

Limited Government and Economic Growth in Botswana

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The “African growth tragedy” best describes the economic experience of sub-Saharan Africa since the 1970s (Easterly and Levine 1997). In many countries, the overall level of income per capita has not increased beyond the levels of income at independence. Corruption and excessive governmental intervention into the economy plague these countries. Like most African countries emerging from colonialism, Botswana was an extremely poor nation. Unlike most other African countries, Botswana managed to escape its low level of development and prosper since independence. Botswana went from being the third poorest nation in the world in 1965 to an upper-middle income nation today. Between 1966 and 1996, it was the fastest growing nation in the world with an average annual growth rate of 7.7 percent. Unlike its fellow sub-Saharan countries that chose anti-capitalist, statist policy development, Botswana’s leaders opted for the path less traveled (at least in sub-Saharan Africa) – an economic and political system built around the rule of law and voluntary exchange. Botswana’s political leaders pursued policies that secured property rights and limited the government’s role in the economy. As a result, the citizens prospered.

Botswana’s prosperity did not result from chance. Post-colonial Botswana was a newly formed nation that was largely committed to an ideology of cosmopolitanism, tolerance, and small government. As a

result of these values, which were helped along by emergent reinforcing institutions, Botswana's economy grew. Though Botswana's development strategy never really embraced market fundamentalism, it did experiment with some of the important classical liberal institutions of free choice and tolerance. Unsurprisingly, their strategy experiment succeeded.

Unfortunately, the experiment with free market policies in Botswana did not last long. By 1975 – just 10 years after Botswana had gained independence from Great Britain – Botswana's experiment with limited government had come to an end. Policymakers and voters thought that the government needed to play a larger role in the economy, and they went about establishing a national defense (something that was nonexistent in the early years), expanding government aid for education, providing health care coverage for most citizens, and building more roads. Even though many expatriates and former government officials have warned policymakers in Botswana about the dangers of big government, the government has continued to grow rapidly. In fact, government growth has been so rapid that it has outpaced the rate of growth in gross domestic product in Botswana for the past 10 years.

The purpose of this paper is not to focus on the growth of government in Botswana, nor do we intend to speculate on how Botswana's future growth will be affected by a large welfare state. Instead, this paper discusses Botswana's experiment with limited government and the subsequent development that resulted from this limited government. Although things have changed in Botswana in recent years, it is still important that we recognize the early years for what they were: a natural experiment in which limited government produced prosperity. We use original data from fieldwork and conventional data sources to support our claims. Our approach could be described as an ethnographic approach. Our results are based on seven weeks of fieldwork, a lengthy review of historical examinations of Botswana, and an extensive survey of the University of Botswana's historical archives. In all, we conducted 35 interviews with businessmen, government officials, expatriates, and local citizens in Botswana during the summer of 2004.

Botswana's Post-colonial Growth¹

In 1965, Sir Seretse Khama became prime minister of Botswana, and the following year he became the first elected president of Botswana. Khama had been educated in the United Kingdom and had married a white Englishwoman named Ruth Williams in 1948. Under Botswana's colonial rule, Khama and Williams were not allowed to return to Botswana because their marriage caused tension with their apartheid neighbor, South Africa. By the mid-1950s, the ban on Khama's return to Botswana had escalated into an international news story. Human rights groups expressed outrage with the British government, and they criticized Great Britain for actively encouraging and upholding a racist protectorate. Although the crisis caused stress for Khama and his wife, it made Khama the most popular and charismatic political figure in Botswana by the time he was allowed to return to his homeland in 1956.

Prospects for this newly independent African nation were not good at the time of independence, however. Prior to independence, Botswana had a dismal growth record. Many considered it to be one of Africa's poorest nations. Based on conventional data sources, Botswana was the third poorest nation in the world in 1965 (World Bank, 2004). Botswana lacked access to navigable waterways, which greatly reduced its ability to engage in international trade. It was desolate and sparsely populated, which limited the division of labor. Furthermore, Botswana suffered from occasional famines, high rates of illiteracy, lack of adequate potable water, minimal health facilities, and a lack of other social amenities – and had virtually no infrastructure. Only two secondary schools offered five-year courses. More than 80 percent of the population depended on subsistence farming, and the government did not have enough tax revenue to balance its budget.

Once in power, Khama began promoting a set of radical reform

¹ A discussion similar to the one presented in this section can be found in Beaulier (2005, 2003).

policies that proved to be a significant departure from the Marxist experiments occurring in other parts of Africa. From 1965 to 1975, the size of government spending (as a percentage of gross domestic product) was cut substantially. This period of limited government and economic freedom led to one of the most rapid national growth explosions in history. Between 1965 and 1975, Botswana's average annual rate of growth was 10.74 percent. To put that number in perspective, Botswana's per capita income went from \$372 in 1965 to \$1032 in 1975.

Primitive economic conditions began to improve. Famines and droughts became less common experiences; more children attended schools; an impressive road network was built; and some of Botswana's major cities, such as Gaborone and Francistown, began to flourish.

Thanks to sound economic policies and limited governmental involvement in the economy, Botswana was well on its way to becoming a middle-income country by the end of the 1960s. Botswana's post-colonial growth was complicated, however, when diamonds were discovered in 1967. Five years later, the first diamond mine was opened in Orapa in central Botswana in 1972. In 1982, the world's richest diamond mine was opened in Jwaneng. Today, Botswana remains one of the world's leaders in diamond production.

The discovery of diamonds in Botswana was a mixed blessing. On the one hand, it gave the government a much-needed revenue source to build infrastructure and maintain fiscal balance. On the other hand, resources are generally a bane to long-term development because resource-rich countries tend to have governments that focus on extracting resource wealth rather than building good institutions (Auty, 1990; Gelb, 1988; Sachs and Warner, 1995, 1999, 2001).

As the diamonds were extracted, an unlikely development occurred: good institutions developed along with increased government revenue from the diamonds. Unlike most resource rich countries, the government did not pursue predatory policies as diamond operations expanded. Rather than attempt to extract revenue as quickly as possible,

they pushed Debswana, the jointly owned diamond company run by De Beers and the Botswana government, to bring in revenues gradually. As Donald Stephenson of the Bank of Botswana put it,

We woke up one morning, and we were told that we are rich (in a sense)...Leadership said right from the very beginning, 'we're going to use this money, put it into a fund, and it will be managed for development purposes only. And then any recurrent spending budgets would have to be self financing.' By taking in revenue gradually and by not doing anything unless they were sure they had the income first, they managed to avoid these big white elephants...big national airports, monuments, and jumbo jets...²

By requiring all government spending to be self-financing, Botswana's government managed to avoid the "natural resource curse" that afflicts so many other resource rich countries. Rather than pursue predatory policies that heavily taxed Debswana or simply nationalized the diamond industry, Botswana's government allowed the diamond industry to flourish by setting tax rates low and granting Debswana long-term exploration rights.

Botswana's careful management of diamond revenues is not surprising. In the early years, government policies (1) kept the size of government small; (2) tolerated foreigners and dissidents; and (3) focused on outcomes rather than consistency with some kind of overarching ideology.³ Together with the Botswana Democratic Party

² Interview with Donald Stephenson in a conference room at the Bank of Botswana in Gaborone, Botswana on 6/23/04. Mr. Stephenson is a long-time citizen of Botswana, and he was able to talk about current policy and the early years of post-colonial Botswana.

³ For more on how Botswana avoided becoming a "predatory" state, see Beaulier and Subrick (2005).

(BDP), Khama had a relatively easy time getting reforms through Botswana's 31-person parliament. His legitimacy as a leader, his large majority support, and the lack of rival parties made the reform process a relatively smooth one.

Guided by the leadership of Khama, Botswana took a market-augmenting approach to development. The new government constrained spending by adopting National Development Plans (NDPs). The NDPs allocated government spending and established developmental goals for a five-year period. The first plan stressed macroeconomic stability and fiscal balance. Projects received approval only if they passed an economic feasibility test and/or a social rate of return test. Unlike many organizations using cost-benefit estimates, Botswana's government adopted conservative estimates for the expected economic and social benefits of different programs that limited the number of programs adopted.

In addition, the NDPs cannot be amended without the unanimous approval of the legislature. Any individual legislator looking to increase spending on a particular pet project can count on resistance from some group. Thus, the only spending programs that gain approval are ones that all parties view as essential.

In conjunction with the NDPs, Botswana's new ruling party also chose to adopt many of the common law rules that the British had introduced during the colonial period. The common law provided a legal system that incorporated local information to improve the market-augmenting aspects of the legal system. In contrast, many newly independent African leaders attempted to create entire legal and economic systems anew. Botswana retained parts of them, erasing only the parts of colonialism that seemed inefficient or deplorable.

The Batswana, which is the proper term for citizens of Botswana, were quite active in helping the Botswana Democratic Party (BDP) develop its 1965 manifesto by giving the BDP feedback on early drafts and attending political meetings. Some of the key features of the BDP's original platform included promises to provide law and order;

prevent political, social, or economic discrimination; maintain judicial independence; preserve civic institutions like the kgotla;⁴ and provide all citizens equal protection under the law. The facts that the Botswana Democratic Party offered such a liberal (in the classical sense) platform immediately following colonialism and that 80 percent of voters supported the BDP illustrate that the general mindset of citizens in Botswana favored liberty and constitutional restraints.

Botswana's foreign policy was even more radical during this period. The Botswana engaged in a number of actions that reflected a genuine commitment to the principles of equal opportunity, non-racism, and tolerance. For example, the Botswana supported an open immigration policy that welcomed foreigners and dissidents with open arms. The increase in immigrants was not only humane, but it undoubtedly improved Botswana's work force and productivity. In a number of different speeches between 1965 and 1975, Khama explicitly welcomed refugees to Botswana if they chose to immigrate. As Khama put it, "we are as a non-racial democracy bound to raise our voice in international forums in support of the principle of universal self-determination" (Carter and Morgan, 1980: 83-84). Refugees were also given rights and asylum in Botswana, which resulted in thousands coming from South Africa and Rhodesia during Botswana's early years.

Taken as a whole, the policies of openness, tolerance towards others, and a respect for the rule of law allowed for entrepreneurship, economic development, and social development.

⁴ The kgotla is a public meeting place where traditional judicial proceedings took place and community issues were discussed with local leaders.

The Growth of Government in Botswana

Botswana's experiment with limited government ended sometime around 1975. The relative size of government has grown significantly since then. Most specialists agree that Botswana's current economic picture is a puzzling one. On the one hand, Botswana continues to be one of Africa's most rapidly growing economies. On the other hand Botswana has one of the biggest governments (as a percentage of GDP) anywhere in the world. Not only has much of Botswana's income been concentrated in the government, the distribution of that income has also been quite uneven since independence. The Gini coefficient has declined slightly from 57.4 in 1971 to 53.7 in 1994.

The steady growth in income and the discovery of diamonds led to massive increases in government spending and taxation: Between the mid-1970s and 2003, the size of Botswana's government (as a percentage of GDP) went from approximately 15 percent to 30 percent. In the early 1970s, revenue from Debswana (as a share of Botswana's total gross domestic product) accounted for 11 percent of total GDP. By 1980, it accounted for 23 percent of total GDP. And, in 1989, diamond revenues as a fraction of total GDP peaked at 51 percent of gross domestic product (Sarraf and Jiwanji, 2001: 10). Since that time, diamond revenue as a fraction of GDP has stabilized between 30 and 40 percent of total gross domestic product. The high rates of return in the diamond industry allowed Botswana's government to tax diamond revenues to pay for most of their spending. As a result, high government spending has not imposed huge costs on the private sector because most of the spending is being paid for by mining revenue.⁵

⁵ This also helps to explain why Botswana's fiscal policy ranking in the Fraser Institute's *Economic Freedom of the World* Index has steadily improved since 1975. The Fraser Institute's economic freedom scores are missing important microeconomic content in the "Size of Government" component. The EFW index has correctly tracked Botswana's excessive government spending since the mid-1970s. The EFW index has lowered Botswana's "Government Consumption" rank from 4.5 (near average) in 1975 to 0.0 in 2002. At the same time, however, Botswana's scores on

With an economy more dependent on diamonds and a government with a growing appetite, many of the legal and constitutional constraints placed on legislators were relaxed after 1975. Khama's administration became more concerned with income inequality. In response, in 1974 they established an Agricultural Board that was responsible for setting price floors on grain. In the early 1970s, a number of new textile industries were subsidized by the government to help create jobs in underdeveloped communities. Botswana's government continued to pour money into upgrades of the Selebi-Phikwe mine under Khama's watch.⁶

The government's size has been steadily increasing since 1972. According to the *World Development Indicators* (2006), government spending as a percentage of gross domestic product accounted for one-third of all economic activity in 2003. Moreover, the trend throughout the 1990s and early 2000s has been one in which government spending in Botswana has been increasing quite rapidly; between 1995 and 2003, Botswana's government spending increased at an average annual rate of 8.3 percent per year. Over that same period of time Botswana's average annual rate of growth has been only 4.4 percent per year.

The increase in government spending has exceeded the additional diamond revenue coming into the government. As a result, Botswana's government has had to raise income taxes. According to the Fraser Institute (2006), the highest marginal tax rate on income

taxation have steadily improved since 1980. While nominal tax rates in Botswana have remained largely unchanged since 1980, the nominal tax rate is misrepresenting important changes that have occurred in Botswana's underlying fiscal structure.

⁶ Support for Selebi-Phikwe has continued since Khama's death. While visiting Selebi-Phikwe, we had the opportunity to interview a number of people connected to the mining industry. Despite the fact that Selebi-Phikwe is unprofitable and will one day be closed, most of the people we interviewed felt that the government should support the mine to make the costs of shutdown more bearable.

increased from 0 percent in 1975 to 60 percent in 1985. Today, the rate remains at 25 percent. While it is true, then, that diamond revenues have eased the tax burden, Botswana's government has spent beyond their means. As diamond revenue begins to decline in the next decade, Botswana's government will be faced with difficult choices: either cut spending or raise taxes even higher on ordinary individuals.

When we look more closely at where the growth of government occurred, much of it can be found in the defense sector. Until 1976, no conventional military establishment existed in Botswana. A small para-military unit, the Police Mobile Unit, was attached to the police force. They handled strikes, protests, and other disputes that could not be handled by the traditional police force.

The lack of an army in the early years was the result of deliberate government action based on two different arguments. First, the government thought the best defense was no defense. If Botswana had strong international ties and complete vulnerability, another nation (like Great Britain or the United States) would step in to handle any invasions. Second, their choice not to have a national military in the early years was based on concerns that developing a military would provoke the hostile apartheid government of South Africa or Ian Smith's corrupt regime in Rhodesia.

Botswana's government began developing a national defense as their income increased, as they felt more concerned about protecting diamond interests, and, perhaps most importantly, when they felt threatened by South Africa and Rhodesia. By the mid-1970s, Botswana had become an asylum for refugees from a number of southern African countries and had allocated land on which international organizations like the Red Cross, Amnesty International, and the United Nations could establish refugee camps. This policy incensed the South African government, which responded with a number of raids into Botswana. The raids were usually aimed at refugees, but a number of innocent Botswana were killed between the mid-1970s and 1987. Rhodesia was also enraged by Botswana's openness. A Rhodesian organization known

as the Selous Scouts raided a number of villages just inside of the Botswana-Rhodesia border. They attacked villages to try to discourage “freedom fighters” from welcoming refugees.

By the late 1970s, the affected groups and many citizens who were not directly affected lobbied for national defense; Khama ultimately gave into their demands. Shortly thereafter, the Police Mobile Unit was converted into the Botswana Defence Force (BDF). Since its establishment, the BDF has expanded enormously, and it now takes up nearly 15 percent of total government spending.⁷

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

The collective result of new spending on a number of different fronts, like defense, resulted in big government. With the increased government spending came higher tax rates for individuals. Four decades after Botswana gained independence, Botswana’s government has gone from being fairly limited to a behemoth, comparable in size to many Western countries. Increasing demands for governmental goods

⁷ Since its creation, the BDF has been heavily criticized. The BDF’s emergence was controversial in part because Khama’s son, Ian, was appointed Lieutenant Colonel of the BDF. Ian Khama was quite aggressive and quite successful in extending the BDF’s role to include an anti-poaching branch, patrol boats to monitor the border with Zimbabwe, and air fighters.

and services have brought about an expansion in government size. As one citizen put it, “Batswana are no longer asking, ‘What do we need to do to develop?’ Instead, they are asking, ‘What are you going to promise to give me if I vote for you?’”⁸

The government’s decision to make promises to a number of different groups of people desiring government services has resulted in an increased tax burden for citizens and investors, a slow and steady erosion of civil liberties, a loss of individual responsibility, and the loss of a government committed to the promotion of sound economic policies.

Over time, the number of interest groups and the money flowing into those interest groups increased. With more interest groups asking for projects, the BDP became increasingly concerned about keeping different lobbying groups satisfied. As expected, the influence of interest groups coincided with the erosion of free market policy. Khama’s rhetoric may have sounded fairly classical liberal, but the reality on the ground in Botswana was that Khama and the BDP were accepting interest group and public demands for more government.

The growth of government has placed a greater strain on the private sector, especially the diamond mining industry. In addition, each new governmental program has increased the complexity of the overall system. Governmental activity becomes more opaque. The number of interest groups in conflict with each other multiplies as the government’s role expands. This, in turn, leads to more interventions that expand the role of the state and make discerning the “real” interests from strategic interests a more daunting task.

Table 1 illustrates that relative to other Southern African Customs Union (SACU) countries, Botswana has kept marginal taxes on corporate profits and individual income quite low. In so doing, they have been able to avoid the problems of corruption and black markets

⁸ Interview with an anonymous reporter at the President Hotel in Gaborone, Botswana, from 3-5 p.m. on July 20, 2004.

Table 1
Highest Marginal Tax Rate

	Individual Income	Corporate Profits
Botswana	25	15
Swaziland	33	30
Namibia	36	35
South Africa	40	30

Source: *World Development Indicators, 2006*

Conclusion

The recent history of Botswana illustrates how an extremely poor country that successfully adopted relatively free market policies and limited government can prosper. During the period when taxes were low and government spending was disciplined, Botswana's growth was much more rapid. From 1965-1975, the average annual rate of growth in Botswana was 10.91 percent per year (*World Development Indicators 2006*).

From 1975-2005, Botswana lost control of government spending and raised taxes steadily. During this period, the annual rate of growth slowed to 5.73 percent per year (*World Development Indicators 2006*). While this is still a respectable rate of growth, one cannot help but imagine how much more growth could have been enjoyed had government stayed out of the way. This illustrates that a country can maintain growth even though government growth has outpaced private

sector growth.

In Botswana, markets have remained the engine of growth even though the business environment has progressively become less hospitable to voluntary exchange. Even though modern-day Botswana might not be as welcoming as it was earlier, it is still a relatively welcoming African country with a history of openness and limited government.

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