

Africa: Why Economists Get It Wrong

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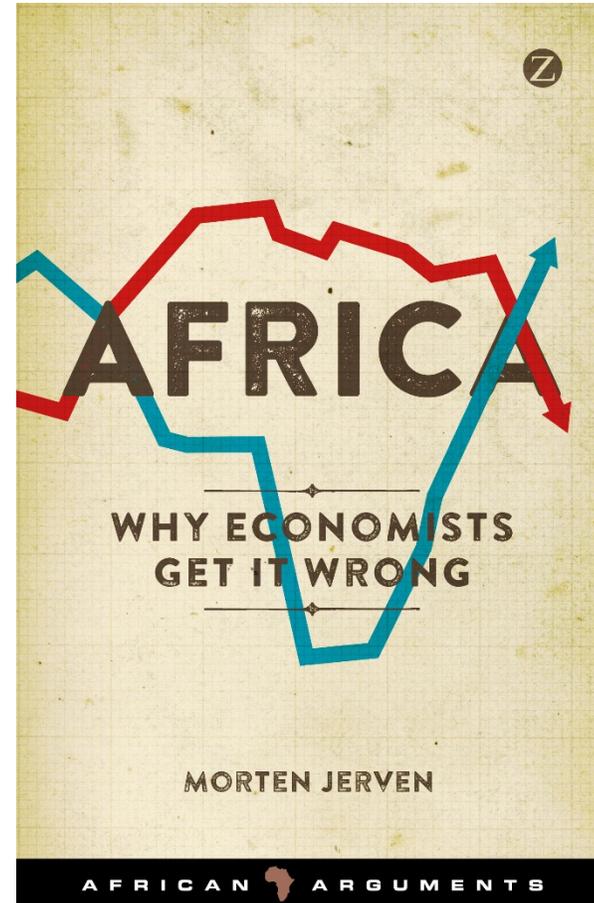
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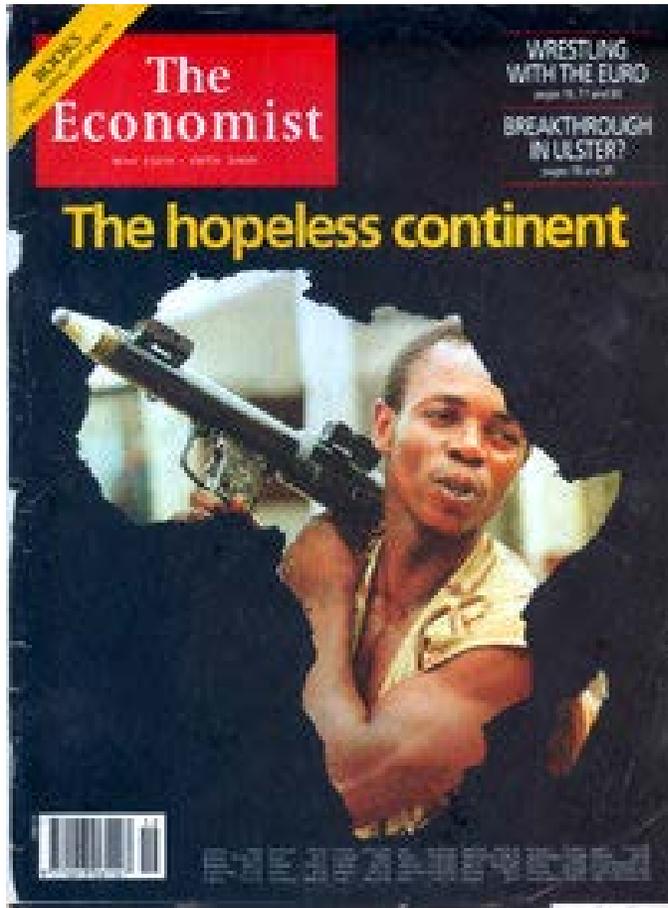
Introduction

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

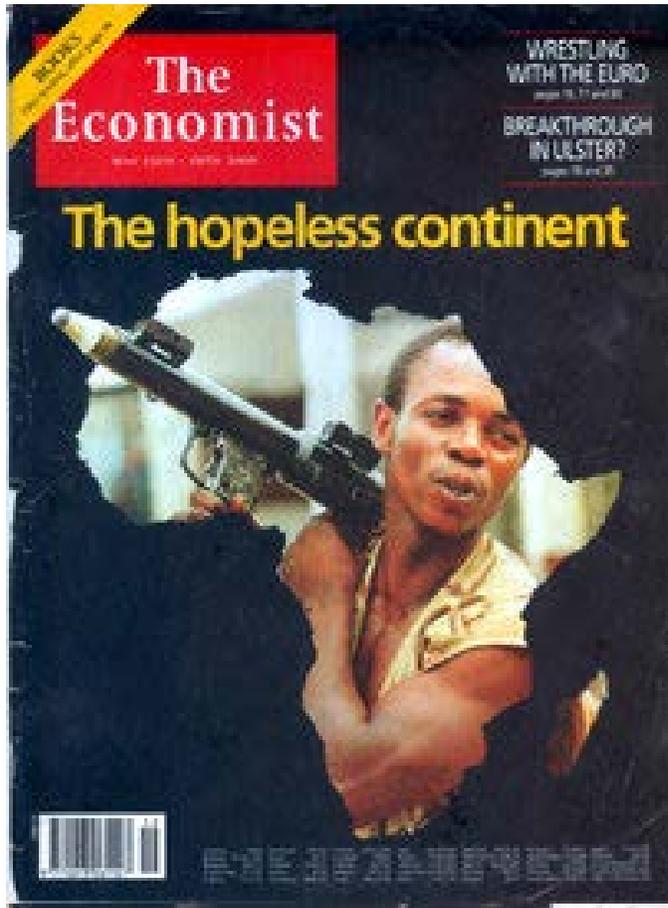
Conclusion



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)



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

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?

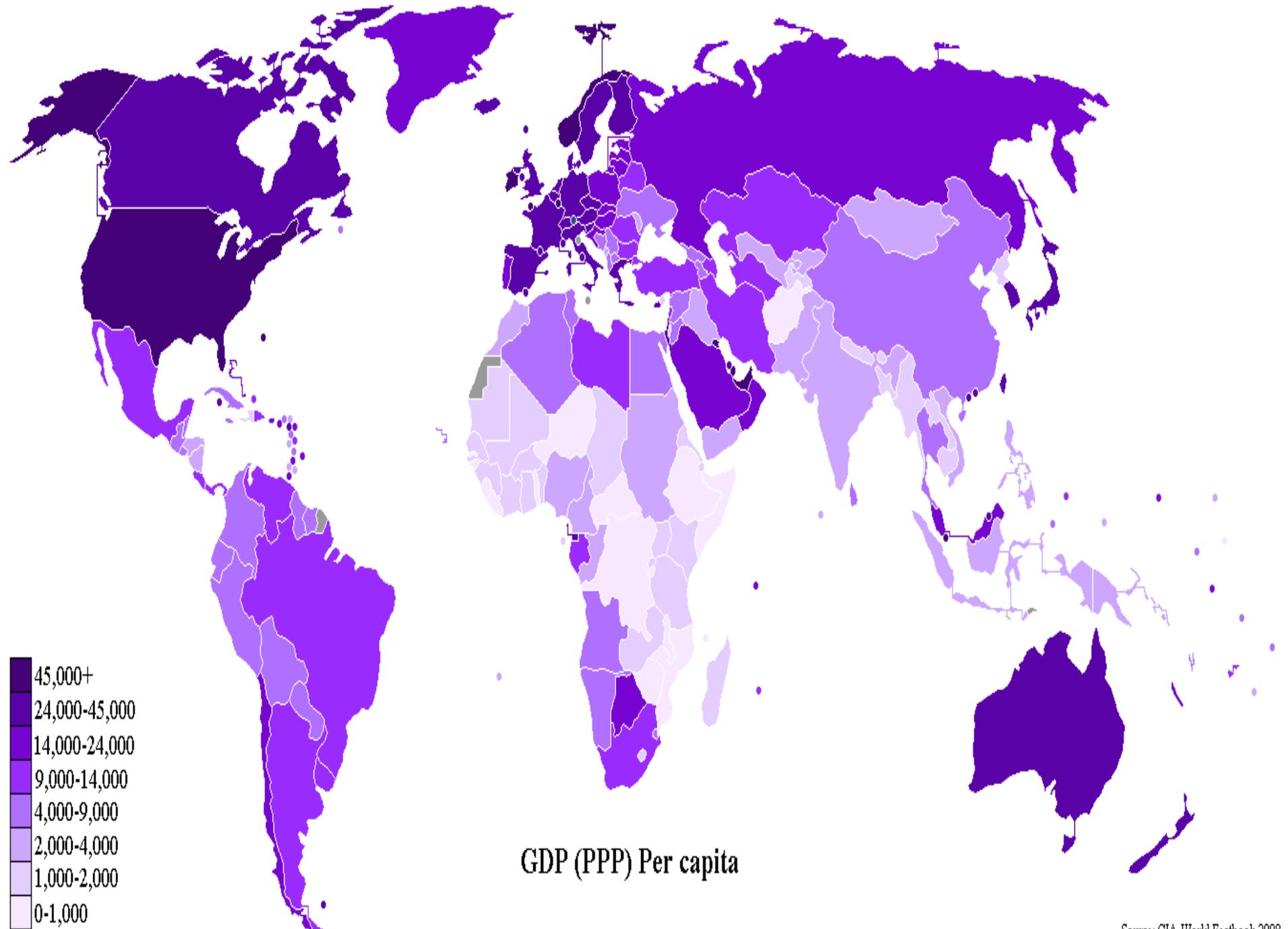
A: Growth inhibiting policies were adopted.

2nd Generation Growth literature

Q: Why were growth inhibiting policies adopted?

A: Special 'African characteristics' in the initial conditions

Trapped in History?



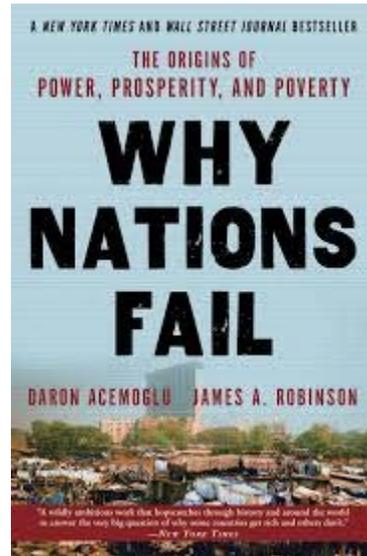
GDP (PPP) Per capita

Source: CIA World Factbook 2008

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

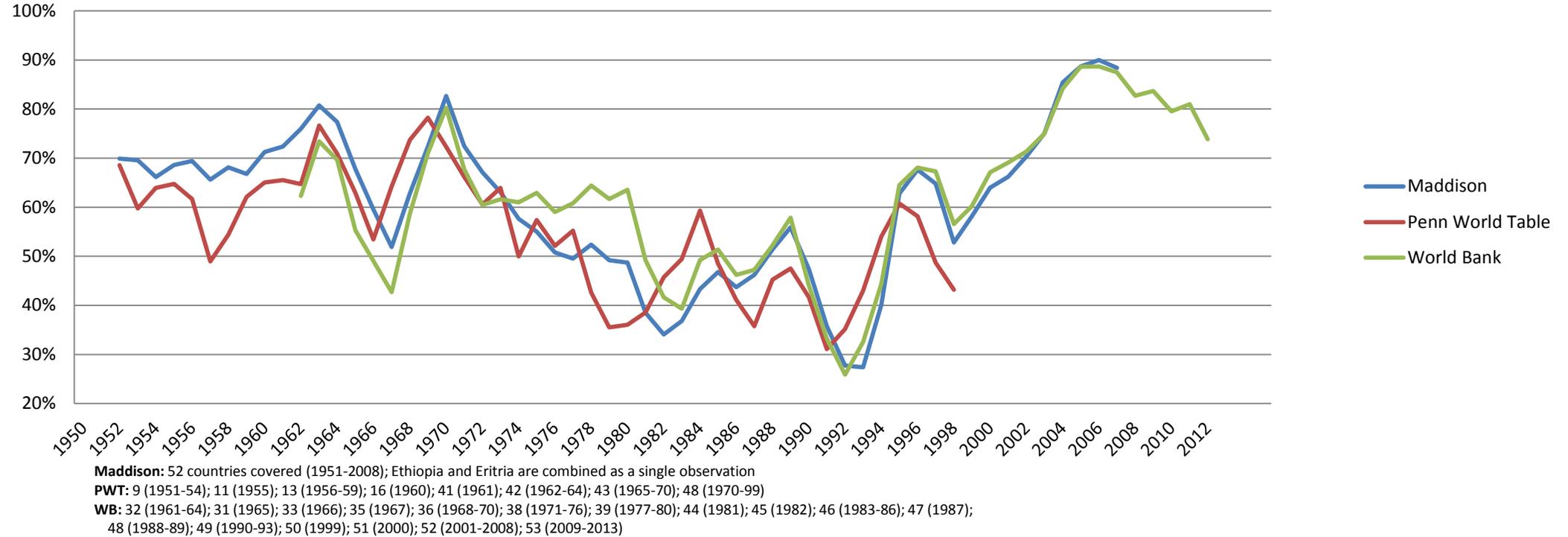
Problems

- 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.
- Missing variables: quantification sets the limit
- 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)

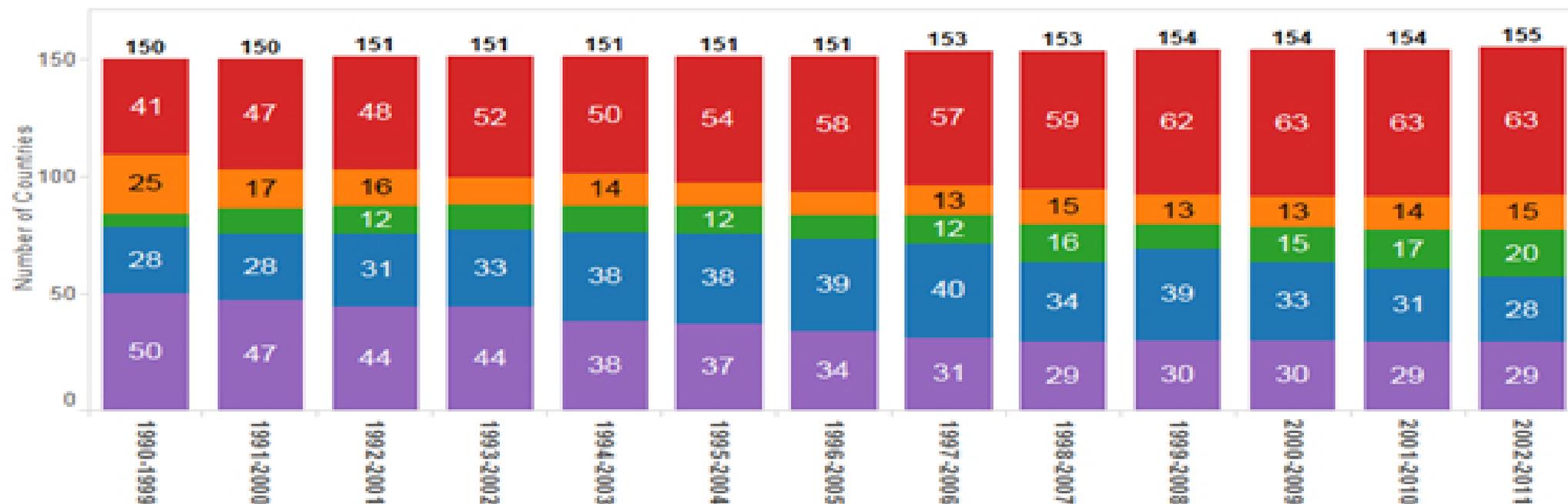


Challenge

- 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.

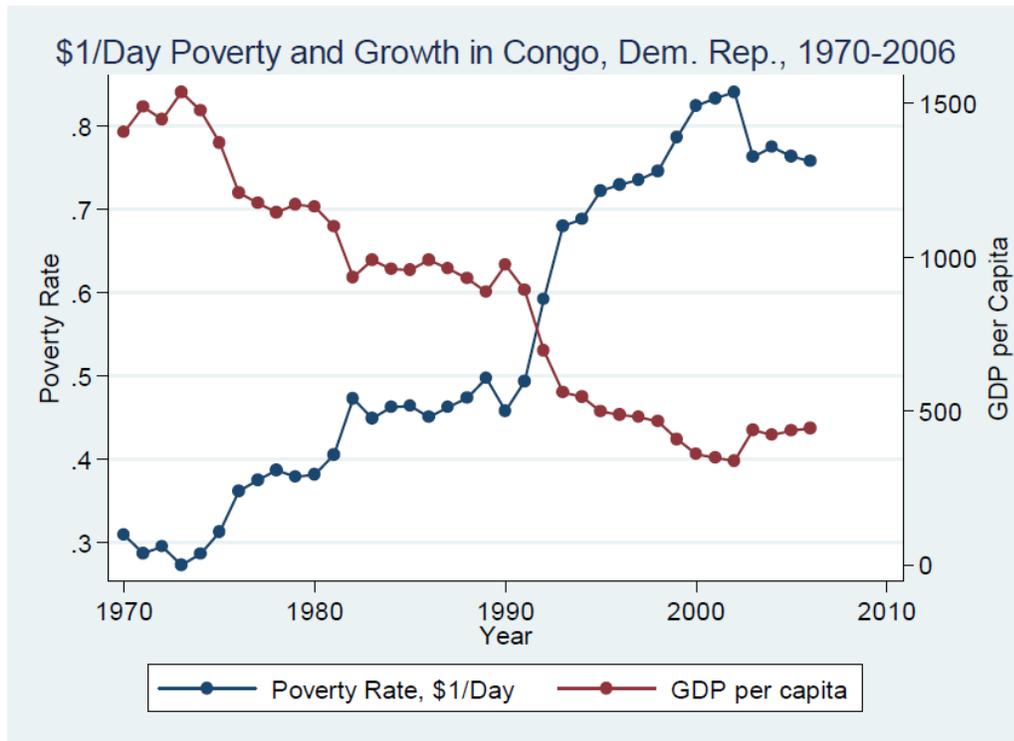
Africa's Statistical Tragedy?

Data gaps: Poverty



- 3 or More Data Points (Satisfactory for Data Needs)
- 2 Data Points (Interval of 5 Years or Shorter, Satisfies a Minimum Requirement for Data Needs)
- 2 Data Points (Interval of 6 Years or Longer, Vulnerable to Data Deprivation)
- 1 Data Point (Moderate Data Deprivation)
- No Data Point (Extreme Data Deprivation)

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

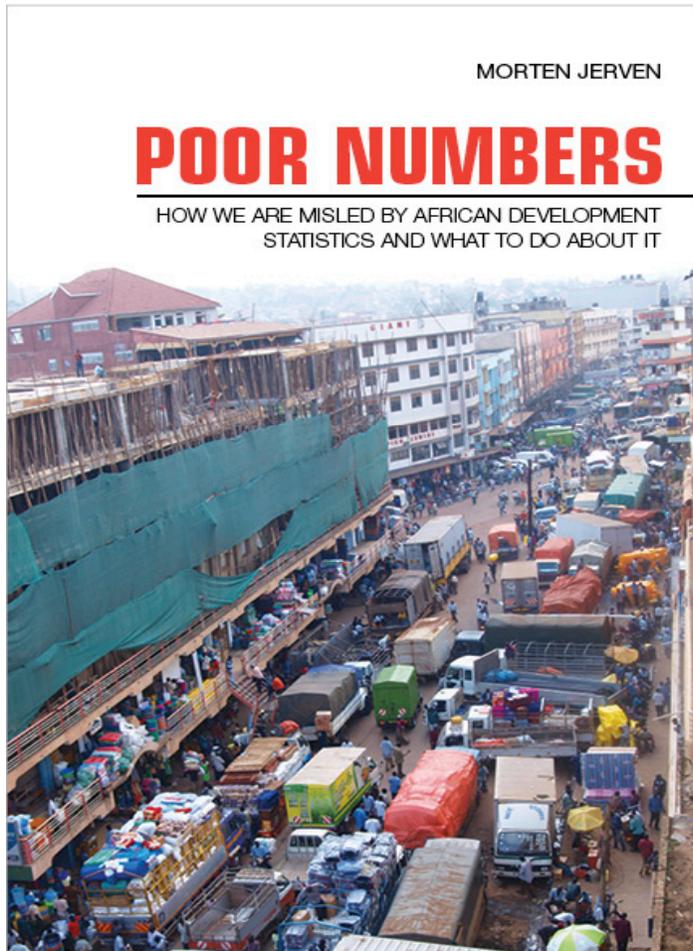
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Turns out there were 58...

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.

Our understanding economic transformation in Africa: key shortcomings

- Symptomatic that the most prominent efforts of quantifying economic change in SSA since the 1990s are using data from Demographic Health Surveys.
- Key weak areas: labour (employment), agriculture (output) and the so called 'informal sector' remain largely unmeasured... baselines missing, annual data unavailable.
- Benchmarks, source data and definitions vary from country to country making comparisons across space hazardous. In Nigeria, the reported unemployment rate just fell from 24 percent to 6 percent as the definition of 'employed' was reduced from 40 to 20 hours per week.
- Statistical priorities have reflected of state's and donor policies in the past: developmental states of the 60s & 70s; lost decades of the 80s & 90s, poverty reduction of the 90s; MDGs post-2000 and SDGs post 2015.
- In sum, we know less than we would like to think about economic transformation in African economies.

Thank you!

