a concern that a new generation of “diamond babies” have a different set of values than the older, hard-working generation of Botswana. In Freedman’s own words:

After 25 years of relatively fast change in society, it is hard to see whether the traditional elements of honesty and integrity are still dominant, or whether modern ways of business and social organizations have actually changed the fundamental culture in a real way. The diamond babies have grown up with aspirations different from the earlier generations. They expect more out of life. They are more willing to bend or break the rules in order to get more. They think that they are more entitled to things. With prosperity from the diamond industry comes this kind of undercurrent in the culture.

Our interview with Peter Freedman occurred on June 25, 2004 from 11 am-1 pm in his office in Gaborone, Botswana.

became more complicated. While concerns about growth-enhancing policies remained important to politicians, there were now new concerns about keeping different lobbying groups satisfied. With interest groups came an erosion of good policy. Even though the rhetoric of Khama still sounds fairly classical liberal in the mid-1970s, the reality on the ground in Botswana was that Khama and the BDP were slowly selling out to interest groups and public demands for more government.

Interest group activity has steadily increased since the mid-1970s. With bureaucracy has come a crowding out of the private sector, but the public sector's crowding out of the private sector and the efficiency losses are not the only byproducts of Botswana's big government. With each new governmental program comes increased complexity in the overall system. The number of interest groups in conflict with each other multiplies as the government's role expands. Discerning "real" interests from strategic interests becomes a more daunting task. And, ultimately, most attempts to serve the public good become futile as the government becomes bogged down in bureaucracy. Once this interest-group dominated environment is in place, which clearly seems to be the case in Botswana, the task of pushing for reform—whether free market or interventionist—becomes formidable. Moving the system at all becomes nearly impossible. Citizens are left with an incoherent hodgepodge of policies, few of which they would have desired *ex ante*.²⁰

²⁰ For more on the role bureaucracies and interest groups play in thwarting reform, see Wilson (1989) and Friedman and Friedman (1984).

IV. Reclaiming the Post-Colonial Moment

Since Botswana had a taste of relatively free markets and limited government from 1965 until 1975, and given its infatuation with big government since 1975, where does Botswana go from here and what can be done to reclaim the post-colonial moment of limited government? Attempting to predict where any country is headed immediately forces us to consider the “if you’re so smart...” question (see McCloskey 1990). Since most prognostications miss the mark, I will avoid speculation on where Botswana is going in the future, though I do find the doomsday forecasts of some (see, for example, Thurow 2002) far too gloomy. .

There are many things that Botswana can do to reverse the growth of its government and reclaim its post-colonial moment. The question citizens of Botswana must answer is the following: given our reasonable level of development, what is the role for government? Or, more to the point, can our current approach, which is based on big government, help us reach ever-higher levels of development? Seretse Khama’s vision of a government limited in scale and scope was a reasonable one, but this vision was abandoned long ago. The new vision is a convoluted one that is difficult to summarize, but at its core, the new visionaries recognize the need for equality and economic growth. If high rates of economic growth remain a desired end for officials in Botswana today, there are some fairly simple rules Botswana must adopt to sustain rapid rates of economic growth.

A. The Role of Government

The government in Botswana has gone from being a proprietary state, concerned

primarily with increasing growth, to a predatory state, concerned with maintaining power and redistributing income.²¹ To achieve long-term economic growth, Botswana need to reduce their dependence on the government, but over time, the government's contribution to gross domestic product has been steadily increasing.

Government spending as a percentage of gross domestic product has gone from 19 percent of GDP, in 1975, to 32 percent of GDP, in 2003. Government spending in Botswana has increased at an average annual rate of 10.7 percent per year between 1975 and 2003. Botswana's government growth looks especially high when we compare it to South Africa's; South Africa's government grew at an average annual rate of 2.8 percent over the same period of time. When compared to most other African countries, Botswana's government has been growing at a far more rapid rate, and, whether we compare Botswana's government to other African countries, middle income countries, or highly developed countries, the government's growth in Botswana is higher.

Since its independence, Botswana has always been careful to avoid budget deficits. Even though a number of interview respondents thought that the government should be running deficits to cover costs associated with Botswana's HIV/AIDS crisis and to diversify their economy, legislators have resisted the temptation to increase spending beyond current revenue. In fact, during the late 1980s and early 1990s, Botswana was successful in building a "rainy day" fund to hedge against economic downturns, drought, or international instability.

There are a number of good reasons to avoid deficit spending. Over time, fiscal imbalances hamper long term development (Easterly, forthcoming). In Botswana's case,

²¹ See Beaulier and Subrick (2005) for a discussion of predatory versus proprietary states. For more formal models of predatory states, see Grossman (2000) and Grossman and Noh (1994).

fiscal imbalances would make them ever more dependent on South Africa. Given South Africa's relative instability, Botswana has always tried to maintain a rainy day fund just in case "South Africa goes crazy and decides to close the borders."²²

While Botswana should be commended for carefully balancing their budget year in and year out, their overall level of spending is quite high. Today, nearly 40 percent of the economic activity in Botswana is somehow connected to the government. Increased government involvement creates efficiency losses, obvious distortionary effects in economic activity, and a greater dependence on further government interventions. In a fundamental sense, Botswana's government is deadweight on the Botswana. Given their relatively high level of spending, Botswana's government is crowding out the private sector. Moreover, *if* a government is capable of promoting growth during economic downturns, Botswana's government does not have a lot of room to engage in expansionary fiscal policy in such an event given its high level of current spending.

B. The Private Sector

Secure property rights and a transparent legal code are crucial for the development of the private sector (Dixit 2004; Glaeser and Shleifer 2002; Rosenberg and Birdzell 1986; North 1981). Well-defined, well-protected property rights encourage people to obtain capital, bet on their ideas, and improve the resources in their possession. For countries to develop, then, reformers must take steps to secure property rights, constrain government officials, and enforce contracts. If the government can do the job

²² Interview with Kenneth Matambo, President of Botswana Development Corporation, in his office in Gaborone, Botswana on July 23, 2004 from 2 pm to 3 pm.

of establishing the rules of the game, the market can take care of any remaining inefficiencies.

While this secret to success seems fairly straightforward, Botswana's government has decided to abandon its role as referee by suiting up and trying to become a more active player in the private sector. They have gotten into the business of defining winners in some important sectors of the economy, subsidizing losers in other sectors, and intervening in labor disagreements. In addition, the number of new, special-needs bureaus has been growing rapidly in the last 30 years. Botswana has taken a path similar to most other developed countries by granting more and more power to meat commissions, agricultural boards, and water regulators. By trying to imitate other countries who have a regulatory authority for each important economic activity, Botswana has lost some of its competitive edge in the private sector.

In addition, the private agreements between Debswana, a diamond mining company owned jointly by the De Beers Group and Botswana's government, and Botswana's government have been renegotiated a number of times. While the renegotiations have resulted in longer leases for Debswana, Botswana's government has steadily increased its tax on diamond revenues.²³ Botswana's renegotiations with Debswana have given the nation of Botswana major shareholder status in the company and seats on the board. Since the renegotiations help Botswana keep more of the

²³ Not all of the blame can be placed on a predatory state. As Professor Clark Leith of the University of Western Ontario and economic consultant for the Ministry of Finance and Development Planning in Botswana pointed out in a personal interview,

...part of the problem is the African view of land. Land is viewed as a communal resource, not alienable. But, as soon as you don't have a price allocation mechanism, who gets this valuable resource?

Thus, the conflict over mineral rights is, in part, a result of different attitudes about ownership. Interview with Leith occurred on June 24, 2004 from 11 am-12:30 pm in his office in Gaborone, Botswana.

diamond revenue within the country's geographic borders, many view the renegotiations as a victory for Botswana (see, for example, Robinson and Parsons, forthcoming).

However, there are at least two reasons to view the renegotiations as a negative for Botswana's long-term development.

First, Botswana may be in the early stages of the "natural resource curse."²⁴ The story of the resource curse goes something like the following. Countries with large resource stocks engage in massive spending. As resource stocks decline, and/or when resource prices on products like oil, gold, or diamonds fall, the government responds by levying harsher taxes on industry. This, in turn, contributes to a further decline in the country's economic fortunes.

As we discussed earlier, Botswana's government has been doing plenty of spending; since 1975, government spending has been increasing at a rate in excess of 10 percent per year. The only easy way to cover this spending is to squeeze the fairly immobile diamond industry for more money. Their need to grab more revenue from the diamond industry by renegotiating the terms of trade seems indicative of bigger problems. But, this spend and renegotiate approach cannot continue forever, especially since there are indications that available diamond stocks in Botswana will be rapidly declining in the next 20 years.

The second reason to be concerned with Botswana's mining renegotiations relates to the signal renegotiations send to other industries. Continued renegotiations with Botswana have a negative spillover effect on overall investment in other sectors of Botswana's economy. When the government chooses to renegotiate, it signals a

²⁴ For more on the "natural resource curse," see Sachs and Warner (2001).

willingness on the government's part to intervene whenever large revenue sources are present. According to a number of respondents, "the diamond industry is unique and Botswana leaves other industries alone."²⁵ While Botswana's government might be leaving other industries alone for the time being, to date Botswana's grabbing hand has not been tested by any other large industries. Perhaps large industries have been staying clear of Botswana because they are concerned about how they will be treated by the government.

C. The Mixed Sector and Parastatal Organizations

Hopefully, a slice of the private sector in Botswana will remain unhampered by government intervention. One cannot be as optimistic about the government regulated corporations and parastatal entities within Botswana's economy. As one respondent put it, "We have learned well from the United States. Government interest groups are Gaborone's [Botswana's capital] biggest growth industry. Just like you, we have our lobbyists and bureaucracies with far-ranging concerns."²⁶

While public choice economists have yet to provide an unambiguous explanation for the expansion of the regulatory state, once bureaucracy begins to grow, we can expect bureaucracies monitoring the original bureaucracies to multiply. There is no real rhyme or reason to the bureaucratic sector. They are not driven by profit and loss; nor are they directly involved in the formulation of policy. Instead, each parastatal corporation seems

²⁵ This view was expressed by a number of different respondents, including Dr. Happy Fidzani, Executive Director of the Botswana Institute for Development Policy Analysis (BIDPA), in a personal interview on July 7, 2004 from 10 am to 11:30 am in a BIDPA office in Gaborone, Botswana.

²⁶ Interview with the Honorable Baledzi Gaolathe, Minister of Finance and Development Planning, in his office in Gaborone, Botswana on July 22, 2004 from 12 pm to 1:30 pm.

to be in search of maintaining and/or expanding its overall operating budget (Niskanen 1971).

While Botswana's parastatal organizations have been relatively successful at avoiding corruption, there are reasons to be concerned about this mixed sector of the economy. For example, the mix between government and the private sector in Botswana's media has produced a number of perverse effects. Botswana's major media outlets are afraid to raise serious criticisms of other parastatal corporations or the government. Why are they afraid to do so? Because nearly 50 percent of their advertising revenue comes from the government. At any time, the government can decide to cut funding to a news outlet. If a media outlet is too critical in their news coverage, the government will often respond by cutting funding. Since many of the media outlets have less than 10,000 subscribers, they are unable to withstand the government's black-listing and ultimately go out of business.²⁷

The negative effect of parastatal organizations can also be seen when one looks at a number of different research branches connected to the government. Institutions like the CEDA, the Botswana Institute for Development Policy Analysis (BIDPA), and the Botswana Development Corporation are all careful to tote the party line when discussing economic policy in Botswana. Criticisms of the government are generally limited to complaints about too much funding or not enough funding allocated to specific programs, rather than asking whether the government should be involved in handling various

²⁷ Interview with an anonymous reporter at the President Hotel in Gaborone, Botswana from 3-5 pm on July 20, 2004. Coyne and Leeson (2004) explains how the media affects economic development. According to their argument, a free media creates transparency and provides voters with good information. As such, it serves as a check on politicians. If the media is not free or the government is partially involved—as they are in Botswana—then the media does not serve as an effective constraint on big government.

activities. This story might sound a lot like our own experience in the United States, and therein lies Botswana's biggest problem: they should not aspire to be the United States of America or any other Western European country. Their early success largely resulted from the fact that they *were not* like the United States of the 20th century. If anything, they were like the United States during the Industrial Revolution. Their slowdown in development has occurred as they have steadily made changes to move from being like the United States of 1850 to being like the United States of 2005.

VI. Conclusion

At the end of the day, then, what are the lessons to be learned from Botswana's post-colonial development? Here the answer depends on what the reader wants to take away from Botswana's experience. One can learn a great deal about Botswana by studying the period when an extremely poor country successfully adopted free market, laissez faire policies. One can also try to make sense out of the transition period around 1975: what were the forces responsible for Botswana's transition to big government? One can look at the period from 1975-2003 and be awe-inspired by the power of markets: even though Botswana's government was expanding, the country was still one of the fastest-growing economies in the world. This tells us something about how resilient markets are even when the government becomes more activist. Finally, one can try to make sense out of the big picture by asking what the future holds for Botswana; predicting Botswana's future is a difficult task, but there are a few things to keep an eye on in the years ahead.

First, the government's role in Botswana's economy has gotten out of control. When compared to Khama's vision, Botswana's government is way too big. Early on, the government in Botswana tried to put parameters on private behavior and help build a minimal level of infrastructure. Their role in the early years was quite limited, and they did not offer their citizens public goods like defense or education. Somewhere along the way, Botswana's government started to become all things to all people. Since the rest of the world had a national defense, Botswana decided to create one.²⁸ Education became something everyone "needed," and Botswana's government footed the bill for most education expenses. In a short period of time, Botswana's government went from being a night watchman state to a nanny state. Will the trend towards big government continue in the years to come, or will Botswana figure out a way to reduce its government's size and scope?

Second, the key determinant of growth in the private sector is profit. Early leaders in Botswana understood the importance of a market economy driven by profit and loss, but more recent generations have been inclined to subsidize industries that seem "promising" and hand out government licenses to other industries. In so doing, they are distorting their market economy. Since the government has taken a helping hand approach to the private sector, there will be more difficult decisions in the future when major industries start to deal with economic losses. Will the government follow its

²⁸ There is a great deal of local frustration with Botswana's expanding military. According to Alec Campbell, a former British expatriate and cultural historian of Botswana, a lot of Botswana's defense spending is wasteful and inefficient. As Mr. Campbell put it, "Why do we need an air force? What country in this region would consider attacking us through the air?" In the development literature (Gupta, de Mello, Sharan 2001), there is a clear relationship between defense spending and corruption: the more a country spends on defense, the more problems they have with internal corruption and secrecy. Mr. Campbell was interviewed by one of the authors at Mr. Campbell's house on July 24, 2004 in Gaborone, Botswana.

current course and continue to intervene, or will Botswana reach a crisis moment in which interventions into the market no longer beget further interventions?

Given the nature of government and the popularity of current public expenditures, Botswana will struggle to gain the momentum necessary to seriously reduce the size of government. A highly centralized, costly bureaucracy seems to be part of modern day Botswana. The modern-day Leviathan was the product of a number of different factors ranging from cultural norms that preceded British colonialism to diamond discoveries in the mid-1970s to the widespread belief that government must handle services like education and defense. Whatever the reasons for the government's growth in Botswana, government in Botswana is not going to go away any time soon.

Botswana's transition from a poor country to a middle-income country is deserving of praise. Within the development literature and popular media outlets, Botswana has been given plenty of credit for this accomplishment (see, for example, Acemoglu, Johnson, and Robinson 2003; Beaulier 2003). However, the past is no predictor of the future. Even though Botswana has had a remarkable run over the last 40 years, it will struggle to solve to its current problem of big government. Even if the Botswana understand that the solution to their problems is to return to the post-colonial institutions and government of 1965, the likelihood of this outcome is about as good as the United States political system rolling back to the 19th century period of classical liberalism.

While Botswana's future remains uncertain and somewhat bleak, the case of Botswana in the early years could still serve as a useful reminder to trained economists: we need not get carried away when thinking about growth, for the answers are right in

our micro textbook. In the early years, free-market policies worked in Botswana. In the jargon of microeconomics, the choice to constrain government and allow for people to move freely in and out of the country led to a shifting of the production possibilities curve. Other countries looking to develop could profit from a study of Botswana's early years. As they will see, Botswana was able to pull itself up by its own bootstraps through sound economic policy, anti-racist policies, and commonsense. The depressing reality of modern-day Botswana is that Botswana's early development experience could also serve as a useful model for Botswana's current policymakers. If Botswana is to continue as "Africa's best kept secret," they must not only tell others about their post-colonial experiment with good policy, but study their own history and return to good policies on the home front.

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