Collier and Gunning: Explaining African Economic Performance

- Africa: The worst performing continent
- Per capita GDP falls
- Per capita food production falls
- Why?
  - Historical factors, colonialism
  - Natural factors (disease, risk, low population density)
  - External factors (debt, terms of trade)
  - Wrong policies

Insights from aggregate growth regressions

- The ‘Africa dummy’
- Lack of social capital
  - Ethnic fractionalization
  - Narrow political elites
- Lack of openness to trade
  - Direct trade controls
  - Forex controls, marketing boards
- Deficient public services
  - Education
  - Infrastructure
    - Telephones
- Geography and risk
  - Rainfall
  - Poor soils
  - Export concentration in primary commodities
- Lack of financial depth (low M0 and M2)
  - Does finance cause development, or does growth develop finance?
- High aid dependence

Responses - Coping strategies of households

- First look at rural households
- The colonial economy commercialized peasants through
  - Export crops
  - Forced labour, head taxes etc
- The setting today
  - Risk
  - Moral hazard
  - High transaction costs
  - Policy induced low returns to ag investment
  - ➡ Very little insurance and credit
  - ➡ Self insurance through diversification
  - ➡ Village insurance, kinship, common property
  - ➡ Limited learning in traditional societies, lack of new technologies
  - ➡ Credit constraints, cannot enter capital intensive activities; subsistence production

Responses - Coping strategies of manufacturing firms

- RPED survey of firms in 8 African countries
- Firms are small, grow slowly and are not diversified
- Low technical efficiency
- High risk (also from macroeconomic fluctuations)
- Little ability to cope with risk
- Weak market for second hand equipment
- Investment financed by owner’s savings
- Poor infratsructure means need for large stocks
- Late payment / late delivery
- Policy induced problems
  - Controls and regulations
  - Forex controls
  - Poor public services, e.g. power, telephones
  - Weak legal systems
  - ➡ Rely on ethnic networks for information, screening and enforcement
  - ➡ Statistical discrimination; Difficulties for other ethnic groups

➡ Is lack of financial development a constraint?

- Does Structural adjustment, that remove controls, stimulate growth?

Factor markets - Financial markets

- Financial repression was used to finance public sector (incl parastatals) off-budget
- Resulted in shallow financial markets
- Financial reform has liberalized and privatized, but not led to more private lending
- Lack of regulation of privatized banks
- Massive capital flight (39% of private African wealth held abroad)

Factor markets - labour markets

- Traditionally dominated by ethnic minorities
- Africanization through state ownership or control
  - Nationalisation of all trade in some countries
  - Pan-territorial pricing
- Used for directing resources
  - Cheap food to urban groups
- Tax revenue
  - Export crops
  - Indirect through currency overvaluation
- Poor infrastructure

- Consequences
  - High transaction costs
    - Criminalized trade
    - Reduced market integration
    - Higher risk
  - Inefficient resource allocation
  - Retreat into subsistence due to
    - Controls on output markets
    - Lack of inputs
    - Lack of consumer goods

Conclusions

1. ”Africa stagnated because its governments were captured by a narrow elite that undermined markets and and used public servioces to to deliver employment patronage. These policies reduced the returns on assets and and increased the already high risks private agents faced. To cope, private agents moved both financial and human capital abroad and diverted their social capital into risk-reduction and risk-bearing mechanisms” (p. 100).
2. Slow growth is not inevitable
3. We don’t know yet if economic reform is working
   – Growth up a bit in reforming countries
   – Investment not up!

- **Discuss: policy errors vs. other factors...**