SET SUPPORTING ECONOMIC TRANSFORMATION

# UNDERSTANDING ECONOMIC TRANSFORMATION IN AFRICA

## Event Report

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UKaid from the British people

# INTRODUCTION AND BACKGROUND

In a recently published book *Africa, why economists get it wrong*, Morten Jerven of Simon Fraser University and the Norwegian University of Life Sciences, questions the very essence of what we really know about growth and economic transformation in Africa. He contends that mainstream economists have not used appropriate methodologies or sample periods, used data without critically assessing them, and focused on the wrong policies (see the Annex for a summary of the ten key points raised in Jerven's book).

Inspired by the main arguments in Jerven's book, the Overseas Development Institute (ODI), through its Supporting Economic Transformation (SET) programme, staged an event on 23 September 2015 to discuss where we are going wrong and what we should be doing differently in order to properly understand the prospects for economic transformation in low income countries. The event sought to uncover what data should be used and which research methodologies should be employed in analysing economic transformation in these contexts. It also aimed to take a fresh look at what we know about policies and institutions for economic transformation.

The event provided an opportunity for Jerven to highlight the main points in his book. A three-person panel composed of Blandina Kilama, Nick Crafts and Louise Fox – leading authorities in the fields of economic transformation, economic history, and employment and labour markets in Africa, respectively – was invited to discuss the main questions and respond to Jerven's core arguments. This report documents the key points from the ensuing discussion.

In opening the event the Chair, Dr Dirk Willem te Velde, the Director of the SET Programme at ODI, pointed to the growing importance of productivity and industrialisation in underpinning economic growth. Against this backdrop, he explained that the objective of the event was to better understand what is meant by economic transformation and how it can be utilised for economic development, while also identifying data issues and highlighting changes in research agendas that are necessary in order to enhance the analysis and understanding of economic transformation in low income contexts.

# AFRICA: WHY ECONOMISTS GET IT WRONG

Professor Jerven began by highlighting the shifting trajectory of perceptions among mainstream economists of Africa's economic growth and development prospects. As evidence, he pointed to the contrasting views on Africa's future prospects presented on respective covers of *The Economist* in 2000 and 2011. In 2000, *The Economist* branded Africa "the hopeless continent" and questioned whether there was some inherent character flaw that rendered Africa incapable of development. Just over ten years later, the same publication was more hopeful, framing the continent as a rising force. In the context of these widely divergent perspectives, Professor Jerven questioned how mainstream economists have misunderstood economic growth in Africa.

The literature attempting to explain growth in Africa, or rather seeking to isolate factors explaining the continent's perceived poor growth performance, can be traced back to a seminal paper by Barro (1991). Barro applied cross-country growth regressions to a global sample in an attempt to explain the determinants of average gross domestic product (GDP) per capita growth rates over the period from 1960 to 1985. In addition to standard explanatory variables for growth (such as policy and institutional factors and education), he included a dummy variable for African countries in the regressions and reported a large, negative and significant coefficient on the dummy. In Barro's view, the negative coefficient on the African dummy suggested that economic models were not yet capturing the characteristics of the typical African economy. This prompted a search among scholars for a 'character flaw' in African economies.

Professor Jerven's central thesis is that economists have missed decades of growth in Africa. He argues that earlier work by scholars such as Collier and Gunning (1999) and Collier (2007) – who contend that the continent "has suffered a chronic failure of economic growth"– misses the point. According to Jerven, these influential scholars accept Africa's growth failure as a stylised fact; in the process sidestepping the question of how African economies have actually grown and overstating Africa's growth failures. In Professor Jerven's view, there has been both historical and recent growth, on average, in sub-Saharan Africa (SSA) (which has largely been overlooked by mainstream economists), and the focus should instead be on determining why African economies are growing. In short, he contends that researchers should have been asking: 'why did African economies grow?' rather than attempting to determine 'why has Africa grown slowly?'

Professor Jerven explained that this first generation growth literature, which sought to explain Africa's perceived slow growth, typically pointed the finger at the adoption of growth inhibiting policies. This gave rise to a second generation of literature seeking to understand what led to the adoption of growth inhibiting policies on the continent. In broad terms, explanations in the academic literature pointed to a correlation between the historical presence of 'special African characteristics' in the past – such as geography, slavery and colonization, and the interaction of these factors with the development of institutions – and the present day trappings of low GDP per capita rates in Africa.

According to Professor Jerven, the main flaw in this literature is that it does not look at growth over time. Instead, scholars have taken as fact that if a country is poor today, it must have failed to grow in the past. This stems from erroneously confining the focus to the end result – current GDP per capita.

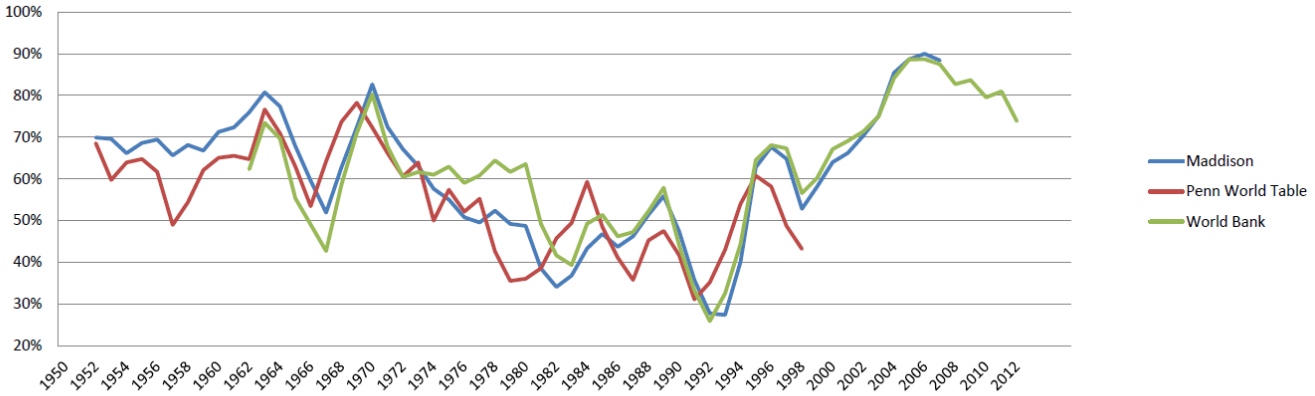
In this context, case study explanations for why African economies have 'failed' have focused on factors such as the quality of institutions. Acemoglu and Johnson (2012), for instance, attribute the current divergence in growth trajectories between certain African countries (including the Congo) and Germany to a failure to secure private property rights in the African states. In Jerven's view, these explanations do not make sense when digging into the context of where institutions exist. He argues, for example, that Acemoglu and Johnson (2012) ignore the influence of factors such as the prevalence of sleeping sickness in the area, the area's limited soil fertility and the abundance of land in that period.

Arguing more generally, Professor Jerven stressed that the explanations referred to above effectively miss out three key factors. First, they do not give sufficient attention to history by failing to consider the time between the specific event and the present. Second, they ignore the importance of different ways of doing things. This demands a distinction between policies that are a result of development rather than its cause. On the importance of institutions, he highlights the reverse causality problem relating to whether good institutions are the result of development rather than its cause. Third, they exclude potentially important variables by only focusing on those variables that are quantifiable with the available data.

In summary, Professor Jerven's main point in critiquing the African growth literature is that the central focus is misplaced. He believes that the focus should be on explaining what happened rather than what did not happen. An examination of Africa's growth trajectory over time reveals that there has actually only been a very short period in the 1990s when the majority of African countries were not growing (see Figure 1). Scholars have erroneously focused on this relatively short period of time as symptomatic of more endemic growth deficiencies.

According to Professor Jerven, researchers should look to explain growth in Africa as it happened, rather than seeking answers to a perceived lack of growth on the continent. This requires a dynamic evaluation of historical growth trajectories rather than a simple focus on static differences in present day levels of GDP per capita. It also requires a move away from economists' preoccupation with obtaining clean causal results and seeking precise answers to incorrect or irrelevant questions.

**Figure 1: Percentage of the African Population living in economies that grow faster than 3 percent (three-year moving average), 1950-2012**




**Maddison:** 52 countries covered (1951-2008); Ethiopia and Eritria are combined as a single observation
**PWT:** 9 (1951-54); 11 (1955); 13 (1956-59); 16 (1960); 41 (1961); 42 (1962-64); 43 (1965-70); 48 (1970-99)
**WB:** 32 (1961-64); 31 (1965); 33 (1966); 35 (1967); 36 (1968-70); 38 (1971-76); 39 (1977-80); 44 (1981); 45 (1982); 46 (1983-86); 47 (1987); 48 (1988-89); 49 (1990-93); 50 (1999); 51 (2000); 52 (2001-2008); 53 (2009-2013)

*Source: Jerven (2015)*

In this context, the importance of data cannot be underestimated. Poor quality data remains a considerable constraint to properly understanding economic transformation in Africa. Data gaps in poverty line statistics and instances of huge revisions to GDP estimates resulting from rebasing and changing benchmarks (in Ghana and Nigeria, for instance) cloud an already murky picture. According to Professor Jerven, deficiencies in statistics on African development – which often include a lack of economic data by sector, no measurement of the informal sector, weaknesses in labour and agricultural output data, and poor baseline data leading to large changes in key measures like unemployment – only exacerbate shortcomings in our understanding of economic transformation in low income countries. Put simply, we know less about poor economies and we know less about poor people living in poor economies.

# UNDERSTANDING ECONOMIC TRANSFORMATION IN AFRICA

The first panel discussant, Dr Blandina Kilama (a Senior Researcher at REPOA in Tanzania) explained that for a long time data on African economies was simply unavailable. As a result, it has only recently become possible to discuss these issues as data has become more widely available. In this context, the focus going forward should be on strengthening the data on Africa that is being released.

Using examples from Tanzanian data, Dr Kilama emphasised the need for caution when interpreting the available data on economic growth and transformation. In the case of Tanzania's National Accounts, for instance, the base year is critically important when looking to splice patterns across different series of National Accounts (for example, the 1992 National Account series uses GDP at factor cost whereas the equivalent series for 2001 uses GDP at current basic prices). Analyses of patterns over time using different base years can seemingly imply that the situation in an economy has changed overnight.

Context is also important. Development policies are often crafted on the basis of evidence from data that includes only the formal sectors in an economy, with information on the informal economy often excluded. In Tanzania, the available employment data suggests that people are often engaged in more than one activity, with engagement in secondary activities relatively widespread. This implies that it is necessary to focus on engagement in secondary activities as well. Ignoring the informal sector can result in the researcher missing a large share of the story.

Dr Kilama stressed the importance of the denominator when considering trends in growth statistics. For instance, when analysing economic growth trajectories it is important to consider economic growth in the context of population growth in order to determine whether an economy is growing beyond the expansion of the population. She added that statistical evidence that an economy is not growing does not mean that

individuals in the economy have stopped producing. They could, instead, be producing in informal ways that are not reflected in the available data. Moreover, the size of an economy is relevant when considering growth trends – small changes in growth can be significant in a small economy.

In concluding, Dr Kilama remarked that we have come a long way from the situation of not having any data at all on African economies such as Tanzania. While she indicated that it was necessary to take on board the cautionary points made by Jerven regarding the use and interpretation of poor quality data, she stressed that researchers and policy makers should not shy away from using the data that is available to them.

# DATA AND ECONOMIC HISTORY IN AFRICA

The following panellist, Nick Crafts (Professor of Economics and Economic History at the University of Warwick), noted that all economic historians recognise the need for more data. He explained that economic historians have granted a significant amount of attention to understanding why data can be misleading and identifying when it is collected for nefarious purposes. In this context, better quality data is widely acknowledged to be fundamental for understanding and supporting economic theory.

Referring to Morten Jerven's book, Professor Crafts felt that there is an underlying tension between arguing that the available data cannot be trusted and, at the same time, suggesting that the explanations being put forward for Africa's growth performance are incorrect. He noted that important questions remain unanswered, such as: How fast is actual growth in Africa compared to the growth performance suggested by the data? How long will growth continue? How much of the existing growth recorded in African countries is the result of transitory factors?

Professor Crafts agreed with Jerven's assertion that economists tend to overemphasise the importance of institutions as a reason for Africa's generally poor economic performance. In his view, growth can be quite considerable even in settings characterised by relatively immature institutions. Moreover, different types of institutions may work more effectively in different settings.

Even so, Professor Crafts indicated that an analysis of the available data suggests that, on average, growth in many African countries over the past 100 years has been slower than the equivalent rates recorded in other comparable regions (such as East Asia and parts of Latin America). In this context, the approach in the literature, which emphasises current income levels and the role of institutions, should not be dismissed as completely incorrect.

Nevertheless, there are other important factors which should be considered. For instance, Professor Crafts highlighted the importance of reversals in the growth trajectories of low income countries. Patterns of growth and reversal, which have characterised African economic performance for many decades, suggest that growth may be strong for a period of time but, at some point, becomes difficult to sustain. This is particularly relevant in the case of fragile states, and provides an interesting element of the story of slower than average growth in SSA.

In Professor Crafts' view, another important part of the story lies in the interactions between Africa and the rest of the global economy. Terms of trade shocks, for instance, may boost growth in the 'poor periphery' in the short term, but typically lead to pitfalls later on in terms of economic development. Market access is another important element. The New Economic Geography literature suggests that handicaps stemming from geographic location can have detrimental effects on growth, particularly in relation to growth in manufacturing.

With this in mind, Professor Crafts noted that Jerven's book gives little attention to the importance of manufacturing in generating more industrially-oriented growth in Africa. He also argued that a greater focus on geographic issues, particularly in relation to the importance of locations of economic activity, would further enhance the analysis in the book.

# COMMENTS ON JERVEN AND ECONOMISTS IN THE TROPICS

Louise Fox, Visiting Professor at the University of California, Berkley, served as the final panellist. She agreed with Nick Crafts' assertion that there is a fundamental tension in debating growth performance when one does not agree with the available data in the first instance.

Responding to concerns about the methodological approaches adopted to analyse Africa's growth performance, Professor Fox emphasised the fact that economics is an evolving discipline, suggesting that the earlier approaches adopted by scholars in the economic growth literature should not be dismissed out of hand. In this context, she highlighted the important role that pioneers play in pointing research into new directions, even if their core assertions turn out to be incorrect. For example, regardless of the actual merits of employing cross-country regressions to explain economic growth, Professor Fox argued that cross-country comparisons do tend to provide a basis for useful hypotheses. Looking to understand why one county or region is different from another can produce valuable insights. Citing another example, she stressed that despite the shortcomings of randomised control trials (RCTs) and experimental analyses, they have both provided a significant boost to the field of behavioural economics and led us to question the very notion of 'homo economis'.

Professor Fox argued that while it is clear that the quality of African statistics is generally poor, the available data on Africa is at least improving. Even so, governance problems within African statistical agencies, rather than funding shortages, continue to hinder further progress in enhancing the collection, quality and accessibility of African data. There are some African countries that do not release any data. Other African statistical offices are loathe to adopt new technologies to collect data or introduce standards of good practice. This may be because those employed in these agencies are concerned about the implications of the adoption of new technology for the security of their jobs. Finally, there remain problems related to data transparency in Africa.

Looking ahead, Professor Fox highlighted the need to change cultures and norms, and provide the correct incentives, in order to improve the quality of data produced on Africa. An important starting point will be to set benchmarks and standards for the collection of data and the quality and consistency of published outputs. It will then be important to monitor results. Moreover, databases providing statistics on Africa need to be more transparent. In Fox's view, donors can potentially plan an important role in this respect.

# DISCUSSION AND CONCLUSIONS

In responding to the comments made by the panellists, Professor Jerven expressed the following views:

- The issue is not that we do not know anything from the available data. There are some data that can be used, but the point is that more can be done. The issue of being close to the primary source of the data really matters. In this respect, there is a need for researchers to work more like historians. The growing distance between the researcher and the primary source indicates that a change in emphasis in terms of what type of research is being funded and published is necessary.

- It is not true that there is no room for large cross-country regressions. Cross-country regressions raise important questions and still provide a good basis for framing thinking. The problem is that while cross-county regressions provide a useful start, they typically lead to very bad conclusions.

- RCTs are an interesting turn away from the study of macroeconomics. They create clean lab type conditions to evaluate interventions. There is, however, a need for greater focus on addressing political economy issues. At this point, we do not have the right type of tools to provide answers to the questions of why there is uneven growth or industrialisation on the African continent and elsewhere.

- How fast are African economies really growing? The decline in growth in the 1980s and 1990s was overstated and the recent revival has also been overstated. This is true both in terms of the actual data and the narrative around it.

- There is very clear evidence of counting biases. African statistical offices are struggling to compare higher and lower benchmarks, which is symptomatic of a knowledge and skills problem. Furthermore, the high rewards to economic growth create perverse incentives in terms of measurement. There used to only be limited interest in the actual sizes of GDP, but these figures have now become more important given their implications for accessing donor aid and other forms of financial resources.

Entering the discussion, Dr te Velde noted that there is a tendency in the development and statistical communities to acknowledge that the quality of the available data is generally poor and to respond by calling for the collection of even more data. This ignores the importance of paying greater attention to what cannot be counted and to weaknesses in the data. There is a need to think of different ways to interrogate issues.

Dr te Velde also stressed the importance of considering who is intended to benefit from investments in statistics. For example, in the case of poverty estimates, while these estimates are useful as indicators of average poverty levels, it is not always obvious how to make the link from measuring the average poverty level to developing policies to alleviate poverty.

The floor was then opened to the event attendees to express their views or address specific questions to Professor Jerven and the panellists. An abridged selection of comments and views raised by the event attendees and, where applicable, the responses provided by Professor Jerven and the panellists is provided in Table 1.

**Table 1: Selected comments and questions from event attendees and speaker responses**

| Name and Affiliation | Comment/Question | Responses from Speakers |
|---|---|---|
| Adrian Hewitt, ODI | The rebasing of Ghanaian and Nigerian statistics came at a similar time as the United Kingdom's rebasing of GDP. There is often political resistance to improving data; but the consequences of not doing so could be even more serious. There is a tendency to measure what is measurable. | *Morten Jerven*: Is growth real and can it be quantified? The mismeasurement of growth may be costly in terms of its knock-on effect on bad policy and in shaking investor trust. Africa's rise is real, come and see for yourself. There are newer roads, more economic activity. In short, there is growth. However, there is a need for a reasonable aggregate measure to use to say something about distribution. If there are problems with purchasing power parity (PPP) adjustments, then one is on very uncertain ground. What we do not see is how investments affect different sectors. In this sense, it is not just the quality of statistics that matters but also what we do not see or count that may be very important.<br><br>*Louise Fox*: Things are getting better. We should not stop measuring things that can be quantified in economic models, but qualitative work remains useful. |
| Osman Bashir, South Bank University | There is a problem with the benchmarks used for measuring GDP growth and development. Are these benchmarks for developing and developed countries? How effective are they in reflecting progress? For instance, there have been very visible changes in countries such as Ethiopia despite low growth. | |

| Name and Affiliation | Comment/Question | Responses from Speakers |
|---|---|---|
| | | *Nick Crafts:* When looking at long run growth across the world, we need to have a sense of relative levels. It is important to evaluate growth performance against the scope for catchup – feasible performance depends on the starting point. If you do not know this starting point then you are in trouble. Do we have accurate PPP adjusted measures of what levels actually are? |

Dr te Velde closed the event, thanking Professor Jerven and the panellists for their contributions. He noted that it is clear that economic transformation in Africa cannot simply be judged through regression analysis. Instead, deeper analysis of the underlying factors and issues influencing economic transformation is required. Ultimately, the need to use appropriate research methodologies, the importance of critically assessing the available data, the significance of historical developments, and the importance of appropriate policies for African economic development are all pertinent considerations for analyses of this nature.

# ANNEX

## JERVEN'S BOOK ON AFRICAN GROWTH IN 10 POINTS

**A need to use a more appropriate research methodology**

1. Growth regressions have analysed average growth over time, rather than sub-periods of growth and stagnation (p. 80)
2. Research on how African states operate, rather than showing differences from richer ones, yield better policy insights (p. 132)
3. Deep contextual studies of history and institutions are better than global cross section regressions (p. 73)

**A need to use appropriate sample periods (including sufficient history)**

4. The failure of sustained growth was the exception until the 1980s, but the narrative was that African growth has failed (p. 87)
5. The question is not "Why has Africa failed?" but "Why did African economies grow and then decline only to grow again"?" (p. 8)
6. We went from Bottom Billion to Africa Rising within half a decade. The truth lies somewhere in between. (p. 123)

**A need to critically assess the data used**

7. GDP data do not necessarily directly reflect changes in living standards or productivity (p.120)
8. Alternative data sources, proxies, and triangulation using poverty and household budget survey data help to make sense of national accounts (p. 114)

**A need to consider appropriate policies for African economic development**

9. Economic development is about more than just institutions. The fundamentals (labour, capital, technology) of economic growth explain more than is commonly thought. (p. 128)
10. A transformation of the future growth path of African economies, moving away from a trajectory of recurring growth towards self-sustained growth, depends on substantial changes in the world market, political conditions, and prices of factors of production (p. 88 -.89)

**SOURCE : JERVEN, M. (2015), AFRICA, WHY ECONOMISTS GET IT WRONG" ZED BOOKS, LONDON**