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## Varieties of capitalists? The middle class, private sector and economic outcomes in Africa

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WIDER Working Paper 2014/101

## **Varieties of capitalists?**

The middle class, private sector and economic outcomes in Africa

Antoinette Handley\*

August 2014

**Abstract:** Political scientists have generally seen two key features of African political economies—a relatively small or absent middle class, and a middle class that is unusually embedded in the state—as key explanations of the troubled political and economic trajectories of many African societies. This paper considers the nature and implications of recent momentous changes for Africa’s political economies. It asks if there is such a thing as a homogenous and universal middle class, what its attributes and role are, and how these connect to the trajectory of the broader political economy.

**Keywords:** Africa, middle class, private sector

**JEL classification:** P16, P50

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In every city the people are divided into three sorts; the very rich, the very poor, and those who are between them. If this is universally admitted, that the mean is best, it is evident that even in point of fortune mediocrity is to be preferred; for that state is most submissive to reason (Aristotle 1986: 126).<sup>1</sup>

## 1 Introduction

In political thought there has long been a normative preference for the middle class as an actor, and for the political and economic transformations it is held to drive. This is amply illustrated by the quote from Aristotle above, who describes society's middle strata as the 'most submissive to reason'. In the aftermath of the Industrial Revolution and the emergence of its signal new class—the bourgeoisie—thinking about the nature and fortunes of this class has been bound up with thinking about two other variables: the nature and strength of the private sector, and long-term economic outcomes especially industrialization and growth. Much of the political thought in this vein has assumed certain universal attributes of this stratum, and assumed as a result that the social and economic impact of the middle class on growth and other economic outcomes will therefore also be similar around the world.

For much of the twentieth and twenty-first centuries, the class composition of most African societies has differed from the normative models of political science. In lieu of the sizeable middle and working classes found in many industrialized and industrializing societies, for most of their recent histories many African societies have been predominantly comprised of peasants.<sup>2</sup> Historically speaking then, Africa's middle class (to the extent that it has existed at all) has been much smaller than it is in countries which are members of the Organisation for Economic Co-operation and Development (OECD) and even in much of the rest of the developing world. Second, where it has existed, for much of the continent's post-independence history, it has been unusually dependent on the state or public sphere as I will outline below. It seems logical to conclude then that perhaps the failure of much of Africa to prosper has been because its middle class has simply been too small, too weak or insufficiently 'private' to drive the same kind of economic transformations that have occurred elsewhere. The recent increase in the size of Africa's middle classes, occurring alongside a renewed interest in and focus on Africa's private sectors and burgeoning growth in many of the continent's political economies provide an opportunity to re-examine many of these central questions.

The term 'middle class' is associated historically with a specific class that emerged in England at the turn of the eighteenth century; much of how we conceive of the economic and political nature of that class (and hence its roles) flows directly from these origins. In particular, I wish to focus on the following assumptions—that there are close and causal connections between the middle class and the private sector and a correlation between their respective fortunes such that (a) entrepreneurs and hence firms and businesses emerge disproportionately from the ranks of the middle class, and (b) the values and interests of the middle class are distinct from those of the public sector because that class is overwhelmingly situated in and dependent on the workings of the private sector. These assumptions are exemplified in the notion of the bourgeoisie. Derived from the French, this term means not only the middle class but refers also more directly to the character of that class, à la Marx, as the owners of capital. Very often then, we assume that the

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<sup>1</sup> Thanks to Liz Alexander for our discussion on this point.

<sup>2</sup> Of course, the same is true for most human societies if we go back a couple of centuries. However, this remained true in Africa for much longer than elsewhere.

middle class is at the same time and always coterminous with other categories including a capitalist class, entrepreneurs, business, and the private sector more broadly.

This reflects a widely held but often only implicit assumption that the middle class emerges out of and is profoundly rooted—both in its economic origins as well as in its values, ideas and orientation—in the private domains of business and commerce, rather than in the public or state sector.<sup>3</sup> This assumption drives propositions about the supposed economic role of the bourgeoisie: that because it is, first and foremost, situated in the private sector and oriented towards the incentives and pressure of the market, then, first, the distinct interests and, second, the capital resources (human, financial and so on) of this class provide the creative (destructive?) energies that power economic transformation broadly and industrialization specifically (Schumpeter 2008 [1942]).

In this paper, I examine these propositions and suggest that, just as there are varieties of capitalism evident in different parts of the world, so too there might be varieties of capitalists, not all of whom possess all of these characteristics; that the nature of the middle class and private sector respectively can vary substantially from the normative models of political science, shaped by local and regional contexts and histories; and that this ought to caution us against any easy or deterministic assumptions about what a growth in the size of the middle class might mean for Africa. Let me be clear: I am not making an essentialist argument about the way in which Africa or Africans differ from societies elsewhere in the world. Rather, I am insisting that class formation and the development of economic and social agents (like the private sector) are always and everywhere contextual and historical, amenable to new influences and global incentives as much as they are shaped also by their own histories and local/regional dynamics.<sup>4</sup> Ultimately I argue that inasmuch as the bourgeoisie in Africa may differ from its counterparts elsewhere, so too are there critical and distinct variations to be found in this stratum within Africa.

I begin by unpacking the key assumptions about the relationship between the private sector and the middle class and how in turn this relates to broader prospects for industrialization and economic transformation. I consider how, for much of the continent, these assumptions have not held historically. I argue that this class might vary also within and across the continent, that there might be distinct varieties of capitalists *within* the continent too. In the conclusion I return to examine the implications of the renewal of growth and prosperity across the continent in the more recent period.

## 2 Defining key terms

Most people probably understand the middle class as Aristotle did—that is, as a median stratum distinct from both the ‘very rich’ and from the ‘very poor’, comprising those ‘between them’. What exactly this means, however—whose rich and whose poor we consider, and where the cut-off points of each stratum are—can vary. Nonetheless, some useful insights can be discerned from this common sense understanding, viz. the idea that the middle class is not comprised of those on the very edges of survival. The members of this class enjoy a slightly higher degree of economic security than that; crucially, once they have taken care of the basic necessities needed to ensure human survival, they still enjoy access to some limited disposable income. Such income may be

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<sup>3</sup> This is inherent in the conception of this class as being engaged in a set of contestations with the state’s ruling classes: a distinct economic base produces distinct interests that must be accommodated in the class bargain that produces the modern state and its emerging democratic-ness.

<sup>4</sup> Indeed many of the characteristics attributed to Africa’s bourgeoisie are also to be found elsewhere in the world.

spent on additional consumption or invested in education or as savings. We often concentrate our thinking about the middle class here, on a set of values and behaviours allegedly intrinsic to that class that have economic consequences, both for the household concerned and for the broader society.

For this paper, I will be using a working understanding of the middle class that is at some remove from the classical Marxist definition, instead using a more Weberian-inflected definition that looks to an effective combination of occupation and income level. I generally consider the middle class to comprise those whose work takes them out of the realm of menial labour and into a range of white collar occupations, including teachers, professionals, office workers (above a certain grade) and owners of firms (again, above a certain minimal/survivalist size). A range of occupations populate this class but the defining condition would be that whatever that occupation, it needs to provide an income level higher than subsistence.<sup>5</sup> This then is a notion of the middle class as overlapping with key elements of the private sector—most obviously through the entrepreneurs and business owners who form a part of this class—but not as coterminous with it.

There is significant evidence that however you measure it,<sup>6</sup> the African middle class is growing as a share of the continent's overall population. World Bank figures seem to confirm an increase in incomes in many parts of the continent.<sup>7</sup> While many questions remain unresolved, this broad agreement on what the middle classes in Africa look like (in terms of income and occupation), and that they are growing should be enough for us to proceed.

Because I am specifically interested in the potential role of the private sector in driving broader economic transformations, I focus on a subset of this broader category—that is, entrepreneurs and enterprises engaged specifically in business on a 'for profit' basis. For the same reason, and because we are concerned with the relationship between the middle class and the private sector, I focus also on those operating businesses or enterprises above a certain minimum level of profitability, thus excluding most micro and survivalist enterprises.<sup>8</sup>

### 3 Why this matters

Why might we care about the size and nature of the middle class and its relationship to the private sector in Africa or anywhere else? We care about these issues because most of us take seriously a number of contentions that have been made about the twofold historical role of the middle class:

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<sup>5</sup> This is essentially the notion used in Kharas (2011: 59).

<sup>6</sup> One of the most widely cited approaches has been the income range approach offered by the African Development Bank (ADB), namely an absolute definition that includes all those with US\$2 to US\$20 per capita daily consumption in 2005 PPP US\$ (purchasing power parity) (Ncube et al. 2011). Birdsall, writing in 2010, argues that '[i]f we treat all of Sub-Saharan Africa as a single country, the numbers ... imply that of its approximate 300 million people, just 3.6 million in South Africa are 'middle class' in the political sense. Of the 15 million I have called 'rich' because they are in the top 5 per cent of household in their own countries, perhaps another 5 to 10 million should be counted as middle class—suggesting at the moment a maximum of 20 million middle class people in the region'. Banerjee and Duflo use the US\$2 to US\$10 daily per capita expenditure bound to identify the middle class and more closely examine two sub-groups here, one at the upper end and the other at the lower end of this bound. Kharas defines a global middle class as a household with a daily per capita income of between \$10 to US\$100 (Kharas 2010: 6, 12). Not surprisingly on this basis, Kharas finds a much smaller middle class in Africa, totalling only some 32 million. Ravallion (2009) uses the \$2 to US\$13 bound.

<sup>7</sup> <http://databank.worldbank.org>

<sup>8</sup> For an eloquent defence of the importance of concentrating on the 'top of the pyramid,' see Schneider 2013: 18.

first, in shaping the modern state (and political institutions more broadly)<sup>9</sup> and, second, in driving growth and industrial transformation.<sup>10</sup> In this paper, I focus on the latter (viz. the supposed role of this class in transforming the economy) although there is no question that it is hard to disentangle the political and the economic roles from each other.<sup>11</sup> In terms of broader economic transformations and the impact on growth then, the middle class might matter in a number of ways. I cite below three functions the middle class might play as presented by Banerjee and Duflo (2008), and add two more.

### **3.1 The middle class as a source of entrepreneurs**

First is the argument that the middle class operates as a kind of nursery or breeding ground for entrepreneurship and entrepreneurial ideas and energies, i.e. serving as the direct source of new enterprises and jobs, and driving innovation and improvements in labour productivity.<sup>12</sup>

### **3.2 The middle class as a source of aspirations**

The emergence of entrepreneurs and a new set of values from the ranks of the middle class might also have a galvanizing effect on the economy in less direct ways, namely through how other strata of society regard that class. This argument is perhaps most famously made in McCloskey's (2006) celebration of 'bourgeois dignity' as central to the Industrial Revolution: in her book of the same name, she argues that the rise of the bourgeoisie and its attendant values and ideas, and the respect that came to be accorded to that class by the rest of society, created a set of aspirations and strivings that motivated others to reproduce these—and their benefits. Williams makes a similar argument about this 'example effect' in Nigeria where 'the rich are admired [by the poor] as an exemplification of the success to which the poor aspire' (Williams 1977). The middle class then may be important both for the direct role they play as the source of new entrepreneurs and/or for the tone that this sets for the rest of society—how it can generate certain kinds of aspirations on the part of the rest of society about what is desirable and how to behave.

### **3.3 The middle class as a source of capital**

The middle class and its values can serve a third function, as 'a source of vital inputs for the entrepreneurial class', especially through their supposed predisposition to accumulate both human and financial capital (to educate themselves and their children, and to save) (Banerjee and Duflo 2008). This set of arguments often draws on Weber's argument about Protestant ethics as central to the transformative role of this class.

For example it is often posited that the middle class disproportionately value education and/or are themselves relatively well-educated, and that by this mechanism they might play a moderating role in the polity or contribute to the production of better policy and economic outcomes. While almost every other component of these claims can be contested, it is often true that members of the

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<sup>9</sup> See famously, Moore (1966).

<sup>10</sup> A range of commentators for example have asserted a correlation between the number and liveliness of a country's entrepreneurs or bourgeoisie and that society's economic vitality. See for example Amin et al., who make an argument about the galvanizing role of a black rural bourgeoisie: Amin et al. (1977: 155); see also Easterly (2001).

<sup>11</sup> Indeed, as argued below, one of the ways the middle class might play an economically transformative role might be precisely by bringing political pressure to bear on the state. Amin et al. stress how important it is, at a minimum, that the political context not hinder the emergence of a bourgeoisie and its subsequent flourishing (Amin et al. 1977: 156).

<sup>12</sup> Banerjee and Duflo (2008) cite as exponents of this view Acemoglu and Zilibotti (1997).

middle class enjoy a higher level of education than more marginal classes.<sup>13</sup> There does also appear to be evidence that improvements in population-wide levels of education in turn produce improvements in productivity and thus growth (Robertson 2012).<sup>14</sup> The other value that is frequently claimed for the middle class is their prudence and predisposition to save—and hence to accumulate critical financial resources; these then can serve as a key source of investment in the economy.<sup>15</sup>

### 3.4 The middle class as a source of consumption

Fourth, the middle class can play an economic role as consumers, especially those who are ‘willing to pay a little extra for quality’ (Banerjee and Duflo 2008: 3).<sup>16</sup> If a larger number of people are moving out of poverty and into a higher income bracket, this may drive increased demand for a range of consumer goods. This in turn can promote the development of efficient markets and distribution chains. Moreover, if even some of these goods are produced domestically, this could consolidate and promote the diversification and further industrialization of the economy.<sup>17</sup>

This consumption effect could also provide significantly higher demands for a range of services and goods that are *publicly* supplied (including infrastructure, education, health, security of contract, etc.) and thus generate an additional important multiplier effect throughout the economy that could help to drive the broader transformation of that economy.<sup>18</sup> This brings us to a set of arguments, centred on the political function of this class.<sup>19</sup>

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<sup>13</sup> The Renaissance Capital survey of the Nigerian middle class for example finds that 92 per cent of those surveyed had post-secondary education (Robertson et al. 2011). Ncube et al. argue that ‘[h]uman capital investment in education and health also rises as affluence increases’ (Ncube et al. 2011: 7).

<sup>14</sup> It is hard to discern which way the causal arrows point here. Ncube and Shimeles (2012: 18) find a strong correlation also between the level of education and membership of the middle class. They argue that one can infer from their results that ‘countries with a low stock of educated people could get a rapid gain in fostering a middle class by investing in education’.

<sup>15</sup> The Nigerian middle class for example, according to a survey conducted by Renaissance Capital, relies surprisingly little on credit, from banks or anywhere else but tends to rely instead on savings. Some 89 per cent of respondents reported having savings and the primary objectives for those savings were to invest in education or in businesses (Robertson et al. 2011: 26). Of course, we ought to bear in mind the possibility that such prudence and the proclivity to save may not be a universal attribute of all middle classes but instead be particular to those parts of the world where financial systems and access to credit in particular have not yet been fully institutionalized. One thinks for example about the very high levels of indebtedness of the North American middle classes.

<sup>16</sup> Murphy et al. (1989) describe the middle class as ‘the natural consumers of manufactured goods’ and hence a sizeable middle class is one important way to foster broader processes of industrialization. Fernandes (2000) notes that in India, consumption is central to how both the left and the right conceive of and describe that class.

<sup>17</sup> Deloitte puts this crudely: ‘large population numbers create the very necessary volume for any consumer goods and services. Numbers move product’ (see also Banerjee and Duflo 2008: 3; Chimhanzi and Gounden 2012: 1).

<sup>18</sup> Needless to say, this consumption function may be somewhat in tension with the second argument regarding this same class’ supposed proclivity for saving (and thus presumably deferring consumption).

<sup>19</sup> van de Walle (2011) suggests an additional set of arguments about why this class may be significant for broader economic transformations: it may be that the middle class matters less in and of itself and rather is important because a society with a sizeable middle class is also likely to be a society with relatively lower overall levels of inequality—and it is the relative equality of that society that ultimately matters for economic outcomes. There is a great deal of evidence that relatively low levels of inequality in society foster moderation, civility and a higher level of responsiveness and accountability in politics; this in turn will likely have profound economic consequences over the long term. For Easterly (2001) the argument is that a sizeable middle class in combination with lower levels of ethnic diversity is more likely to produce a policy consensus that fosters growth and political stability. See also Murphy et al. (1989).



### **3.5 The middle class as a source of political pressure on the state**

Finally, there are those arguments for the centrality of the middle class in effectively pressing a series of demands on the state for the provision of public goods including health, education, security, rule of law and infrastructure. All of these are of course crucial to long-term economic development.

According to Charles Tilly, European monarchies bargained with the middle classes and granted democratic concessions to them because of their need for revenue and because of the relative difficulty of taxing the assets of those middle classes (Tilly 1992).<sup>20</sup> The bases of the economic power (and hence the political and economic interests) of the emerging European bourgeoisies were notably distinct from those who dominated the seat of political power; much of the dynamism of this new class rested in the fact that they operated in a rapidly emerging new capitalist sphere of production and retail that was separate from and not entirely under the control of the ruling classes.

There may thus be at least five quite distinct reasons to care about the quality and nature of a middle class, viz. as a source respectively of entrepreneurial behaviour, aspirations, capital, consumption, and political pressure on the state. However, when claims are made about the supposedly transformative impact that a middle class can have on an economy, it is not always entirely clear which of these mechanisms are being invoked, and whether in fact the middle class in question is equipped to play one or more of these roles. The middle classes in Africa in fact may not fulfil many of the characteristics outlined above because of the particular histories of Africa's political economies. Central among these arguments is the assertion that Africa's middle classes have not historically emerged from or been a key constituent of the continent's private sectors.

### **3.6 The middle class and private sector in Africa: A brief history**

The African Development Bank argues that Africa's new middle class 'is strongest in countries that have robust and growing private sectors' (AfDB 2011: 31). This is not unusual or unexpected. In many societies around the world, there has historically been a good deal of overlap between the middle class and the private sector. However, it is also true that the process of class formation and transformation in Africa has unfolded in ways that are quite distinct from the classical models that were developed to describe events in Western Europe (see for example Goody 1977).

### **3.7 The nature of Africa's middle classes**

Africanists tell us that for much of the continent, the post-colonial indigenous bourgeoisie emerged not from an industrialization process or even primarily from the private realm of the market but instead out of a relationship, first and foremost, with political power—more specifically with the state. This, of course, is not unique to Africa and is characteristic of many late, late industrializers (Gerschenkron 1962), but Africa does perhaps represent the very 'late-est' of all the world's economic regions. As Sandbrook has noted, '[i]n newly independent African countries ... political power is an independent variable shaping social stratification ... Instead of high social status and the allied economic privilege leading to political power, the latter permits its holders to develop a class position and enhance their social status' (Sandbrook 2008: 13). Sklar spends some time unpacking a similar idea, reviewing several terms to describe the class that is the outcome of

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<sup>20</sup> See also North and Weingast (1989). It is worth noting that middle class assets in Africa have historically tended to be invested in land rather than in finance; this is more easily taxed and hence does not require the same concessions from the ruling classes to the bourgeoisie (Bates, quoted in van de Walle 2011: 7).

this process; these terms (including ‘administrative bourgeoisie’ and ‘managerial bourgeoisie’) attempt to convey this politically contingent feature of the middle class and something of the particular context—what Weber would call ‘political capitalism’—within which it operates (Sklar 1979).

### 3.8 The nature of Africa’s private sectors

Like the middle class, the private sector in much of Africa differs in important ways from its contemporary namesake elsewhere, even in the developing world. For the most part, the private sector in Africa is smaller as a share of the overall economy and is located principally in the rural areas; the urban private sector is generally characterized by relatively low levels of industrialization and a predominance of trading activity as opposed to production or manufacturing. The sector is moreover populated by a preponderance of small and micro firms. These features do not, however, mean that the market as a means of exchange is absent in these societies. As Fafchamps points out, the structure of African economies actually accords the market a resource allocation role that may be even more important than in highly industrialized economies (Fafchamps 2004: 444). But of course the private sector is not the same always and everywhere, nor is it necessarily evolving towards some universal and homogenous norm.<sup>21</sup> So what is the history of this sector in Africa and what kind of bourgeoisie has it produced?

Writers like Jack Goody have stressed that the historical nature of productive relations in Africa was, as elsewhere, dictated by the ratio of people to land (Goody 1977). Historically, however, what is distinct about Africa is that across much of the continent it is land that has been plentiful, and human resources that have been in scarce supply.<sup>22</sup> This produced a very particular kind of relationship to property and to productive assets. As noted by Goody and Herbst among others, a set of legal institutions to govern the individual ownership of land simply did not evolve in land-abundant Africa the way it did in land-scarce Western Europe (Goody 1977; Herbst 2000). Allied with the relatively unproductive nature of agriculture in Africa and the difficulties attached to generating reliable surpluses in a distinct tropical ecology (see Bloom and Sachs 1998), these factors posed severe problems for the emergence and development of agrarian feudalism—let alone agrarian capitalism or indeed any kind of capitalist class (Amin et al. 1977).

The advent of colonialism and the shifting economic relationship between African colonies and the metropolises transformed Africa’s political economies and profoundly altered the trajectory of class formation. In particular, they preempted or retarded the emergence of an indigenous capitalist stratum in many African societies. The factors at work here were multiple, not least among them the racism and mercantilism of colonial economic policy and the way in which government regulations systematically favoured businesses and firms from the metropole, restricting the opportunities available to indigenous entrepreneurs.<sup>23</sup> In the years immediately prior to independence then, it is not that there were no indigenous businesspeople,<sup>24</sup> but that there were few. They were also forced to compete on often radically unfavourable terms under colonialism

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<sup>21</sup> Schneider describes two quite different schools of thought about capitalism: the view that there are distinct *stages* of capitalism but that these are universal (à la Marxism and modernization theory) and the contrary view that there are distinct *types* of capitalism (à la Weber) (Schneider 2013). Both Schneider and myself incline towards the latter view.

<sup>22</sup> This stands in contrast with the conditions that pertained in much of Western Europe and Asia.

<sup>23</sup> See chapters one and four in Handley (2008).

<sup>24</sup> See for example Ehrensaff’s (1977) account.

with colonial or settler businesspeople who enjoyed a range of advantages from their relationship with the colonial state and the metropolitan economy.

The small size of the indigenous business sector and its reliance on a relationship with the state persisted post-independence, even as a sub-set of Africans assumed political and economic power in these societies. Elsewhere I describe how much of Africa's indigenous business community was closely connected to the coming to power of a new (African) political elite at independence—and indeed was directly birthed by that elite in many instances.<sup>25</sup>

The overlap in membership of the middle class and the private sector and the degree to which both of these categories were closely enmeshed with the workings and logic of the state had powerful consequences for African political economies, as Thandika Mkandawire points out:

The absence of a group of large indigenous capitalists with sizeable capital, organizational resources and entrepreneurial skills, obviated the need for the new states to form an alliance with such classes for its development project ... the state has had access to peasant revenue without any mediation by a capitalist class, or even a merchant one. (Mkandawire 2001: 301)

Further, it meant that Africa's middle classes were not always the best avatar of the private sector: instead, 'a sizeable proportion of the middle class in contemporary Africa is ... earning its livelihood from the public sector. In effect, it is part of the state apparatus'.<sup>26</sup> The result was the absence of a class having a set of economic interests distinct from those of the state that could push the state to secure the basis for long-term capitalist development.<sup>27</sup>

As suggested above, what I have described here for Africa is obviously a generalized account and thus does some violence to the specificities attendant on how the process played out across the continent. Nonetheless, the broad features of the process and its outcomes described here can be discerned in Kenya, one of the few African countries whose bourgeoisie has attracted any sustained analytic attention. In that country, instead of a private sector-led process of industrialization fostering the emergence of a distinct class and market sphere, Himbara describes two key alternative routes to accumulation, neither of which fostered a particularly robust indigenous private sector comprising, first, 'directorships in foreign companies' and, second 'employment in the Kenyan civil service' (Himbara 1994: 93). This raises questions about the ethos or spirit of the country's economic class and whether or not they were structurally incentivized to produce the kinds of 'creative destruction' that Schumpeter had in mind for his entrepreneurs. The critique has often been that, far from responding principally in terms of the incentives of the market, Africa's key economic actors have instead been in thrall to a set of pressures emanating from the moral economy, known also as the economy of affection.

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<sup>25</sup> Handley (2008) Again, this is not unique to African states. However because African states for the most part achieved independence later than other parts of the developing world, and because Africa's era of independence largely overlapped with an age in which the conventional wisdom was that the state ought to be central to the detailed management of the economy, this process unfolded perhaps more intensively in Africa than elsewhere.

<sup>26</sup> van de Walle 2011: 8. Sklar (1979) explicitly talks about Africa's bourgeoisie as owners of the means of consumption (and coercion), and not of production.

<sup>27</sup> In his discussion of the Nigerian bourgeoisie, for example, Williams notes that it 'lacks the commitments of ... the rationalizing, capital-accumulating, surplus-expropriating classes of Britain, Russia, Germany or Japan during their period of industrialization' (Williams 1997: 285).

Writing in 1985 about the Kenyan bourgeoisie, Goran Hyden for example argues that we still ‘know too little about this class of capital owners to say how many have transcended the boundaries of the economy of affection and established themselves as capitalists’. The economy of affection is clearly conceived here as functioning apart from and perhaps even in direct contradiction to the workings of a capitalist market, as a place where ‘[c]apital accumulation ... becomes a means to meet primarily social and political ends’ (Hyden 1987: 127–8).

Hyden is essentially suggesting here that Kenya’s key economic actors may not be acting in the ways we have been led to expect a more private sector minded middle class to act—at least in terms of reinvesting their savings, for example, into making their firms more profitable and productive. This view seems to be borne out in the following observations from 1965 where Kamau makes a similar point, arguing that

[African] entrepreneurs are expected to share their incomes with other members of the extended family. They are expected to come to aid in case of financial hardships and to employ relatives regardless of whether they are efficient. These considerations lead to a withdrawal of a substantial amount of capital from an enterprise and its eventual failure. (Kamau, cited in Himbara 1994: 89)

The economy of affection activates a vital set of strategies and norms that can enable communities to diversify risk and survive hard times, but does not necessarily produce a capitalist class or a growth-oriented economy as these are classically envisaged.

Fafchamps’ more recent study of African firms finds some of the same dynamics still at work. He concludes that far from a cold-blooded cost-benefit or profit-minded set of calculations dominating transactions, ‘relational contracting is the norm in African manufacturing’ and ‘exchange is based on social networks’ (Fafchamps 2004: 441). His work broadly supports the conclusion that even in the contemporary period, ‘[e]conomic exchange is more likely to be based ... on social networks in pre-industrial societies’—with the crucial caveat that the form of those social networks varies significantly across African countries (Fafchamps 2004: 442). The denser the social networks in a country (and Kenya’s networks—Fafchamps tells us—are denser, say, than those of Ghana), the more easily information flows across these networks and the more efficient those processes of exchange can be (Fafchamps 2004: 442). This privileges the role of intermediaries in these markets and provides a key explanation for why ‘middle men’ have historically seemed to comprise such an outsized share of Africa’s small private sector.

There are a number of ways in which we can interpret these findings. These behaviours and orientation may not reflect a pre-capitalist mentality or a more ‘primitive’ stage of what has evolved in North America and Western Europe: rather, they can be seen instead as an adaptation to a distinct set of circumstances—an entirely rational strategy in a market in which information is not readily accessible or verifiable. Fafchamps for example argues that

[P]otential entrepreneurs are thus most likely to enter a line of business in which they have relatives or friends, not because they can more easily buy from them or sell to them but because relatives and friends can provide them with much needed references and background information (Fafchamps 2004: 449).

We could see this, therefore, as marking out a particular variety of capitalist, rather than as somehow antithetical to capitalism. The ties and connections provided by the economy of affection then are a great solution to a particular problem (although, in turn, they can generate other constraints).

As Fafchamps argued above, this emphatically does not mean that markets are not important as a means of exchange in Africa. Instead, he argues that the character of these markets does not resemble how they are 'portrayed in economics textbooks; they involve individuals who form relationship and networks to economize on transaction costs. In the words of (Granovetter 1985), markets are embedded in webs of social relationships that help shape them' (Fafchamps 2004: 454).

I have argued above that in most of Africa the relationship between political and economic power that produced the contemporary state and its economy has looked very different indeed, and that this shapes what we can consequently assume about the nature of the private sectors and middle classes on that continent.

There is a further issue that we have not yet systematically considered, although I have hinted at it in my use of the plural when talking about Africa's middle classes and private sectors, viz. the variations that exist within the continent.<sup>28</sup> Not only do Africa's key economic classes differ in systematic ways from the normative models, but there are also significant differences in the origins, character and prospects of these classes within Africa. All of this should give pause to those who wish to draw a straight causal arrow between Africa's burgeoning economic classes and her future economic prospects.

#### 4 Africa today

A plethora of new statistics and hype in recent years have celebrated the real improvements in growth in 'emerging' Africa over the last two decades (Radelet 2010). Most everyone agrees that it is, at least in part, this renewal in growth that is driving the recent expansion in the size of Africa's middle classes (Birdsall 2010: 15; Ncube and Shimeles 2012: 10–11). This raises the question of whether these 'new' African middle classes look and behave differently from the post-independence managerial bourgeoisies. We can already say in very general terms that the former are more numerous than their predecessors, younger and more urbanized; we can further speculate that they may be less dependent for their livelihood on economic resources directly associated with the state—but it is difficult to be more specific.<sup>29</sup>

Because of the lack of continent-wide, comparable data, it is hard to be certain exactly who these new middle classes comprise, what their occupations are and hence what exactly the source of their income is. In trying to map the contours of the contemporary relationship between the middle classes and the private sector in Africa, there is a crippling dearth of quantitative data that might

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<sup>28</sup> These variations might be characterized in an almost infinite number of ways. One of the most illuminating, however, is Amin's division of Africa's political economies into three distinct categories, each of which would produce very different prospects for the nature and size of the private sector, and hence its relationship with the middle class—namely, Africa of the cash crop economies, Africa of the labour reserve economies, and Africa of the concession companies (Amin 1972).

I am grateful to Thandika Mkandawire for bringing these arguments to my attention. He has developed this framework in his own work on the varied fiscal and tax bases of African states and it is immensely suggestive for our purposes (Mkandawire 2010: 5).

<sup>29</sup> Deloitte for example concludes that Africa's new middle classes are predominantly urban and include salaried employees and small business owners; they are also relatively young (Chimhanzi and Gounden 2012: 14).

speak in more precise and nuanced ways to this relationship. Some country level data are available but they are captured in widely differing ways and their quality is mixed.<sup>30</sup>

For many individuals, middle class status is still closely associated with their relationship with the state and the public sector; Renaissance Capital's survey of members of the Nigerian middle class for example found that 76 per cent of those surveyed worked in the public sector (Robertson et al. 2011: 3). Of course, it is true in a number of places around the world that entrepreneurs constitute only a share of the total middle class,<sup>31</sup> so in and of itself, this may not be that significant.

Moreover it seems intuitive that at least part of the growth of the middle class is being fuelled by a thriving private sector. In her study of the middle class in Nairobi for example, Spronk focuses on a group of young professionals, all of whom are well educated and who 'seek careers in the private sector where they are able to work their way up' (Spronk 2012: 65). She argues explicitly that her subjects 'do not generally come from backgrounds with wider networks based on patronage' (Spronk 2012: 66). This grouping would either not have existed or would have been significantly smaller in decades past when the size of the private sector—and its degree of 'privateness'—were less significant. Similarly Ncube et al. characterize Nigeria's new middle class as the product of the 'expansion of the private sector in industries like banking, telecommunications and services' (Ncube et al. 2011: 13). Many would characterize the growing Kenyan middle class in the same way.

Those who are sceptical that the middle class is becoming more 'private' point to the growing prominence of 'tenderpreneurs' in South Africa, the continent's largest and most well-developed private sector.<sup>32</sup> Much rests on whether we see South Africa's rapidly growing black middle class as reflecting the end of apartheid and the lifting of restrictions on the entrepreneurialism of black South Africans or, conversely, as the result of the effect of state patronage (via Black Economic Empowerment legislation). Rivero et al. (2003: 18) tell us that between 1994 and 2000, much of the growth in the number of black South African in the middle class is being driven by professionals rather than by entrepreneurs per se. In addition, much of the country's growing black middle class are salaried: working for large firms or for the state, rather than running their own businesses. This class then is hardly an avatar of a bold new entrepreneurial ethos.

Having said all of that, however, we would do well to exercise some caution about how we understand the notion—and value—of an entrepreneur. Ghani et al. (2011: 174) warn us that '[t]he vast majority of self-employment businesses ... do not generate employment opportunities for other workers, and they may even be the products of a lack of employment opportunities for the business owner'. It is not necessarily the case that a larger number of entrepreneurs will automatically create more jobs and build a more prosperous or transformed economy. On the contrary, the sudden mushrooming of entrepreneurialism may instead be a symptom of a declining economy that is unable to produce a sufficient number of formal sector jobs to support the population, who are thus driven into survivalist types of informal enterprises.

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<sup>30</sup> As Birdsall (2010: 13) points out, most household survey data do not indicate whether members of the middle class are employed in the public or the private sector and this is before we even begin to consider that limited household data are available for only a handful of countries and only for the very recent past.

<sup>31</sup> Some 34 per cent of respondents to the Renaissance survey were either business owners or petty traders (Birdsall 2010: 15).

<sup>32</sup> This term describes that stratum of entrepreneurs who have benefitted from preferred access to government tenders as a result of Black Economic Empowerment legislation. For critics, then this class does not represent 'true' entrepreneurship but instead a variation of political capital.

So perhaps the economic significance of the middle class does not lie first and foremost in its alleged role as an incubator for entrepreneurialism. What of the other functions identified earlier in this paper, viz. the middle class as a source of capital, consumption and political pressure on the state? And, à la McCloskey, have we seen changes in how other strata in society regard the bourgeoisie?

The one area where we have seen meaningful and consequential change has been in how the state regards the world of business and the economy. Mkandawire (2001) talking about elite developmental ideologies and outlooks, identifies ‘signs of a new leadership whose focus is on the *economics* of nation building. These new leaders swear by economic growth and seem to view good growth indicators as the main source of their legitimacy’.<sup>33</sup> In a related vein, Taylor argues in his new book that the dual economic and political transformations of the 1990s dramatically altered the landscape, incentives and ideational milieu for the private sector in Africa—for the better (Taylor 2012: 80–84). Both Taylor’s and Handley’s work point to important ideational shifts that occurred as a result of the structural adjustment programmes of the 1980s and 1990s, viz. towards the idea that the pursuit of profit was not a shameful or illegitimate activity (Handley 2008: 259–63; Taylor 2012: 53). Whereas the private sector was regarded with hostility and suspicion in the 1960s and 1970s in many if not most African countries, a significant number of African governments (and donors) have now explicitly adopted private sector development programmes.

This connects to McCloskey’s argument that, for broader social and economic outcomes, at least as important as the values and attitudes of the bourgeoisie itself, is how the broader society regards the bourgeoisie (McCloskey 2006: 95). Not surprisingly, the sector seems to be flourishing as a result of this more benign outlook from the state. A policy environment that is friendlier to business has provided a more secure basis for capital allocation and planning on the part of private sector actors. Renaissance Capital’s survey of the Nigerian middle class asked respondents what investments they were planning in the next 12 month period: the most preponderant answer (19 per cent of respondents) was that they hoped to start a business, while investments in land and property followed closely thereafter; the single most common place where respondents were currently investing was in their own businesses (Robertson et al. 2011: 10).

This does not mean that all obstacles to the flourishing of various private sectors have been removed. The impact of at least two decades of economic decline are everywhere in evidence—and has added significantly to the cost of doing business on the continent. There is a crying need for public investment in infrastructure, human capital, and a further bolstering of key legal and regulatory institutions that can support sustainable growth. Access to finance in particular remains a key constraint in many places. It is quite an achievement nonetheless to be able to argue now, as Taylor does, that ‘[t]he principal obstacle to business in Africa is no longer the state per se, nor is it an absence of entrepreneurial culture but instead inadequate physical and financial infrastructure on which to sustain entrepreneurs’ (Taylor 2012: 95).

The alleged predisposition of the middle class to save is critical here as those savings can provide investable surpluses and hence a potential solution to the widely experienced credit crunch (private sector firms have long cited difficulties in accessing financing at a reasonable rate as a key obstacle to further expansion). This is linked to the consumption practices of this class; there is evidence

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<sup>33</sup> However, he goes on to note that while they are very receptive to foreign capital and policies such as privatization, these leaders ‘have a jaundiced view of domestic capitalists, whom they hold in spite and incessantly vilify’ (Mkandawire 2001: 296).

that here too these new middle classes might play an important role.<sup>34</sup> What is true for middle class saving is true for its consumption too, however, the devil is in the detail. Much rests on where and in what instruments savings are parked (whether they are available for reinvestment elsewhere), what kinds of goods are purchased and who benefits from these transactions. According to the ‘African Economic Outlook’, ‘Africa’s growing middle class continues to boost consumption, residential construction and private investment’ (AfDB, OECD, UNDP and UNECA 2012: 12). The bustling shopping malls, gleaming car sales outlets and rising middle class housing developments all testify to this.<sup>35</sup> The private security, healthcare and electricity generators that this same class also invests in however, raise cautions about what the broader political impact of this class might be in each country and its relationship with that state.

In many instances, Africa’s states have not only been historically very weak and minimal, but have also enjoyed significant autonomy from the society in deciding how to exercise their power—and some of these governance patterns are not necessarily challenged by the new consumption habits of the middle classes. Consider, for example, Tatu city, the new middle class housing enclave proposed for just outside of Nairobi, Kenya which is intended to be entirely privately developed, managed and owned. For that reason, we are unlikely to see Tatu’s middle class denizens storming the steps of city government demanding better services from their mayor. In a similar vein, Deloitte argues that Africa’s middle class does ‘tend to opt for private education and health services’ and ‘send their children to overseas universities’ (Chimhanzi and Gounden 2012: 2). These phenomena, alongside the private provision of electricity via generators, the private supply of household security through security and alarm firms, and the private provision of telecommunications via the cellphone, raise the spectre of a middle class that takes care of its own needs and is therefore disinclined to lobby the government for better provision of public services—a function so critical to its broader transformative role elsewhere.

## 5 Implications

Nancy Birdsall has argued—contra the tendency to emphasize the benefits of pro-poor growth—that there are real benefits to be had from the kind of economic growth that is specifically driven by and benefits the middle class in the developing world (Birdsall 2010: 1–2). She goes on to argue also that growth is more likely to be sustained when ‘a politically salient middle class supports in its own economic interests the sound and stable political and economic institutions that encourage investment by ensuring the rule of law and recognition of private property rights’ (Birdsall 2010: 2).

There is not a great deal of direct evidence that Africa’s new middle classes on their own will necessarily drive growth in the ways predicted by our normative models. Indeed, there are many grounds to be sceptical that Africa’s middle classes closely resemble those of England’s Industrial Revolution or that they will effect the same transformations.

My research suggests that in order for a new middle class to act in a way that is politically and economically transformative, it needs the following: first, a collective identity (what used to be called a class consciousness)—that is, as a class, it must be aware of its interests and have the ability

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<sup>34</sup> To give one very small example: research by Tetrapak International found that the consumption of flavoured milk in Kenya rose by 61 per cent between 2011 and 2012; they project a fivefold increase by 2015 and directly attribute this to the strength of the Kenyan middle class (Mwaniki 2013).

<sup>35</sup> One example is a US\$11 million investment in a gated housing development in Mlolongo, Kenya, targeted at middle-to upper-income earners and financed by the investment arm of Safaricom (*The Financial Post* 2013)



to organize collectively in pursuit of those interests. Second, it must be, at least in part, oriented also towards the state; by which I mean that key business actors and members of the middle class must be motivated by a clear understanding that it is the state's responsibility to be the primary provider of public goods in the society. Accordingly, these actors must be willing and able to exert political pressure on the state to provide those goods. In the absence of this, we will have a situation where there is instead purely private provision of these goods, contributing to the development of well-served but private and restricted middle class enclaves in the midst of a broader society that simply is not working (that is, the elite will pay for their own power provision, garbage collection, road repair, healthcare and security—but this will do little or nothing to secure the broader public provisions of those services). And third, the middle class ought ideally to see its interests as, at least, compatible with the interests of the broader society (Handley 2012). This is a fairly demanding set of conditions.

However, lest we judge this class—and hence Africa's prospects—too harshly, we would do well to remember Mkandawire's cautions against comparing African capitalists with an idealized version of their counterparts elsewhere; we should take the same caution to heart regarding its middle classes (Mkandawire 2001: 308). In terms of sheer numbers, for example, van de Walle reminds us that while Africa's middle class may look small compared to its contemporary counterparts elsewhere in the world, it is comparable to the size of England's middle class at the time that the Industrial Revolution was unfolding (van de Walle 2011). Second, it is important to remember that the middle classes have not always and everywhere been the avatars of inclusive, self-sustaining and private sector-driven growth. Kharas for example reminds us that the middle classes were not central to the East Asian miracles, Japan and Oceania excepted (Kharas 2010: 8). The rising middle classes in India and Indonesia are frequently characterized as being overly close to the state; similarly they are regarded also as economically significant principally for their consumption function and politically as an unlikely source of pressure on the state for the more effective provision of public goods (because they are able to secure those goods privately).

The growth and economic transformation that we have nonetheless seen in South and South East Asia over recent decades suggest further that the normative models and roles of the middle class may not all be equally crucial. Banerjee and Duflo (2008) argue for example that the middle class does not have a monopoly on the alleged proclivity to produce entrepreneurs, to save, or to invest in education.

The middle class is not necessarily any more entrepreneurial than the working class, and the poor also save and spend a good chunk of their income on education. Indeed, according to these authors, what principally defines the middle class is its access to secure stable jobs.

This brings us back then to our discussion in the opening of this paper about the access of the middle class to disposable income—and the economic and political importance of this single fact. Those middle class salaries and the security that they provide facilitate a higher level—and a different kind—of consumption. They also create cognitive space for the members of the middle class to be able to plan for the medium and long term (Mani et al. 2013). If the society is lucky and its political economy is structured in the ways suggested above, we might also hope that that class would ultimately begin to generate and act on a set of demands for improved political and economic governance, and that it will use its economic muscle to commence those iterative processes of bargaining with the state to provide better outcomes, for itself and for the broader society.

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