Institutions and Institutional Change in Zambia

SOPHIA DU PLESSIS

Stellenbosch Economic Working Papers: 16/06

KEYWORDS: INSTITUTIONS, INSTITUTIONAL CHANGE, COLONISATION, ZAMBIA
JEL: N4, N9, O1, O2, O5

SOPHIA DU PLESSIS
DEPARTMENT OF ECONOMICS
UNIVERSITY OF STELLENBOSCH
PRIVATE BAG X1, 7602
MATIELAND, SOUTH AFRICA
E-MAIL: SOPHIA@SUN.AC.ZA

A WORKING PAPER OF THE DEPARTMENT OF ECONOMICS AND THE
BUREAU FOR ECONOMIC RESEARCH AT THE UNIVERSITY OF STELLENBOSCH

Institutions and Institutional Change in Zambia

SOPHIA DU PLESSIS[1]

ABSTRACT

Research has shown a positive correlation between extractive colonisation and low post-colonial economic growth. This paper provides case study research to explore the possibility that post-colonial extractive institutions were already present in pre-colonial times. In Zambia's case this is indeed true. Extractive institutions existed in Zambia before colonisation, and colonisation certainly did not improve on them. The question whether countries like Zambia are doomed for failure is also considered, and it is concluded that an environment that allows experimentation is supportive of economic growth and development. With an authoritative regime during the Second Republic, feedback on policy decisions was limited and may provide more of an answer to bad post-colonial economic performance than extractive colonisation.

Keywords: Institutions, Institutional Change, Colonisation, Zambia
JEL codes: N4, N9, O1, O2, O5

[1] Revised version of a paper presented at the International Economic History Congress in Helsinki, Finland 21-25 August 2006.
I am grateful for the many helpful comments from the conference participants and for specific comments by Dan Bogart and Stan du Plessis. Also thank you to Olivia Engelbrecht for editing. The remaining errors are my responsibility.

Institutions and Institutional Change in Zambia

1. Introduction

The detrimental influence of colonisation cannot be overstated. Research has shown that especially extractive colonisation displays a positive correlation with low post-colonial economic growth. This type of colonisation, which is characterised by the infringement of property rights, created extractive institutions that were transplanted into the independent country. The question that is addressed in this paper, however, is whether there are any similarities between pre-colonial and post-colonial institutions in these countries. In other words, were the post-colonial extractive institutions only due to extractive colonisation, or were they already noticeable in the pre-colonial setting.

2. Zambia as a case study

To investigate this question, the paper focuses on the Zambian case study. Zambia was a British colony up to independence in 1964. There were no large settlements of Europeans during colonial rule and due to the fact that copper was extracted, institutions supporting these extractions were created.

At independence Zambia had a per capita income of US$664, which was, to put it into context, almost double that of its neighbour, and the later African economic star, Botswana. However, Zambia's subsequent economic performance did not live up to the expectations created by the relatively fortunate starting point. For the first 30 years after independence the Zambian economy shrunk on average by 1.0 percent per year in per capita terms.

One explanation for this bad performance focuses on the detrimental influence of a declining copper price. Copper plays an important role in the Zambian economy and has dominated the economy since large-scale mining operations started in 1924. At independence in 1964, copper accounted for 91 percent of total export earnings and since then the ratio has changed very little. The decline in the real copper price since the mid-1960s, therefore, seems to be a logical explanation for Zambia's economic decline. Indeed, Zambia's declining terms of trade, because of the falling real copper price, often features in explanations of Zambia's economic decline (for example Neumayer 2004, Sachs and Warner 1995, Stevens 2003).

Ndulo (1999) and Du Plessis and du Plessis (2006), among others, provide another explanation for the economic stagnation of Zambia. Their explanations focus on the post-colonial policies and their detrimental consequences for the Zambian economy. They do not ignore the important influence of the copper price, but focus their attention on the political reaction to the declining terms of trade. This paper follows this line of argument, but takes a step further by asking the question: how are these poor policies explained? Was it due to extractive colonisation, or were these extractive institutions prevalent in pre-colonial Zambia?

To answer this question, the article explores certain aspects of the post- and pre-colonial institutional framework of Zambia. The aspects that are covered are those highlighted by the following definition of the institutional framework North (2005: 49) provides: "… [it] consists of the political structure that specifies the way we develop and aggregate political choices, the property rights structure that defines the formal economic incentives and the social structure – norms and conventions – that defines the informal incentives in the economy". The institutional framework is, therefore, the result of formal institutions together with previously accumulated norms and conventions of the society over time.

The article therefore focuses on reasons why the post-colonial government infringed on property rights and identifies possible sources of human decision-making regarding property rights. It also investigates whether the informal institutions that supported the infringement could be attributed solely to Zambia's colonial experience or whether it was already in the making in pre-colonial Zambia.

2. Colonialism as an explanation for economic stagnation

In the last number of years extensive research has been done on the link between colonisation and post-colonial economic prosperity. It is especially the work of Acemoglu, Johnson and Robinson (2001, 2003, 2004) that have linked different types of colonisation to geographical realities, and these to post-colonial institutions. A study of former European colonies by Acemoglu, Johnson and Robinson (2001) reveals that the post-colonial institutions in almost all these former colonies were influenced by their colonial past. In particular those institutions that support private property by constraining local elites and rulers, were more likely to be created by European colonisers where they settled in large numbers (e.g. in the USA and Australia).

In contrast, when the objective of colonisation was mainly resource extraction, as opposed to the founding of a new society, no participatory institutions emerged. The institutional framework in such colonies has been called "extractive" by Acemoglu et.al. (2001). For example, in colonies where the climate (and the associated disease environment) was unfavourable to European health and settlement, they did not have the incentive to settle and develop economic institutions supportive of the development of the economy in general. Extractive institutions served the purpose of the colonialists, and this led to weak institutions (with respect to property rights) post independence. A large literature associates such institutional weakness with low and volatile growth (see for instance, Acemoglu, et al. 2004, Easterly and Levine 2002, Knack and Keefer 1995, North 1990, Rodrik 1999).

This account appears to suggest inevitable decline for colonies that had been subjected to extractive colonisation. If this is the case, the prospects for Zambia look bleak. There were no large settlements of Europeans during colonial rule and due to the fact that copper was extracted, institutions supporting these extractions were created. It can be argued that Zambia inherited a system of extractive institutions that was transplanted into post-colonial Zambia. This transplantation can be explained by the theory of path dependency.

The above-mentioned theory explains how initial advantages or disadvantages and interim shocks can have long-lasting effects on growth. In his latest book, Douglass North (2005) explains that humans learn to understand their environment through the development of "mental constructs" derived from their experiences in the past and present. These mental constructs cause change to happen incrementally and are instrumental in how economies change over time. Even where formal institutions change rapidly, informal institutions, or culture, do not change at the same speed, but serve as a "memory" of things that happened in the past. Does this mean that a memory of extractive colonisation leads necessarily to low post-colonial growth?

Fortunately for Zambia, and similar countries, there is no deterministic link between the past and the future, though path dependency links decision-making through time. Choices are constrained by path dependency, but they are still the outcome of human decisions. These choices are open to change or revision; a process that might often be slow but could be very rapid in other cases, for example a revolution.

The importance of choice is demonstrated by the history of colonisation. The different types of colonialism and the institutions it created were the choice of the colonial powers. When the colonisers did not settle, they chose economic institutions designed simply to extract resources from the native population. When they settled in large numbers, economic institutions and policies emerged in order to protect them in the future and encourage investment and prosperity. These actions of the economic and political agents, although not necessarily to the advantage of the indigenous population, were the result of choices made by the colonial powers. Similarly, post-colonial political elites had the option of either revisiting or protecting the institutional framework they inherited at independence.

These choices about the institutional framework are influenced by a combination of history, informal institutions and the pressure from interest groups that benefit from upholding or changing the old framework. On a more practical level, it is the desire of role players to strive towards an improvement of their position that brings about change.

The institutional framework influences decision-making, but these decisions will again influence the institutional framework. Therefore, the framework is never static. Whether change will "improve" the institutional framework, in the sense that it improves the environment for growth and development, depends on the intentions of the role players, how they perceive their environment and how they understand the issue at hand. Bad economic performance can thus be attributed to either players with intentions that are not to the advantage of the society at large, and/or players with an imperfect understanding of the issues: "to what degree our beliefs accord with 'reality'" (North 2005: 5). These intentions, perceptions and understanding are all influenced by colonisation and surviving informal institutions.

Extractive colonisation in Zambia strained the relationship between the colonisers and the colonised. Organised resistance preceded independence, with the leader of the resistance, and the first president of independent Zambia, Kenneth Kaunda, was even jailed for organising resistance. With relationships strained between the colonisers and the colonised, the post colonial government was also committed to end any form of domination from white southern Africa.

One of the consequences of the efforts to break free of colonial influences was a loss of confidence due to the infringement on property rights. The next section focuses specifically on property rights.

3. Property rights in Zambia

As mentioned above, property rights are one of the building blocks of the institutional framework, and its importance derives from the central role of property rights in the process of specialisation and trade that accompanies economic development. If transaction costs are minimised and property rights protected, the cost of production and distribution is lower. It allows private agents more scope to benefit from specialisation, investment and trade; the building blocks of economic growth.

Zambia's colonisation has already been described as extractive, with the all important copper industry essentially in the hands of foreign businesses at independence. This resulted in a relationship between local Zambians and the foreign companies that was particularly strained.

The Zambian public regarded the companies as insensitive to the needs of the country, for at least these reasons: firstly, these companies made no other investments during colonisation, other than those necessary to extract copper. Secondly, the mining industry had supported the Federation that preceded independence. And finally, many foreign companies operating in Zambia were subsidiaries of multinationals also operating in Ian Smith's Rhodesia and therefore seen as unsympathetic to the desire of Africans to rule themselves.

The companies expected the protection of their property rights after independence. Stiglitz (2000: 15) finds irony in such expectations, in his words "…when the colonial powers granted independence to their former colonies they forgot the abrogation of (implicit) property rights that they perpetrated in the first place and strongly urged that the newly independent countries respect property rights (including those of white settlers)". Not knowing exactly what to expect from the new government, the companies paid out most of their profits as dividends to their foreign owners, rather than invest in the Zambian operations.

The post-independence situation, therefore, started with mutual suspicion between the Zambian government and the foreign companies. This made it difficult for the two parties to find a solution that was mutually beneficial.

In an attempt to distance themselves from the colonial powers, a wave of nationalisations started in 1968. At first the copper industry was left intact, while government focused on the broader economic environment. In his Mulungushi speech in April 1968, President Kaunda complained about the excessive expatriation of profits after independence. He proposed new reforms that would direct available capital to development and ensure that Zambians "individually and corporately share in the commercial and industrial life of the country" (quoted in Turok 1989: 42). Kaunda stated that new measures of state intervention were necessary because Zambians lacked the capital and skills to be economically active on their own. "Only the government of the people can participate on their behalf and ensure that the nation has control of the vital resources in the country, and also provides avenues for the acquisition of skills pertaining to economic development and participation" (quoted in Turok 1989: 42). The public sector was therefore assigned a leading role in development in independent Zambia.

The Mulungushi Reforms permitted the government to acquire 51 percent shares in private retail, transport, and manufacturing firms through a parastatal, the Industrial Development Corporation (INDECO). The government bought out 24 large private companies that were mainly involved in production and distribution throughout the country. But soon the government realised that manufacturing accounted for only 6 percent of the GDP; if they really wanted to influence the economy, they had to acquire control over the mining industry (Turok 1989).

Until 1969 the Zambian government adopted a laissez-faire policy towards the mining industry and disclaimed any intention of nationalising it. Nevertheless, according to Roberts (1976) the argument for some form of nationalisation became stronger over time. Since the country depended so heavily on the copper industry, the government was likely sooner or later to increase not only its share in mining profits, but also in shaping mining policy.

The private companies had long foreseen that the government would wish to become involved in the ownership of the industry. They did not, however, expect the full nationalisation of the mines. They acknowledged the suggestion of the 1964 United Nations mission that the government take a large minority shareholding in exchange for abolishing royalties altogether and for undertaking to limit taxes and not to nationalise the mines (Cunningham 1981).

However, this was to no avail as President Kaunda set about nationalising the copper industry in 1969. The first step was a referendum that gave the government the right to change the clause in the constitution that had previously prevented them from acquiring private property by compulsory order. The outcome of this referendum encouraged Kaunda to announce major changes in the sharing of Zambia's copper wealth. Secondly, government appropriated all mining rights in the country. The Mines and Mineral Act of 1969 provided for the reversion of all mineral rights to the President on behalf of the State (Pettman 1974). Thirdly, the Matero Reforms of 1969 resulted in the government purchasing 51 percent shares in the mining companies, Anglo American Corporation and Roan Selection Trust, leading to partial nationalisation of the copper industry. The government had no wish, at first, to run the mines itself and undertook to pay the companies for continuing management and services (Obidegwu and Nziramasanga 1981, Roberts 1976).

Although the government paid for taking over ownership of the mines, it did this without any prior consultation with the mining companies' executives. This could be attributed to strong political pressures within the country at the time, believing that the foreign-owned mining companies were one of the last vestiges of colonialism, and that one of the controlling interests, the Anglo-American Corporation, was a South African company. According to Cunningham (1981: 270-271):

> The president would probably have run into considerable political difficulties if the nationalisation had appeared to result from some gentleman's agreement with the private owners. The political situation demanded that nationalisation appear to the Zambian voter as a unilateral action taken by a proud and sovereign nation to break the bonds of colonialism and foreign capitalism.

Yet, despite all the internal pressure, President Kaunda negotiated a deal that was accepted by his own people and also, reluctantly, by the private owners - a considerable achievement if one takes into account the differences in expectations they had at independence. Cunningham (1981) proposes that of the various nationalisations of mining properties in Africa and in Latin America during the 1960s and early 1970s, the Zambian case was perhaps the most advantageous to the private shareholders. The government arranged to pay for its share out of its dividends over a number of years.

The take-over had its advantages and disadvantages from the point of view of the mining companies. To the industry it seemed clear that the new partnership was a transitional arrangement to help Zambia avoid a costly disruption of its mining operations, therefore their primary interest remained the maximisation of short-run profits and high-dividend payments. The companies realised that high level investments would decrease dividends, since the majority owner, the government, would favour financing investment out of profits. Therefore, the companies decreased their investments and rather paid out the profits as dividends. One of the most important South African mining magnates, HF Oppenheimer, remarked that the only real advantage of the partnership with the Zambian government for the mining companies, was that the compensation payments provided the companies with liquid funds that enabled them to broaden their field of operations elsewhere (Gann 1986).

At Zambia's independence, the industry was run by two high quality and internationally respected organisations that used retained profits to expand production and capacity continually and profitably. Alternatively, the objective of the Zambian government was different. Government planned to use operating profits to help fulfil its own objectives of promoting, amongst others, employment opportunities, foreign exchange earnings and the development of rural areas (Burdette 1988).

During the "last stage" of Zambianisation announced in November 1970, the government appropriated a 51 percent share in the private banks and in five foreign companies. With this step the involvement of the government went well beyond the copper industry. It took over the building societies and closed down all insurance companies—with one exception, the state owned insurer. The four foreign owned commercial banks had been under attack for applying conventional commercial standards, purportedly discriminating against Zambian borrowers trying to establish their own businesses (only 20 to 25 percent of total credit went to the Zambian sector of the economy). To overcome this politically unacceptable situation a state-owned National Commercial

Bank was established in October 1969 to provide extended credit facilities for Zambians (Pettman 1974).

To strengthen its perceived control over the mining industry, the government also decided to terminate all contracts for services with foreign mining companies in 1973. It further decided to redeem all government bonds, despite the penalty of US$55 million. At that stage the government had to borrow US$ 150 million on the Eurodollar market to finance these transactions, which all took place under the euphoria that the income from the copper industry would remain at pre-nationalisation levels.

Expectations that the mines under government control would provide more revenues to the state proved misplaced. Not only did the cash flow position of the mines deteriorate, but the real copper price also fell. Profits were not as high as expected, and must have had serious consequences for financing these loans. The result was that, except for a feeling of pride, the nationalisation offered small potential short-term gains for the Zambian government, and left it indebted.

It could be argued that the extractive nature of the mining companies before independence allowed little income to trickle down to the Zambian economy as such. This, of course, provides no justification for the outright nationalisation of the copper mines, because by taxing the mines the Zambian government could have received an income to use on development projects in the country. If the government had accepted the suggestion by the United Nations and had fixed taxes at a nominal rate of 50 percent, for example, it probably would have been the best long-term solution for both the industry and the country. The companies would have remained in control of the management of their properties, which was a very important consideration for obtaining loan finance, and taxes would have been at a level that international investors would have found attractive (Cunningham 1981).

So far in this section the violation of property rights of fixed assets were discussed. Another form of property rights violation took place on a more personal level, where human rights were abused. One example from Zambia is where people's personal security was threatened in instances where they opposed the Kaunda government. Kaunda saw groups opposing his rule as a threat to security and this threat therefore justified the use of violence against them. When Kaunda faced the outbreak of fighting between Lumpa followers and the police in July 1964, he used force to squash the uprising. He had frequently vowed that he would use whatever force was necessary against revolting fellow Zambians. For example he told the secession leaders in Barotse Province: “Today I warn, tomorrow

I crush", and repeated these warnings to others who used tribalism and threatened to split Zambia (quoted in Pettman 1974: 39).

In Zambia the general increasing interventionism of the state did not arouse undue alarm in the early years. It was widely recognised that much needed to be done to make up for the previous gross neglect and government was seen as the best vehicle to accomplish this goal. This also happened in a period where state intervention was widely accepted as an efficient method to steer the economy in a planned direction (Turok 1989).

There is, however, a difference between steering an economy and the outright infringement on property rights. Why did the Zambian government infringe on such an important element of the institutional framework? Extractive colonialism is part of the answer, with government acting on pressure from their constituency to free the country of European influences.

Although a plausible explanation, it does not fully account for their actions. If government deeply believed in the protection of property rights it would have considered the future advantages and disadvantages of infringement with more caution. The advantages of protected property rights are a stable economy, open to international investments. The disadvantages of not acting on the pressure from the constituency could have been the decline in popularity. This disadvantage can hardly explain government's actions because if it was scared of losing its majority at the ballot box, if it did not respond to pressure from the constituency, it was in any case willing to change the constitution to ensure a one-party state, the so-called Second Republic in 1972.

Another explanation finds its roots in the endurance of informal institutions. It was previously claimed that colonisation destroyed old institutions and created new ones, but what were these old institutions and did they support the protection of property rights of capital goods and also personal property rights? Were they altogether destroyed by colonialism?

In the following section the link between post-colonial policies and the situation that existed in pre-colonial times will be considered. The reason for this is to establish whether colonialism is indeed such an important explanation for post-colonial behaviour.

4. Pre-colonial Zambia

Present day Zambia consists of seventy-two separate ethnic groups living in nine provinces. They speak a multitude of languages and dialects, but the major ethno-linguistic groups are: the Bemba (36.2 percent), Nyanja (17.6 percent), Tonga (15.1 percent), Barotse (8.2 percent) and the north-western group (10 percent), which includes the Kaonde, Lunda and Luvale speakers.

Before the Europeans drew a border defining the present-day Zambia, the nation's ethnic groups lived in relative isolation from one another for almost four centuries. The groups had no common language and were organised politically different from one group to another. Some chiefs were major political actors and ruled large kingdoms, while other chiefs were minor officials, little more than village headmen. According to Colson (1959), the Tonga, for example, had no chiefs or other forms of authority before colonial rule started.

Although these groups lived in close proximity to one another, there was no distinctive binding force. For Burdette (1988: 11) it was this "lack of a common political and social history and shared institutions" that eventually rendered these groups vulnerable to the European invasion. The multiple groups in Zambia were unable to create a binding force that was strong enough to withstand the British influence.

As a detailed discussion of the politics and authority present in all the different tribes in Zambia at the time before colonisation falls outside the scope of this article, the focus will fall primarily on the Bemba. There are two reasons for this choice: the Bemba represents the largest single group of people in Zambia, and it is also the group in which the first President of Zambia, Kenneth Kaunda, grew up.

Between 1500 and 1800 the Lunda and Luba peoples of Congolese origin settled in the northern, eastern, and western parts of Zambia under the leadership of Kazembe. By the end of the eighteenth century they came in direct contact with the people that are today known as the Bemba. With the two groups specialising in different economic activities, they were able to trade their surpluses. The Lunda and Luba mined and smelted copper and iron ore to make ingots for sale to other tribes or traders, while the Bemba not only traded salt and ivory, but were even more renowned as slave traders (Burdette 1988). At first these groups were able to live in harmony, but eventually the competition between them brought them into conflict. Wars between them contributed to the devastating effects of the slave trade, and by 1870 Kazembe's kingdom was in serious decline, with the Bemba retaining much of their power (Burdette 1988).

The manner in which the political structures developed in pre-colonial Zambia had much to do with their location. The Bemba lived in a well-watered area, where ample rainfall made it possible for them to survive in spite of the generally poor soil. They were self-sufficient, subsistence farmers who grew their own food, but because of the poverty of the soil they had to move their villages to new locations every few years (Maday accessed July 2004). No large villages developed and because it was always easy to move to another location, there was no necessity for a political culture of cooperation to develop.

In the literature (Simon 1970, Whiteley 1951) the Bemba Paramount Chief is described as a person who commands the army, has supreme control of supernatural powers, possesses the most sacred of the tribal relics and who has the right of appointment to lesser chiefdoms. The basis of his political power and authority is both supernatural and secular. No automatic succession of leaders existed. An individual's heredity determined his eligibility for a legitimate position of authority, but among other things he also needed the support of a sufficient number of commoners, military power and slaves.

The Bemba chiefs did not possess inheritable wealth. Accumulation of material wealth was not regarded as an indication of prestige or power amongst the Bemba. According to Simon (1970) the chief's status depended to a large extent upon how much control he had over his subjects' means of wealth. Maday (accessed July 2004) describes how this situation can be a possible explanation for the absence of prominent families in the Bemba culture. No family was able to distinguish itself from the others through the accumulation of personal wealth. Furthermore, the chief had no certainty that his son would become the next chief and therefore had little incentive to gather belongings beyond his basic needs for survival. After his death all his belongings could become the possession of the new, possibly unrelated, chief. The important institution of property rights did, therefore, not exist in the Bemba culture.

The protection of personal property rights was not institutionalised either, with the Bemba chiefs renowned primarily for being efficient slave traders. It created an environment where they lived in small, scattered groups, and most people were unaware of the arrival of the British colonialists before the process was already in an advanced state. The Bemba and the rest of the Zambian tribes were unable to work together due to their previous antagonistic relationship, to resist the British influence in their area at colonisation, but were also unable to work in cooperation in a post-colonial government.

If the pre-colonial history of Zambia is taken into account, property rights protection was not an institutionalised practice. The Bemba was not accustomed to defining and protecting private property. To nationalise the mining industry was, therefore, not so much in conflict with an institutionalised tradition of the leaders, and the situation during colonisation certainly did not support its creation.

From the discussion so far it seems as if colonisation does not serve as the sole explanation for post-colonial infringement on property rights in Zambia. The protection of property rights were not an institutionalised practice during pre-colonial times, either. If one takes into account that the protection of property is an important element of economic growth, does this mean Zambia was doomed for failure, with or without colonisation? Is there hope for Zambia and countries with similar histories?

From the following discussion it seems that not only the existence of bad institutions, but also the pace at which institutional change happens, is detrimental to a country. The problem Zambia had to face at independence was a problem of transition happening too rapidly, rather than a problem extractive colonisation. If institutional change in Zambia is contrasted with institutional change in, for instance Europe, the lack of time to adapt to a new economic and political environment in Zambia's case, is a difference that needs to be highlighted.

5. Institutional change in Zambia

North (2005: 44) summarises the problem surrounding the pace of institutional change as follows: "Problems posed by the transition of a belief system from one constructed to deal with the physical environment to one constructed to confront the complex problems of the human environment are at the core of the problems of economic development". With extractive colonisation leaving no room for local Zambians to partake in an economy that traded internationally or a political system that supported democratic institutions, these Zambians suddenly had to make important decisions regarding their economy after independence. They were left with a constitution that protected property rights, without them having a history as such.

What lessons are there to learn for a county like Zambia where the local people had no time to adapt gradually from being self-sufficient to an economy that trades internationally, or an economy where the chief had no use for private property, to one where property rights are well protected? No one can deny that this was an undesirable position to start independence. But in an environment that is constantly changing, all countries find it hard to change institutions and implement policies that solve the imposed problems.

If growth is the result of an institutional framework that provides the institutional incentives to undertake productivity-raising activities, and stagnation results from disincentives to engage in productive activity, the problem to confront is how to end up with a growth-enhancing institutional framework. If countries that got it right were only lucky, there is not much to do about economic underdevelopment. And due to the influence of informal institutions, successful policies from developed economies cannot be duplicated in developing countries.

The way to work towards an institutional framework that supports economic growth is to create an environment where experimentation and feedback is allowed. The more policymakers and entrepreneurs can experiment with different policy options, the better the chance of survival. Entrepreneurs and policymakers must operate in an environment where they can make decisions, get feedback and according to the feedback, alter their previous decisions.

In an environment of uncertainty, centralised political control limits the options that are available for experimentation. Authoritarian rule during Zambia's Second Republic left almost no room for experimentation and feedback. With no opposition parties allowed, a drive to rid the country of skilled foreigners and constraints on the press, feedback was severely constrained. Of course, an authoritarian ruler dedicated to promoting economic growth has an advantage in the short run. He or she can establish conditions supporting economic growth and development in the short run, but a crisis, like for instance the fall in the copper price, can undermine the support of the ruler to such an extent that the environment becomes even more unstable. Consequently, such instability will undermine good economic performance.

Due to historical differences rooted in an antagonistic past of tribal conflicts, the various political parties had difficulty in working together in a government. This again was met with centralisation of power that did not allow for experimentation and feedback. The fall in the price of copper, the main source of income in Zambia, created even more uncertainty.

In a world of uncertainty the ever-changing environment requires experimentation to confront new challenges. No one knows the right path to survival and the best way to deal with this uncertainty is to try different options and to respond to the feedback received. In Zambia's case instability in the economic and political environment led to centralised control by Kaunda. This centralised decision-making left little room for positive and negative feedback and the institutional change moved gradually towards stagnation.

6. Conclusion

Zambia was subjected to extractive colonial rule where little protection was granted to the rights of the indigenous population. This can most likely explain the infringement of property rights after independence, but it is suggested that the policy patterns after independence could also be traced back to pre-colonial institutions.

The biggest tribe in Zambia, and the one to which President Kaunda belonged, had no history of gathering and protecting private property. Therefore, although colonial rule in Zambia was extractive, it cannot be accepted straight away that the situation would have been the opposite if no colonisation had taken place.

Negative features of colonialism included its disruptive nature and the fact that it left no room for a gradual transformation from a self-sufficient rural society to a society active in modern economic activities. The disruption of colonialism was, however, followed by more disruptions in the post-colonial country. Property rights were infringed upon and the centralisation of power left little room for experimentation and feedback in an uncertain environment.

For economies to work towards an institutional framework that consists of growth enhancing incentives, trial and error is essential. No one knows what the "right" policy choices are, but through feedback and incorporating this feedback in future policy, the country stands a much greater chance of developing a growth enhancing institutional framework. Unfortunately, this important element was absent in Zambia in the first thirty years after independence.

7. Bibliography

ACEMOGLU, D., S. JOHNSON, and J. ROBINSON (2001): "The Colonial Origins of Comparative Development", *American Economic Review*, 91, 1369-1401.

— (2003): "Disease and Development in Historical Perspective", *Journal of the European Economic Association*, 1, 397-405.

— (2004): "Institutions as the Fundamental Cause of Long-Run Growth", *Prepared for the Handbook of Economic Growth edited by Philippe Aghion and Steve Durlauf.*, Forthcoming.

BURDETTE, M. M. (1988): *Zambia between Two Worlds*. Boulder, Colorado: Westview Press.

COLSON, E. (1959): "The Plateau Tonga of Northern Rhodesia," in *Seven Tribes of British Central Africa*, ed. by E. Colson, and M. Gluckman. London: Oxford University Press.

CUNNINGHAM, S. (1981): *The Copper Industry in Zambia - Foreign Mining Companies in a Developing Country*. New York: Praeger Publishers.

DU PLESSIS, S. A., and S. W. F. DU PLESSIS (2006): "Explanations for Zambia's Economic Decline", *Development Southern Africa*, 23 (3) pp351-369.

EASTERLY, W., and R. LEVINE (2002): "Tropics, Germs and Crops: How Endowments Influence Economic Development", Rochester, NY.: Carnegie-Rochester Conference:

"Economic Growth and the Roles of Institutions".

GANN, L. H. D. P. (1986): "Malawi, Zambia and Zimbabwe," in *Politics and Government in African States 1960-1985*, ed. by P. J. R. H. Duignan: Stanford: Hoover Institution Press.KNACK, S., and P. KEEFER (1995): "Institutions and Economic Performance: Cross Country Tests Using Alternative Institutional Measures", *Economics and Politics*, 7, 207-227.

NDULO, M. (1999): "Transforming Economic and Political Structures for Growth: The Zambian Experience," in *The African Economy - Policy, Institutions and the Future*, ed. by S. Kayizzi-Magerwa. London: Routledge.

NEUMAYER, E. (2004): "Does the "Resource Curse" Hold for Growth in Genuine Income as Well?" *World Development*, 32, 1627-1640.

NORTH, D. C. (1990): *Institutions, Institutional Change, and Economic Performance*. Cambridge, Ma.: Harvard University Press.

— (2005): *Understanding the Process of Economic Change*. Princeton: Princeton University Press.

OBIDEGWU, C. F., and M. NZIRAMASANGA (1981): *Copper and Zambia - an Econometric Analysis*. Toronto: Lexington Books.

PETTMAN, J. (1974): *Zambia - Security and Conflict*. Sussex, England: Julian Friendmann Publishers.

ROBERTS, A. (1976): *A History of Zambia*. London: Heinemann.

RODRIK, D. (1999): "Institutions for High-Quality Growth: What They Are and How to Acquire Them", *Paper prepared for the International Monetary Fund Conference on Second-Generation Reforms.*

SACHS, J., and A. M. WARNER (1995): "Natural Resource Abundance and Economic Growth", *National Bureau of Economic Research*, Working Paper 5398.

SIMON, M. A. (1970): *Political Processes among the Bemba of Zambia*. Ithaca: Cornell University.

STEVENS, P. (2003): "Resource Impact: A Curse or a Blessing?" *Draft working paper - 22 April 2003*, http://www.dundee.ac.uk/cepmlp/journal/html/Vol14/Vol14_1.pdf.

STIGLITZ, J. E. (2000): "Development Thinking at the Millenium," in *Annual World Bank Conference on Development Economics.*, ed. by B. Pleskovic, and N. Stern. Washington D.C.: The World Bank.

TUROK, B. (1989): *Mixed Economy in Focus :Zambia*. London: Institute for African Alternatives.

WHITELEY, W. (1951): *Bemba and Related Peoples of Northern Rhodesia*. London: International African Institute.