Leading Economic Growth and Structural Change in Liberia: A Lewisian Perspective

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Abstract
The suggestions and propositions advanced in this paper are the outcome of empirical observation, review of the relevant literature and critical reflection. Thus, the paper is a product of reflection on a cluster of economic themes and concepts associated with the principles, structure and content of economic growth and development. The economic themes and concepts discussed here dovetail with deeply-rooted convictions held by the economist Arthur Lewis that behavior and institutions are crucial to determining the rate and nature of economic growth. This notion is augmented by the proposition that culture, development and institutions are also invariably, interconnected. It is also buttressed by the recognition that in Liberia, new attitudes and leadership paradigms constitute necessary conditions for economic growth and development.
Keywords: economic growth, development, institutions, investments, ethical leadership

1.Introduction

The suggestions and propositions advanced in this chapter are the product of two interrelated processes: Empirical observation and critical reflection. Thus, the chapter is a product of reflection on a cluster of coherent economic themes and theories. These themes, concepts and analytical precepts presented here are consistent with theoretical propositions put forward by the economist Arthur Lewis. Arthur Lewis sought to uphold the notion that the categories of human behavior and the degree of institutional functioning it gives rise to are crucial to determining the rate and nature of economic growth. This notion is augmented by the proposition that culture, development and institutions are also invariably, interconnected. These categories are interrelated in terms of their combined effect on both the nature and scope of economic growth and development in a society. The sections that follow will demonstrate this thesis through the presentation of theoretical argument and their empirical underpinnings.

2. Data sources and method

The discussion in this article has relied on a variety of data sources including both qualitative and quantitative date sources. Primary sources as well as secondary sources were used to gain insight into the causes and consequences of income growth and development in Liberia. The secondary sources were for the most part extracted from online databases of academic articles and articles found in the popular press. The theoretical vision put forward in this discussion is crafted through incorporating the institutional and cultural aspects of Lewis's theory of economic growth. It is suggested that these crucial dimensions had been deemphasized (by both critics and apologists alike) in previous analytical exegesis of his body of economic theory. One should note that in light of the ascendance of behavioral and evolutionary economics, these issues can no longer be taken for granted or push into the background (Nelson, 2008).

3. Background to Liberia

The sub-region that later became Liberia is located on the edges of what scholars came to refer to as the Western Sudan (Sawyer, 1992). This is the region from which sprung the great empires of Mali, Ghana and Songhai within the span of six centuries stretching from the eleventh to the sixteenth centuries. The portion of the Western Sudan that later comprised Liberia was considered part of the Grain Coast, a section of the lower Guinea Coast, by Portuguese explorers. The idea of Liberia as a settler society on the West African coast was created by the American ruling class (Kieh, 1992). Some American leaders were of the view that free black Americans could establish an 'ideal state of African ingenuity through colonization.'
By establishing an ideal state in Africa, it was believe, could demonstrate the capacity of the Negro to sustain its political destiny (Azikiwe, 1970). The idea of colonization was first advocated largely by northern Calvinists in the United States driven by notions of benevolence. However, as time went on other motivations and issues intervened (Sawyer, 1992). On July 26, 1847, Liberia declared its independence and took its place among the independent nations of the world. Today, the main risks to the Liberian economy are sluggish global demand for commodity exports such as iron ore. The country is also vulnerable to further increase in food prices such as rice-its staple food. However, on the upside, increases in iron ore and forestry production, positive developments in petroleum exploration and high-return public investments present significant opportunities (International Monetary Fund, 2012).

4. Growth and institutional change

The predictive value of social and behavioral theories and models can be effective guides to practice, especially at moments of great historical transformations. This is one of those moments in time, when some African countries are making salient and monumental strides toward transcending economic and structural dependence. For example, the West African sub-region alone has witnessed Ghana achieved the goal of becoming a middle-income country. One also has seen regional giant Nigeria making tremendous strides toward modernization through rapid structural diversification, economic growth and development. Other countries in the region have likewise achieved significant milestones along the path of economic growth, development, and sustainability. These goals having being achieved, in the midst of persistent challenges and failures.

There is a need to enhance these processes of transformation and growth through explication of the institutional and behavioral pillars of these change processes. Thus, the discussion in this article will attempt to fulfill this need by adopting aspects of Arthur Lewis' theory of economic growth as a framework to examine the behavioral and institutional foundations for economic growth in Liberia. Hence, the overarching aim here is to provide some explanation and tentative suggestions regarding the task at hand.

This author will first examine Lewis' discussion of what determines the difference between the pattern of economic growth and the rate of economic growth. The article will then proceed to shed light on institutional factors and how they combine to shape savings and investment in the economy. The final section of the article will provide concluding sentiments and suggestions. I will now turn to the issues of growth, development and the imperatives of change.

5. Economic growth, development and change processes

The attainment of the long-run economic growth needs of a society requires sound leadership and the effective management of change processes. Micro and macro theories have preoccupied themselves with these issues since the foundation of post-classical macroeconomics with the theoretical innovations of Keynes. Apart from the imperatives of reconfiguring governance and institutional frameworks, economic growth also requires vision, planning and effective execution. Quite simply, it requires the wholesale reinvention of government in Liberia.

In 1955, long before the publication of the seminar article that won him the Nobel Prize, W. Arthur Lewis published his *Theory of Economic Growth*. He had several theoretical preoccupations in this book. For example, Lewis took a step away from the specification of a production function approach to the theory of economic growth by directing his effort to explain the factors that lay at the foundation of the causes of economic growth (Boyd, 2007, p. 3).

This analytical approach could be interpreted as an attempt to move away from the steady state properties of the developed economy focused on by the Harrod-Domar growth model (Ranis, 2004). A more simplified version of the Harrod-Domar equation in the theory of economic growth was that the rate of growth a nation's gross national product (GNP) was determined by the national saving ratio (S) and the national capital/output ratio (K) (Todaro, 1977). This model also stipulates that the higher is the capital/output ratio (K) the lower will be the rate of GNP growth. The policy conclusion inherent in the model is that the more developing countries can save and invest, the faster they can grow (p.60).

Thus, the rate of national income growth will be positively correlated with higher levels of savings and investment (p.60). Rostow and others referred to the economic "takeoff" stage precisely as a growth process characterized by increasing national savings and investment (p.60-1). One would argue that these growth models were undergirded by the Keynesian consensus, which focused on short-long cyclical issues centering on curbing temporary unemployment of both capital and labor in a developed economy (p.3). Thus, Lewis starts his analysis of growth with three broad areas that explain economic growth dynamics:

- economic activity- the will to make the human effort to increase the yield of a given effort or resource;
- increasing knowledge
- increasing capital

In explaining the first factor, Lewis acknowledged that the growth of per capital output (or simply economic growth) relies on both natural resources and human behavior (p.3). Lewis goes on to describe what he calls *limited horizons* in terms of how wants are limited because of the limited background knowledge or cultural capital of a society (p.3). He asserts that growth is "likely to be enhanced in societies where work is more highly regarded, which suggests then that willingness to work is not a necessary condition for economic growth." (Boyd, 2007, p.8).

This means that "growth is determined by people working more productively, using more knowledge or more capital, and taking more favorable opportunities for specialization, for trade, and for investment." (p.8). There is a distinction in this assumption by Lewis between working hard and working more productively (p.8). Lewis thus concludes

> In every community there are some men whose natural bent is to experiment with new tech-
> niques, new products, or new economic forms, in defiance of established opinion or of vest-

> ed interests. Some societies admire and encourage such people, while others regard them as buccaneers to be suppressed, but economic growth depends very largely on the extent to which the social atmosphere nourishes such people, and gives them scope (cited in Boyd, p.9).

One particular area of this work that is specific to Liberia is the notion that resource endowment does not determine growth. It might instead determine the pattern of growth if any growth takes place at all (p.9). This idea in the theory of economic growth perfectly explains why with relatively abundant resources, Liberia remains a poor and backward country.

So, what then determines the rate of economic growth? In response to this question Lewis maintains that the rate of economic growth is determined by human behavior and human institutions. It is also determined by other variables such as what Lewis calls energy of mind, willingness to save and invest productively, the attitudes towards material things and the freedom and flexibility of institutions (p.9). To this one might add the nature and speed of technological advance. Modern growth theory, as depicted in macro textbooks, focuses on the role of technology rather than on savings and capital in the growth process (Colander, 2010, p.220). This formulation is represented by the following conceptual model:

Technological advance ⇨ Investment ⇨ Further technological advance ⇨ Growth

Lewis maintained that natural resources determine the course and pattern of development but it is human behavior and institutions that determine growth. So, the entire book in effect is, Boyd (p.9) has intimated, "an examination of the factors that influence human behavior and how those various factors weave together to produce a stochastic net impact on per capital growth." It is the study of these factors that provides the framework for studying economic development from a Lewisian perspective. In Lewis, one finds that the structure and nature of institutions are fundamental to his economic theory of growth. Lewis notes that

> Institutions promote or restrict growth according to the protection they accord to effort, according to the opportunities they provide for specialization, and according to the freedom of maneuver they permit. …Men will not make effort unless the fruit of that effort is assured to themselves or to those whose claims they recognize: this is the fundamental argument of this section (cited in Boyd, p.11).

The salience of institutions in terms of the role they play in the growth process is quite illustrative. Institutions are significant mediating factors in the growth process as Easterly and Levine (2003) have also intimated. Hence, the recent history of Liberia and of other nations have shown that when national decision-making processes are concentrated in the hands of a few elite, in the face of fragile structures of authority, institutional power degenerates into personal power. Such processes of concentration of institutional power into the personal power of the leader often reinforce the mechanisms of economic and social underdevelopment. These processes of proprietary governance also lead to the phenomenon of social and economic alienation that is a unit of analysis in this book.

Many countries in Africa, particularly in our West African sub-region, have been held back in their transformative aspirations because of these diseases and symptoms. Countries such as Botswana, however, have somehow managed to escape the worst manifestations of these problems. Between 1965 and 1995, Botswana was the fastest growing economy in the world. During this 30 year stretch, Botswana's average annual growth rate was about 7.7 percent and the country moved from been the third poorest country in the world to being an upper middle income country (Beaulier, 2003; Siphambe, 2004).

Indeed, countries such as these have experienced relatively sustained economic growth and development over considerable periods. Beaulier (p.227) has attributed the success of Botswana to the existence of a particular set of institutions. These institutions include polycentric governance, the rule of law and a respect for private property. In addition to these, other factors enumerated by Beaulier include prudent management of the economy and the absence of civil strife in society. These views in effect, are consistent with the concerns expressed by others.

Hence, there is a need for institutional transformation in Liberia to accelerate the rate of economic growth as Lewis has suggested. This dynamic process should begin at the level of the individual cognitive level and graduate to affect existing macro institutional forms. Hence, an ethical process of change involves these fundamental ethical questions: What does it mean to do the right thing? What is the ethical thing to do when confronted with choices that could exercise a negative impact on others? What these questions suggest is that there is merit in the statement that rational actors, such as governments, much always make choices that promote the common good. Hence, the interest of the public good should be at the foundation of the creation of rational norms.

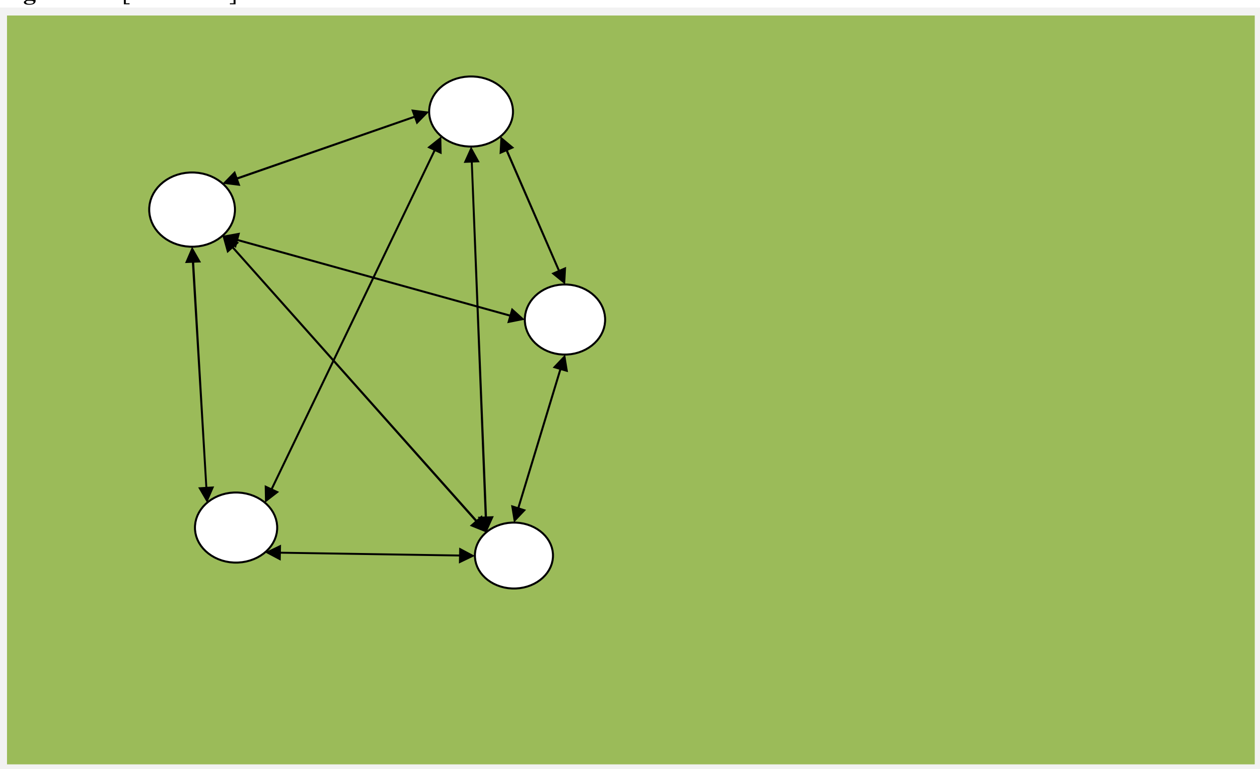
The problem is we do not always see that in the Liberian context. This is why it makes sense to argue that a necessary condition for economic growth requires new attitudes and leadership paradigms. One would envisage that such paradigms would produce institutional and leadership contexts that are purposeful, enlightened, and predisposed to a genuinely democratic ethic. A required condition for such a paradigmatic turn would be curbing some of the expansive appointive powers of the president. The exercise of these powers creates fertile grounds for autocracy. And in the Liberian experience, autocracy has traditionally stifled economic progress and institutional development (Sawyer, 2005).

It leads to the rationalization of a blotted bureaucracy and the overcrowding of would be productive sectors of the economy. State hegemony is inimical to decentralization and the attributes of polycentric governance (p.278-79). It is a recipe for managerial atrophy in all forms of organizations including state governance frameworks. Mintzberg (2002, p.148) has proposed a repositioning of management through structures of governance that allows it to manifest its presence in every corner of the organization. This is not a top down system but it is an approach that posits that management should be everywhere to underpin collaboration and organizational success. This perspective of leadership is also undergirded by a notion of shared and distributed leadership that has become a template for organizational success in the 21st century.

The diagram below depicts the web organizational structure that is democratic, decentralized and that contrasts a top down management philosophy. A web organizational structure symbolizes the meaning of what Lao Tzu, the Chinese philosopher and poet wrote more than 2500 years ago (Toor and Ofori, 2008, p.63):

A leader is best
When people barely know he exists
Not so good when people obey and acclaim him
Worse when they despise him
But of a good leader, who talks little,
When his work is done, his aim fulfilled,
They will say: we did it ourselves.

Figure 1.1 [The Web]



Source: Adapted from Mintzberg, 2004, p.148.

One would note that perhaps some efforts are being made to correct institutional rigidities in the system but such processes remain incomplete (International Monetary Fund, 2012). If anything, there has been no strong and consistent commitment that envisages a paradigmatic shift. The process of institutional transformation can take place by curbing pervasive institutional rent-seeking (corrupt practices) and the relics of chronic political patronage that bedevils our system of national leadership (Sawyer, 1992, 2005). In Liberia today, there is pervasive rent-seeking in all branches of an evolving constitutional state. The process of institutional change can be undergirded by structural transformation of the economy and in our national consciousness. The transformation in national consciousness involves an operational mechanism that enlists a transformation in cultural and psychological assumptions regarding norms of appropriateness and ethical reasoning (Jordon et al, 2013). Thus, if the right institutional policies and mechanisms are set in place, one can assure an increase in the rate of economic growth.

One can also assure the structural transformation of the economy from a state of stagnation to Lewis' turning point in spite of a given set of natural resources available to the country. This is to suggests that endowment in natural resources can be a blessing or curse based on the articulation of behavioral and institutional factors. Structural change in Liberia suggests that the nature and scope of financial institutions need to be reexamined and corrected so that they would serve as a foundation for enhancing savings and investment in the economy. It has been noted in the past that the foreign nature of Liberia's banks had exercised tremendous bearings on the lending policy of the banks (Maynard, 1970).

The domination of the banking and financial sectors by foreign banks resulted in surplus local depositions, such as term deposits, being invested abroad with their parents or affiliates (p.114). As usual, such externally driven policy orientations resulted in perennial capital shortage to finance local investment and entrepreneurial activities. These financial and banking practices bore all the hall marks of characteristic dependency so endemic in our economic way of life.

Another structural problem that has confronted the Liberian economy is so obvious that it can readily be observed upon closer inspection of a time series data on the composition of the gross domestic product (GDP). According to the 2010/11 annual fiscal outturn produced by the Finance Ministry, agriculture and fisheries have comprised almost 50 percent of GDP in the last six years. This undesirable pattern had not changed for almost half a century.

Thus, it was also the case in the 1960s and 1970s, when 50 percent of GDP came from mining and agriculture (Burger, 2011). Historically, the incomes from agriculture and mining have mainly come from foreign exchange earnings from cash crops, such as rubber and iron ore. This strategy mix is not sufficient for long-term sustainability as almost every development economist that has had something meaningful to say on this matter has observed (See Todaro, 1977 for example).

In the current institutional and policy conditions, what might be required is the creation of new economies and linkage effects (between the concession sector and local producers, for example) that would signal a genuine structural diversification in the economy. This might create a platform for indigenous entrepreneurial growth and long-term economic development.

Diversification of the economy (through appropriate long-term investments in food crops, for example) is suggested here as an appropriate means of somewhat insulating the domestic economy and budgeting and resource allocation processes from the vagaries of international commodities' markets. This is not easy, given the pervasive nature of the international economic system but a tempering effect is required. A closer examination of fiscal and budgetary statistics will show that the sectoral composition for 2005-10 attests to the fact that the pattern and structure of the economy needs to change to accommodate a break from structural dependence (see Ministry of Finance, 2010). These economic and structural challenges, as Lewis suggested, would involve genuine transformation in institutions and attitudes.

6. Conclusion

This article has attempted to demonstrate how behavioral and institutional variables tend to influence the rate of economic growth. Sections in this article conducted an examination of economic patterns and political institutions in Liberia to see how they have been influenced by the category of human behavior as postulated by Lewis. Thus, Lewis affirms the notion that processes of social and economic transformation are enhanced when they are grounded in the relevant behavioral, cultural and institutional foundations. It is suggested that the process of change must be anchored on decentralized systems of public management and predispositions to a genuinely democratic ethic. The importance of the role of institutional dimensions in African economic and social transformation has been acknowledged by the Oxford economist, Paul Collier, when he remands us that the real problem in African economic development is not the lack of resources per se, but the defective political institutions that sit on top of these resources.

Hence, it is envisaged that the discussion held in this article would help spark greater theoretical discourse and ultimately built the foundation for constructing the beginnings of a conceptual and empirical model. One hopes that perhaps such empirical and conceptual models could help to provide a much more nimble, simpler and rational understanding about how to tackle some of the dilemmas and long-run issues of economic growth and development in Liberia. Finally, the article calls for the formulation and testing of additional hypotheses to gauge whether the pattern and rate of economic change could be further enhanced through normatively grounded social and institutional practices in Liberian society.

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