NEA PRESIDENTIAL ADDRESS, 1990: AFRICA, THE DEVELOPMENT CHALLENGE OF THE 1990s

Stephanie Y. Wilson

Much of Africa has been excluded from the considerable social and economic progress made in most regions of the world over the past several decades. Disheartening trends in Africa include budget and trade deficits, debt accumulation, inflation, overvalued currency and foreign exchange shortages. However, about half of African nations have courageously implemented structural adjustment programs since the early 1980s. The author examines the economic problems facing Africa and builds a case for responding to the crisis, proposing efforts to increase donor support and coordination and encouraging sustainable adjustment. She strongly advocates research leading to a more productive dialogue with policymakers.

In some corners of America this year, black Americans proclaimed themselves African-Americans. They explained that the designation is a means of drawing attention to their cultural heritage, noting that many ethnic Americans use hyphenated names, such as Polish-American, Chinese-American and Irish-American.

In other corners of America this year, people lauded the late U.S. Representative Mickey Leland, a member of the Congressional Black Caucus, for his efforts to assist famine victims in Ethiopia. Others criticized his liaison with that country's hard-line military dictator.

In a tour of Africa this year, Jesse Jackson sharply criticized the International Monetary Fund (IMF), which he blamed for most of Africa's poverty and economic woes. However, he said nothing about how African-Americans or African leaders could play a role in the development of the continent.

These news items from 1989 raise the question of how well Americans understand Africa's development problems. Is a hyphenated name our main connection to the continent? Should we ignore the populations of countries with military leaders? What are the respective roles of the African countries, the donors and the economists and policy analysts in advancing Africa's development?

This article examines the current economic problems facing Africa, explores prospects for the future of the continent, and suggests roles for economists to play in its development.

The past three decades have been marked by impressive gains in human welfare over much of the globe. People generally have more food to eat than they did in the 1960s. Birth rates are dropping in many regions. Similar strides have been made in combating disease and illiteracy and providing wider economic opportunities. However, there is a tragic omission in this global move toward improved economic and social well-being: the continent of Africa.

Most African countries have a severe shortage of trained labor. Many have yet to achieve satisfactory progress in national consolidation or unity. About one-quarter of them suffer from internal conflicts due to ethnic differences, border conflicts or general political unrest. In almost all nations on the continent the infrastructure, especially transport and communication facilities, is exceedingly inadequate. Meanwhile, the southward march of the Sahara Desert contributes greatly to the fragility of the environment.[1]

While all these factors are singularly important, the most significant is the rapid rate of interaction among the forces affecting Africa's development, including the high rates of population growth, the limited resources available and the people's expectations for food, employment and better living conditions.[2]

Ghana can be examined as a case in point. In 1957 Ghana was the richest country with the best-educated population in sub-Saharan Africa. It exported more cocoa than any other country; yielded 10 percent of the world's gold; produced diamonds, bauxite, and manganese; and had a flourishing trade in mahogany. Its per capita income was almost exactly equal to South Korea's: $490 against $491 (in 1980 dollars).[3]

By the early 1980s, South Korea's annual per capita income was five times that of Ghana. Ghana's per capita income, in fact, had fallen by nearly 20 percent, to $400. Between 1970 and 1982, real per capita income fell 30 percent; real wages fell 80 percent; exports fell from more than 30 percent of GDP to 3 percent; and investment fell from 20 percent of GDP in the 1950s to 4 percent by 1982. While Ghana is an extreme case even for Africa, the fact remains that per capita income for Africa as a whole shrank by .5 percent per year between 1980 and 1988, while that of South Asia (Bangladesh, Burma, India, Nepal, Pakistan and Sri Lanka) rose by roughly 1 percent per year.[4]

In a handful of African countries (Botswana, Cameroon, Gabon, Kenya, Lesotho, Mauritius, and Seychelles), living standards have substantially improved over the past thirty years. However, the World Bank has had to reclassify six African countries in the past decade from middle-income to low-income status: Ghana, Guinea, Nigeria, Liberia, Sao Tome and Principe, and Zambia.[5]

Thus, it is quite appropriate to ask what went wrong. The short answer is that many African countries, encouraged by aid donors, economists and policymakers, persistently adopted poor development strategies.

The long answer involves the trade-off between agricultural development and industrialization. Many newly independent African countries were eager to industrialize. They invested heavily in industry and encouraged workers to migrate to cities and towns. Governments ceased to invest in agriculture and, as monopoly buyers of farm produce, they paid less than world market prices.

Low prices for farm goods in turn led to slow growth in farm output and a decline in farm exports. Between 1970 and 1985, populations continued to grow rapidly, while farm output grew more slowly. The low level of exports led to a dearth of foreign exchange. As a result, Africa began borrowing and accumulating foreign debt. In the mid-seventies Africa, which derived 60 percent of its export revenue from primary commodities, was hit hard by the substantial decline in commodity prices. By the 1980s when it became clear that commodity prices were not simply experiencing a temporary cyclical downturn, African countries were in serious debt. Total debt for the thirty-one low-income African countries grew from $8 billion in 1972 to $72.5 billion in 1987.[6]

Meanwhile, the manufacturing sector in which the countries had invested heavily did not thrive. Manufacturing grew quickly in the 1960s but now represents only 11 percent of the region's economic activity, up only 2 percent from the 1965 level. Sectors such as mining, oil and construction account for 17 percent; farming, 33 percent; and services, including the public sector, 40 percent. Domestic currencies also became increasingly overvalued because the rate of inflation was higher in Africa relative to its major trading partners and because governments resisted currency devaluation. Moreover, just as inflation caused overvaluation, so budget deficits caused inflation. In 1986 public spending in African countries, much of it devoted to large ill-conceived projects, averaged 27 percent of GNP. The average for poor countries outside Africa was 19 percent. A 1987 study found that half of the rural development projects financed by the World Bank in Africa had failed.[7]

Of course, one could ask why the situation in Africa is so critical if half of these projects succeeded. The message is that economists and policymakers need to work harder to fine-tune and tailor development projects to the specific conditions of each country so as to reduce the number of failures and ensure that "successful" projects do better.

One may then ask a second question: Since these countries made such serious policy mistakes in the early phases of their development, is recovery even possible at this point? Many economists conclude that the disheartening trends in Africa reveal a process of economic degradation characterized by five classic traits:

1. Persistent deficits. Many countries are living beyond their means.
2. Debt accumulation. Debt has expanded rapidly relative to national income, and debt service has become burdensome.
3. Inflation. Expansion of the money supply has exceeded real output growth.
4. Overvalued currency. Local currency is inflated more rapidly than the foreign exchange rate is devalued.
5. Foreign exchange shortages. Imports expand more rapidly than exports.[8]

In summary, these countries need extensive reform if their economic deterioration is to be reversed. A complete reform package derived from the neoclassical paradigm contains five components:

1. Freeing markets to determine prices—"letting markets work."
2. Adjusting controlled prices to scarcity values—"getting prices right."
3. Shifting resources from government into private hands—"privatizing."
4. Rationalizing government's remaining role in development—"budget rationalizing."
5. Reforming institutions to carry out government's new role.[9]

The above components have been neatly bundled into a reform package entitled Structural Adjustment Programs (SAP). In brief, the International Monetary Fund and the World Bank designed and advanced SAPs to quickly reduce trade deficits through measures that often contracted domestic demand. These programs, initially envisioned as short- to medium-term measures, are now moving into their second decade. To their credit, many African countries have carried out SAPs that usually required considerable political courage. Since the early 1980s, about half of the sub-Saharan countries have undertaken economic adjustment programs.[10] It is too early to draw firm conclusions but three country cases offer insights: Mauritius operates a successful program; Ghana has taken a sector-specific approach; and Nigeria illustrates the complications of a populous country making painful adjustments.

Mauritius: The economic problems of Mauritius in the 1960s resembled those facing many African countries today. The population was growing at about 2.5 percent a year, while per capita income was barely rising. Rates of saving and investment were low and exports were based exclusively on sugar. The country's prospects appeared bleak. However, through the sustained pursuit of sound macroeconomic and population policies, Mauritius has transformed its economic outlook. Incentives have been provided to overseas manufacturing firms to locate labor-intensive activities in the country and to convert imported raw materials into finished goods for export. Exports now comprise 63 percent of GDP, and the economy has diminished its reliance on sugar. Investment and saving represent 20 percent of GDP. Urban population growth has declined through favorable agricultural pricing policy. Emphasis on human resource development, including a successful population control program, has reduced the population growth rate to 1 percent a year and extended average life expectancy to 68 years. Enrollment rates are impressive at almost 100 percent for primary school and 50 percent for secondary. It is unclear whether the Mauritius story can be replicated. The results, nonetheless, hold promise for the rest of Africa.[11]

Ghana: At independence, Ghana was the leading gold producer in West Africa, with an output of 1 billion ounces a year. Production dropped steadily for two decades, reaching a low of 277,000 ounces in 1983 as a result of currency overvaluation, numerous barriers to private investment and insufficient funds for public investment in the gold mining sector. Realizing that the country has the potential to exceed its past production peak, the government has made the expansion of gold production a key objective of its economic recovery program.

The strategy has been to encourage investment in the mining sector by reforming the policy environment. In 1986 the government introduced a new coherent mining code, taxation rules, and a regulatory framework to attract private investors. A minerals commission now negotiates leases and exploration permits according to well-defined procedures.

These measures are supported by macroeconomic reforms including a significant exchange rate adjustment. Foreign capital and technical expertise have been attracted. The approach is paying off, with 1989 production figures indicating a 50 percent increase over the 1983 low point. The government also has forged strong partnerships with several private sector mining firms. In the mid-eighties the country opened its first new gold mine in forty years. This sector-specific approach appears promising. Ghanaians realize, however, that their country still has considerable problems to resolve.[12]

Nigeria: The government of Nigeria has turned its adjustment program into a national campaign, with a billboard proclaiming, "National Self-Reliance or Foreign Economic Slavery? The Choice is Ours." The purpose of Nigeria's three-year-old austerity program is to curtail what is widely perceived as excessive government spending. It is also aimed at decentralizing the economy, reducing dependence on oil and allowing free market forces to dictate economic operations. The reforms have resulted in an 80 percent devaluation of the currency, as well as greater incentives and higher prices for farmers. Food production has grown modestly, an important indicator considering that the country was a net importer of food during the oil boom.

However, the results of Nigeria's effort remain mixed. Unemployment is being fueled by industry and civil service layoffs and a steadily growing population. Real per capita annual income has fallen by 20 percent to below $300 over the last two years. Moreover, the World Health Organization reported in 1989 that malnutrition was growing at an alarming rate in Nigeria.[13]

Several lessons emerge from Nigeria's experience. Most important is the need for prudence in spending the proceeds from a boom, for governments have great trouble curtailing public spending when the prosperity ends. Adjusting the structure of an economy to reduce spending levels is also troublesome. These difficulties delayed Nigeria's response to the collapse of oil reserves and led to a buildup of foreign debt that the country could not service.[14]

A second lesson is that devaluation can promote agricultural production. A third is that considerable time is needed for any economic adjustment to take effect. Finally, adjustment must be viewed as an ongoing process; unless fiscal discipline is maintained, inflation can easily undermine the reforms, causing social unrest.

As a Nigerian economist stated recently, structural adjustment programs (SAPs) are viewed as either a sure prescription for economic health or a mocking acronym for the nation's long-suffering population. Nigeria's poor are experiencing "austerity fatigue" and many resent the tendency of donors to focus exclusively on the crisis of the moment, known in development circles as "reform myopia."[15]

Donor policies in the 1970s did, in fact, overemphasize sector investment, launching huge projects that proved to be unsustainable. Little attention was paid to the macroeconomic environment in which these ambitious projects would have to survive. Ironically, when the reality of the severe macroeconomic crisis became apparent in the 1980s, too much emphasis was placed on macroeconomic policy and too little on old and new investments, especially in infrastructure and human capital.[16]

How much to spend on social services at a time of soaring national debts and limited resources is a volatile question that divides economists and policymakers across Africa. Defenders of SAPs argue that reforms are needed to revitalize Africa's economies and make them more self-reliant. Detractors charge that the poor are bearing far too much of the burden of the austerity measures.

The idea of structural adjustment, of course, is to liberate markets so that market-determined prices reflect opportunity costs and result in a pattern of resource allocation that promotes maximum output and an optimal rate of growth. While this simplistic analysis may seem straightforward, it is the subject of continuous controversy.

In his earlier writings, Nobel Laureate W. Arthur Lewis, like most development economists in the 1950s and 1960s, was sympathetic to inflationary finance as a means to mobilize resources and accelerate growth. However, by 1988 Lewis was articulating the new consensus that had emerged on the adverse effects of inflation:

> The principal lesson we have all learned, LDC (less developed countries) and MDC (more developed countries) alike, is that inflation is a terrible scourge. But how to avoid it in face of all the pressures is yet to be seen.[17]

That is, inflation is not only the outcome of ill-informed policies, it is also the consequence of very real social pressures.

Maintaining a balance between government responsibilities and resources clearly requires a workable consensus on development priorities. However, developing countries face innate difficulties in making the necessary resource allocation decisions. The recognition that development needs to be viewed as a generalized process of capital accumulation, not only physical capital but also human and social capital, represents an important advance in our understanding of the development process.[18]

Our ability to help build an "enabling environment" to sustain previously introduced reforms, encourage the proposal and adoption of additional reforms, and enhance human capital is the challenge of the nineties that economists must address if Africa is to develop.

The final question is how can we, as an association of economists, promote development in Africa?

First, we can lobby to increase donor support and coordination.

Even though the United States spent more on foreign aid than any other nation through 1988, U.S. aid ranked next to last among industrialized nations in 1987 as a percentage of GNP. At 0.2 percent of GNP, it surpassed only that of Austria (0.17 percent) and equaled that of Ireland. The United States has a responsibility to participate in the development process, if only because of the considerable leverage it receives for each dollar donated to the multilateral banks. U.S. Treasury Secretary Nicholas Brady has pointed out that for every dollar provided to these banks, the U.S. economy gets back $9 in U.S. procurement.[19]

A recent set of developments which should be factored into the need to support increased assistance to Africa is the improved East-West relations, especially considering the move toward democratic governments in Eastern Europe. It is uncertain how these developments will affect North-South relations. However, one very real possibility is that an increasing share of the resources and surpluses of the West will be used to further improve East-West relations, with fewer resources flowing South. This trend does not bode well for Africa.[20]

Further complicating the aid picture is the proliferation of donors. At least fifty major organizations plus many more private agencies are involved in designing and carrying out aid programs.[21] Coordinating so many diverse elements is a major unmet challenge to donors and recipients alike. Economists and policy analysts have a role to play in helping to establish donor aid agendas. The small nation of Malawi can serve as a model; donors there regularly meet with each other, as well as with country officials and high-level consultants, to establish priorities and coordinate funding and implementation strategies.

Second, we can support the reduction of the protectionist measures that have been increasing in industrialized countries.

A successful Uruguay Round of GATT (General Agreement on Trade and Tariffs) negotiations is therefore essential. No reform strategy can succeed unless export markets grow vigorously and reforming countries gain access to markets in industrialized countries. This is particularly important now as developing countries increasingly implement policies that foster more open economies. A recent study by the World Bank and the IMF indicated that protectionism in the industrialized world costs developing countries twice as much in lost export earnings as they receive in development assistance.[22] Many African countries have been restrained by the Bumpers Amendment to the annual foreign operations appropriations legislation, which since 1986 has prohibited the United States from supporting a foreign agricultural production program if the commodity being produced has the potential to have a substantial impact on U.S. food exports. Moroccans and Tunisians were recently denied access to U.S. technology when they attempted to expand their citrus and phosphate industries, and a California industry group refused even to meet with Tunisians to discuss expanding their date industry.

Third, we can encourage sustainable adjustment programs.

Adjustment programs must be economically, socially and politically sustainable. This means that their design must be based on the characteristics and capacities of the individual countries, with special attention paid to the poorest segment of the population. The programs and the financing packages must also be set in a medium- and longer-term perspective to achieve the structural improvements needed. Structural change takes time.[23]

Economists have begun analyzing development problems with a standard neoclassical static model which examines the status quo and then determines goals and objectives. It has become clear, however, that countries must deal with short-term dislocations caused by reforms or their governments are not likely to endure over the long term. Economists have never been good at choosing among second best solutions; yet in many cases this is the type of analysis needed. Even economists like Elliot Berg who opposed the Lagos Plan of Action are now talking about structural adjustment with equity. This is a new policy area ripe with research possibilities that we, as economists interested in Africa, should be exploring. The Economic Commission for Africa strongly supports the establishment of a framework for longer term structural transformations of African economies, focusing on people's needs and taking full account of social welfare, equity, and employment objectives.[24]

Fourth, we can support debt reduction for the most debt-distressed countries.

It has become increasingly clear that the debt crisis will not be resolved unless debt reduction and debt service relief play a larger role in the process. Many reforms will be effective only if the debt overhang is reduced to manageable proportions. The need for debt reduction is especially acute in the poorer countries, particularly in Africa, which paid more interest to the IMF on old loans (amounting to $1 billion) in 1986–87 alone than it received in new loans.[25]

It is clear that economists and policy analysts interested in the development of Africa have a role to play in debates on the various debt relief proposals, ranging from the Baker Plan, which is aimed primarily at the Latin American countries holding mostly commercial debt, to the Brady Plan, which appears most appropriate for African countries holding debt mainly from multilateral banks. The Paris Club, which is currently developing proposals on debt relief, as well as the newly formed South Commission, can benefit from continued analysis of African development policies.

Finally, as economists we can conduct and support research efforts leading to a more productive dialogue with developing country policymakers.

Continuing research is needed on the impacts of adjustment programs. Assistance is also needed in assessing cross-country and interregional comparisons of lessons learned as the adjustment process continues.

To conclude, I would like to reiterate a sentiment expressed by Gunnar Myrdal in his Nobel Memorial Lecture in 1975 which remains relevant today:

> Even though my world view must be gloomy, I am hopeful about the development of our science. We can by (immanent) criticism in logical terms challenge our own thinking and cleanse it from opportunistic conformism. And we can widen our perspective. Everything can be studied. We are free to expand and perfect our knowledge about the world, only restricted by the number of scientists working and, of course, the degree of their diligence, brightness and their openness to fresh approaches.[26]

The challenge remains. We need to respond.

NOTE

This article is based on the Presidential Address presented to the National Economic Association on December 28, 1989 in Atlanta, Georgia.

1. Philip Ndegwa, "National Policies for Balanced and Sustainable Development in the Poor Countries: How to Avoid Involuntary Delinking," pp. 11–18, and Thorvald Stoltenberg, "Devising World Policy Options for Sustainable Growth," pp. 19–25, *Development: Journal of the Society for International Development*, 1 (1989); Peter Truell, "The World Bank Issues Gloomy Assessment on Economics of Sub-Saharan Africa," *The Wall Street Journal*, (November 22, 1989), p. A7; Jessica Tuchman Mathews, "Africa on the Decline, but the Trend can be Reversed," *The Baltimore Sun* (May 21, 1989), p. H1.

2. "National Policies for Balanced and Sustainable Development," (see note 1).

3. Clive Crook, "The Third World: Trial and Error," *The Economist* (September 23, 1989), pp. 39–44.

4. "The Third World: Trial and Error," (see note 3).

5. *The World Bank Annual Report 1989*, "The Economic Scene: A Global Perspective," pp. 20–36.

6. Economics Brief: "The Bleak Continent," *The Economist* (December 9, 1989), pp. 80–81.

7. "The Bleak Continent," (see note 6).

8. Luther Tweeten, "The Economic Degradation Process," Fellows Address to the American Agricultural Economics Association annual meeting (Baton Rouge, August 1, 1989).

9. Mike Roemer and Steven Radelet, "Macroeconomic Reform in Developing Countries," paper prepared for Harvard Institute for International Development conference in Marrakesh, Morocco (October 1988).

10. Charles Humphreys and William Jaeger, "Africa's Adjustment and Growth," (based on *Africa's Adjustment and Growth in the 1980s*, a study by the authors and their associates published by The World Bank with the United Nations Development Programme), *Finance & Development* (June 1989), pp. 6–8; "Adjustment Lending: An Evaluation of Ten Years of Experience," The World Bank (1988); Peter S. Heller, A. Lans Bovenberg, Thanos Catsambas, Ke-Young Chu, and Parthasarathi Shome, "The Implications of Fund-Supported Adjustment Programs for Poverty: Experiences in Selected Countries," Occasional Paper 58, International Monetary Fund (May, 1988); Gerald K. Helleiner (ed.), *Africa and the International Monetary Fund*, papers presented at a symposium held in Nairobi, May 13–15, 1985, *IMF*, (1987); Ravi Gulhati, *Impasse in Zambia: The Economics and Politics of Reform*, Economic Development Institute's Development Policy Case Series No. 2, The World Bank (1989).

11. "Sub-Saharan Africa: From Crisis to Sustainable Growth," p. 34 (see note 6).

12. "Sub-Saharan Africa: From Crisis to Sustainable Growth," p. 127 (see note 6).

13. Neil Henry, "Poor Feel Sapped by Nigeria Reforms," p. A1 (December 9, 1989), and "Nigeria Confronts Obstacles in the Road to Democracy," p. A39 (December 21, 1989), *The Washington Post*.

14. Catharine B. Hill, "Commodity Booms in Botswana and the Permanent Income Hypothesis," paper presented to AEA (December 1989); "Sub-Saharan Africa: From Crisis to Sustainable Growth" (see note 6).

15. "Poor Feel Sapped by Nigeria Reforms," (see note 13).

16. Robert L. Paarlberg and Merilee S. Grindle, "The Changing Political Economy of Agricultural Policy Reform: Implications for Donors," paper produced for Agricultural Policy Analysis Project, AID Contract No. DAN–4084–7–00–8304–00 (October 1989).

17. W. Arthur Lewis, "Reflections on Development," *The State of Development Economics*, Gustav Ranis and T. Paul Schultz, eds. (New York: Basil Blackwell, 1988), pp. 13–23.

18. Bruce F. Johnston, "Getting Priorities Right," proposed concept paper, Food Research Institute (November 22, 1989).

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21. "Cooperation Fosters Economic Development," (see note 19).

22. "Devising World Policy Options for Sustainable Growth," p. 22 (see note 1).

23. UNICEF, *Adjustment with a Human Face: Ten Country Case Studies*, Giovanni Andrea Cornia, Richard Jolly, and Frances Stewart, eds. (Oxford: Clarendon Press, 1988).

24. Maurice Williams, "Note on the Structural Adjustment Debate in Africa," *Development: Journal of the Society for International Development* 1 (1989), p. 33.

25. Maurice Williams, "Options for Relieving Debt of Low-Income Countries," *Development: Journal of the Society for International Development* 1 (1989), p. 54–58; David Pearce, "An Economic Perspective on Sustainable Development," pp. 17–20; Steven H. Arnold, "Sustainable Development: A Solution to the Development Puzzle?" pp. 21–25; and Stephens Dovers, "Sustainability: Definitions, Clarifications and Contexts," pp. 33–36, *Development: Journal of the Society for International Development* 2/3 (1989).

26. Gunnar Myrdal, "The Equality Issue in World Development," Nobel Memorial Lecture (March 17, 1975), reprinted in *The American Economic Review*, Vol. 79, No. 6 (December 1989).