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Graded Activity 5

Looking at the policy goals in the 1960s:
In 1967, the World Bank's chief economist identified seven African countries with "the potential to reach or surpass" a 7% annual economic growth rate (Kamarck 1967). But reality intervened and every one of the seven countries registered negative per capita growth rates over the 1970-1988 period."
In 1969, President Leopold Senghor of Senegal articulated a "vision of a modern and prosperous Senegal in the year 2000, a Senegal that by then would have tripled its per capita income and entered the ranks of the world's industrialized nations".
Why were they so badly wrong? Use the Lewis model to explain.

The main ideology of the Lewis model is that population can be an engine for growth and this occurs by taking people from the agricultural sector into industry. The agricultural sector is not impacted because workers have so low a marginal productivity that they can be taken from agriculture without impacting the level of output. How then did these nations fail to register the optimistic growth rates that were expected? There may be several explanations for this.

As embodied by the Lewis model, development policies of the time posit a background role for agriculture. Its sole purpose is to provide labour for industry which in turn serves as the engine for growth. Such thinking has led to policies that favour movement from the rural to the urban, having significant negative consequences on the quality of life for many. This is manifested in the high urban unemployment, streetism, formation of slums, the ensuing high urban crime rate and massive importation of agricultural products.

The high urban unemployment begs the question, 'Is the role of agriculture just to provide labour?' One implicit assumption of the Lewis model is that the skills required for industry are possessed by the people in the agricultural sector which may not be true, considering the high urban unemployment rates. Having a low marginal product in agriculture does not ensure that one will be productive in industry.

A key assumption of the Lewis model is that firms pay a low wage made up of the subsistence wage times the price of agricultural output plus transportation costs. Such low wages enable industry to increase investment and employment of labour, resulting in continued growth of the economy through industry. This did not turn out to be the case. Infrastructure shortfall continues to persist, suggesting that either firms failed to re-invest or the onus of infrastructure development falls on more than just the industry.

Finally, if we are to stick solely to the propositions of the Lewis model, then the massive population growth in developing countries were their own downfall. The unlimited supply of labour through population growth ensured that industrial wages never grew from labour shortage, remaining persistently low and keeping workers perpetually poor. What is hard to reconcile, however, is how such low wages did not translate into higher investment and growth as suggested by the Lewis model.