African Economic Crisis Abstracts

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Moss & Resnick, *Growth & Transformation*

The authors ask why development in Africa has been sluggish; they conclude that their is no academic or political consensus on the answer. The sources of challenges to economic modernisation are myriad and eclectic; together, they conspire to arrest the best efforts of many states on the continent. Some ask if there is something simply unique about Africa as a place, something absent in other countries which were similarly colonised by Europe.

Asking African people, respondents to surveys state that the most important problem facing their country's economic development is unemployment. Thus, one might ask if unemployment is the result or cause of stagnation. The geographic endowment of African countries – the arid deserts, thick rainforests, landlocked borders, and wildly varying population density – are not conducive to growth either. Single resource dependence is also a commonly discussed legacy of colonialism which raises the opportunity cost of economic diversification (and therefore, a barrier to development).

In the 1980s, the unimpressive results of state-led development led neoliberals to demand structural readjustments and economic liberalisation. These reforms also proved disappointing, even in places which carried them out in full good faith. This spurred another round of thinking on the topic, with scholars raising the point that the Westphalian states of Africa are alien constructs, and that the quagmire economies are a product of rational politicking. So, in answering the first question – why is Africa under-developed? – one answer is, "how does a political economy designed for patronage transition to serve the public interest?" And the truth is, academics still don't know. We know that it *did* happen in Europe, Asia, and North America, but the paths those countries found are so wildly different from the situation in Africa that there are few universal working truths to be employed. Critically, the direction of causality between development and institution-building is not clear. Which one creates the other?

In recent scholarship, other factors have been examined, such as the lack of political democracy, armed conflict, and economic shock vulnerability. Of particular interest is the neighbourhood effect: since most states trade primarily with overseas nations and not their neighbours, this reduces the permeation of good reforms from across African borders. The Goldilocks debate around foreign aid is another example: how much is too much, and how little is too little?

Suffice to say that some combination of the causes discussed, and probably also causes we haven't yet discovered, is conspiring to suppress economic development in Africa. At a glance, it can seem that underdevelopment is a unique and primordial quality of the region, but that explanation flies in the face of a simple fact: any successful economy anywhere started from nothing, and Africa is no different.

Moss & Resnick, *Debt & Déjà vu*

Sovereign debt is not necessarily a strangle-hold on economic development. Japan famously has foreign debts so massive that the cumulatively eclipse its annual GDP; the United States is likewise the largest single sovereign-debtor in absolute terms. The moneys these states owes are no hindrance to their economies because their economies themselves are so robust: there is no crisis of confidence for return-on-investment. Unfortunately, the same cannot be said for Africa. Why is this so? Some economists argue that, under odious debt, the rational choice is to pay the debt off first and worry about investment in long-term growth later. On the political side, it's embarrassing to default because undermines a state's credibility at home and abroad.

The bill for African borrowers only came due, in a metaphorical sense, in the 1980s. The authors write that the total debts owed by African states exploded from 6 billion real USD in the '70s to 200 billion in the '90s. Undeniably, the loans were themselves a barrier to progress in their own right. Important to note for international sovereign banking is that loans have to be repaid in foreign reserve currencies, which pre-empts the strategy of monetary devaluation on the part of the debtor. In any case, the loaned funds didn't last long when they were used in ill-advised infrastructure projects (often at the suggestion of creditors) or when they were used to pay off wage arrears.

The unofficial group which often negotiates debt rescheduling with states is the Paris Club. Different terms are offered, such as mere rescheduling or writing-off partial amounts of debts depending on the situation. Agreements reached by the Club and sovereign debtors still have knock-on effects for other loans and future investment. Furthermore, it is difficult to predict an economy's future, even for the best and brightest in Paris, and this fact frustrates debt-relief discussions. In some cases, grants are preferred to rescheduling as a form of immediate relief.

Before entering the blame game, the authors underline two important objections before blaming Africans for their own poverty. First, World Bank loans are on long, forty-year terms. The governments which secure these loans enjoy the moral hazard of knowing their successors will pay, and these successors may likewise feel less obligation to service the debts of the previous administration in the face of pressing political needs. Second, it takes two to tango: creditors should have been wiser. These facts illuminate why creditors are often willing to negotiate with their debtors, since they have a vested interest in success of the debtor.

Having established the interest of creditors in debt-relief, creditors have several levers at their disposal to direct the use of their money towards useful ends, such as social services. The logic is that social services will improve quality of life for citizens, who can then go about the business of business and make the economy grow. They can also force governments to implement non-inflationary monetary policy and allow democratic input in economic policy.

Short-term debt-relief has immediate short-term benefits for borrower and lender. The downside is that it does nothing to address the problems which the authors discussed in Chapter 6: debt-relief in itself cannot solve the other problems which African economies face. It also creates the impression that the least competent governments receive more attention and aid than ones which succeed without it. In the grand scope of international economics, a global recession affecting all countries worsens the ability of debtors to service their debts and decreases the willingness of creditors to reschedule. A new strategy to the debt problem is to take out loans from different sources under different conditions, such as from the Asian Infrastructure Investment Bank or eurobonds. The terms are either not-transparent or much less generous than World Bank and IMF loans, qualities which could create a new cycle of debt-crisis or prove to be smart moves. Time will tell.

There remains the question of why countries don't simply declare a debt odious, and the answer is that it is a *really* bad idea and that international law treats sovereign debt differently from personal or corporate debts. For a debt to be declared odious, it must have been imposed without true consent of and have no benefit to the debtor – and the creditor must have loaned the money knowingly. It would be difficult if not impossible to establish these criteria for inter-state lending, and the cost of becoming a pariah in the global financial system is just not worth it. On the flip-side, simply burning the lending contract is a non-starter, because states do not want to establish the precedent of nullifying legally binding arrangements, even if there will likely never be a return on investment. This has unfortunately allowed so-called "vulture funds" to buy up worthless debt and use it to extort sovereign states. The concessions won by vulture funds are small enough to be beneath the interest of a sovereign lender but big enough to pay out big for anyone who can convince a judge to hear the case.