

Africa: Why Economists Get It Wrong

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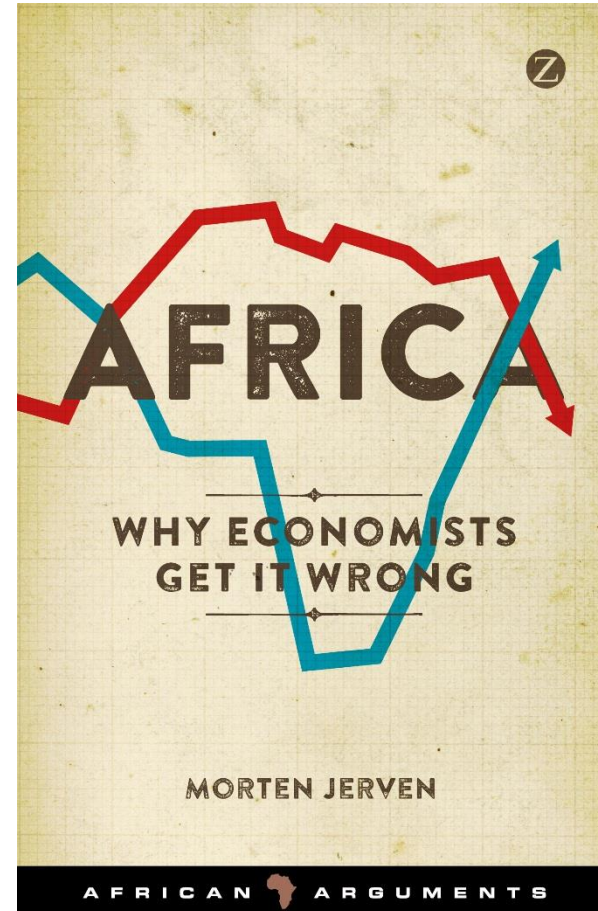
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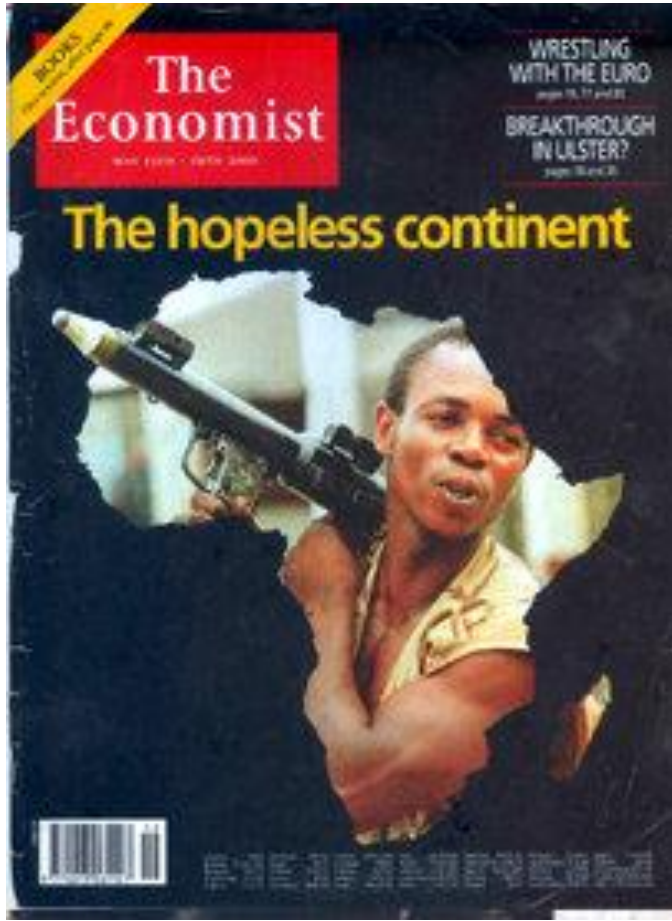
Introduction

1. Misunderstanding economic growth in Africa
2. Trapped in history?
3. African growth recurring
4. Africa's statistical tragedy?

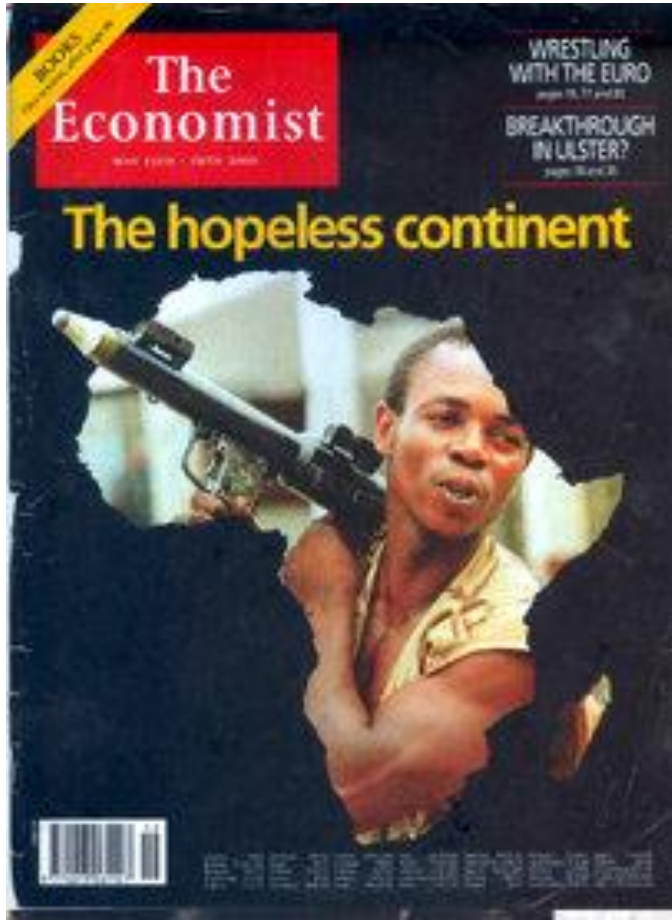
Conclusion



The Economist 2000: The Hopeless Continent



The Economist 2000: The Hopeless Continent



“Does Africa have some inherent character flaw that keeps it backward and incapable of development?”

The Economist 2011: The hopeful continent: Africa rising



The Economist 2011: The hopeful continent: Africa rising



Do the editors of *The Economist* have a character flaw that makes them incapable of consistent judgment?

Misunderstanding Economic Growth in Africa

Diagnosing African growth

Collier and Gunning (1999)

- “It is clear that Africa has suffered a chronic failure of economic growth. The problem for analysis is to determine its causes.”

Collier (2007)

- “The central problem of the bottom billion is that they have not grown. The failure of the growth process in these societies simply has to be our core concern”

A problem and a question

With the help of economists we can now explain why African economies are *not* growing.

Problem: African economies are growing on average, and they have been for two decades, they also grew in the 1950s, 1960s and 1970s on average.

My question: how could economists miss decades of growth?

Explaining growth in Africa

Barro (1991) provided the seminal paper

- Cross Country Growth Regressions
- Global Sample – Explaining averaged GDP per capita growth rates 1960-1985



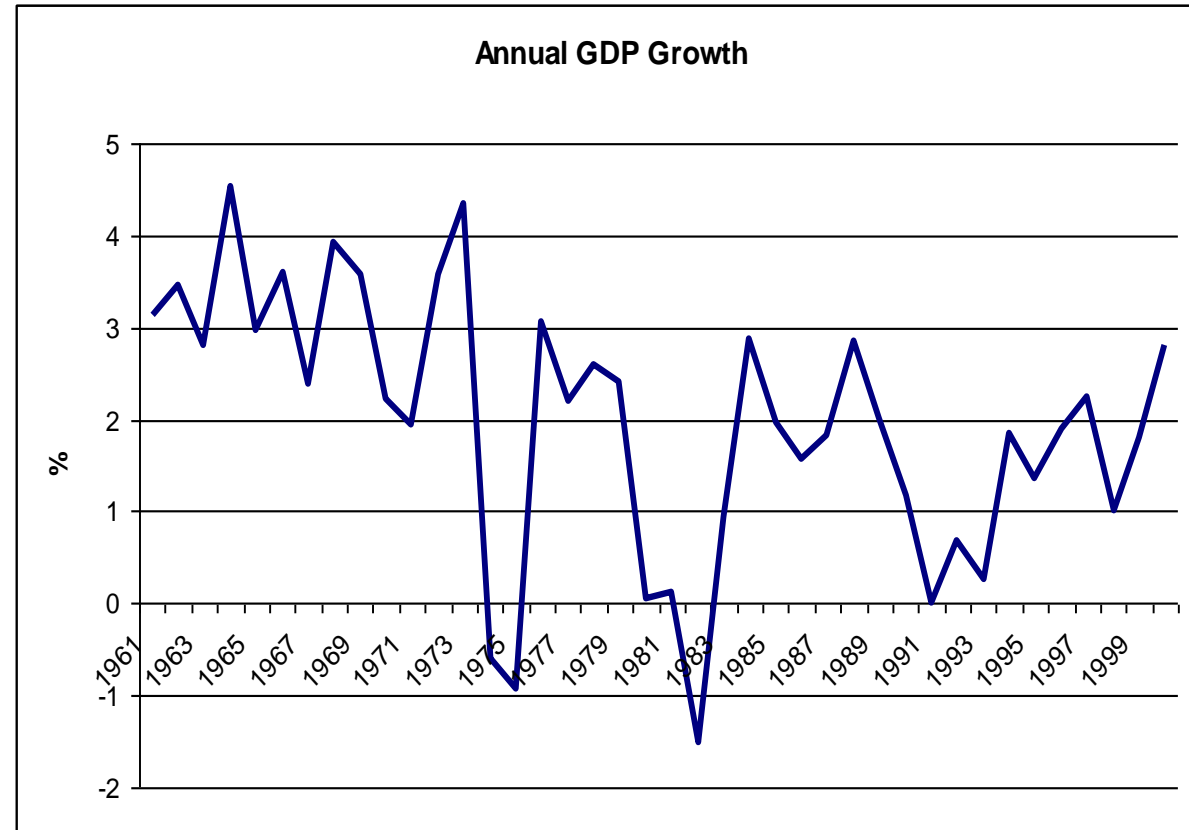
The quest for the 'African Dummy'

- Barro (1991) provided the seminal paper
 - Cross Country Growth Regressions
 - Global Sample – Explaining averaged GDP per capita growth rates 1960-1985
- Large negative significant African Dummy
 - Models not yet capturing the characteristics of the typical African economy (Barro 1991)
 - African economies grown inexplicably slowly
(Collier and Gunning 1999)



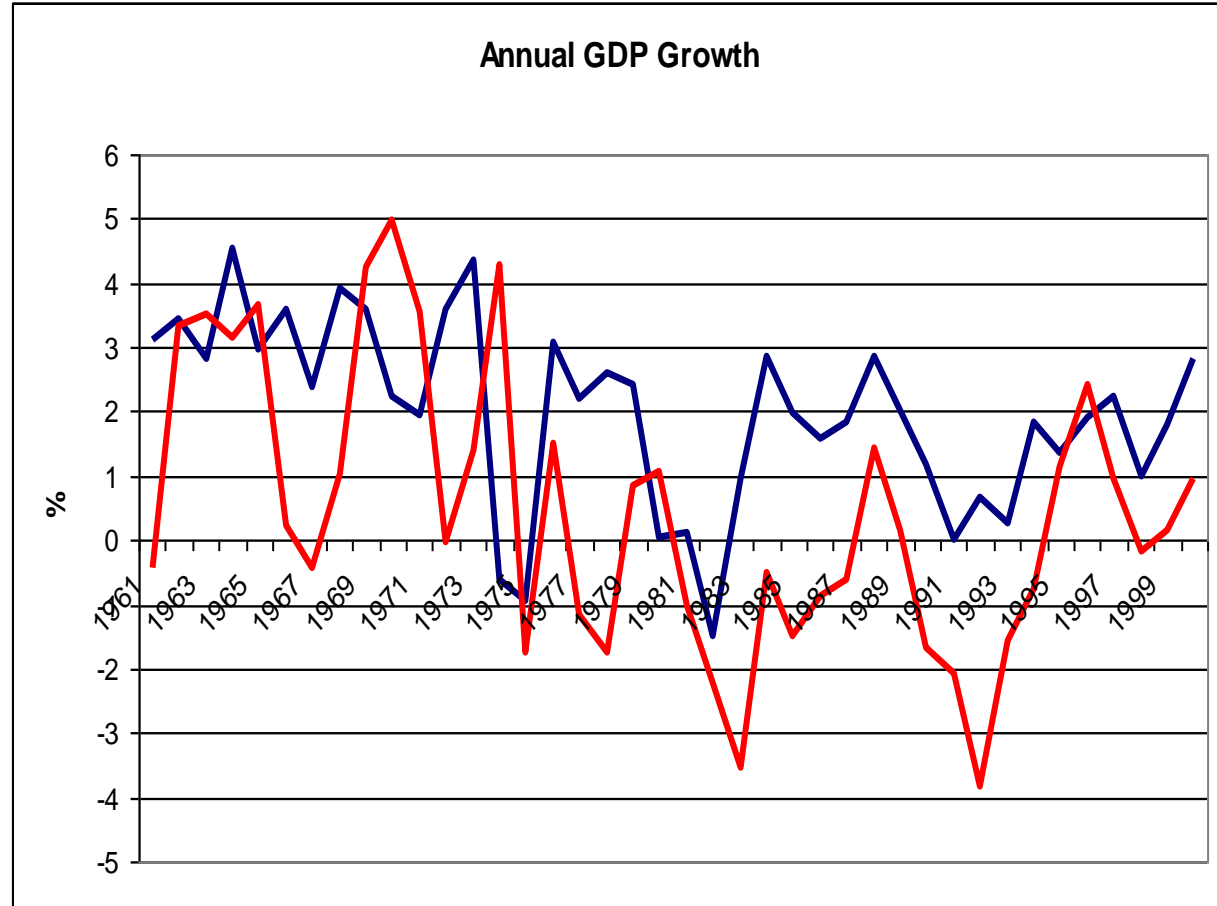
Where is the African Dummy?

1. Annual World Per Capita GDP Growth Rate



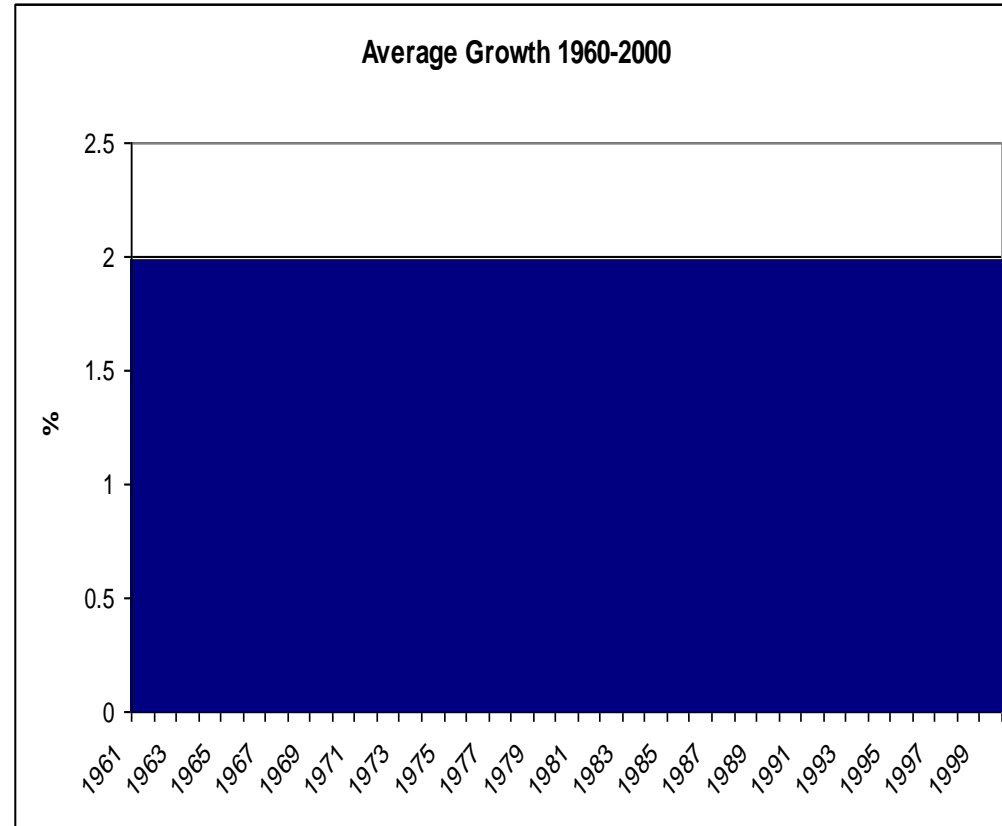
Where is the African Dummy?

1. Annual World Per Capita GDP Growth Rate
2. Annual Africa Per Capita GDP Growth Rate



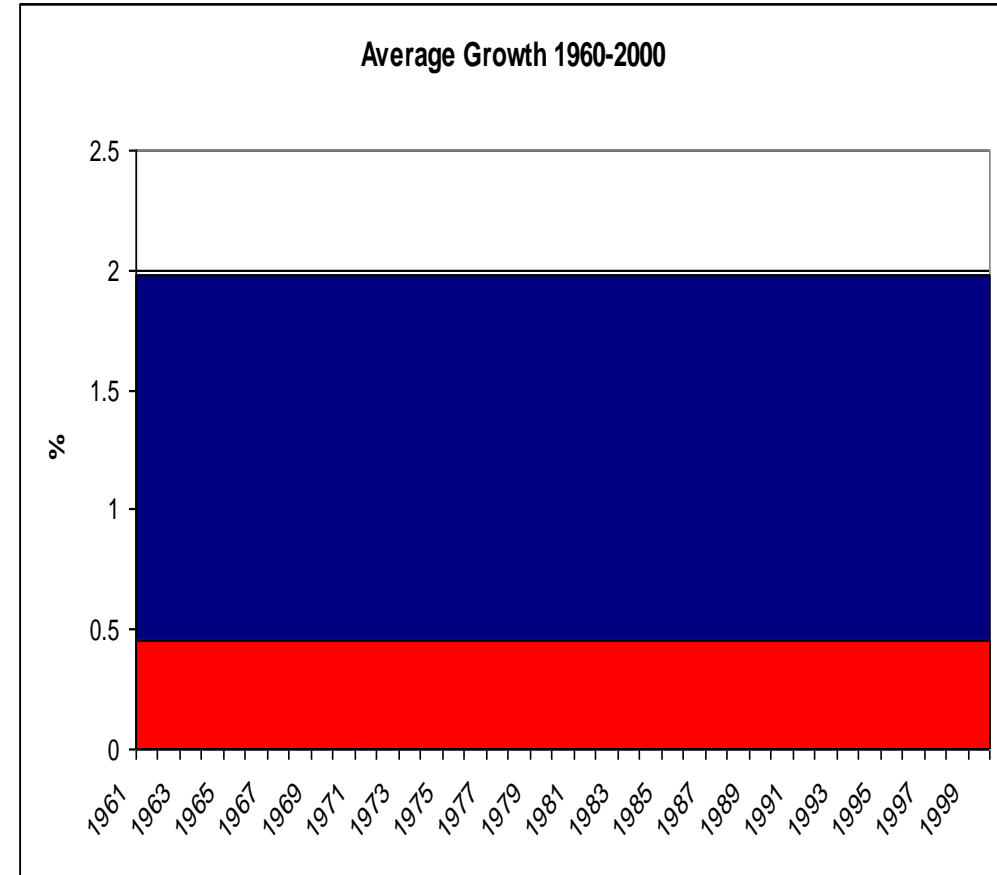
Where is the African Dummy?

1. Averaged World Per Capita GDP Growth Rate



Where is the African Dummy?

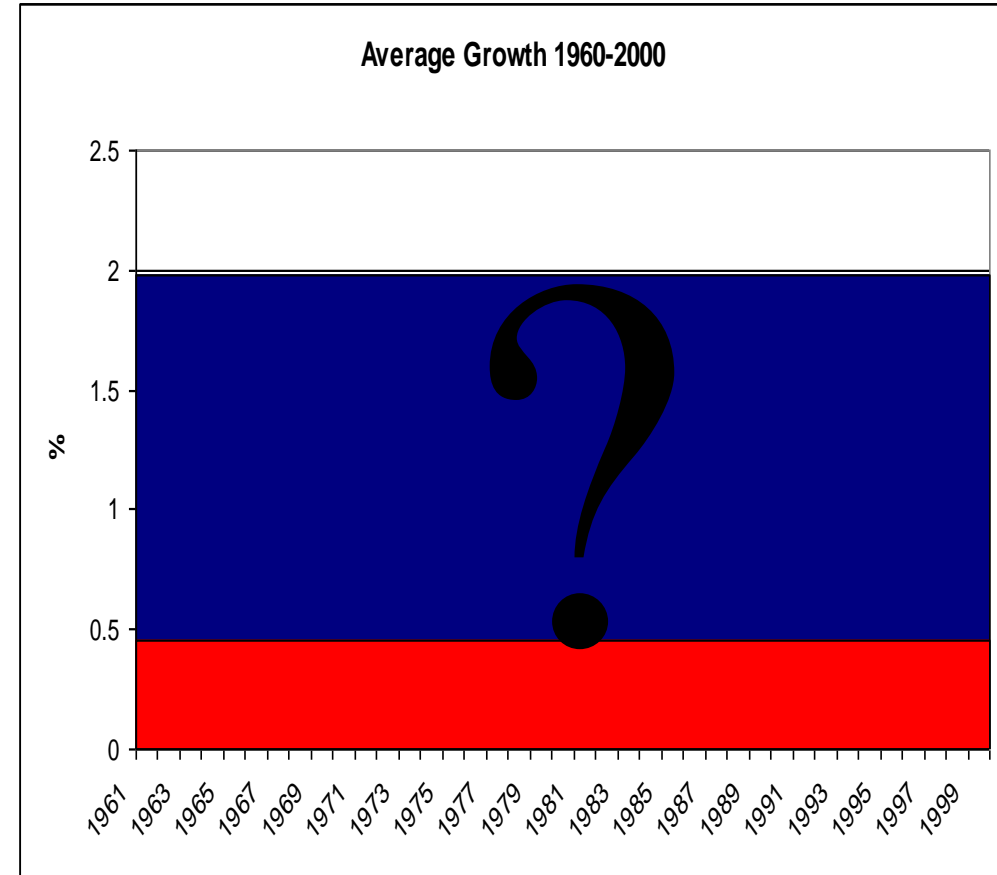
1. Averaged World Per Capita GDP Growth Rate
2. Averaged African Per Capita GDP Growth Rate



Where is the African Dummy?

1. Averaged World Per Capita GDP Growth Rate
2. Averaged African Per Capita GDP Growth Rate

→ Why has Africa Grown Slowly?



Influence of the African Dummy

- “It is clear that Africa has suffered a chronic failure of economic growth. The problem for analysis is to determine its causes” (Collier and Gunning 1999:4)
- Influential scholars and popular opinion accepting growth failure as stylized fact

→ Why has Africa grown slowly?

Instead of:

How did African economies grow?

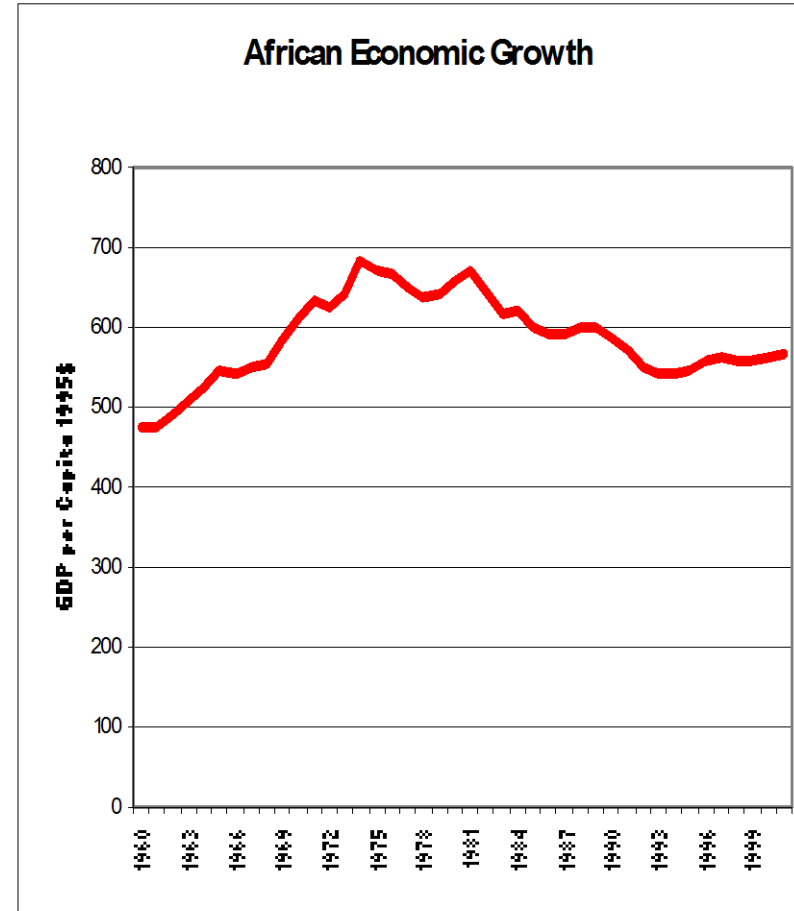


“Explaining African Economic Performance”

(Collier and Gunning 1999)

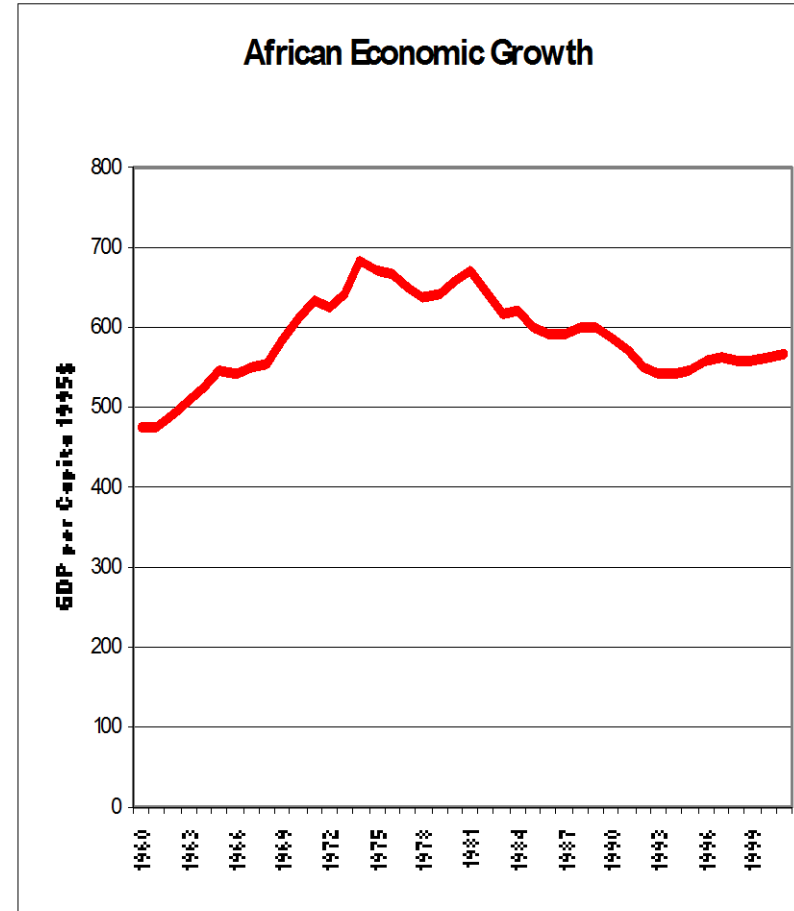
- Lack of social capital
- Lack of openness to trade
- Deficient public services
- Geography and risk
- Lack of financial depth
- High aid dependence

Coherence with growth pattern



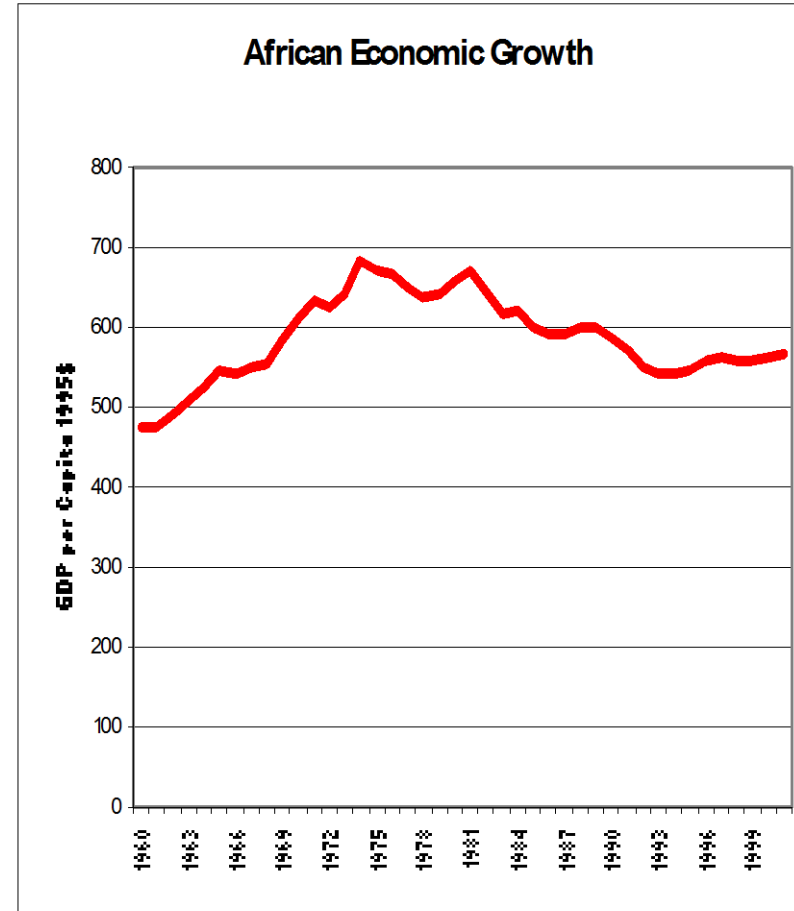
Coherence with growth pattern

- Rapid Growth 1960-1974



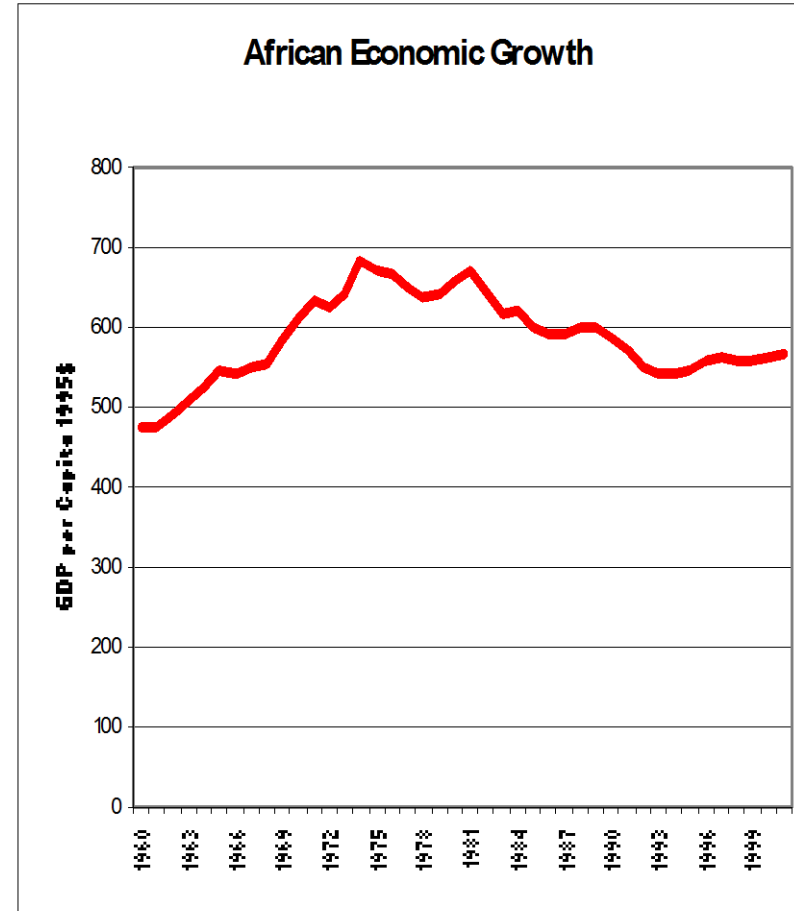
Coherence with growth pattern

- Rapid Growth 1960-1974
- Shock 1974-1981



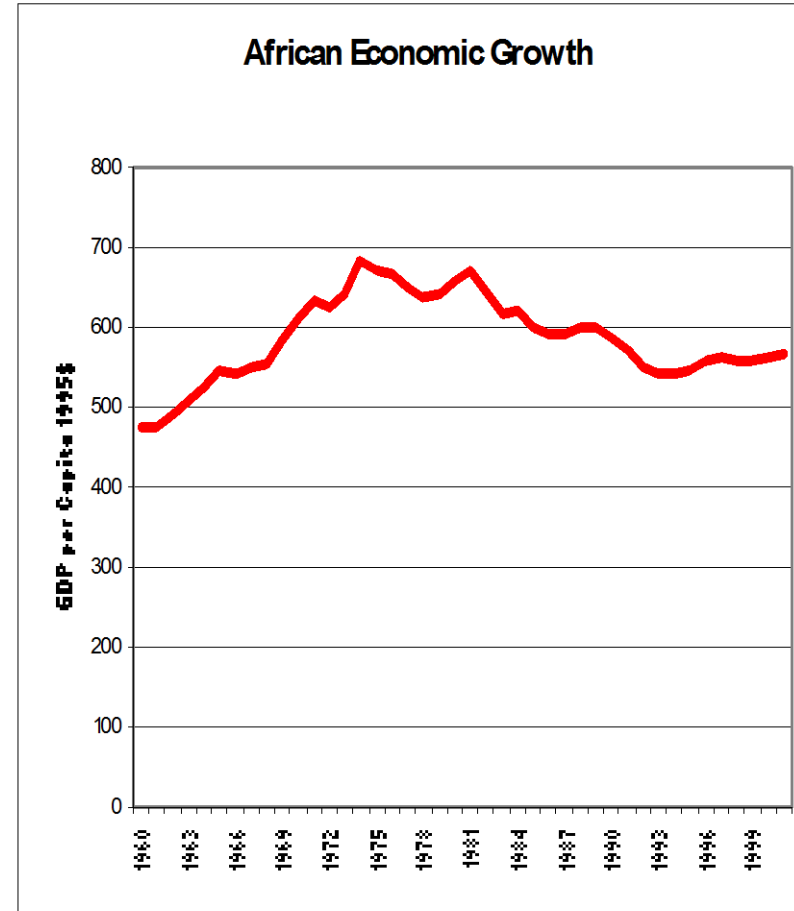
Coherence with growth pattern

- Rapid Growth 1960-1974
- Shock 1974-1981
- Decline 1981-1994

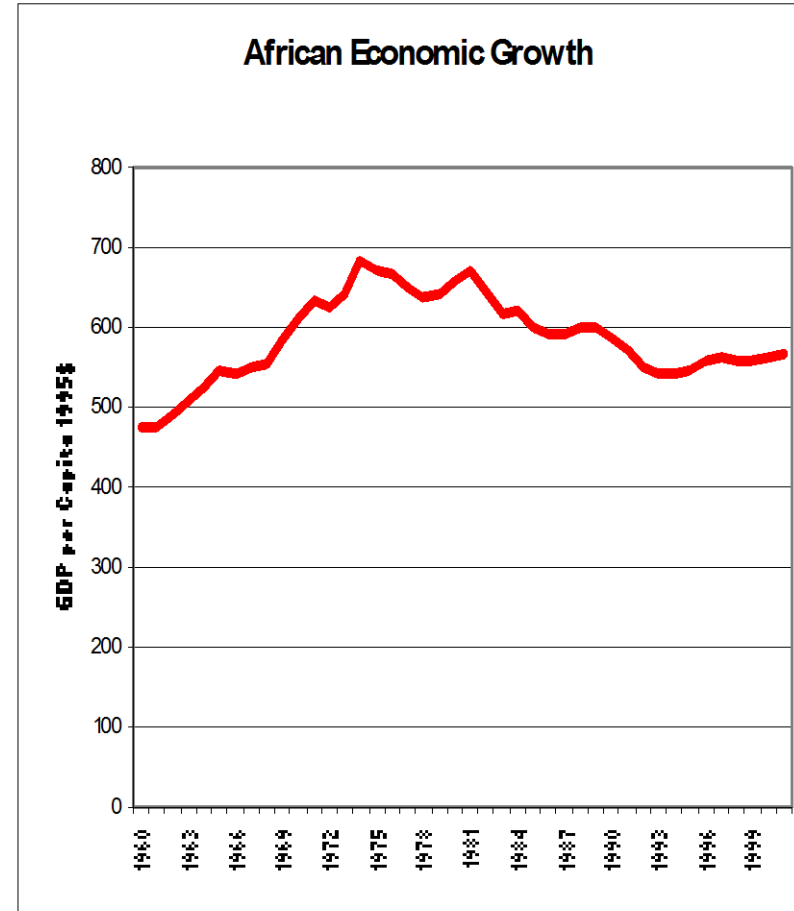


Coherence with growth pattern

- Rapid Growth 1960-1974
- Shock 1974-1981
- Decline 1981-1994
- Stagnation 1994-2001

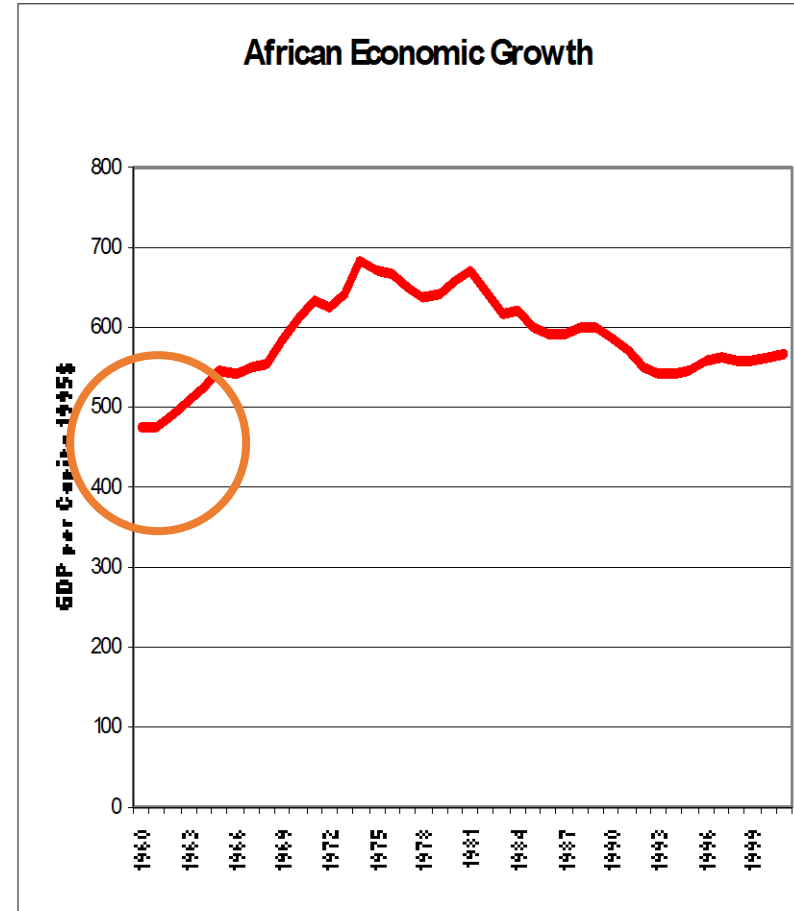


Coherence with growth pattern



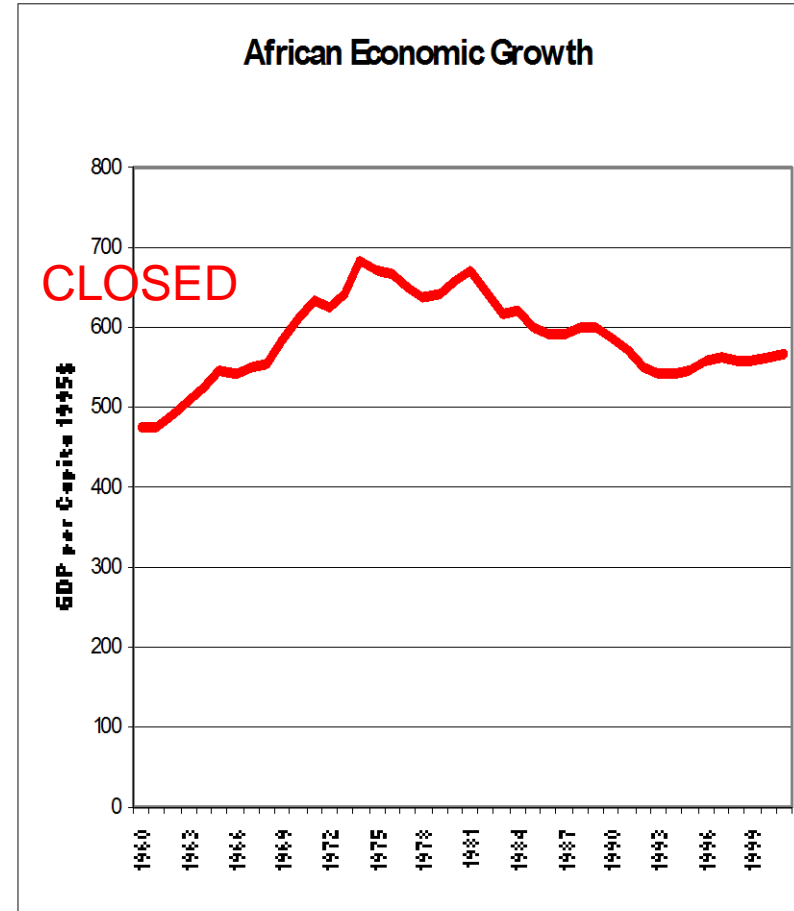
Coherence with growth pattern

- Initial Conditions?



Coherence with growth pattern

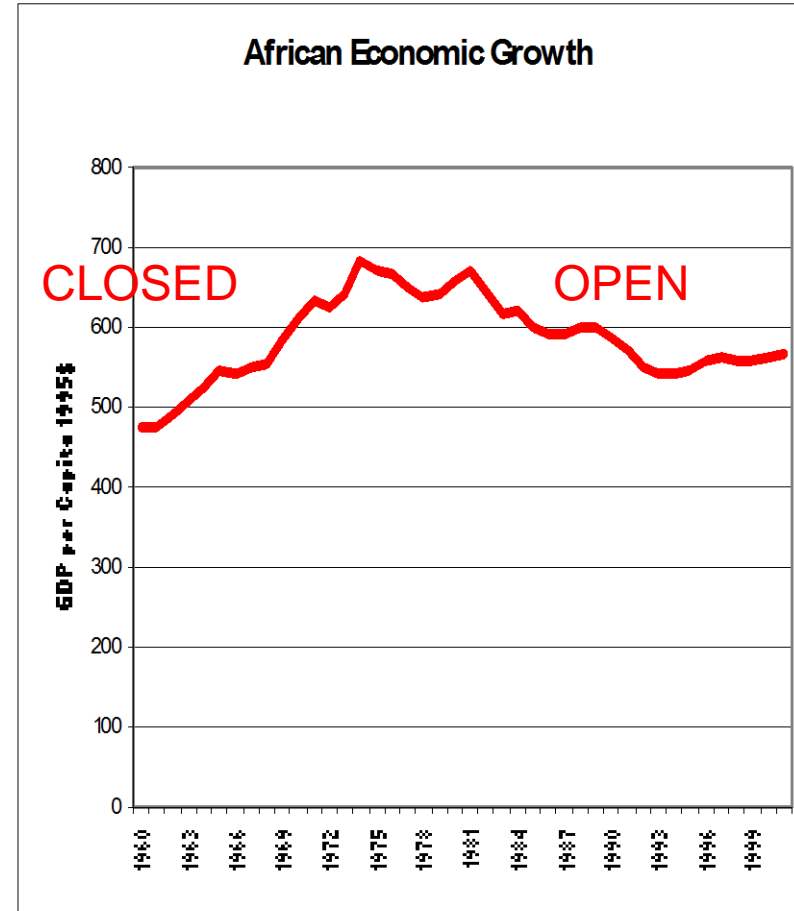
- Openness?



Coherence with growth pattern

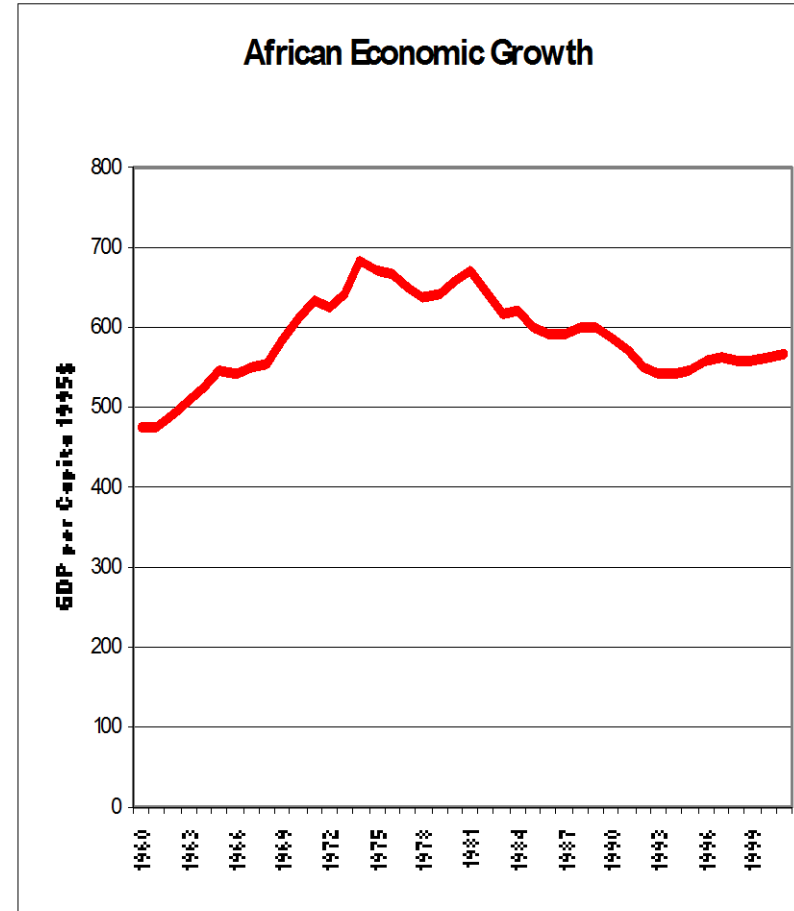
- Openness?

Structural Adjustment Programmes
from 1979



Coherence with growth pattern

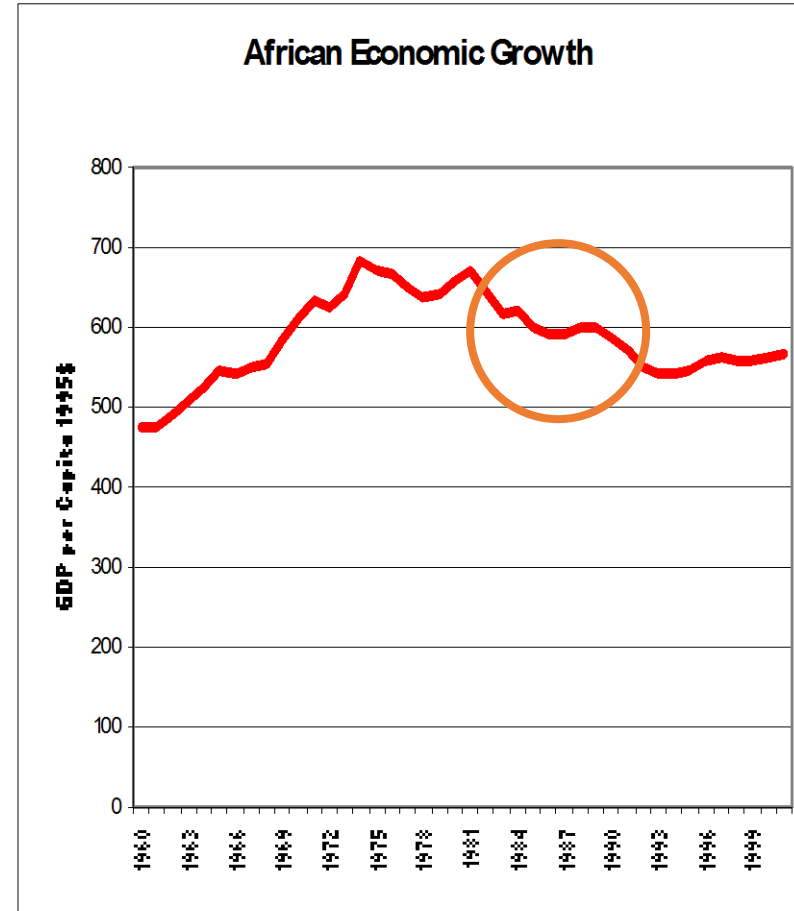
- Institutional Quality
- Black Market Premium
- Public Services
- High Aid Dependence (and indebtedness)



Coherence with growth pattern

- Low Institutional Quality
- High Black Market Premium
- Deficient Public Services
- High Aid Dependence (and indebtedness)

All post shock phenomena



But what did economists learn?

- Chronic failure of growth in Africa accepted as stylized fact.
- Worries about endogeneity (e.g. High aid & Slow growth)
- Technical solution: The instrumental variable – & history!
- A search for root causes of underdevelopment: institutions matter, history matters..

From: Why has Africa grown slowly? To: Why Africa failed

1st Generation growth literature:

Q: Why has Africa grown slowly?

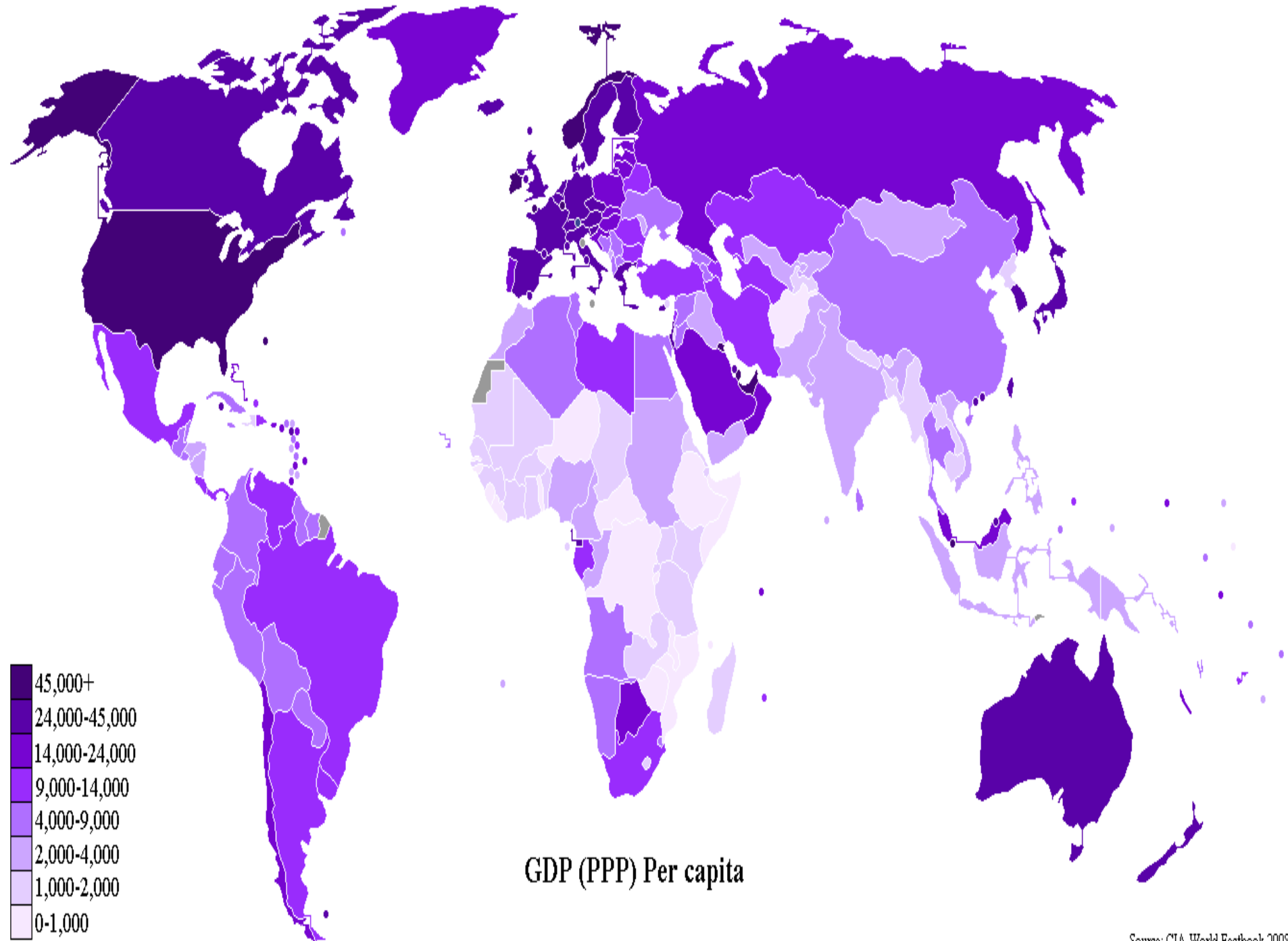
A: Growth inhibiting policies were adopted.

2nd Generation Growth literature

Q: Why were growth inhibiting policies adopted?

A: Special 'African characteristics' in the initial conditions

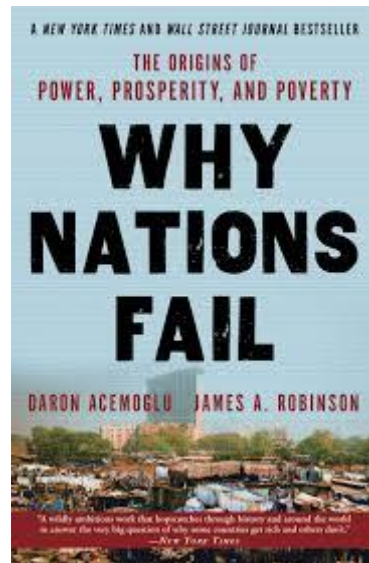
Trapped in History?



Correlates between low GDP per capita today and some quantifiable 'exogenous' event in the past

- Geography → Underdevelopment
- Slavery → Underdevelopment
- Colonization → Underdevelopment
- Geography → Institutions → Underdevelopment
- Colonization → Institutions → Underdevelopment
- Slavery → Institutions → Underdevelopment

Institutions?



- Acemoglu and Johnson says that in Congo (or Kongo, DRC, Zaire, Angola...) farmers did not adopt the plough in agriculture because private property rights were not secure... and therefore they are poor today.
- Ignoring that a) it is an area with sleeping sickness b) that soil fertility is shallow in the area and c) that land was abundant during that time

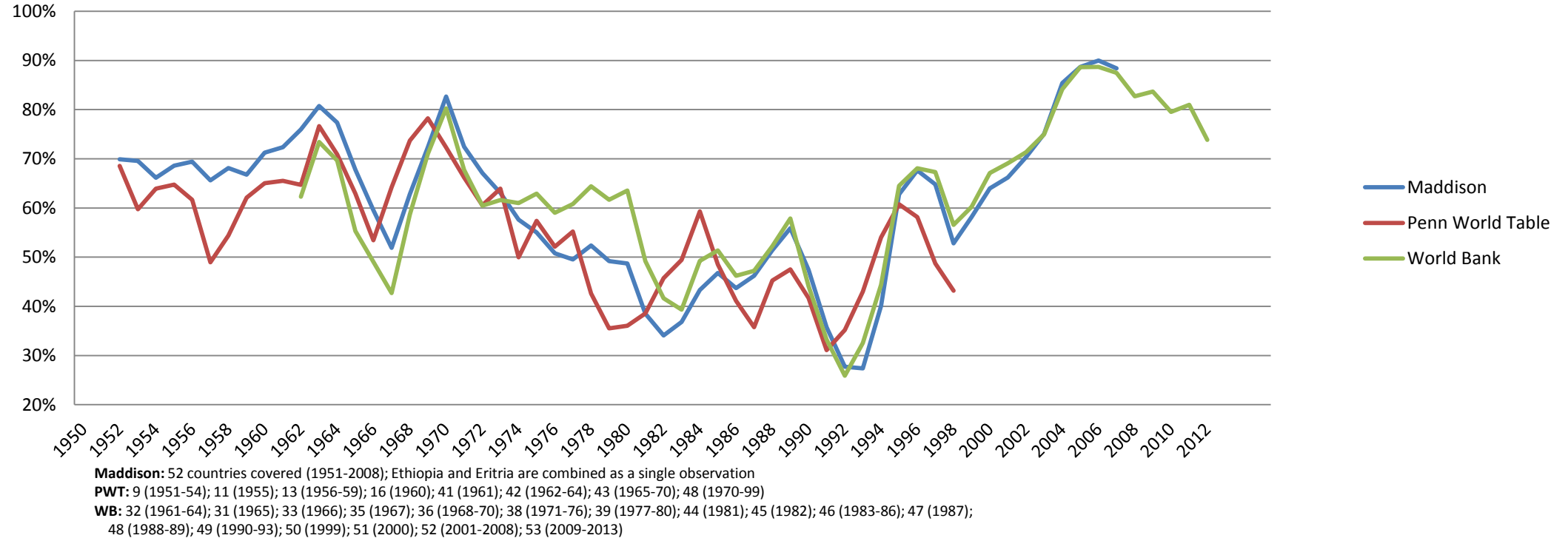
Problems

- Missing history: what about the time between the event and today?
- Missing policy implications: «get a new history» OR “why aren't you Denmark” policy implication.
- Massive reversal causality if ‘good institutions’ are the result of development, rather than the cause of development.
- Paradox: to be told that ‘[history and institutions matter](#)’ and then subsequently to be presented with what one commentator called ‘[wikipedia with regressions](#)’

African growth recurring

African growth recurring

Percentage of the African Population living in economies that grow faster than 3 percent (three-year moving average)

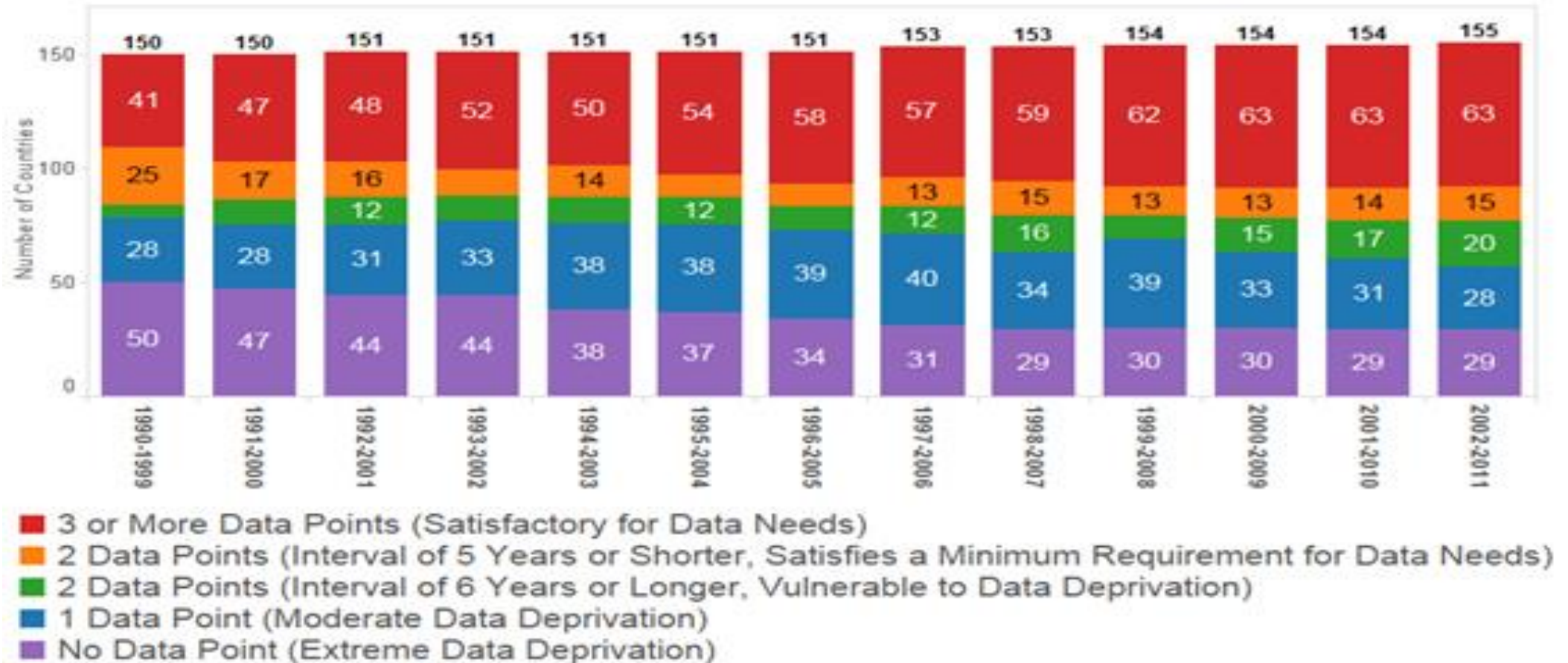


Challenge

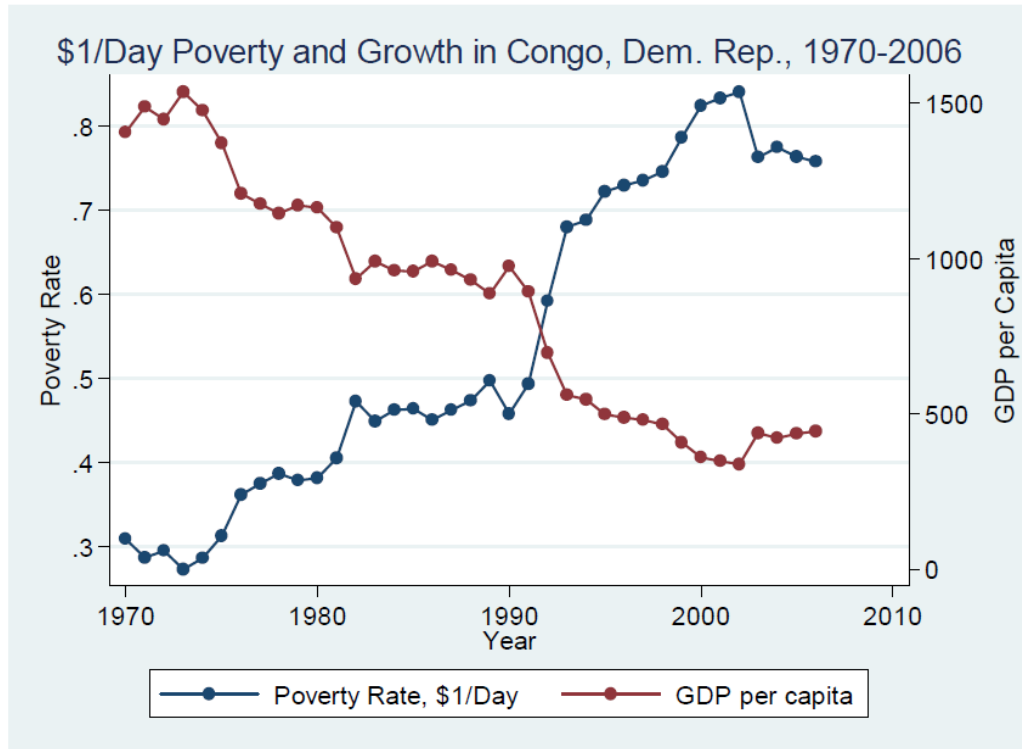
- Moving to explaining growth as it happened – rather than to explain the lack of it.
- Evaluating historical development trajectories – rather than static differences in outcomes today.
- Reality is messy. Economic ‘science’ too occupied with getting clean causal results – and gives very precise answers to wrong or irrelevant questions.

Africa's Statistical Tragedy?

Data gaps: Poverty



African Poverty is falling much faster than you think?



- Pinkovskiy and Sala-i-Martin (2010).
- No poverty line data points.

GDP: very soft level estimates

- On the 5th of November, 2010, Ghana Statistical Services announced that its GDP for the year 2010 was revised to 44.8 billion cedi, as compared to the previously estimated 25.6 billion cedi.
- This meant an increase in the income level of Ghana by about 60 percent and, in dollar values, the increase implied that the country moved from being a low income country to a middle income country overnight.

GDP: very soft level estimates

On 7 April 2014 Nigeria just announced the GDP figures. New estimates increased total GDP with 89 percent.

In 2012 I guesstimated (in African Affairs) that GDP in Nigeria was underestimated that were about 40 'Malawis' unaccounted for inside Nigeria...

GDP: very soft level estimates

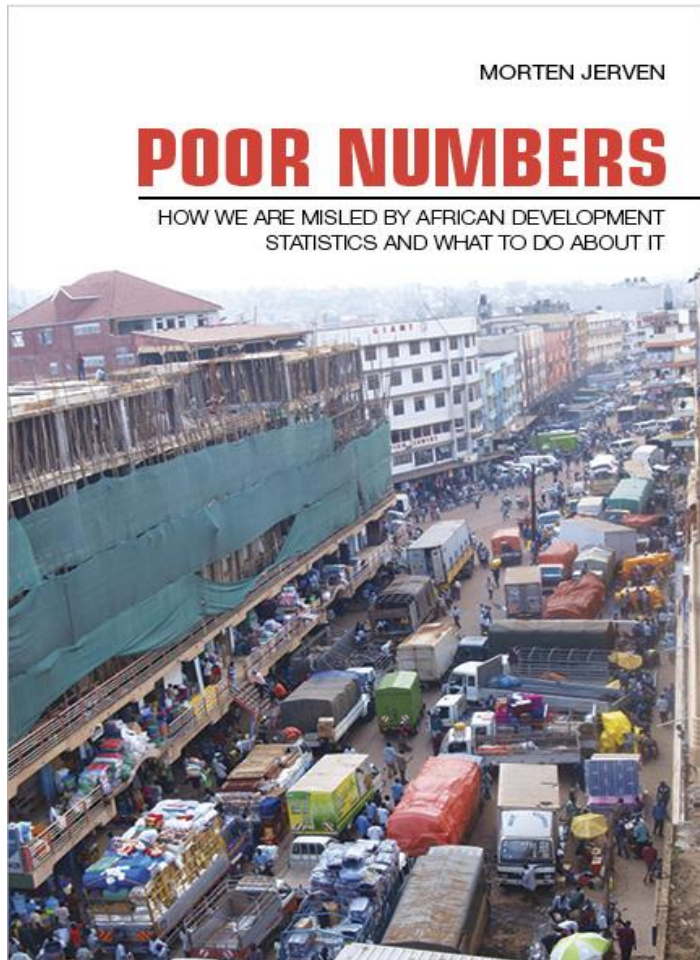
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In 2012 I guesstimated (in African Affairs) that GDP in Nigeria was underestimated that were about 40 'Malawis' unaccounted for inside Nigeria...

Turns out there were 58...

In Ghana they revised GDP benchmark from 1993 to 2006, in Nigeria they revised GDP benchmark from 1990 to 2010.

Knowledge Problem: Poor Numbers



Our knowledge problem by numbers is doubly biased. We know less about poor economies & we know less about poor people living in poor economies.

Change in research paradigm

- Let us study economies not economics.
- Since the 1990s, with the onslaught of international datasets the distance between the observer and the observed has increased.
- Change from 'subtraction approach' to 'reciprocal comparison'.
- Let us study how African economies work, rather than explaining why they don't.

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