

Africa's Economic Growth: The Historical Record and the Roles of Policy Syndromes and Governance

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Outline

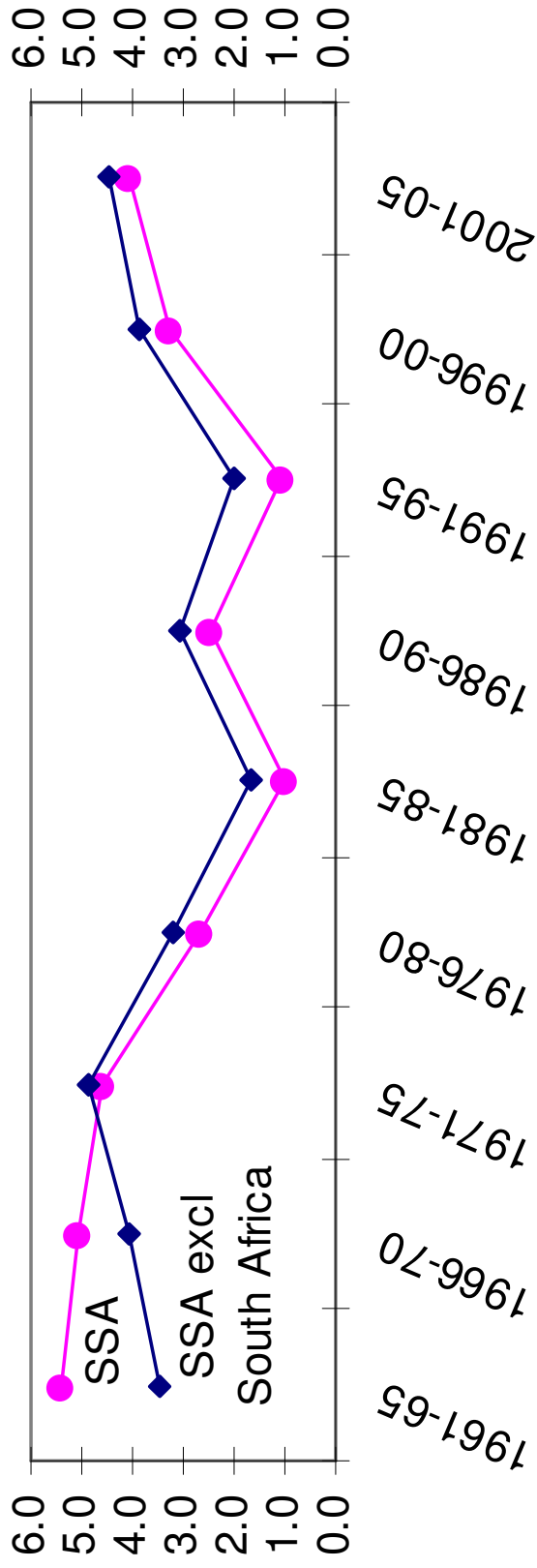
- Introduction
- The historical growth record
- The recent growth evidence – Who is who?
- Has recent growth been poverty-reducing?
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Introduction

- Why should we be concerned about growth?
- Development requires high sustained (and inclusive) growth
- For SSA at least, high sustained growth requires
 - Growth acceleration
 - Avoidance of growth collapse

The African Growth Record

Half-decadal Mean Annual SSA GDP Growth Rates (%), 1961-2005



Source: World Development Indicators, World Bank, several years, and author's computation.

But there are country exceptions

- For example, 1981-85 (the really bad times!):
 - ’Good’ performers (>4.0 %):
 - Benin, 4.7; Botswana, 10.0; Burkina Faso, 4.2; Burundi, 5.4; Cameroon, 9.4; Chad, 9.2; Congo Republic, 10.6; Guinea Bissau, 6.4; and Zimbabwe, 4.4
- Why? Exceptions due mainly to higher TOT

Recent Growth Record – Who is who? (Source: Arbache et al., 2008, WB)

Table 1: GDP Growth Rates for Individual Countries in Sub-Saharan Africa¹					
Countries with GDP Growth > 4%, 2000-06 (78% of SSA Population) (78% of SSA GDP)		2000- 2006	1995- 2006	Countries with GDP Growth < 4%, 2000-06 (30% of SSA Population) (22% of SSA GDP)	
Equatorial Guinea	23.1	36.2	Mauritius	3.9	1995- 2006
Sierra Leone	11.6	1.7	Cameroon	3.7	4.4
Chad	10.9	7.4	Kenya	3.6	4.1
Angola	10.6	9.8	Niger	3.5	3.3
Liberia	8.9	12.1*	Lesotho	3.4	3.6
Mozambique	7.6	7.9	Madagascar	3.2	3.2
Sudan	7.3	5.8	Guinea	2.8	3.2
Tanzania	6.3	5.2	Congo, Democratic Republic of	2.6	3.6
Ethiopia	6.2	5.7	Malawi	2.6	0.6
Burkina Faso	6.1	6.6	Comoros	2.4	4.4
Cape Verde	5.7	6.9	Swaziland	2.4	2.2
Nigeria	5.6	4.4	Burundi	2.2	2.8
Uganda	5.6	6.4	Togo	1.7	0.3
Rwanda	5.5	9.7	Eritrea	1.3	2.3
Botswana	5.3	6.3	Guinea-Bissau	1.2	2.6
Ghana	5.0	4.8	Gabon	1.1	0.3
São Tomé and Príncipe	5.0	3.7	Central African Republic	0.2	1.4
Mauritania	4.9	4.6	Seychelles	0.1	1.1
Gambia, The	4.9	4.6	Côte d'Ivoire	-0.3	2.3
Congo, Republic of	4.9	3.6	Zimbabwe	-5.5	2.0
Mali	4.9	5.1	Average	1.8	-2.6
Zambia	4.8	3.4			
Namibia	4.5	4.1			
Benin	4.2	4.6			
South Africa	4.1	3.5			
Senegal	4.1	4.3			
Average	6.8	6.9			

Source: World Bank World Development Indicators database.

¹ The cut-off point of 4 percent is based primarily on the performance during 2000-06. Somalia is not included for lack of data. At the World Bank, Djibouti is classified as part of Middle East and not part of Sub-Saharan Africa.

*Data for Liberia was available only for 1999-2006.

Has the recent growth acceleration been poverty-reducing?

Historical Poverty Record (Headcount Ratio in %): SSA vs. South Asia (SAS) and India (Source: WB, *WDI*)

A. \$1 Standard				
	<u>1981</u>	<u>1987</u>	<u>1993</u>	<u>2004</u>
SSA	42.3	47.2	45.5	41.1
SAS	49.6	45.1	36.9	30.8
India	--	46.1	41.8	34.3

B. \$2 Standard				
	<u>1981</u>	<u>1987</u>	<u>1993</u>	<u>2004</u>
SSA	74.5	77.4	76.1	72.0
SAS	88.5	86.6	82.2	77.1
India	--	87.0	85.3	80.4

Accounting for Real GDP Growth per Worker (%)

Period	Growth	Contribution to Growth		
		Physical Capital	Education	Residual*
1960-64	1.33	0.53	0.12	0.68
1965-69	1.74	0.80	0.20	0.75
1970-74	2.33	1.05	0.22	1.06
1975-79	0.19	0.74	0.24	-0.79
1980-84	-1.70	0.16	0.29	-2.16
1985-89	0.45	-0.22	0.34	0.33
1990-94	-1.74	-0.08	0.30	-1.95
1995-00	1.51	-0.12	0.26	1.37
Total	0.51	0.36	0.25	-0.09

* Used as measure of (growth in) total factor productivity (TFP)

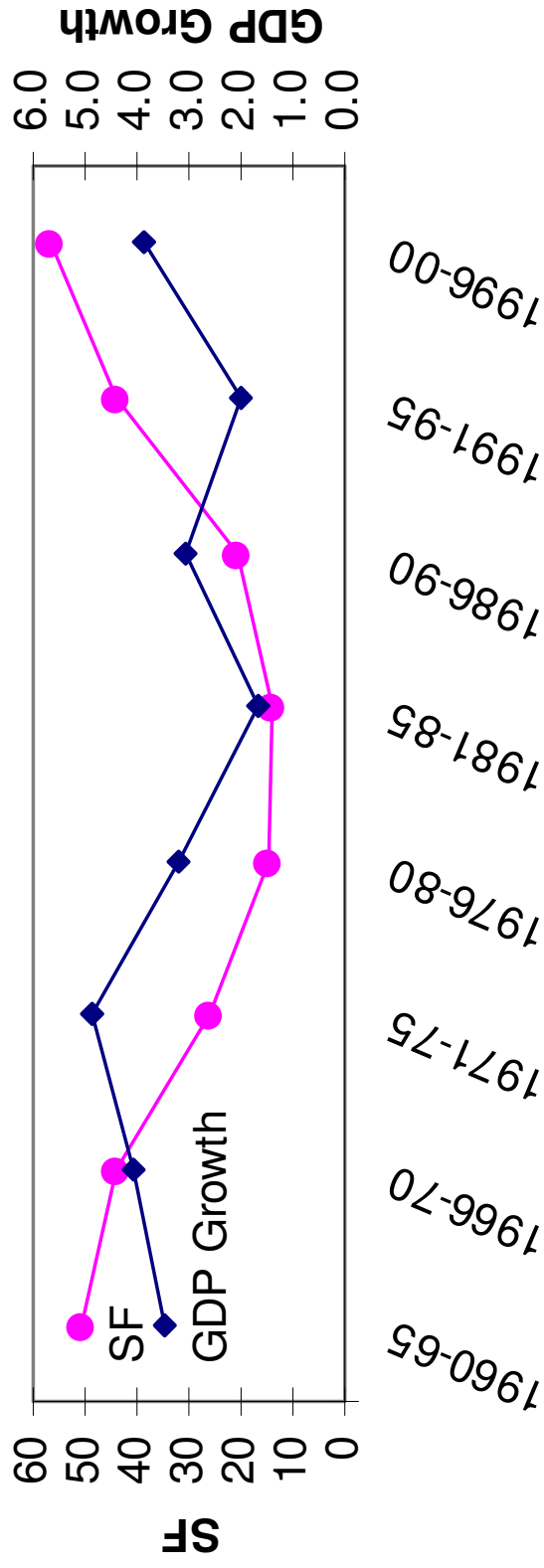
Explaining the Growth: The Anti-growth Policy Syndromes (1960-2000)

- Regulatory/State Controls (0.34)
- Adverse Redistribution (0.22)
- Sub-optimal Inter-temporal Allocation (0.09)
- State Breakdown (SB) (0.10)
- Syndrome-free (SF) (0.25)

(Source: *The Political Economy of Economic Growth in Africa 1960-2000*, Cambridge U Press, 2008 – volumes 1 and 2)

Syndrome-free (SF) and Growth

Evolution of Syndrome-free (SF) and Annual GDP Growth in SSA, 1961-2000 (%)



Source: SF from AERC Growth Project (see Cambridge volume 1, 2008); GDP growth data from *World Development Indicators*, World Bank, several years, and author's computations.

SF and Growth

Econometric Evidence (Fosu and O'Connell, *ABCDE*, 2006)

Being SF:

1. would be essential for maintaining accelerated growth, for it:
 - is a necessary condition for growth
 - is a near-sufficient condition for preventing a growth collapse
2. could have added as much as 2.0 percentage points annually to the average per capita GDP growth of SSA:
 - representing about 60 percent of the gap with EAP
 - exceeding the gap with LAC, SAS, MENA and IC, and
 - representing about twice the gap with the global economy.

Fosu and O'Connell (2006) Evidence: Syndromes & Avoiding Growth Collapse

Policy Syndromes and Relative Frequencies of 'Growth Collapse' (3-year moving avg. of p.c. growth < zero)
% country-year observations, independence to 2000
(Source: Fosu and O'Connell, *ABCDE*, 2006)

	<u>At least One Syn.</u>	<u>Syn.-Free</u>	<u>All Obs.</u>
Collapse	49.3	19.1	39.5
Non-collapse	50.7	80.9	60.5
Total	100.0	100.0	100.0

Fosu and O'Connell (2006) Evidence: Syndromes & Accelerating Growth

- 1960-2000 annual panel data and controls for shocks (rainfall, partner growth, geographical opportunity)
- Finding 1: All syndromes would reduce growth
- Finding 2: SB is the most deleterious syndrome
- Finding 3: SF would raise per-capita annual GDP growth by: 1.6 - 2.1 percentage points

Fosu (2008) Evidence - Raising Growth: Syndromes, TOT & Governance (1)

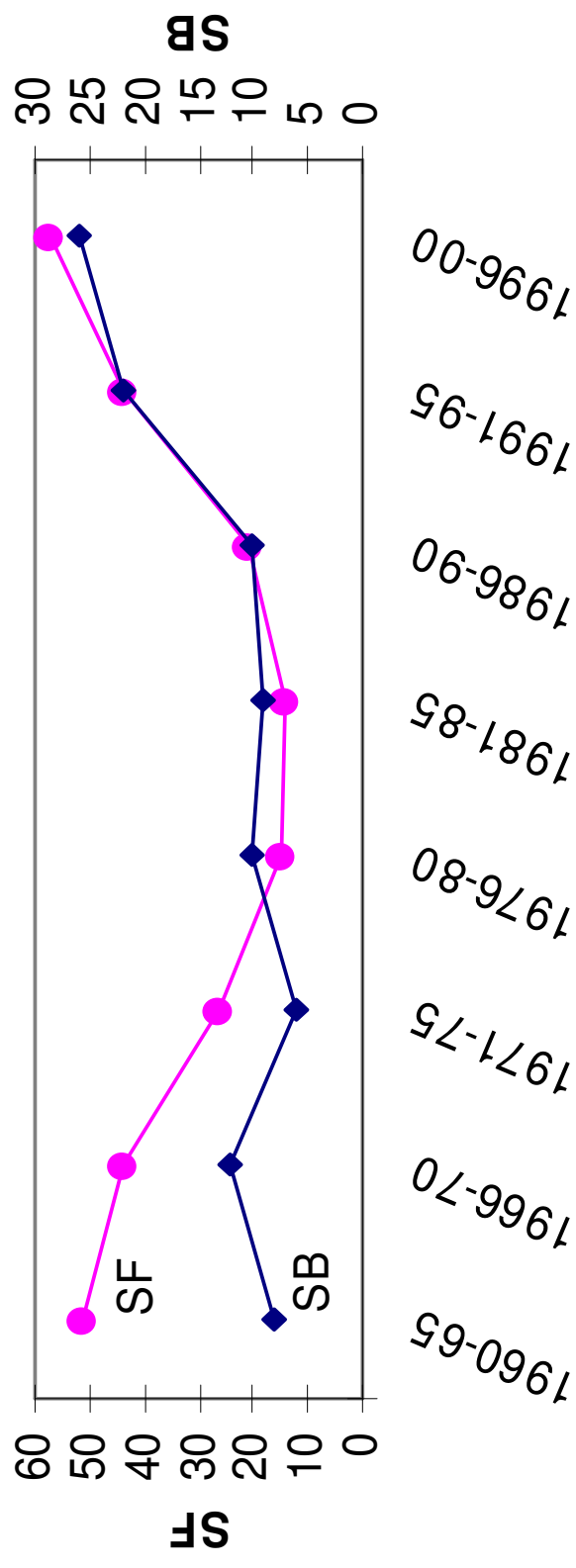
- 1960-2000 5-year annual average panel data in an augmented production-function model with both country and time fixed effects
- Finding 1: SF would raise annual per-capita GDP growth by 1.9 – 2.1 percentage points, strikingly close to Fosu and O’Connell’s
- Finding 2: SF mainly affects TFP
- Finding 3: XCONST would raise growth, but nonlinearly (too much of XCONST a syndrome?)
- Finding 4: TOT likely a missing variable

Fosu (2008) Evidence – Raising Growth: Syndromes, TOT & Governance (2)

- 1981-2008 5-year panel data as in (1) but includes TOT
- Finding 1: SF raises per-capita annual GDP growth by 2.7 – 2.8 percentage points (**larger estimates!**)
- Finding 2: SF affects mainly via TFP as in (1)
- Finding 3: XCONST raises growth but nonlinearly as in (1)
- Finding 4: TOT raises growth and accounting for it is critical for correctly estimating the impact of SF

Problem! Syndrome-free (SF) vs. State Breakdown (SB)

Evolutions of Syndrome-free and State Breakdown regimes, 1960-2000 (%)



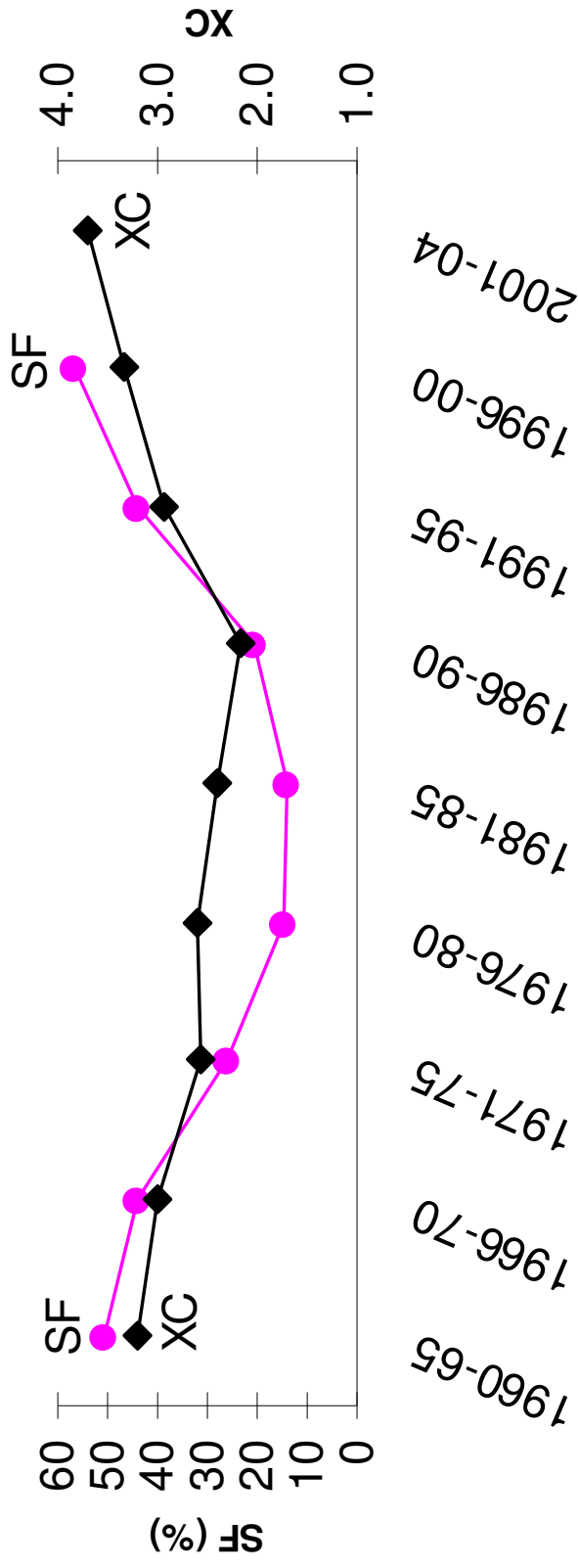
Source: AERC Growth Project data (see, e.g., Fosu, 2008, *AERC Cambridge volume*).

The Basic Challenges

1. Increasing the likelihood of SF
2. Decreasing the likelihood of SB
 - Q1: Can 'governance' help?
 - Q2: How?

Q1: Can Governance help? (e.g., XCONST is more positively correlated with SF than with growth)

Evolutions of Syndrome-free (SF) and Executive Constraints (XC), 1960-2004



Q2: How can Governance help?

1. A Principal-Agent Problem
2. Solving the Problem
 - Accountability
3. Political contestability an appropriate mechanism for accountability?
4. Political competitiveness and growth
 - Good and Bad news: Increasing index of electoral competitiveness has a U-shape relationship with GDP growth in Africa (Fosu, *Economics Letters*, 2008)

Conclusions

- Policy syndromes are endogenous, as the Growth Project has argued based on country cases (good news!)
- WB-led reforms major contributor to the resurgence of SF ('Economically driven political expediency': Fosu, 2008 – Growth Project) – Good news for the 'Washington Consensus'?
- Relationship between governance and SF (as well as SB) requires further investigation

Thank you!

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