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Marginalisation in the Context of Globalisation: Why Is Africa so Poor?

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Africa is the poorest region the world, and appears to be slipping further behind. This essay explores and systematises the literature that deals with why this is so. Four major lessons are suggested. The first is that the history and geography of Africa constitute impediments to economic development; the second is that in many African states growth-retarding policies have been pursued; and the third that there are intimate links between the region's structural characteristics and its policy regimes. These three conclusions hint at an African poverty trap. The fourth lesson is that it is up to the Africans themselves to prove this proposition wrong. JEL-codes: O1, O2, O3, O4

Today, thirty-eight countries in Sub-Saharan African are classified as low-income countries, eleven are middle-income countries, and only one is a high-income country; GNP per capita measured in terms of PPP is $1440 in Africa, compared to the world average of $6300; thirty-three of the forty-eight countries designated as least developed by the UN are African; and thirty-four of the forty-two countries covered by the HIPC-initiative are African.[2] These numbers illustrate that it does seem like Africa is being marginalized in the world economy, and that the question which makes up the subtitle of this paper is of immense importance. Needless to say, answering it is an exceedingly difficult task. Clearly, no monocausal theory is – or will ever be – able to tell us the full story. The situation is complicated by the fact that whereas we, in an ideal world, would be able to take the various theories to data on incomes and their postulated determinants, in the real world, we often do not have information about many of the variables deemed important by theorists.

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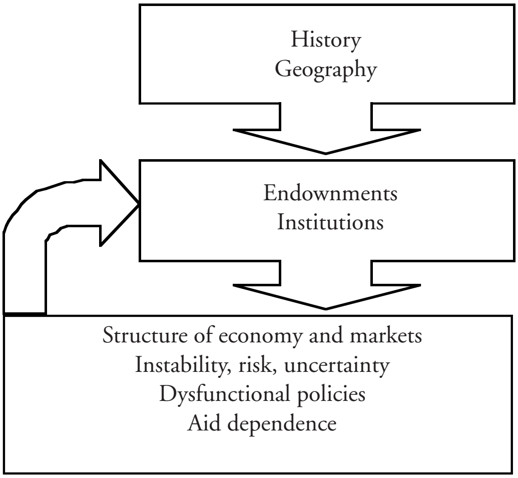
2. Throughout this paper, Africa and Sub-Saharan Africa are used synonymously.

Figure 1.
The structure of the argument



In addition, the quality of data from developing countries is generally poor, and African data is certainly no exception to this rule.

Thus my aim is a modest one: it is to systematically review the factors emphasised in the academic literature on this subject.[3] This literature, which is both voluminous and rapidly expanding, already contains several excellent reviews by economists as well as other social scientists. My contribution is more in terms of an overall framework illustrating the interrelationships among the various explanatory factors, as well as in modest changes in focus. Relative to economists such Collier and Gunning (1999a), for example, I put somewhat greater emphasis on the long shadows cast by history through the impact of colonialism on the character of the current African states. Relative to other social scientists such as Chabal and Daloz (1999), I naturally focus on economic mechanisms to a greater extent, and rely more on quantitative evidence.

Figure 1 presents an outline of my explanatory framework. I will start by discussing the two primary sources of structural features of African societies, namely geography and history. These combined to shape the initial conditions facing the newly independent African states: their endowments of economic resources as well as the social, economic, and political institutions in place. Since structural characteristics change only slowly, it is possible that they have continued to exert an influence on African economic development from the 1960s to date. However, even if institutions are not rapidly changeable, they are not written in stone either. Likewise, endowments do change over time. Moreover, they are influenced by economic policies and market structures. Hence, I have included the possibility of feedback from the consequences generated by institutions and endowments to their determinants. Economic policies, discussed in section 3, play a particularly important role in this respect. Various explanations for the generally dysfunctional policies that have been pursued by governments in post-independence Africa are surveyed in section 4. In section 5 I discuss the role of external actors in general and aid donors in particular. Section 6 contains a summary as well as my conclusions.

Structural Factors

Africa, the Laggard

Table 1, which is based on Maddison (1995), displays data for the per capita income level in

3. Needless to say, within the constraints of this article I will have to talk about African countries in fairly general terms, try to describe an “average” and compare it with other regions of the world, something that will inevitably mask differences *within* Africa.

Table 1.
GDP per capita in 1990 international dollars

Year	Western Europe	Western offshoots	Southern Europe	Eastern Europe	Latin America	Asia	Africa	Average
1820	1292	1205	806	750	715	550	450	661
1870	2110	2440	1111	1030	800	580	480	920
1913	3704	5237	1753	1557	1515	742	575	1592
1950	5123	9255	2025	2604	2614	727	792	2238
1973	12288	16075	6029	5742	4750	1680	1274	4329
1992	17384	20850	8273	4608	5294	3239	1318	5539

Source: table 1.2, p. 20 in Maddison (1995).
Notes: Western Offshoots are Canada, USA, Australia, and New Zealand. Africa includes countries north of Sahara.

the main regions of the world from 1820 to 1992. We see from the table that the average income in Africa has always been below the world average in the period covered. Indeed, it is actually below the average income in the other regions in every year except 1950. In this sense, the marginal position of Africa in the world economy is nothing new.[4] This suggests that there is something intrinsic to the African condition, so to speak, which hinders economic development. In fact, many empirical studies of economic growth have found that after controlling for various explanatory variables a dummy variable for African countries is negative and statistically significant. What basic factors might explain the enduring lagging of Africa? As suggested in figure 1, the history and the geography of the continent are prime suspects. I will discuss these in turn before I end this section by looking at three features of contemporary Africa that are functions of both.

Colonialism

One peculiarity of the African continent is that its territory was almost completely colonialised by various European powers. There are arguments – such as the resource transfers that took place from the colonies to their rulers – which suggest that colonialism has contributed to the low levels of income we observe today. However, there are also arguments to the contrary, for example, that the colonial powers created physical infrastructures such as ports and railways that they bequeathed to the new independent states. Moreover, the issue that we would like to resolve is whether these countries are better or worse off today than they would have been if they had not been colonised at the end of the last century. Unfortunately, the counterfactual can never be established with any reasonable degree of accuracy and so there will always be room for debate about the net economic effects of colonialism.

However, I think a persuasive case can be

4. Furthermore, here the countries of North Africa are included. These countries, which are usually separated from the states of Sub-Saharan Africa for analytical purposes, a convention that I adhere to in this paper, are generally more affluent than their southern neighbours.

made for negative effects of colonialism on the post-independence economic development of Sub-Saharan Africa via the institutions of governance bequeathed to the Africans. While there are contrarian voices, an accumulating body of research documents the impact of the colonial state on the political and bureaucratic institutions of the new states. Englebert (2000: 1823) puts it this way:[5]

> *"Of all the regions in the world, Africa has the highest proportion of countries where the process of state creation was exogenous to their societies and where the leadership, or ruling class, inherited the state rather than shaping it as an instrument of its existing or developing hegemony. … Even those who benefited from chiefly status in customary systems did not enjoy nationwide foundations to their power by virtue of the heterogeneity of the pre-colonial systems comprised in the state. … The state became therefore either a potential resource to be appropriated, or the possible instrument of the domination of other groups to be resisted."*

I will argue that this is a major reason why African post-colonial states are more accurately described as "predatory" rather than "developmental", focused on resource extraction and redistribution towards narrow powerful groups instead of broad-based accumulation. Frequently noted characteristics of African countries over the last four decades such as heavy taxation of export agriculture (and urban bias more generally), rampant corruption, and excessive debt accumulation might reasonably be seen as the consequences of the artificial nature of the state in a context where the allegiance of most individuals is not to the "nation", but to family, kin, or religious or ethnic group. Moreover, the arbitrary borders imposed by the colonial powers are also arguably a major reason why violent conflict has been commonplace in Africa after independence in every possible form: coups, rebellions, and wars. Empirical studies show that poverty feeds violence (see e.g. Collier and Hoeffler 2000 and Elbadawi and Sambanis 2000) and that political instability in general and political violence in particular inhibits investment and growth (c.f. Alesina et al. 1996 and Alesina and Perotti 1996). Hence, this might be a mechanism that traps African countries at a low level of economic development.

There is in fact some quantitative evidence from regressions that supports this line of thinking. Englebert (2000) finds that his dummy variable for state legitimacy has statistically significant explanatory power in growth regressions covering up to one hundred and thirty-three countries from 1960 (or independence) until 1992. Greater legitimacy translates into higher rates of growth, and, moreover, eliminates the significance of the infamous Africa dummy. Bertocchi and Canova (1996) find that several features of an African country's colonial status help explain its growth performance after independence. Specifically, they argue that dependencies did better than colonies and

5. Several historians of colonialism argue in a similar vein. For example, Fieldhouse (1986: 56) is of the opinion that "… only a very partial metamorphosis of the colonial state and society had taken place before decolonisation; the new nation state inherited a tradition of autocracy barely tempered by democracy and a society united only in the now irrelevant call to eject the imperialists." Similarly, Young (1994: 283) asserts that "… the colonial state during its phase of construction in most cases created entirely novel institutions of domination and rule. Although we commonly described the independent polities as "new states," in reality they were successors to the colonial regime, inheriting its structures, its quotidian routines and practices, and its more hidden normative theories of governance."

that British and French colonies did better than Italian and Portuguese ones. Grier (1999) also presents evidence supporting the proposition that the identity of the colonising power has mattered for growth rates. In his sample, British ex-colonies did better than Spanish ex-colonies over 1961–1990, and these in turn outperformed those that had been colonised by France. Finally, Acemoglu, Johnson, and Robinson (2000) show that the mortality rates of European settlers at the time of colonisation affect the level of income per capita of the colony in 1995. Their claim is that where the environment was inhospitable to permanent European settlements, the Europeans set up extractive institutions whose negative effects have persisted until today. Where the colonisers could establish permanent settlements (such as in Australia, Canada, New Zealand, and the US), however, they imported the good governance structures of their mother countries to a great extent.

The degree of institutional inertia posited by Acemoglu, Johnson, and Robinson (2000) is clearly extreme. There are also potential problems with these studies, as with most regression analyses.[6] However, even those who do not find these results as persuasive as I do, will have a hard time arguing that the low quality of African political and bureaucratic institutions has not affected economic development on the continent over the recent decades.

Location and Physical Geography

Even though the exact numbers in table 1 are extremely uncertain estimates, there is little reason to doubt that Africa was the poorest region of the world even before its societies were subjugated to European rule. Most depressingly, after forty years of independence and very substantial amounts of foreign aid, the average income in Africa is only about the same as that of Western Europe in the first decades of the nineteenth century! A second characteristic of Sub-Saharan Africa that merits attention in this connection is its physical geography. Climate, soils, location, and the like have recently attracted considerable interest from economists trying to explain cross-country variations in income levels and growth rates.

For instance, Bloom and Sachs (1998) argue convincingly that climatic factors serve to reduce the productivity of man, land, and farm animals in the tropics. The favourable conditions created for such debilitating diseases as malaria, river blindness, and sleeping sickness exemplify these problems. Other drawbacks include poor soils, low and highly variable rainfall, and plant pests. Since Africa has the highest proportion of the population in the Tropics of any major world region, it is particularly poorly endowed by Mother Nature in this respect.[7] In fact, Bloom and Sachs (1998) claim that for important food crops such as cereals yields are lower in the tropics, with Africa below even the tropical average. Moreover, with large areas being of a marginal character in terms of agriculture, population densities have been low in many parts of the continent. In 1998 the region had 26.6 people per square kilometre, compared

6. For instance, Englebert sees legitimacy as being a function of the degree to which the state is rooted in pre-colonial political institutions. While this might be a reasonable definition, a potential weakness of his empirical analysis is that the legitimacy variable is a subjective measure constructed by himself.
7. When the Tropics are defined to be the area between the Tropics of Cancer and Capricorn, 91% of the land area of Sub-Saharan Africa lies therein (Gallup, Sachs, and Mellinger 1998: 66). This is much more than the region with the second highest percentage, Latin America (73%). Using ecological measures of the Tropics, the percentage drops to 62% (Mellinger, Sachs, and Gallup 1999: 25). In this case Africa is surpassed by South Asia (70%), but is still far above the world average of 40%.

to a world average of 45.3. Low population densities limit market size, which in turn lowers rates of technological innovation. In combination with poor infrastructure, this also creates natural market segmentation through high transport costs.

In addition, Bloom and Sachs (1998) list six important difficulties for transport within and out of Africa, among them large distances from major world markets, the highest proportion of landlocked states of any continent, and the absence of rivers which are navigable by ocean-going vessels into the interior of the continent. These factors increase transport costs and thus serve to reduce the profitability of trade both within the continent and with the rest of the world. Studies demonstrate that these effects can be sizeable. For example, UNCTAD (1999a) presents data indicating that total freight costs on imports as a percentage of import value is more than 11% in Africa compared to a developing country average of 8%, and asserts that in thirty-one out of forty-three countries costs were fifty percent higher than the latter figure. More generally, Radelet and Sachs (1998) show that natural geography has a strong influence on shipping costs, with high shipping costs in turn causing low growth of manufactured exports and GDP per capita.

That there is something to this line of reasoning is almost self-evident. As John Kenneth Gailbraith (1951: 693) put it fifty years ago: "if one marks off a belt a couple of thousand miles in width encircling the earth at the equator one finds no developed countries … Everywhere the standard of living is low and the span of human life is short" (quoted in Kamarck 1976: 4). While his bandwidth is too large today because of the rapid growth of the countries of South-Eastern Asia, Mellinger, Sachs, and Gallup (1999) calculate that in 1995 the average income of temperate regions measured in terms of purchasing power was four and a half times that of tropical ones. Factoring in the distribution of the population between the coast and the interior, they find that areas in the temperate zone lying within one hundred kilometres of the coast have six times the GDP per capita of interior tropical regions. As Sub-Saharan Africa has the highest proportion of its population in non-coastal tropical areas of any continent, I think that the evidence serves to demonstrate that this structural factor is part of the answer why Africa is so poor.[8] Moreover, it seems capable of explaining why the continent stays poor as well: Sachs and Warner (1997) demonstrate that tropical location and landlockedness contribute to explaining the slow growth of African economies over 1965–90.[9]

Nevertheless, while important, the case for geography as a determinant of Africa's low levels of income could be overstated.[10] For example, while the continent's disease ecology

8. If one takes a really long-run view of human history, it might also explain why Africa was colonised by the Europeans (Diamond 1999: 398-399): "Europeans entering Africa enjoyed the triple advantage of guns and other technology, widespread literacy, and the political organization necessary to sustain expensive programs of exploration and conquest. ... [A]ll three arose historically from the development of food production. But food production was delayed in Sub-Saharan Africa (compared with Eurasia) by Africa's paucity of domesticable native animal and plant species, its much smaller area suitable for indigenous food production, and its north-south axis, which retarded the spread of food production and inventions."

9. Similarly, in the regressions of Bloom and Sachs (1998), the percentage of land area in the tropics has a negative and the coastal population density a positive impact on growth in seventy-seven countries over 1965–90. Both variables contribute to the lower rate observed in the African countries relative to the non-African ones.

10. See as well the comments by Collier and Udry on Bloom and Sachs (1998).

surely contributes to the population's poor health, which in turn is one explanation for their low levels of income, the reverse is also evidently true; poverty is a factor causing ill health. Furthermore, the inadequate health systems of African countries have undoubtedly contributed to the prevalence of diseases that no longer poses a threat to public health in other parts of the world. In turn, the sorry state of health services is not only a function of the low levels of revenues of African governments; misplaced priorities and inefficient spending has played a role too. This is important because policy failures might be rectified, and the international community can contribute so that poverty becomes less of a constraint with respect to health status. The same can be said of other consequences of the location of Africa on the map of the world. Hence, while geography is shaping and constraining African development, it is not determining it.[11] I return to the implications of this important distinction in the final section. In the remainder of this section I demonstrate how Africa's geography in combination with its history have played major roles in forming its most important socio-economic characteristics, and show that post-independence policies have tended to reinforce rather than counteract these forces.

History and Geography Combined I: Private Sector Institutions

It is arguably the case that Africa has some of the strongest social institutions in the world. These have played an important part in the economies of the continent: family and kinship groups have provided insurance against idiosyncratic risks, effected intergenerational redistribution, and helped manage common pool resources. The origins of these arrangements are to be found in the extreme risks (especially the risk of starvation) facing individuals in pre-industrial societies living on the margin of subsistence and lacking governments that could solve collective action problems through coercion.[12] Since, as we have seen, the natural conditions for agriculture and animal husbandry have been unfavourable in many parts of Africa, the need for institutions that help alleviate the adverse consequences of negative shocks to output has been strong. Over the course of history this probably helps explain why primordial affiliations have evolved to become focal points of the economic lives of most individuals.[13] While their importance remains particularly strong in rural areas and in agriculture, they are of note in the urban setting too, with social networks influencing the workings of both the manufacturing and the trade sector.

These institutions might be described as constrained efficient. That is, they are efficient given the environment in which they work, but this does not mean that they have no costs to go with their benefits. For example, since insurance entails redistribution ex post, individuals who experience a bumper harvest might find it optimal to renege on their promise to distribute some of the excess over their subsistence needs to members of their network who have been less fortunate. This type of moral hazard might be countered by the threat of exclusion from the network in

11. Furthermore, as noted by Collier and Gunning (1999a), fixed factors such as physical geography cannot readily explain changes in economic performance over time.
12. See e.g. Posner (1980) and Fafchamps (1992).
13. Functionalism is of course an ever-present danger in these types of explanations. However, Collier and Gunning (1999a: 79) argue that there are variations in social arrangements across lowland and highland areas in Africa which are explicable in terms of differences in the conditions facing agriculture.

the future if the problem of ensuring survival is static. However, if individuals are able to accumulate assets and thus self-insure against future negative shocks, the threat might not be sufficient to stop them from opting out of the solidarity network. Therefore, the accumulation of wealth has often been viewed as socially unacceptable (and has faced social sanctions), which of course has a clear cost from a social point of view.

Such costs of constrained efficiency arise in the "modern sectors" as well.[14] Of course, in general the specific sources of uncertainty that make personalised long-term relationships the preferred mode of operation in these settings differ. However, generically they are equivalent. For example, in the same way as the lack of government in primitive societies precludes compulsory insurance and thus force people to substitute blood ties and social sanctions for government fiat, the fact that public institutions do not function properly with respect to contract enforcement is one major reason why entrepreneurs need to devise their own ways to guard against moral hazard in business. But even though these mechanisms provide private benefits by reducing transaction costs, they lead to social costs through lost gains from trade: when relationships are valuable because they save on search and screening costs, they might prevent outsiders from entering the market and insiders from grasping new business opportunities.

The most extraordinary example of the impact of the environment on the formation of social institutions is what many consider to be the archetypical African community: the tribe. Firstly, the low population density produced by its physical geography is probably the major reason why Africa has the highest level of ethnolinguistic fragmentation of any region in the world. Secondly, it is often held that groups founded on primordial ties are immutable. However, many current African tribes, while to some extent based on prior affiliations, were formed in response to the occupation by Africa of the colonial powers (see e.g. Davidson 1992). That is, they were constituted as political coalitions to enhance the bargaining power of Africans relative to the Europeans.

I will return to the discussion of the role played by these ethnic groups or coalitions in the public sphere below. Here it suffices to note that recent research seems to indicate that ethnicity only plays an indirect role in the private sector. That is, ethnicity facilitates the formation and strengthening of business networks because of the importance of personal referral in establishing contacts and socialising in perpetuating economic relationships, and both of these processes often take place within ethnic groups. This might be due to ethnic groups as such being too large to provide the foundation for personalised exchange. On the other hand, there is some evidence that the family, albeit being a much smaller group, plays a minor role in market exchange as well. Family members might help entrepreneurs in establishing their firms (by providing loans, for example), work with them, or be a source of business through referral. Other than that, entrepreneurs seem to prefer to keep business outside the family. A likely explanation is that their social obligations interfere with how they might operate in markets, for example because they are obliged to provide family or kin with goods at below market prices.

These observations suggest the somewhat

14. Confer e.g. Fafchamps (1996, 1999, 2000), Fafchamps and Minten (1999, 2001), Fafchamps, Gunning, and Oostendorp (2000), and Bigsten et al. (2000a).

speculative conclusion that Africa's strong social institutions, although being adapted to the problems facing static agricultural societies, are not well suited to modern economic life. Their emphasis on redistribution taxes entrepreneurship, innovation, and wealth accumulation. While they might form the basis of networks of personalised exchange, such networks limit the scope of the market, reduce competition, and hinder diversification into new types of activities.[15] Still, it is important to note that these arrangements are endogenous to weaknesses in public sector institutions, and therefore likely to change if for instance the rule of law could be more firmly established in African states.

History and Geography Combined II: Landlocked Countries

In many discussions of the special problems of landlocked countries, an implicit view seems to be that these are caused solely by their geography. But this is only partly true, because some trade costs are incurred when goods are crossing the borders of transit countries. Examples are duties to the governments of transit countries, costs of delays involved in clearing customs, and bribes to customs officials and employees of publicly owned providers of transport services in order to ensure a speedy transit (UNCTAD 1999a,b). Thus, the arbitrary carving out of the African continent into juridical entities performed by the colonial powers, which has left so many African countries without access to the ocean, is partly to blame for the fact that their international trade is costly. This drawback is rendered even more disadvantageous by another consequence of the quest for colonies, namely, that most African states are small in terms of population. Close to 50% of the population lives in the five largest states, and twenty-two countries have a population of less than five million. This means that the domestic markets are small, which in turn makes international trade more important for the level of welfare that can be achieved. When cross-border trade is made less profitable due to the problems connected with long distances and border transit, many Africans are thus doubly disadvantaged by the arbitrary borders that have been imposed on them.

Still, African governments are not thereby exonerated of blame. UNCTAD (1999a) claims that in Africa, intra-national transport costs are for the most part higher than international transport costs. This partly reflects the fact that transport infrastructure is lacking in both quantity and quality. While factors such as low population densities contribute to making it costly to build adequate infrastructures and low levels of income and rudimentary tax systems make public funds scarce, the story is hardly complete without adding failures of policies and governance in the post-independence period (UNCTAD 1999a: 11): "[transport s]ervices were expensive and unreliable because of a lack of commercial orientation, the absence of competition, cumbersome regulations which too often served as opportunities for petty corruption, and incentive structures which often favoured inertia

15. Platteau (1994: 552-553) reasons in a similar manner: "[t]hrough personalisation and clientelisation of their relations with trade partners, members of traditional societies have thus succeeded in establishing and sustaining the trust required for more or less stable economic exchanges to take place. Yet, precisely because of the way followed to solve the trust problem, the scale of these exchanges is necessarily restricted: in other words, limitations on the size of the (natural) community space as well as on the scope of personalised relations with non-community members … lead to a situation in which only a few trade opportunities are captured. Obviously, the division of labour cannot be developed very far in such a context."

rather than efficiency. Further, transport parastatals often drained rather than contributed to public finance, and there were muddled priorities, including urban bias in the provision of infrastructure and neglect in the maintenance of existing infrastructures." Hence, even though the problems of landlocked countries are for real, [16] and Africa has many such states, the continent's troubles cannot be put down to structural factors alone.

History and Geography Combined III: Primary Commodity Dependence

Another characteristic feature of African economies that is a function of natural endowments, colonial history, and post-independence policies is their extreme dependency on a few primary commodities for most of their export earnings. Since many African countries are abundantly blessed with natural resources, their static comparative advantage in international trade is in the production of primary commodities (Wood and Mayer 1998). The colonial powers did little to change this, preferring their colonies to be suppliers of raw materials to their own markets and manufacturing industries. While most African governments have pursued trade and industrial policies aimed at fostering domestic manufacturing and processing industries, they have rarely succeeded in achieving export diversification. Ng and Yeats (1997) demonstrate that on average the opposite is true: a strong concentration has taken place. Whereas in 1962–64 the share of the three largest products in total exports was 36.5% in Sub-Saharan Africa, it was 62.3% in 1991–93.[17] The numbers in table 3 in Wood and Mayer (1998) show that in 1990 the share of total merchandise exports in the region made up by unprocessed primary products was 76.1%. If one adds processed primary products, the dependency of African countries on such goods for their exports is even more pronounced (87.8%).[18]

There are three major dimensions to this dependence. Firstly, there is the debate over whether economic development can be engendered through resource-based growth. The view that manufacturing is more dynamic than agriculture was widespread at the time that African states became independent and has been influential throughout the post-colonial period. Indeed, it has even become ingrained in common parlance: the term "industrialised countries" is often used to denote rich countries. The presumption that technological progress is faster in manufacturing than in agriculture has provided the intellectual foundations for policies aimed at favouring the former, usually at the expense of the latter. However, the fact that rich countries are mostly industrial and poor countries usually produce (unprocessed) primary commodities does not necessarily reflect causality, nor does casual observation constitute proof

16. For instance, Limao and Venables (1999) find that the median landlocked country in their sample has transport costs which are 58% higher than the median coastal country and UNCTAD (1999a) show that for landlocked Africa freight costs on imports relative to import value were more than seven percentage points higher than the African average (which, as already noted, is in itself much higher than the developing country average).

17. According to Svedberg (1991), only two (Chad and Mauritius) out of the thirty-three countries in his Sub-Saharan African sample diversified into manufacturing in 1970-85 compared to 1954-69.

18. In the following countries a single commodity constituted 75% or more of the total value of exports in 1990 (Deaton 1999, table 1): Angola (oil, 93%), Botswana (diamonds, 80%), Burundi (coffee, 75%), Chad (cotton, 85%), Congo (oil, 85%), Gabon (oil, 75%), Guinea (bauxite, 76%), Niger (uranium, 83%), Nigeria (oil, 96%), and Zambia (copper, 88%).

of a superior rate of technological progress in manufacturing. Martin and Mitra (2001) actually produce evidence to the contrary, namely that total factor productivity growth has been significantly faster in agriculture over the period 1967–92. Moreover, they find that convergence in levels of agricultural productivity has been rapid across their sample countries, suggesting that innovations disseminate fast. This is potentially good news to African countries; as noted, agricultural productivity is generally low there. It could be countered that the green revolution largely passed the continent by. However, this is probably due to policy failures such as excessive taxation of export agriculture and poor public services (Collier and Gunning 1999a).

How are we then to explain the finding that countries with higher shares of natural resources in exports tend to grow more slowly (Sachs and Warner 1995, 1997)? The answer seems to be that within the framework of the weak political institutions of most African countries, high levels of resource rents have lead to wasteful rent-seeking by both peaceful and violent means.[19] Once again there is some hope hidden within the causes of despair, because if better governance structures can be constructed (admittedly a big if in the African context) the bounties of nature might be turned into the sources of prosperity they should be.

Secondly, there is the longstanding controversy over the path of the prices of primary products relative to manufacturing. The famous Prebisch-Singer hypothesis, formulated in the 1950s, is that this path is downward sloping due to for example the development of synthetic substitutes for primary products such as rubber and natural fibres. On the other hand, theories that focus on non-renewable resources predict that as these resources are depleted, their relative price will rise. The controversy over whether the commodity terms of trade are in a secular decline or not has not been resolved (Deaton and Miller 1996). Not surprisingly, the answer depends on the period covered.[20] More importantly, not all developing countries rely primarily on primary commodities for their exports, and even among those that do, the composition of their exports varies so much that aggregate commodity price indices say little about the evolution of the terms of trade of a specific country.

According to Collier and Gunning (1999a), there is a consensus that the terms of trade of the countries of Sub-Saharan Africa have declined since the 1980s. However, the estimated size of the decline varies from 6% to 36%. In an earlier study, Gersovitz and Paxson (1990) found that the real prices of a range of commodities that are important in Africa's exports had all fallen over 1950–87. Though, the changes were not statistically significant. Cashin and Patillo (2000) uncover little evidence of trends in the net barter terms of trade of individual African countries over 1960–96, but note a weak tendency towards decline for many of these since the late 1970s or early 1980s. It is thus difficult to say whether the *level* of primary product prices has contributed to African poverty when one considers changes over the last half of the 20th century, but there is reason to believe that a fall in the terms of trade is one cause of the

19. See e.g. Mehlum and Moene (2001), Collier and Hoeffler (1998, 2000), and Svensson (2000).
20. Bleaney and Greenaway (1993) find that over 1900-91 the commodity terms of trade were declining, but very slowly, so that fluctuations around trends were much more important than the trend itself. Moreover, they show that the size and statistical significance of the trend vary between sub-periods.

Table 2.
Population-weighted growth rates of GDP per capita

	1966–71	1971–76	1976–81	1981–86	1986–91	1991–96	1966–96
Sub-Saharan Africa	2.3	0.9	-0.8	-1.3	0.0	-0.7	0.0
Middle-East and North Africa	1.1	4.4	-1.0	0.8	-0.7	1.2	1.8
South Asia	1.0	-0.3	2.9	2.4	2.1	2.4	1.7
India	2.4	0.6	1.7	2.8	3.3	4.7	2.6
Latin America and Caribbean	3.8	4.0	2.0	-0.6	-0.1	1.4	1.8
OECD	4.0	2.5	1.9	1.9	2.2	1.4	2.3
East Asia and Pacific	4.0	4.4	5.0	6.6	4.5	5.3	4.3
China	4.1	1.0	7.0	9.7	6.4	11.2	6.5

Notes: GDP per capita is measured in constant local currency units.
Source: Author's calculations based on data from World Bank (1998).

disappointing economic performance of the last twenty years or so.

There is more evidence to the point that the third feature of dependence on primary products, that export earnings become highly volatile, plays a significant part in depressing levels of income and their growth rates in Sub-Saharan Africa. Export earnings are volatile due to a combination of quantity shocks, such as crop failures caused by drought, and price shocks, which in most cases can be considered exogenous since generally African countries are too small to affect world market prices. The conventional wisdom has been that such shocks inhibit growth. Deaton and Miller (1996) have challenged that wisdom. They find that the net impact of positive shocks to commodity prices is to increase the level of GDP in Africa. However, their methodology assumes that prices revert to trend. While this might be reasonable in many cases,[21] it does not allow them to capture long-term effects. Other empirical studies do tend to confirm the conclusion of Collier and Gunning (1999b: 36): "[t]he overall effect of the typical positive shock in [our] sample is eventually substantially to reduce output, despite the effect being strongly positive at the time of the shock." Available evidence suggests that this is due to trade shocks having a negative impact on the efficiency of investment.[22]

Thus, it is probably not coincidental that in the post-independence period, African economic performance has been weaker, on aver-

21. In the sample of Cashin and Patillo (2000), about half of the countries experience short-lived shocks (four years or less) to their terms of trade. For about one third the shocks are estimated to be permanent.
22. Bleaney and Greenaway (2001) uncover a weak negative effect of terms of trade volatility on GDP growth over 1980-95 in their panel of fourteen African countries; Guillaumont, Jeanneney, and Brun (1999) estimate that this variable has a negative effect on growth in a sample of fifty-four developing countries (of which nearly half are African) over 1970-80 and 1980-90; and Dawe (1996) find that instability of export revenues lower growth in a cross-section of eighty-five countries for the years 1970-85. The first study does not register an impact of terms of trade volatility on investment, whereas the last two find that investment is an increasing function of instabilities with respect to trade so that the negative effect on growth is through investment efficiency. The latter result seems intuitively reasonable, and is, moreover, in line with the case study evidence presented in Collier, Gunning, and associates (1999).

Table 3.
Growth rates of per capita GDP 1960-98

Slowest growth		Fastest growth	
Congo, Democratic Republic of	-2.9	Botswana	6.4
Niger	-1.7	Singapore	6.4
Sierra Leone	-1.3	Korea, Republic of	5.9
Madagascar	-1.2	Hong Kong	5.3
Zambia	-1.2	China	5.1
Haiti	-1.0	Thailand	4.6
Nicaragua	-1.0	Japan	4.4
Central African Republic	-0.8	St. Kitts and Nevis	4.2
Chad	-0.6	Ireland	4.1
Rwanda	-0.5	Portugal	4.0

Note: GDP is measured in constant local currency units.
Source: Author's calculations based on data from World Bank (2000).

age, since the mid 1970s (table 2). In the 1970s these countries had to cope with both the two oil price shocks, which affected most of them negatively, as well as a boom in other commodity prices, which increased the prices of some major African export commodities such as coffee. Moreover, the numbers in table 2 demonstrate that evaluated jointly, the countries of Sub-Saharan African have not managed to produce aggregate economic progress since the mid-60s. Even worse, in the last 20 years covered by the table GDP per capita has fallen on average. This abysmal economic performance has prompted statements like *"African economic history since 1960 fits the classical definition of tragedy: potential unfulfilled, with disastrous consequences"* (Easterly and Levine 1997: 1203). It has also generated an outpouring of academic and policy oriented papers analysing what has gone wrong.

Economic Policies and Growth

Hares and tortoises in the growth race

Something has indeed gone wrong, for at the beginning of the 1960s it was not given that Africa should be a laggard in the growth race. This can be exemplified by comparing Ghana and South Korea. Ghana was the first colony in Sub-Saharan Africa to become independent. Under the leadership of the charismatic Kwame Nkrumah, the country symbolised the bright future of the countries on the continent. In 1960, the per capita GDP of Ghana and South Korea were almost identical when measured in terms of purchasing power. The economic prospects of the latter did not seem as promising as those of Ghana. On the contrary, suffering from a highly corrupt and inefficient regime and facing the threat of the communist North, South Korea seemed destined for stagnation. That fate, however, befell Ghana instead. Forty years later, having experienced no growth at all, it is still a low-income country. South Korea, one the other hand, has become both a high-income country and a member of the OECD.

The cases of Ghana and South Korea are actually fairly representative of the contrasting experiences of African and East Asian countries over the last decades. If one assembles lists of the top and bottom ten countries in terms of per capita GDP growth since the 1960s, the first list is invariably dominated by the so-called miracle countries of South-Eastern and Eastern Asia while the second contains mostly African countries (c.f. table 3). However, the only real economic success of post-independence Sub-Saharan Africa, Botswana, is among the fastest growing economies in the world over the last thirty to forty years.[23] Thus Botswana provides one of the few bright spots in the gloomy overall picture as seen from an African angle. I shall return to the case of Botswana from time to time, since the relevance of the experience of a neighbour is more easily accepted, and the likelihood of successful emulation much greater.[24]

These individual country examples of success and failure teach us two important lessons. Firstly, the power of compound growth rates is strong. I have noted that Ghana could have been South Korea if it had been able to replicate the performance of the latter. Botswana's phenomenal growth rate has transformed it from a very poor country at independence to a middle-income country by 1992, a time span of only twenty-seven years. Thus, if one can unlock the secrets of generating growth, rapid improvements are possible, particularly if one starts from a low base.

Secondly, part of the secret of Botswana's success is luck. It has discovered the world's largest deposits of diamonds. However, to me (as well as to Rodrik 1998) this is less interesting than the fact that it has managed its newfound wealth well. Being richly endowed with natural resources is not a necessary condition for becoming a high-income country. If it were, Japan would never have achieved such a status. It is not sufficient either, because then Nigeria would be one of the richest countries in the world and not one of the poorest, which is in fact the case. Indeed, Nigeria, with its rampant corruption and countless "white elephants", demonstrates that resource wealth might in some cases actually be more of a curse than a blessing. In my opinion, the case of Botswana shows that through the judicious application of economic policies it is possible to realise the beneficial potential of windfalls and to minimise the consequences of adverse shocks. This is vital since we have noted that African economies clearly are more exposed to exogenous shocks than most other economies in the world.

Capital accumulation in Africa

Accumulation necessitates abstaining from consuming resources today so as to be able to have greater consumption tomorrow. The returns to postponing consumption are therefore crucial for private savings and investment and, by implication, for economic growth. Of course, being poor countries with little capital will not be able to save much in absolute terms. Hence, if they have to rely on their own resources, the level of accumulation will be low too. African average savings rates are indeed the lowest in the world. In the 1960s and early 1970s, gross domestic savings were remarkably stable at 16–18% of GDP. The booms in commodity prices in the middle of the 1970s seem to have resulted in an increase in the savings rate by four to five percentage

23. Mauritius and Lesotho are the second and third fastest growing countries in Sub-Saharan Africa over 1960–98. However, at 3.4% and 3.2% respectively, their performances, though respectable, pale next to Botswana's.
24. It should be noted that Botswana might only lead by example. It is too small and lacks the manufacturing base necessary to be a "leading goose" such as for instance Taiwan has been in East Asia, transferring its unskilled labour intensive industries to neighbouring countries as it has moved up the technology ladder.

points, but after peaking in 1980 the savings rate dropped precipitously to 15–17%. The time-series on average national savings rates, although somewhat shorter, follow a similar trajectory.[25]

Elbadawi and Mwega (2000) find that in Africa a rise in the savings rate Granger-causes an increase in fixed investment. Thus, it is no surprise to find both that investment rates in Sub-Saharan Africa have fallen over time and that they are low compared to other regions. The discrepancy is particularly marked with respect to rates of private investment; according to some estimates, the African median was only half of the median rate in East Asia between 1970–90 and 50% below the Latin American one (Serven 1997). The gap is not quite as big when one looks at total investment, but, as we shall see, one should perhaps not expect government investment to have contributed very much to growth in the African context.

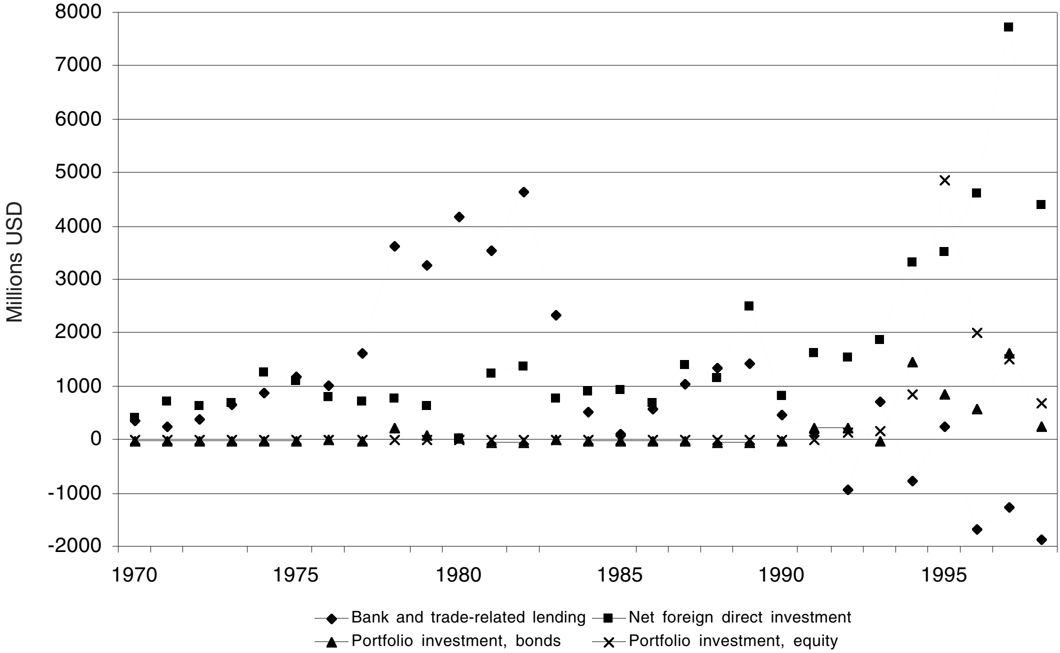
Of course, a country need not necessarily finance all of its investments on its own: the potential growth differential between capital-rich and capital-poor countries might be realised through capital flows from the former to the latter. Such flows might be public or private and might come in the form of investments, loans, and grants. While the conditions attached to the transfer will vary with the sources and types of funds, *if invested efficiently* all forms of international capital flows can potentially raise the growth rate of a recipient. Furthermore, *if the returns to capital are decreasing* in the capital stock, as is conventionally assumed, the returns to investing in poor countries should be very high. One reason why there might be decreasing returns at the economy-wide level is that it seems reasonable to expect that the best investment opportunities are exploited first. Subsequent investment will therefore be in projects with lower returns. *If the set of possible projects is the same in all countries*, poor countries, which have less capital than rich countries, should therefore have higher returns to and rates of investment. It follows that one should expect them to grow faster too.[26]

Africa definitely has a low capital stock. Recent estimates constructed by researchers at the World Bank indicate that of all the regions in what used to be called the Third World, Sub-Saharan Africa has the lowest amount of private capital per worker (Collier, Hoeffler, and Pattillo 2001). It has actually less than half of the capital/labour ratio of the region with the second lowest ratio, South Asia, and less than a third of that of the Middle East and North Africa, which ranks third from bottom. Moreover, according to these estimates Africa is the region with the highest proportion of flight capital, that is, investments abroad that are not registered in public statistics, in private real wealth (40%). This is so even though these researchers find that other things being equal flight capital is attracted to countries with low capital/worker ratios. Hence there seems to be something to the notion of decreasing returns to capital, but apparently this effect is mitigated by other factors in the African context.

These results on capital flight are strength-

25. These numbers are from the World Bank (2000).
26. Another reason why poor countries could be able to grow faster than rich ones is that they can achieve technological progress through innovation instead of invention. The latter is presumably more costly. However, in practice it is likely that innovation requires a certain level of development, at least with respect to human capital. Hence, the low level of education in Africa (see below) is likely to constitute a barrier to exploiting opportunities for innovation through copying and imitation.

Figure 2.
Private capital flows to Sub-Saharan Africa



Source: World Bank (2000).

ened by official data on private capital flows. They indicate that Sub-Saharan Africa receives a minuscule share of the flows going into developing countries. Worse, the absolute size of these flows is small even compared to the size of African economies. During 1990–93, for example, the combined levels of private long-term net debt and equity flows were only equal to 2.6% of exports and 0.8% of GNP (Fernandez-Arias and Montiel 1996). The impression given by figure 2 is that there are some encouraging signs in recent years. However, these are all due to the re-integration of South Africa in the world economy. For example, more than half of the FDI in the peak year of 1997 flowed to South Africa (much of it due to privatisation), and most of the portfolio flows over 1994–98 were destined for Johannesburg.[27] The only series that does not look worse without South Africa included, is bank and trade-related lending, because this country was borrowing more than 2.5 billion USD over 1996–98. Still, it is clear that the rest of Sub-Saharan Africa has been effectively excluded from international borrowing since the onset of the debt crisis. Thus, neither international lenders nor international investors seem to find the economies of Africa attractive in spite of the high returns to capital indicated by their low capital/labour

27. The World Development Indicators database does not include observations on financial flows to South Africa before 1994. However, it seems safe to assume that these were negligible due to the sanctions against the apartheid regime. This presumption is supported by the data on FDI presented by Pigato (2000) and UNCTAD (1999c), which show that foreigners disinvested in South Africa in the 1980s.

ratios. To paraphrase Nobel laureate Robert Lucas (Lucas 1990) the million-dollar question is this: *why hasn't private capital flown from rich to African countries?*

To answer this question, recall our previous reasoning around why poor countries might grow faster than rich ones. In addition to the assumption of decreasing returns to capital, there were two other assumptions; namely, that investment opportunities are identical across countries and that capital is invested in an efficient manner. In practice, both of these assumptions are untenable. First of all, the set of possible investment projects is not the same in all countries. To some extent the natural resource base of Africa places it in a relatively favourable position when it comes to for example investment in resource intensive industries. In fact, most of the FDI that has been coming in outside South Africa has been going to resource rich countries in the region.[28] In the 1990s, this has mainly benefited the oil producers Angola, Congo, Nigeria, and Equatorial Guinea.

Moreover, in general the region is at a disadvantage with respect to foreign investment. The lack of complementary inputs such as infrastructure is surely one reason why this is so. As already noted, public infrastructure is both undersupplied and of poor quality in Africa. Historically, the provision of infrastructure has been seen as one of the major tasks of governments. Available evidence tends to confirm the importance of public infrastructure investment. In a well-known study, Easterly and Rebelo (1993) find that public investment in transport and communication is robustly related to the growth rate of GDP per capita. Moreover, the combination of the poor quality of the existing stock of infrastructure and the particular importance of improving communications in Africa – as noted above its countries are generally sparsely populated and many of them are landlocked too – strengthens the need for public investment in this sector. In this perspective, the spending of African governments does not seem overly impressive.[29]

Another input that is complementary to private investment in physical capital is human capital. Of course, human capital accumulation might also be an independent source of economic growth. Here too, African governments have played a major role through their involvement in the provision of education and health services. At the outset, the newly independent states faced daunting tasks in these sectors. For example, in many African countries life expectancy at birth was well below forty years in the early 1960s. According to the most recent version of the Barro-Lee data set on educational attainment (Barro and Lee 2001), in 1960 average years of total schooling in African countries were only 1.39 for the population aged twenty-five and above.

28. It could be argued, as do UNCTAD (1999c), that the inflows should be seen in relation to the size of the economy, which is small in many African countries. If one does, there are a number of countries without large mining or petroleum sectors that have received sizeable amounts of FDI in recent years (also see Pigato 2000, whose numbers differ quite a lot for some countries, probably due to different sources).

29. Mlambo and Oshikoya (2001) find that in their sample of forty developing countries, of which fifteen are from Sub-Saharan Africa, public investment has a non-significant impact on private investment in most of their econometric specifications. It is encouraging, though, that the coefficient becomes significantly positive when the sample period is shortened from 1970-96 to 1982-96. While the authors do not discuss why, the improvement could be due to a combination of a less volatile external environment and the implementation of economic reforms in the latter part of the 1980s and the 1990s. Hadjimichael et al. (1995) provide some indication that the improvement also applies to African countries: over 1986-93, government investment in this region was found to contribute positively and significantly to both private investment and economic growth.

Table 4.
Social indicators by region

	Age dependency ratio	Life expectancy at birth	Infant mortality rate	Population growth (annual %)	Average years of schooling
East Asia & Pacific	0.5	68.9	35.3	1.1	6.0
Europe & Central Asia	0.5	68.9	21.6	0.1	9.7
Latin America & Caribbean	0.6	69.7	30.8	1.6	5.4
Middle East & North Africa	0.7	67.6	45.4	2.1	4.5
South Asia	0.7	62.3	75.1	1.9	3.7
Sub-Saharan Africa	0.9	50.4	91.8	2.6	3.6
World	0.6	66.8	54.5	1.4	6.5

Note: Data are for 1998 except for average years of schooling which pertain to population aged 25 and above in 1995. As the latter variable is from a different source, the composition of the regional groups might differ somewhat from those of the other variables.
Sources: Age dependency ratio, life expectance, infant mortality rate, and population growth are from World Bank (2000). Average years of schooling are from Barro and Lee (2001).

While Africa has made some impressing strides with respect to health and education since the 1960s, its countries still lag behind compared to other developing countries (c.f. table 4). In terms of spending levels, African governments compare favourably with governments in other regions of the developing world. However, rapid population growth, which results in high dependency ratios, and the HIV/AIDS-epidemic, magnify the scale of the task they are facing.[30] Furthermore, it is not difficult to find African evidence that hints at the inputs into and outputs of the social sectors being misallocated. Let me present three examples from the education sector.

First of all, it is conventionally held that in low-income countries the social returns to primary education are much higher than the returns to secondary and tertiary education. While African countries do allocate a greater share of public recurrent expenditure to primary education than to higher education, in 1990 public spending per student in the latter was forty-four times spending per student in the former (World Bank 1995a: 57-59). Thus, African governments seem to have got their priorities wrong.

Secondly, weak governance systems in the public sectors in many cases result in recorded spending levels being highly misleading for judging actual spending levels. A particular egregious example of this is non-wage expenditures in Uganda's primary schools: during 1991–95, on average only 13% of what the central government contributed was in fact received by the schools (Reinikka and Svensson 2001). The median amount was even zero! The extent to which corruption, while obviously important, is the major culprit is

30. The much faster growth of the total population relative to the working-age population is one of the most important variables in explaining the differential in economic growth between Africa and other regions (Bloom and Sachs 1998).

not the main point here, but the example, while perhaps extreme, illustrates the diversity of the problems facing African governments that would like to improve service delivery in the social sectors.

Thirdly, in Benin, Mali, Rwanda and many other African countries the government has provided university graduates with job guarantees. Rodrik (1997) argues that there are good reasons for this in countries characterised by a great deal of undiversifiable risk. That is, in such environments, which include most African countries, public employment is a form of social insurance. Rodrik (1997) claims that his regression analysis based on a worldwide sample supports this assertion against the alternative hypothesis that the growth of public pay rolls is due to calculations of political gain. However, these two hypotheses are not mutually incompatible; if hiring people are to benefit politicians, public sector jobs must be attractive relative to available alternatives and this could for example be due to security of tenure. Moreover, it is difficult to see only considerations of social welfare behind the 7.6% annual increase in public sector employment in Zambia over 1966–1980, the expansion of 15% per year in Ghana during 1975–82, or the 15.8% yearly growth rate in Nigeria from 1977 to 1983.[31] In any case, if all individuals with a higher degree become bureaucrats, it is questionable whether their education contributes much to economic growth. It is, though, clear that in these circumstances the private sector will not benefit from the expansion of higher education.

Macroeconomic policy volatility

We have seen that the level and quality of publicly provided inputs which are important for private investors might explain why these actors have been reluctant to commit their capital to African projects. We shall see that it is also easy to find examples of other economic policies that might have contributed negatively in this respect. It is obvious that government policies on issues like profit taxation and exchange rates matter to investors since these will have a substantial impact on the after-tax returns to investment. In addition to the level effects of such variables, their variability matters because most investment decisions are irreversible to some extent. That is, once the decision is made the full value of the investment cannot be recaptured. Therefore, changes in government policies affecting the profitability of the venture cannot change the investment decision once it is made. However, the *possibility* of such changes might affect the original decision on whether to commit funds.

The perceived riskiness of investing in Africa is high. It is actually higher than warranted by economic fundamentals: Haque, Mark, and Mathieson (2000) show that the evaluations of major risk rating agencies are to a large extent determined by economic factors, and that Africa's rating is below what one would predict based on its economic characteristics. One possible explanation for a significantly negative African dummy is that the region is paying for its past misdemeanours. Haque, Mark, and Mathieson (2000) find that the ratings are highly persistent even after controlling for various economic and political determinants, so the poor standing of Africa might be due to its uninspiring performance in the past. Some support for this interpretation is provided by Jasperson, Aylward, and

31. The first number is from Gelb, Knight, and Sabot (1991) and the latter two from Lindauer, Meesook, and Suebsaeng (1988).

Knox (2000), who discover a negative and significant African dummy in regressions for the ratio of FDI to GDP. They also show that risk ratings have a negative effect on private investment.

A second possibility is that the unexplained residual riskiness of Africa is due to the variability of the conditions facing investors more than the average. Measures of e.g. policy uncertainty are not included in the regressions of Haque, Mark, and Mathieson (2000). In judging the contribution of uncertainty about macroeconomic policy to the lacklustre private willingness to invest, we might benefit from going back to our discussion about the various shocks to which African economies are subjected. A useful starting point when looking for the links between exogenous shocks and policy volatility is an observation made by Deaton and Miller (1996: 123) about the terms of trade: "[a]lthough there is still dispute about long-term trends, the trend, if present, is not large relative to variability, so that the important thing is not to be misled by booms and slumps into predicting any major change in long-run values." African governments, however, do not seem to have thought along these lines. There are many examples of pro-cyclical policies and of failures to adjust policies to take account of the fact that prices have usually returned to previous levels after relatively short periods of time.[32]

Hence, it may be argued that the post-independence governments of Africa have not been sufficiently prudent.[33] The permanent income theory tells us that it is optimal to adjust consumption instantaneously to shocks that alter the long-run level of income while consumption should be approximately constant when shocks are transitory. The evidence illustrates that it can hardly be claimed that in general African governments have followed the prescriptions of this theory. In some cases it is only a slight exaggeration to say that the government has treated all positive shocks as permanent and all negative shocks as transitory. This is one of the reasons why thirty-four of forty-two so-called highly indebted countries are African and why in 1995 the average external debt to GNP ratio was a whopping 72.3%, almost twice the average of the second most indebted region, Latin America.

This sort of behaviour has been all the more serious insofar as terms-of-trade instability, or more generally, instability in export earnings usually has a major impact on government budgets in Africa. First of all, in countries with large mining industries, the governments have appropriated a large share of the resource rents either directly, by nationalising the industries, or indirectly through profit taxation or royalties. Consequently, they have borne the brunt of the burden from fluctuations in the prices of minerals and metals in world markets. Secondly, government controlled marketing boards have been widespread in countries where agricultural exports have been important. These were monopolies. The farmers had to sell their products to the boards, which fixed the prices. These were often kept constant for long periods of time. This practice stabilised the incomes of the farmers, usually at a level that implied a handsome monopoly profit, while

32. See e.g. the case studies in Collier, Gunning, and associates (1999).
33. Nevertheless, the story is not complete without stressing the difficulties involved in forecasting commodity prices. Deaton and Miller (1996) show how remarkably far off the World Bank has been in some of its estimates. Given the low level of human capital in Africa, forecast errors are thus to be expected.

it had a destabilising effect on government revenues, which as a consequence fluctuated with the world prices of the commodities controlled by the boards. Thirdly, export taxes has been another major source of government revenues. Shocks to the value of exports have thus been transformed into shocks to government revenues. In turn, this has often engendered expenditure instability (Bleaney, Gemmell, and Greenaway 1995). With limited access to external funds and lacking domestic bond markets, inflationary finance has been the only other way of adapting to revenue fluctuations. Where this route has been chosen, *both* fiscal and monetary policy have become destabilised.

These "examples" should suffice to demonstrate that policy volatility has been high in Africa. That such instabilities have had a negative impact on investment and growth in Africa has also been confirmed empirically.[34] Here most African governments could profit by taking a leaf out of the book of the government of Botswana, whose macroeconomic management has been exemplary overall. Notably, Botswana has been politically stable too, thus avoiding another of the risks that restrict private investment in Africa.[35]

Public finance

The volatility of macroeconomic and fiscal policy have probably been more important to the disappointing African performance in recent decades than the levels of these policies. The average rate of inflation has been quite low in Sub-Saharan Africa, for example. It could even be argued that tax rates could have been higher if more rational tax systems were put in place. In any case, there is certainly a need for higher public revenues if the debt overhang accumulated in African countries is to be repaid. Most of the external debt of Africa is public. Therefore, debt reduction could have a positive impact on growth by reducing the risk of higher future taxation if one is able to resolve the paradox noted by Bill Easterly (1999: 6), namely, that "a large group of countries came to be defined as highly indebted at the *end* of two decades of debt relief and increased concessional financing" (emphasis in original).[36]

Of course, in order to explain deficits one cannot look solely at the revenue side of the budget. Indeed, African governments seem to have overspent relative to their capacity for generating revenues. Public consumption in Africa has consistently been above the average for all developing countries from the 1960s on (Commander, Davoodi, and Lee 1997). In growth regressions, government consumption net of expenditures on education, health, and the military is consistently found to have a negative impact on growth. This is usually taken to imply that these expenditures, which

34. See e.g. Hadjimichael et al. (1995), Serven (1997), and Mlambo and Oshikoya (2001). The macroeconomic studies are supported by the microlevel investigations of Bigsten et al. (1999, 2000b), who find that in the manufacturing sectors of Cameroon, Ghana, Kenya, Zambia, and Zimbabwe high levels of profits and gross rates of return to capital coexist with low levels of investment, suggesting that the cost of capital is very high. Their interpretation is that macroeconomic instability implies that the option of "waiting to see what happens" is very valuable, thus driving up the rates of return at which it becomes optimal to invest.

35. Consult, for instance, Serven (1997). Gyimah-Brempong and Traynor (1999) arrive at similar results with respect to total investment. Both the latter study as well as that of Guillaumont, Jeanneney, and Brun (1999) suggests that political instability also has a direct impact on growth in Africa, most likely through investment misallocation.

36. Alternatively, a greater part of aid flows to Africa might be spent in recipient countries; Devarajan, Rajkumar, and Swaroop (1999) show that in their sample of eighteen African countries 31% of the marginal aid dollar has been diverted to repaying principal on external concessionary debt.

consist mostly of wages, are "unproductive". As many African bureaucracies are overstaffed this presumption does not seem out of place, and there is probably scope for reducing such expenditures. However, it might be equally important to reallocate expenditure from wages to spending on operations and maintenance to avoid the all-too familiar phenomena of dilapidated schools without schoolbooks or roads littered with potholes.

The second broad category of public spending is on capital. The data of Easterly and Rebelo (1993) show that in the 1980s, the median average rate of total consolidated public sector investment in GDP in African countries compared quite favourably with those of other regions in the Third World. In fact, it was only surpassed by that of the Middle East and North Africa. But there is more to public investment than just the absolute amount of money spent. These two regions have put huge sums into public sector enterprises. The World Bank has estimated that the average share of state-owned enterprises in GDP in a group of Sub-Saharan and North African countries was 14% in the period 1978–91 (World Bank 1995b). This was much higher than in the Asian and Latin American countries investigated. The share of these enterprises in gross domestic investment was also higher than that of their counterparts in these other regions, and their share of employment was almost ten times as high.

The public enterprises of Sub-Saharan Africa are notoriously inefficient. There are a variety of reasons for this, including the choice of technologies unsuited to local conditions. These industries were often capital-intensive, and thus hardly appropriate targets for investment in countries were capital has been extremely scarce. Given the limited size of local markets and the lack of international competitiveness, capacity utilisation has often been very low. For example, "[i]n Tanzania, the state-owned Morogoro shoe-factory, built in the 1970s with a World Bank loan, never manufactured more than 4 percent of its supposed annual capacity" (World Bank 1995b: 35). In order to survive, such firms had to be shielded from international competition, which only served to turn them into monopolies. While capital-intensive, they were often overstaffed due to political demands. Over time their accumulated losses have constituted a major drain on public resources, as huge subsidies were required to keep them afloat. Thus, they have contributed to the debt problems of Africa, which in turn have depressed private investment in the region (Serven 1997, Mlambo and Oshikoya 2001).[37]

Industrial and trade policies

African governments have established public enterprises in what was deemed strategic sectors, for example mining. However, they have also established such enterprises in a range of other industries that are usually dominated by private firms. This is a reflection of the strategy of import-substitution. This strategy, which was followed by most developing countries from the 1950s on, was based on the idea that one had to industrialise in order to become rich. Since industrialised countries are indeed rich, the assumption did not seem farfetched at the time, and moreover, both western academics and multilateral institutions provided support for this strategy

37. The superficially surprising result derived by Hadjimichael et al. (1995) – that in Sub-Saharan Africa, government investment has an impact on growth that is five to six times the effect of private investment – can probably to a large extent be explained by the fact that in their study the latter includes investment by public enterprises.

because it was felt that primary products could not be "engines of growth". Since it was supposed, quite reasonably, that newly established industries in developing countries would not be internationally competitive, trade barriers were erected to protect them. In many countries, private industries did grow behind such tariff walls. However, in a lot of African countries the public sector assumed a commanding role out of ideology or because the private sector was seen as too weak to take on this task.

Whether private or public these industries have rarely become competitive internationally. One major reason for this is that the tariff wall was not lowered. Hence, these industries never had to compete and so felt little inclination to become competitive. Moreover, domestic markets were and are small in most African countries. Thus the scale economies that are important in many manufacturing industries could not be achieved.[38] As a consequence, much of the investment that has taken place in Africa has been inefficient. The astonishing conclusion of Devarajan, Easterly, and Pack (2001), that in Africa, neither private nor public capital has been productive between 1970 and 1997, supports this contention.[39] A reallocation of capital to other sectors should therefore increase income levels.

The gains from trade have been one of the main tenets of economic theory for over two hundred years. Still the optimality of free trade remains controversial. While it is debatable whether moderate and temporary infant industry protection is damaging to economic prosperity, in Africa protection has until quite recently seemed permanent. Moreover, it has not been moderate. Most observers argue that it is likely that restrictive trade policies have contributed to the poverty of Africa.[40] The marginalisation of Africa in world trade is in any case striking: Ng and Yeats (1997), for example, cite an UNCTAD study which report that Africa's share of global exports have fallen from 3.1% in 1955 to 1.2% in 1990. Ng and Yeats' (1997) own investigations show that Africa has been losing ground both because of declining market shares for their major exports in the OECD and because trade in these products have been growing more slowly than the average level of trade. The first effect alone amounts to annual trade losses of $11 billion according to their calculations, a figure that is equal to the aid flows the region received from the OECD countries in 1991! These authors argue that it is the restrictive trade policies of African countries that explain the marginalisation process.[41]

In addition, the industrial and trade poli-

38. There is currently a debate over whether African can export manufactures, which pits Wood and Mayer (1998), who argue that the region's comparative advantage is in resource-intensive industries, against Collier (1998). The latter claim that African manufacturing is currently not internationally competitive because of high transactions costs, many of which are related to unfavourable policies and policy risk. However, while this argument is clearly correct, the difficulties created by small domestic markets for building competitiveness in industries with high fixed costs of production cannot be easily dismissed.
39. Equally amazing is the fact that private investment does have a positive impact on growth if Botswana, with 0.2% of the continent's population, is included.
40. The static gains from trade seem indisputable. Both theoretically and empirically, controversy remains over whether policies that restrict the openness of the economy damage long-term growth. In the African context, Sachs and Warner (1997) argue that they have while Rodrik (1998b) claims that they have not. Block (2001), who finds that openness does in general contribute to growth in his set of developing countries, uncovers a statistically significantly stronger effect in Africa. This result fits well with the severely limited size of these economies.
41. Overvaluation and variability of the real exchange rate are clearly major contributing factors too (see e.g. Elbadawi 1998).

cies that have been pursued have been highly inequitable. Agriculture, the main export sector, has been subjected to high explicit or implicit taxes. In Ghana, for instance, by 1981 the real producer price of cocoa was down to 13% of its 1963 level (Leith and Lofchie 1993: 232-233). While producers responded by cutting production or smuggling it out of the country, they could not prevent a huge drop in living standards. This is an example of the urban bias that has characterised economic policies in Africa in the last decades. The rural population, which is poorer than the urban population, has had to shoulder the burden of import-substituting industrialisation. This is one of the reasons why income inequality is high in Africa.

The Political Economy of Economic Policies in Africa

In light of our discussion of various economic policies that have affected economic development in Africa adversely, the natural question to ask is why African governments have hung on to policies long after it must have become apparent that they were not working. One answer is that over time those who benefited from these policies became strong enough to protect their positions. Another is that African regimes have found their control over public sector enterprises and their influence over the profitability of local industries through trade and industrial policies useful for political purposes.[42]

This in turn reflects the nature of African political regimes since independence and the character of African societies. In order to bolster their positions political leaders of many African regimes have made extensive use of the public pay roll. These leaders have governed poor societies characterised by potentially explosive cleavages along the lines of region, ethnicity, or religion. Indeed, this destructive potential has been unleashed in a number of cases, of which the civil wars ravaging countries such as Angola, Sierra Leone, and the former Zaire are but the starkest examples.[43] It is easy to understand the attraction of public sector employment expansion in such cases, particularly when coupled with the restricted possibilities for generating political patronage in an efficient manner in countries with highly rudimentary tax and transfer systems. In some cases African autocrats have succeeded in staying in power for decades through a combination of skilfully applying public largesse and judiciously handpicking people for high-ranking public office.

The attractions of supreme power have been increased by the possibilities for using public office for personal gain. Many African leaders have neither been averse to putting their hands in the public purse nor to manipulating public policy in exchange for bribes. The temptation to engage in these practices has probably been strengthened by the high likelihood of losing office to potential competitors for the rents from political monopoly power or representatives of other ethnic groups, and facilitated by lack of accountability characteristic of post-independence African regimes.

As discussed above, the social structures of most African societies are characterised by a

42. See the classic on the politics of urban bias in Africa: Bates (1981).
43. This is not to say that such cleavages necessarily caused these conflicts (though it is likely that in some cases they have at least constituted ready-made coalitional fault lines). Collier and Hoeffler (1998, 2000) argue that the evidence suggest that Africa's extreme fragmentation in terms of ethnicity has reduced the probability of civil war there, its average incidence of such conflicts instead being due to its economic characteristics (in particular, its low level of income, but also to some extent its dependence upon the rents from primary commodity exports).

multitude of informal networks based on for instance family ties or ethnicity. Members of a network have obligations towards other members. They are expected to cater to the interests of fellow tribesmen or kin. Thus, if a member of a particular network is a public employee, he will, if possible, use his position to the advantage of other members. This contributes to the privatisation of the state that African leaders have initiated. The enormous drop in real civil service wages over the last twenty years has accentuated the tendency for bureaucrats to look after themselves and their own instead of serving the public. The consequences for the public sector have been disturbing, if unsurprising. The quality of African public administrations is low. Absenteeism, moonlighting and corruption are commonplace.[44] In some cases the government has become incapable of delivering even basic services to its citizens.

The legendary autocrat President Mobutu of Zaire, who amassed an astonishing personal fortune abroad, characterised the situation in his country in this way (quoted in Gould 1980: 49): "In a word, everything is for sale, anything can be bough in our country. And in this flow, he who holds the slightest cover of authority uses it illegally to acquire money, goods, prestige, or to avoid all kinds of obligations". The self-evident proposition that in such circumstances economic development is highly unlikely is confirmed by a rapidly expanding number of empirical studies.[45] A major part of the current African malaise must thus be attributed to the fragmented character of African societies and to the leaders of African states over the decades.[46]

Here too, Botswana points the way. Its bureaucrats are chosen on merit and corruption has not been a problem. Political interference has been avoided to a large extent. Thus, its civil service personnel approximate the Weberian ideal, namely, that bureaucrats should be competent individuals who follow general rules laid down by their political superiors. Botswana's leaders have pursued the goal of national development instead of personal fortune. True, ethnic conflict has not been a concern in Botswana, but the example of Mauritius demonstrates that it is possible to achieve economic progress in Africa's ethnically diverse states. In my view, it is far from coincidental that on a continent desperately in need of strengthening the private sector these two countries have had the highest shares of private investment in GDP (table 1, Mlambo and Oshikoya 2001).[47]

44. On changes in salary structures and levels of remuneration in African public sectors, see e.g. Lindauer, Meesook, and Suebsaeng (1988) and Nunberg (1994). An example of the decline in both morale and control is the appearance of "ghost workers", i.e., employees who are on the payroll but do not work, with their salaries being collected either by themselves or someone else. As many as 11,000 such ghosts were discovered in connection with the civil service reforms in Ghana in the 1980s (Nunberg 1994).

45. The work of Phillip Keefer and Stephen Knack (e.g. Keefer and Knack 1997, Knack 1996, and Knack and Keefer 1995) is representative of the literature documenting the importance of well-functioning institutions.

46. It must be admitted, though, that exactly how ethnic diversity affects economic development is not entirely clear. For example, Easterly and Levine (1997) find that greater fragmentation monotonically leads to poorer economic policies. Temple (1998) also uncovers evidence of a relationship to policies, but it is non-monotonic with a medium level of ethnic diversity yielding the worst outcomes. Finally, Collier (2000) claims that in democracies ethnic fragmentation is not a problem, and in Collier (2001) argues that it is only ethnic domination that results in poor economic performance and violent conflicts.

47. The quality of governance is of course inherently hard to measure. The best indicators available are probably those constructed by Kaufmann, Kraay, and Zoido-Lobaton (1999a,b), who use most other available measures as the basis for their estimates. The result is six aggregate indicators for 1997/98: Voice and accountability, Political instability and violence, Government effectiveness, Regulatory burden, Rule of law, and Graft. On every

The Role of External Actors

During the Cold War, Africa was part of the battleground between East and West. The economic and military support that were provided allowed some dictators to stay in power for longer than they would otherwise have been able to, and conflicts such as the civil war in Angola were fuelled by external intervention in African politics. This has clearly set back the pace of economic development in parts of the region. Leaving geopolitics aside, there are two main ways in which it is conceivable that external actors have influenced the trajectory of African economies in the post-independence period: their policies with respect to trade and aid, respectively.

It is commonly held that the industrialised countries have taken a protectionist stance towards the exports of poor countries. This is certainly true for many developing countries, but those in Africa have in general faced quite favourable terms. First of all, most African countries qualify for trade preferences under the GSP-systems of the OECD-countries. While these preferences are provided on a discretionary basis (and so to some extent have been uncertain) and have excluded some potentially important exports (textiles and clothing in the US, for example), this suggests that Northern protectionism is not a major factor behind the marginalisation of Africa in world trade. This argument is strengthened by two facts: 1) all former colonies of members of the European Union have been parties to the various Lome-conventions, and so have received better market access there than other developing countries; and 2) many African countries are designated as "least developed" by the UN, and the least developed countries generally receive better terms under the GSP than the rest of the developing world. Hence, while there are obvious ways to improve the market access of Africa in the industrialised world, for example, by extending quota- and tariff-free access to all African countries in all QUAD-markets, the aid policies of the rich countries have probably been of greater importance to Africa than their trade policies.

Sub-Saharan Africa is the region that has received the largest aid flows relative to the domestic economy, however that is measured. Table 5 illustrates that the level of aid has been sizeable in relation to income per capita, investment, and imports throughout the post-independence period. In 1990, inflows of aid amounted to more than a third of income per capita, almost 60% of investment, and a quarter of the region's imports. Moreover, the importance of aid has been increasing until it peaked in the early 1990s. And even though in general aid fatigue has set in among donors, Africa has been accorded priority: its share of effective aid has gone up, at least until 1995. We have seen that in spite of this, African growth has been poor. The World Bank argues that this illustrates a general result. In its major recent study on aid effectiveness, *Assessing Aid* (World Bank 1998b), it charges that on average aid has not contributed to growth in developing countries. Based on Burnside and Dollar (2000), another claim is presented in this report: that aid works in good policy environments. While this result is not robust, it seems intuitively reasonable that aid has a greater impact when economic policies are

one of these, the average and median values for the African countries included are worse than those for the sample as a whole. On three out of six measures, Botswana is on top in Africa (it is fourth on Voice and accountability, second best on Political instability and violence, and third on Rule of law). Mauritius is the leading African country on the three remaining indicators.

Table 5.
Aid in Africa

	1960	1970	1975	1980	1985	1990	Latest
Effective aid (share of total)	n.a.	n.a.	21.0	25.7	34.7	37.0	41.7
Aid/GNP	n.a.	2.5	3.5	3.9	6.0	9.9	4.1
Aid per capita (current $)	1.5	3.9	10.6	21.0	20.8	36.2	20.6
Aid (% of gross domestic investment)	n.a.	15.0	14.4	19.1	40.5	58.3	22.3
Aid (% of imports)	n.a.	n.a.	9.1	11.4	17.9	25.3	10.6

Notes: Effective aid is grants plus the grant component of concessional loans. The latest figure for effective aid is for 1995. For the other indicators, the latest observation is from 1998.
Sources: Africa's share of total effective aid (official development assistance and official aid) is calculated by the author from the data in Chang, Fernandez-Arias, and Serven (1998). The other indicators are from World Bank (2000).

conducive to economic growth.[48] The African experience certainly does not contradict this line of reasoning.

Both donors and recipients might be faulted. As noted, some donors have given aid for strategic purposes. Others have let their aid flow to where their commercial interests have been. Most donors have meddled in the affairs of recipient countries in order to further their goals or to try to make sure that the money was spent for its intended purposes, although poor policies have in general not been a major concern. While aid agencies are entitled to monitor how recipients spend their grants, the proliferation of actors with which the latter must deal has constituted a heavy burden on their bureaucracies. Furthermore, aid flows have been highly volatile as well as pro-cyclical (Bulir and Hamann 2001, Pallage and Robe 2001), complicating economic policy-making in the recipient countries in general and macroeconomic management in particular. For their part, recipients have not always spent the funds wisely. Given that aid is to some extent fungible, that a lot of public spending in Africa has been inefficient, and that corruption has been a severe problem in many countries, it seems safe to say that the returns to aid have been far below potential. The disappointing performance of African economies with respect to poverty and growth strengthens this sad conclusion.

Donors have not only been proffering money; they have been pushing a lot of policy advice too. In the early days it was economic infrastructure that was the key to development. Later on basic needs were argued to be as important as aggregate growth, before getting the prices right became the rallying cry that most of the international aid community united behind. These days good governance is perhaps the most popular word in the donors'

48. The conclusions of *Assessing Aid* have not gone unchallenged. Hansen and Tarp (2000, 2001) demonstrate the fragility of the main result of Burnside and Dollar (2000), and assert that they find an unconditional positive effect of aid on growth, but with decreasing returns. The latter result, however, only begs the question of why there are decreasing returns to aid. Moreover, the policy measure used by Burnside and Dollar (2000) could surely be improved upon, so that showing that the interaction of the measure with aid is not statistically significant cannot be said to prove that the effect of aid does not strengthen with policies.

vocabulary. In short, fads and fashions on the donor side have implied that their advice has been almost as unstable as the policies of African governments. While the World Bank now advocates using dialogue to persuade the governments of recipient countries that have not yet started to adopt the policies belonging to the "Washington Consensus", this brief review should remind us that remedies for conditions as severe as those of African economies are not readily available. The donors are in the business of selling hope, but perhaps we have been aiming too high. After all, the industrialised countries spent more than a few decades on getting where they are today. So maybe Abernethy (1988: 208-209) is right:

> "*The African case may be thus be one in which, tragically, neither the public or the private sector is well-positioned to initiate and maintain the economic development the region's people desperately seek. The underdeveloped economy may indeed be kept in place by the overdeveloped – or at least overextended – state. At the same time the overdeveloped state may be kept in its place by the underdeveloped economy.*"

To put this in a slightly different way: if one believes, as I do, that Africa's institutions play a large role in explaining the lack of economic progress, for all the reasons explored in this essay, then perhaps one should not expect revolutionary changes.[49] Institutions only change slowly, inertia being part of the definition of an institution. Hence the forces that have lead to the adoption of growth-retarding policies, to the "privatisation" of public administrations, and to warlords playing major roles in the politics of the region will not yield easily. This does not mean that the status quo is inevitable, only that enduring progress might be better secured by adapting our efforts at aiding Africa to the pace of change that its peoples choose.

Concluding Remarks

What have we learned? I would argue that there are four major lessons. First of all, Africa's location on the map of the world, its physical geography, and its colonial past constitute real impediments to economic development. Secondly, in many of the region's states the pursuit of ill-conceived and poorly executed policies has made the negotiation of these formidable obstacles even more difficult. Thirdly, there are intimate links between the region's structural characteristics and its policy regimes. Some of these links are economic (terms of trade volatility complicating macroeconomic management in countries with poorly developed financial systems, for example); others, like the impact of primordial affiliations and personal relationships on governance, are social and political. Stated differently, economic policies, political instability, and bureaucratic corruption are endogenous variables, and what I have called structural characteristics are exogenous, or at least predetermined, with respect to the

49. Chabal and Daloz (1999: 137) espouse a similar point of view: "It is … entirely possible that the continent's economic outlook will remain unconventional: an economy of exchange (barter, even) rather than the more orthodox economy of accumulation, investment, transformation and production predicted by Western theories of economic development. Similarly, Africans may well stay resolutely inimical to the growth of an atomized, individualistic, mass society where solidarity counts for little. Consequently, it is conceivable that the continuation of such communal links will prevent the emergence of individual citizenship, as it will the construction of an institutionalized state. This, in any case, is what has happened to date on the continent."

process of economic development. For a lot of African countries the equilibrium outcome is apparently to be stuck in a poverty trap.

How, then, are we to account for the few cases of material progress and political stability? Initial conditions vary, of course, and sometimes seemingly small or arbitrary events might put two fairly similar countries on different paths to the future. However, the circumstances in which the lone star performer of Africa, Botswana, found itself at independence show that initial conditions are not destiny. Its colonial heritage in terms of physical and social infrastructure was negligible. The reason for this lack of interest on the part of Britain, so great that it actually ruled the country from South Africa, was that the prospects of Botswana were not considered to be bright enough to warrant large-scale expenditures. Indeed, its natural resource endowment as of 1965 was more of a liability than an asset, the country being small, semi-arid, drought-prone, and land-locked. The situation changed with the discovery of rich diamond deposits. Nevertheless, as I argued above, the main moral of Botswana's rags-to-riches story is that its good fortune is man-made, through high-quality policies and governance, and not merely bestowed on it. Actually, the limited involvement of the colonial power might have been as much of a blessing (in disguise, though) as the diamonds, since it allowed the people of Botswana a free hand in creating the institutions the newly independent state required.

Returning to the realities facing most other African countries, what can we make of the fact that in many corners of the region, economic and political reforms have been instigated over the last decade and have resulted in economic growth? One possibility is that at times, crises beget policy changes. Perhaps the economy had deteriorated to a state where even those who benefited from the previous policy regimes in these countries would gain from a switch to growth-promoting policies? If that is the case, one should not be too sanguine about future prospects, as it seems likely that these forces might reassert themselves when the economy picks up. An alternative explanation is that external pressure has forced these governments into adjustment mode. Even if that was true, in spite of the established failure of traditional aid conditionality, the conclusion would be just as pessimistic, because the external pressure will fade if reforms succeed and so the impetus to sustain them will disappear. Both of these explanations would mean that the reforms would lack credibility and therefore be unlikely to result in a sustained improvement in economic performance. The less than impressive growth rates of "strong reformers" over the 1990s as well as the persistence of risk ratings indicate that this might be a problem.[50]

Moreover, one must not forget that it is fairly easy to achieve fast growth when one starts from a low base. If the starting point is the result of war a return to peace will allow displaced peasants to return to their land and

50. If one takes the five countries that the World Bank (1994) reckons have achieved the greatest reduction in government intervention as of late 1992 (i. Guinea, ii. The Gambia, iii. Guinea-Bissau, iv. Mozambique, and v. Sierra Leone; calculated from tables A12 and A13) and the top five countries in terms of improvement in macroeconomic policies from 1980-86 to 1987-91 (i. Ghana, ii. Tanzania, iii. The Gambia, iv. Zimbabwe, Nigeria, and Burkina Faso; taken from table B1) to create a list of "strong reformers", their growth rates over 1990–98 are neither uniformly high nor uniformly higher than those of other African countries. If GDP per capita is measured in constant local currency units, I find that Mozambique, in sixth place (out of forty-four) with an annualised growth rate of 3.4%, does best among the reformers. Six of the ten strong reformers had negative growth rates.

reconstruction efforts will create jobs in public works, but these effects will subside within a few years. If a severely distorted policy regime is reformed, even if only partially, growth will increase rapidly, but this will partly be a statistical mirage. Individuals who have retreated into the informal urban sector or subsistence farming in order to avoid the heavy hand of the state will slowly return to activities in the formal sector, but much of the change will just be due to the latter being recorded by statisticians.[51]

There is no questioning the need for efficient public spending on infrastructure, health, and education or the potentially beneficial effects of foreign aid if genuine policy reform is implemented. What is questionable is whether sustained reform, efficient spending, and improved governance currently constitute a socio-political equilibrium in most African countries. But the final, most important lesson we have learned is that it is up to the Africans themselves to establish a new equilibrium. So we must hope that new generations of Africans will work out how to ensure that their countries follow the lead of Botswana along the path to prosperity.

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51. The good news is that for this reason the African crisis has probably not been as severe as the official data implies.

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