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Overlooking the Obvious in Africa

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A COMMENT ON: COLLIER, PAUL, AND JAN WILLEM GUNNING. 1999. WHY HAS AFRICA GROWN SLOWLY? *JOURNAL OF ECONOMIC PERSPECTIVES* 12(3): 3-22.

[ABSTRACT, KEYWORDS, JEL CODES](#)

READING THE 1999 *JOURNAL OF ECONOMIC PERSPECTIVES* ARTICLE by Paul Collier and Jan Willem Gunning, “Why Has Africa Grown Slowly?” one gets the impression that mainstream development economists are floundering for explanations of poor growth in Africa.

Collier and Gunning survey a laundry list of explanations for poor growth, most of which appear to be taken seriously in the profession today. They also offer some extremely tentative conclusions for why Africa’s economic conditions are so poor. I find the paper frustrating for its failure to embrace vigorously the explanation that outshines the rest. The authors do not explicitly reject the obvious explanation; they even mildly embrace it. But, on the whole, it is downplayed and neglected.

Paul Collier is director of the Development Research Group at the World Bank and Jan Willem Gunning is director of the Center for the Study of African Economies at Oxford University, and surely they are highly learned in African economic issues. I admit that I am no authority on Africa, yet I cannot help but feel that Collier and Gunning suffer from some kind of intellectual blinders, that the roots of Africa’s economic problems are not all that difficult to uncover. Since Adam Smith,

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economists have developed theories about how prosperity depends on liberty. These ideas are borne out by new indices of economic freedom. Even a thorough look at sub-Saharan Africa's one growth success story, Botswana, would have offered more insight than Collier and Gunning provide.

Collier and Gunning start out by saying that in the 1960s Africa's economies had a promising future, but beginning in the 1970s, "both political and economic matters in Africa deteriorated" (3). The goal of their article is to explain why. Indeed, the title, "Why Has Africa Grown Slowly?" is an odd way to describe the dire situation in sub-Saharan Africa, where per capita GDP has fallen by 1 percent per year since 1980. The title is technically right only if the 1960-73 period of rapid growth is averaged in. Recent indicators are nothing less than grim. Between 1990 and 1998 the number of people in sub-Saharan Africa living in poverty increased from 242 million to 291 million. During that period life expectancy in 17 sub-Saharan countries actually decreased, even while increasing by two years in the rest of the developing world (Wolfensohn 2001, xii).

Collier and Gunning examine a 2x2 scheme of explanations for the continuing misery in Africa: "Destiny" vs. "Policy" and "External" vs. "Domestic." They reveal some frustration with the failure of conventional econometric models to shed much light on Africa's stagnation.

Sorting out the policy effects from the destiny effects is a difficult econometric problem. In the ordinary least squares regressions common in the analysis of African growth, the dependent variable is typically the average growth rate over a long period, and a variety of policy and destiny variables enter as the explanatory variables. Depending upon the specification, either policy or destiny can appear important (16).

Collier and Gunning explore the four combinations of the scheme. The first is "Domestic-Destiny"—that is, geographic and demographic characteristics that "may predispose [sub-Saharan Africa] to slow growth" (7). These include fast population growth, low population density, poor soil quality, and the prevalence of the tropics with its many diseases. Although fast population growth and low population density are not contradictory, their juxtaposition shows the "everything but the kitchen sink" nature of Collier and Gunning's survey. It is admirable to pursue a scheme exhaustively, but we immediately start to doubt that the 2x2 scheme itself

reflects good scientific judgment.

One wonders especially because some of the “Destiny” factors are quite speculative. Collier and Gunning refer (although not by name) to what is sometimes known as “the curse of natural resources.” This is the correlation between high natural resource endowments per capita and slow growth, a correlation that has shown up in a number of studies (see, for example, Sachs and Warner 2001), and spawned tortuous analysis. Collier and Gunning propose a chain of impacts to explain the connection. They offer this reasoning: Valuable natural resources may lead to high levels of exported natural resources, which “may lead to an appreciation of the exchange rate, which in turn makes manufacturing less competitive”(9), and this could be a problem because manufacturing may have positive externalities that natural resource exploitation does not—such as more widely applicable learning. Collier and Gunning also propose the idea that “dependence on natural resources strongly increases the risk of civil war”(9). (The source for this claim is Collier and Hoeffler 1998.) But this explanation seems lame. The Collier-Gunning paper does not explore the causes of Africa’s civil dissension or its impact on growth. For instance, it does not discuss conflicts stemming from having different tribes within artificial national boundaries and under artificial structures of centralized power.

The second explanatory category is “Domestic-Policy”—domestic factors caused by policy choices rather than natural endowments. Here the authors present a variety of examples showing expanded government involvement in the economy, and this is the best part of the paper. For example, Uganda’s government at one time required that coffee be transported by rail (when the requirement ended, hauling rates dropped by half). Kenya’s government prohibited manufacturing firms from starting up unless they could obtain “no objection” letters from existing firms. The examples are a rich collection—but Collier and Gunning do not draw many conclusions from them. Their strongest statement is that an expansion of the public sector resulted in the “paradox of poor public services despite relatively high public expenditure”(10). This is an inadequate description of the economic damage caused by government contraventions of what Adam Smith called natural liberty.

Indeed, the fact that Collier and Gunning speak of a “paradox of poor public services despite relatively high public expenditure” indicates that they are not familiar with the public choice literature, which explains why high levels of public expenditures are often, and predictably, linked to poor public service, because of bureaucratic and political incentives

(Tullock 1971, Stroup 2000). But public choice authors are not to be found in the Collier and Gunning article.

Collier and Gunning's third category, "External-Destiny," covers factors outside the control of Africans. For example, Africa has relatively few navigable rivers and transportation costs are high. Also, Africa's exports are "concentrated in a narrow range of commodities, with volatile prices that have declined since the 1960s" (13). Such factors matter, of course, but the underdevelopment of transportation infrastructure and the narrowness of Africa's export commodities should themselves call out for explanation, rather than be regarded as a matter of destiny. One gets the feeling that the investigation is correlating illness with symptoms, rather than causes.

Finally, there is "External-Policy," which refers to deliberate choices on the part of African governments that affect African countries' relationships with other nations. These factors include African government decisions leading to "higher trade barriers and more misaligned exchange rates than other regions" as well as "quantitative restrictions" on imports (14). Not surprisingly, like many domestic policies, these decisions have hurt Africa's economies and encouraged corruption, and the authors say so.

Having laid out the categories of explanation, and emphasizing that the distinctions are oversimplified, Collier and Gunning offer an assessment. They weigh in on the side of policy and domestic factors: "we believe that domestic policies largely unrelated to trade may now be the main obstacles to growth in much of Africa" (18). The suggestion is promising, but it is more of an aside than a conclusion.

Although Collier and Gunning recognize the importance of policies, they don't go very far in identifying what makes a policy a bad one. What is largely missing is an analysis of the institutional conditions—the laws, traditions, customs, and habits—of countries and their populations. The characteristics summed up by the term "freedom" or "natural liberty" figured prominently in the explanations that Adam Smith gave for the wealth of nations. Many postwar economists have revived Smith's theory of growth. Collier and Gunning might be half-heartedly in agreement with this position, but this view gets lost amid the forty or so possible factors they offer.

A particularly useful source of information about countries' institutions, first published in 1996 (and thus perhaps too recent for Collier and Gunning to have utilized), is the Economic Freedom of the World Index (Gwartney and Lawson 2003). Developed over nearly a decade, the index measures the relative role of markets vs. government control in a

country. The 20 percent of countries with the highest economic freedom have average incomes of almost \$20,000 per year while the 20 percent with the lowest economic freedom average incomes of only about \$2,000. Undeniably, as economic freedom increases, so does prosperity. Adam Smith was right. Collier and Gunning note the low level of *political* freedom in sub-Saharan Africa (citing the Gastil scale measuring political rights) but economic freedom is different and is directly relevant to economic growth.

Collier and Gunning mention the “main exception to African economic collapse” (17). Between 1965 and 1997, Botswana grew at a 7.7 percent annual growth rate, which they say is the fastest in the world. Yet they mention it almost as a curiosity and do not examine it further to see what might be different about it. In the Economic Freedom of the World index based on 1995 data (Gwartney and Lawson 1997), Botswana (# 48) was one of only three sub-Saharan Africa nations in the top 50 countries ranked by level of economic freedom—the other two were Mauritius (#5) and South Africa (#50). If Collier and Gunning had looked at the institutional quality of African countries, they would have seen a red flag alerting them to the absence of economic freedom. They might have constructively explored why Africa does not have much economic freedom.

One cause of economic backwardness in Africa could be the excessive reliance of many African governments on foreign aid. Collier and Gunning discuss aid as an “external-destiny” factor and note that Africa “has attracted much more aid per capita than other regions” (12). They acknowledge that there has been a “long debate as to whether aid has been detrimental or beneficial for the growth process.” Some critics have damned foreign aid harshly, but Collier and Gunning’s attitude toward the criticism is dismissive. “Early critics claimed that aid reduced the incentive for good governance (for example, Bauer, 1982),” they write (12). Collier and Gunning contend that econometric work has found no effect of aid on policy. Their explanation is that “to the extent that aid encourages or discourages policy changes, the two effects apparently offset each other”(13). Furthermore, they argue that foreign aid increases economic growth when government policies are “good,” but not when policies are “poor” (13). In support of this position, they cite econometric evidence (two World Bank working papers, one of which was coauthored by Collier). Thus, they appear to dismiss the argument that aid might perpetuate a government’s poor policies.

Yet some of Collier’s World Bank colleagues acknowledge that when policies are poor, aid has hampered reform. The World Bank book *Aid and Reform in Africa* states in its “Overview” that “aid in the poor policy period”

may have “perverse incentive effects. That is, finance may deter reform, and the absence of finance may encourage reform since it removes one easy way out of macroeconomic problems for the government. This argument is particularly applicable to large-scale budget or balance of payments support, which in a bad policy environment may reduce the urgency of reform”(Devarajan et al. 2001, 27).

The studies that Collier and Gunning cite to support the view that foreign aid can increase growth have recently been challenged in a working paper by William Easterly and two colleagues. This group used the same methodology as one of the studies cited by Collier and Gunning (Burnside and Dollar 2000), but measured the effects over a longer period and included some data that were not available for the original paper. Easterly, Levine, and Roodman (2003, 6) report that adding these data “raises new doubts about the effectiveness of aid and suggests that economists and policymakers should be less sanguine about concluding that foreign aid will boost growth in countries with good policies.” These findings appeared subsequent to Collier and Gunning’s paper, but they speak to the questionable judgment of dismissing the long-standing criticism of foreign aid.

Given Collier and Gunning’s frustration with the limitations of econometrics, it is regrettable that they pay so little attention to Peter Bauer. Collier and Gunning cite a 1982 article by Bauer in *Encounter* magazine. They have the title right, but they have the date wrong (they cite November instead of March) and the authorship wrong (it is by Bauer and Basil Yamey, not by Bauer alone), and, in any case, this article is just two pages long. Bauer wrote twelve books, at least eight of them on development.

In his book *Reality and Rhetoric*, Bauer argued that the only beneficial impact of foreign aid is the avoided cost (that is, interest) of private capital. Against this he placed the harmful effects of aid, starting with its tendency to “increase the resources and power of recipient governments compared with the rest of the society” (Bauer 1984, 46). Thus, Bauer’s criticism of foreign aid comports nicely with Smith’s theory of growth, which holds that markets, institutions, and production levels develop spontaneously in a regime of natural liberty and secure private property.

Foreign aid, wrote Bauer, often “helps or even enables governments to pursue policies which patently retard growth and exacerbate poverty” (Bauer 1984, 46). Bauer cited as examples of such policies persecution of minorities (including traders and others who are productive), restrictions on trade, and more. He also observed that foreign aid encourages wasteful, highly politicized expenditures on industrial plants that would not be built

through private capital. Although the total amount of aid is small compared with a country's GDP, the amounts "are often a significant part of government revenues and of foreign exchange earnings" (Bauer 1984, 47). Bauer did not do an econometric study of the influence of aid on government policy, but all development economists should nonetheless take seriously the grave hazards of politicizing society and governmentalizing resources—hazards that would seem to be inherent in practices that channel funds to national governments.

In the period since World War II, development economics has picked up and dropped a variety of prescriptions for growth in less-developed countries, such as protection of infant industries, Paul Rosenstein-Rodan's emphasis on social overhead capital, and the theory of "balanced growth." But these prescriptions have not stood up well over time (Shaw 1999). Sadly, the information gathered in the Collier-Gunning article also offers little guidance for addressing Africa's poor economic conditions. Recognizing that recent econometric work has not offered much insight into Africa's economic problems, Collier and Gunning make their own judgments, which include a recognition of the devastating role of government policies. But they bury these assessments. Indeed, the article's concluding paragraphs avoid answering the title question, "Why Has Africa Grown Slowly?" Instead, the conclusion is titled "Will Africa Grow?" Their peroration drifts from one idea to another, even to the point of suggesting that one reason for low foreign investment may be investors' erroneous perceptions about African countries. The last two paragraphs of the article follow:

Our own interpretation lies between these extremes. We suggest that while the binding constraints upon Africa's growth may have been externally-oriented policies in the past, those policies have now been softened. Today, the chief problem is those policies which are ostensibly domestically-oriented, notably poor delivery of public services. These problems are much more difficult to correct than exchange rate and trade policies, and so the policy reform effort needs to be intensified. However, even widespread policy reforms in this area might not be sufficient to induce a recovery in private investment, since recent economic reforms are never fully credible. Investment rating services list Africa as the riskiest region in the world. Indeed, there is some evidence that Africa

suffers from being perceived by investors as a “bad neighborhood.” Analysis of the global risk ratings shows that while they are largely explicable in terms of economic fundamentals, Africa as a whole is rated as significantly more risky than is warranted by these fundamentals (Haque et al., 1999). Similarly, private investment appears to be significantly lower in Africa than is explicable in terms of economic fundamentals (Jaspersen et al., 1999). “Africa” thus seems to be treated as a meaningful category by investors.

The perception of high risk for investing in Africa may partly be corrected by the passage of time, but reforming African governments can also take certain steps to commit themselves to defend economic reforms. Internationally, governments may increasingly make use of rules within the World Trade Organization, and shift their economic relations with the European Union from unreciprocated trade preferences to a wider range of reciprocated commitments. Domestically, there is a trend to freedom of the press, and the creation of independent centers of authority in central banks and revenue authorities, all of which should generally help to reinforce a climate of openness and democracy, which is likely to be supportive of economic reform (Collier and Gunning 1999, 20).

There’s not a lot of guidance here. Development economists need to wake up and smell the coffee. The best answers to the question “Why Has Africa Grown Slowly?” are still those of Adam Smith and his latter-day intellectual progeny like Peter Bauer. An understanding built on that foundation might actually help Africa rediscover the path to growth.

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