Restarting and Sustaining Growth and Development in Africa

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Abstract

We develop a framework for thinking about how to restart and sustain growth and development in Africa. The framework has three themes --- politics and institutions, macroeconomic management, and enhancing productivity. We conclude that African governments can begin to overcome regression and decline on a sustained basis with a program that emphasizes five issues. These are public sector restraint, increased public sector savings, improved institutions, measures by which African countries can gain from globalization, and pro-active steps to end aid dependence. Focusing on these matters will help African governments simplify their development agendas and constructively engage the public sector in the task of promoting growth and development.

Keywords: Economic Development, Development Planning and Policy, Fiscal and Monetary Policy

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1. Introduction

This paper examines how growth and development can be restarted and sustained in sub-Saharan Africa (hereafter Africa). Though this matter has been extensively examined, we revisit it because even with major attempts at adjustment most African countries cannot *sustain* the reforms needed to grow and develop.[1]

Policy reversals and economic retrogression have been the norm. Massive foreign assistance has done little to change this. Perhaps it never could, given the inconsistent conditions and shifting agendas of the donor community. But, foreign assistance can make a difference — as it has in many Asian countries — *when* African governments are committed to reform (Burnside and Dollar 1997; Dollar and Pritchett 1998; Tsikata 1998).

Are we being too harsh? The management of the World Bank and the International Monetary Fund have argued that Africa is "on the move" (Camdessus, 1996; Madavo and Sarbib, 1997; Wolfensohn, 1997). In practice, however, most African governments have not made the changes that will sustain growth and development (McPherson and Goldsmith 1998).

This paper develops a framework for thinking about how to restart and sustain growth and development in Africa. Section 2 introduces the themes of the framework --- politics and institutions, macroeconomic management, and productivity. Sections 3, 4 and 5 discuss them in turn. Section 6 draws the analysis together by identifying the activities needed to support growth and development. Section 7 has concluding comments.

2. Background

The Berg report (World Bank 1981) and the *Lagos Plan of Action* (OAU 1980) marked a watershed in the analysis of Africa's economic problems. The reports admitted officially that Africa's problems were systemic, widespread, highly complex, and not amenable to quick fixes.

Spirited debate ensued on the Berg report's "orthodox" approach vis-à-vis the OAU's "heterodox" action plan. Meanwhile, Africa's difficulties intensified. In response, the World Bank produced more reports (1984, 1986, 1989, 1994a) and modified its assistance. It has emphasized governance (World Bank 1989) and capacity building (World Bank 1991), and recently argued for a "new approach" to development (Wolfensohn 1998). The IMF and bilateral donors modified their assistance strategies as well.

The Lagos Plan of Action had inquired: "What Kind of Africa by the Year 2000?" The hopeful answer was general prosperity induced by government activism and massive inflows of aid and foreign investment. The aid flowed, exceeding 20 percent of GDP for some countries. But growth proved elusive.

The Economic Commission for Africa and the OAU proposed an alternative approach to the IMF and World Bank's adjustment program (ECA/OAU 1989). That approach admitted the value of selective market liberalization but reaffirmed the importance of government efforts to “promote” development.   As non-government organizations gained prominence, they joined the debate (OXFAM 1995).

So far none of the programs has enabled any African country (besides Mauritius) to grow and develop on a sustained basis. Explanations for Africa’s continued poor performance include the effects of structural characteristics (tropical location, distance from major markets) as well as weak institutions (including ineffective leadership), poor macroeconomic management and low productivity.

The above problems are not unique although their concentration in Africa has been unusual.   Cross-country research identifies the relative importance of factors generating *differences* in growth rates across groups of countries (Radelet, Sachs, and Lee, 1997; Bloom and Sachs 1998). Table 1 reports a growth-accounting exercise for the period 1965 to 1990 for 10 countries in East/South Asia and 17 countries in Africa.   Differences between the average annual growth rates are largely explained by "demography" and "policy variables".   The former covers population and labor force growth and life expectancy. The latter covers “institutions,” “government savings rate,” and “openness”.

The statistical significance of “institutions” points to government actions that increase the effectiveness of public bureaucracies, improve the competence of public sector administrators, promote effective implementation of public sector programs, maintain accountability, and enhance governance. The significance of the “government savings rate” is evidence of the importance of policies that maintain macroeconomic balance. The variable “openness” reflects the policies that contribute to international competitiveness, raise total factor productivity, and encourage the investment needed for growth.

In aggregate terms, the decomposition exercise focuses attention on the major elements (structure and policy) that impede growth and development in Africa. Little can be done about some of them, e.g., tropics and distance, apart from making compensating changes that improve efficiency elsewhere in the economy. Much, however, can be done to remove policy-induced impediments.   Accordingly, we have been working with teams of African researchers in Ghana, Kenya, Senegal, Tanzania, and Uganda.   In each country, the teams have been addressing the question: what has to be done to restart and sustain growth and development?   They have been working with senior policy makers to identify the main issues involved, analyze them, and draw conclusions on how to move their countries forward. Non-local assistance has been confined to financial and logistical support, the sharing of cross-country experiences, and the organization of regular workshops to exchange ideas and report on progress.

The framework for our research has three themes: *politics and institutions*; *macroeconomic management*; and *enhancing productivity*.

3.   Politics and Institutions

Evidence in Table 1 suggests that institutional shortcomings have affected Africa’s economic performance.   These government or “non-market” failures are the corollary of “market failures.”

Governments fail by doing things they should not do and omitting to do things they should. Remedies for these failures are distinct. The first requires restricting the state; the second requires strengthening it. Both are politically difficult.

Most African governments became dramatically over-extended as they attempted to "promote" development. One justification for government involvement was the belief that the state could raise large amounts of resources. That happened, initially at least, but the resources were not invested efficiently. With the oil and food shocks of the 1970s, the supply of real resources fell sharply. (For oil producers the collapse came later.) Unwilling to adjust, most governments maintained their expenditures. The resulting budget deficits absorbed domestic savings that might otherwise have been productively invested. Many state-owned enterprises (SOEs) became chronic loss-makers.[2]

Errors of omission by government have received less attention, though this is changing (Brautigam 1996; World Bank 1997). The most obvious has been the failure to preserve, through leadership and policy reform, the institutional setting that would support high rates of investment. The result has been to "run Thomas Hobbes in reverse." In *Leviathan*, Hobbes discussed the condition of profound uncertainty people experience when there is no central authority. In this "state of nature," human life is "nasty, poor, brutish, and short." In Hobbes' view, people forged a social contract to escape this predicament. They agreed to submit themselves to an independent political authority in exchange for social peace and "commodious living".

What happens if the social contract is broken, as has been happening across Africa? Arbitrary borders and heterogeneous populations impart less legitimacy to African states than is true elsewhere (Englebert 1998). The most extreme examples are the collapsed states, such as Somalia or Liberia, where the social contract has unraveled. Some countries, Uganda for instance, have strong central governments whose authority diminishes in peripheral areas. In other places, such as Nigeria and South Africa, personal security is threatened even in central locations. For protection, Africans have fallen back on traditional and informal mechanisms. This second-best solution, as Hobbes understood, does not provide the conditions for flourishing markets and vibrant social interaction.

More is needed than restricting the government's role in the economy. Parallel efforts are required to provide basic public goods: a stable constitutional and legal order, as stressed by Hobbes, together with macroeconomic stability and conditions for raising productivity (including education, public health, and physical infrastructure). There have to be major improvements in governance.

The United Nations Development Program (1997: 2-3) defines governance as the exercise of authority to manage a country's affairs. According to the UNDP, good governance is participatory, transparent, and accountable. The World Bank (1994b: xiv) has a similar definition. The Bank notes that governance is most effective when procedures are clear and leaders' decisions are responsive to public demands. These definitions are consistent with classic liberal theories of what government should be and should do. Once considered culturally biased or politically insensitive, these theories have been embraced by international agencies as a guide for proper governance (USAID 1994; CIDA 1995; JICA 1995). They have gained support within Africa, too.

The assumption, familiar since the Enlightenment, is that popular involvement in an organized civil society is necessary to counter arbitrary and non-representative decisions of leaders and political authorities. Without open access to decision-makers, the majority cannot press its demands. And lacking pressure from below, leaders and governments are more likely to abuse their positions. Africa's unfortunate experiences with corrupt leaders and brutal governments largely explain why development agencies now stress the rule of law, freedom of association, respect for human rights, and democracy. Such institutions are intended to hold leaders accountable for bad economic performance. The empirical record suggests political corruption is lower under democratic conditions (Goldsmith 1999). This is not an argument for any particular system of government. Participatory politics covers many modes of representation. The basic principle is that people have to be able to take part in open debates over public policies that affect them.

During the Cold War, it was argued that participatory politics clashed with market-oriented growth, and that authoritarianism makes economic reforms easier. These views have lost ground (Bhagwati 1995). Autocratic regimes in Africa have a poor record of sustained reform. African democracies do no worse than the regimes they replace (Sandbrook 1996). Furthermore, historical evidence shows that poor countries can develop under democracy, and that democracy can survive in poor countries if they develop (Przeworski and Limongi 1997; Chaudhurie-Aziz 1998).

The rub is that improving governance can be slow. Africa has been edging toward more competitive systems since the fall of the Berlin Wall, but political reform has been fragile (Thomas 1996; Joseph 1997). It is difficult to restructure political systems that have hardened around personalized power, arbitrary and unaccountable decision-making, widespread dishonesty, and repression of dissent. Like Gresham's Law, bad institutions crowd out good ones.

In Africa, interest groups have not played the positive role ascribed to them by pluralist political theory. The most important groups have been based on ethnic and family loyalties. Modern interest groups that cut across ethnic and regional divisions, such as trade associations or labor unions, have yet to take a major part in sustained economic and political reform.

All public policies, including economic reform, create winners and losers. Important constituencies in Africa often lose from economic reform, especially in the short term. These groups are apt to mobilize to protect themselves from adverse outcomes. State intervention has created economic rents that officials use to maintain patronage and retain power. Typically the dominant coalition extracts rents from the rural sector, which lacks access and influence, and uses the resources to buy off urban opposition and finance government insiders. Disfavored groups are either left out of the political equation or violently repressed (Sandbrook 1986; Ayittey 1992).

Economic liberalization frequently implies political realignment in Africa. The donor community is correct to emphasize governance, thereby reinforcing incipient domestic political demands for a fairer sharing of resources. Still, the ruling elite seldom embraces economic reforms. They make the concessions they must to gain access to donor funds while simultaneously preserving as much of the *status quo* as possible to stay in power. Yet, without economic reform, the economy collapses.

It would be reassuring to believe that international agencies will continue emphasizing governance. Past practice raises doubts. Critics of the World Bank assert that it has too many ideas and too few priorities (Sachs 1996). Other donors have been capricious as well, responding to demands from their own constituencies to tackle the latest fad. Lessons are forgotten, mistakes are repeated, and follow-through is lacking. Members of the international development community rarely pause to consider whether their shifting and (often) contradictory agenda is manageable in Africa. None of the stylish approaches to development is necessarily wrong. There are far too many initiatives, most of which are not given the time or attention before being replaced or deflected. The approach we suggest below seeks to simplify the development agenda and improve the effectiveness of each of its components.

4. Macroeconomic Management

Accountable public institutions are essential for sound macroeconomic management (Collier 1991; Collier and Patillo 1999). At a minimum, macroeconomic management should be guided by the medical maxim "do no harm."

For almost three decades African countries have had severe macroeconomic imbalances. These are reflected in high inflation rates, overvalued real exchange rates, capital flight, currency substitution, foreign debts that can only be serviced with foreign aid, large public sector deficits, and insolvent financial organizations. Many factors contributed to these problems. Over-ambitious development programs financed through domestic credit and foreign loans have played a major role. Governments have been unwilling to adjust fiscal and monetary policies to match changes in terms of trade and other shocks. Attempts to maintain unrealistic exchange rates reduced exports and led to capital flight (Ghura and Grennes 1993). Low, often negative, real interest rates raised the incentive to move capital abroad. Interest rate ceilings and credit allocation programs wasted scarce capital and led to bank insolvency.

Dealing with these problems requires the reorientation of macroeconomic management. That effort involves four interrelated tasks. The first is to achieve balance between domestic demand and potential output in ways that lead to the highest utilization of resources consistent with price stability. The second is to maintain an exchange rate that promotes rapid export growth and a sustainable current account. The third task is to develop and maintain a well-ordered financial system that balances aggregate saving and investment and provides an efficient, market-based allocation of available capital. The fourth is to ensure that public and private sector borrowing remains within prudent limits.

Exchange Rates: With appropriate macroeconomic policies and strong political support, a fixed exchange rate may contribute to economic stability and improve the climate for investment.

But, fixed exchange rates can become overvalued and the effort to maintain them creates instability. Moreover, recent Asian experience has shown that success in maintaining a fixed exchange rate may attract destabilizing capital flows.

However, it does not follow that floating exchange rates provide a painless solution to balance of payments problems. In principle, floating rates require minimal intervention since markets move the exchange rates to keep the external accounts in balance. That does not, of course, allow governments to conduct their monetary and fiscal policies without concern for trade and payments considerations. Exchange markets respond quickly to actual or threatened inflation (Quirk 1996).

The long lags between exchange rate movements and the resulting changes in imports and exports exacerbate exchange rate volatility. Moreover, exchange rates are also driven by variations in foreign aid and remittances, as well as by interest rates and expectations about changes in capital markets. They also respond to expectations of policy change and fears of political instability.

These considerations make movements of nominal and real exchange rates difficult to explain and to forecast (Duesenberry *et al.*1994). In time, exchange rates *do* respond to changes in relative prices and they *do* respond to changes in the factors underlying the supply of and demand for commodities (Dollar 1992; Rodrik 1997). However, there may be considerable unexplained and unwanted variation in exchange rates and trade flows over the short-term. These will be minimized if other aspects of macroeconomic management contribute to stability.

Fiscal Policy: Fiscal policy is too slow and cumbersome for short run demand management. Most of the time governments must rely on monetary policy for demand management while ensuring that fiscal policy does not add to the difficulties. But fiscal policy has a more positive role to play in response to shocks. When the terms of trade deteriorate or crops fail, as often happens in Africa, the decline in real national income must be matched by some combination of reduced domestic absorption, borrowing, or aid. Reductions in budget expenditures must play a role in the adjustment. Failure to make that adjustment in the 1970s created debt and balance of payments problems that still burden African countries.

Over the long term, fiscal policy contributes to economic growth through the efficient use of resources available through taxation, foreign aid, and foreign investment (Easterly, Rodriquez and Schmidt-Hebbel 1994; McKenzie, Orsmond, and Gerson 1997). Capital is scarce in Africa and should not be wasted. In their budget management, governments should run a current surplus (HIID 1997). Capital expenditures should only exceed that surplus when it can be shown that the expenditures have a higher social return than private alternatives (Squire 1989). With levels of debt they cannot service, African governments have no justification in borrowing to finance deficit spending.

Tax policy should be designed to raise revenue with as few distortions as practicable. The heavy reliance on trade taxes in Africa creates serious distortions. Government expenditures are typically overburdened by wage and debt service payments. One goal of reducing debt should be to release resources to ensure adequate funds for operations and maintenance thereby raising the efficiency of capital.

Monetary Policy: Monetary management becomes very difficult if the central bank is expected to provide credit to finance government deficits. The availability of that money "tap" undermines budget discipline and often requires the central bank either to give up controlling inflation, or to crowd out private borrowers using high interest rates. Similarly, borrowing by SOEs has seriously weakened banking systems across Africa. It has created moral hazard, encouraged imprudent lending, and generated large losses for banks and governments.

In Africa, as elsewhere, the central objective of monetary policy is to achieve the fullest utilization of resources consistent with an acceptable inflation target (Fuhrer 1997). Even the central banks which have publicized their inflation targets also recognize the importance of output and employment considerations (FRBKC 1996; Masson, Savastano and Sharma 1998; Bernanke and Mishkin 1999). They accept gradual inflation and appreciate the need for monetary ease when demand weakens. However, the use of inflation targets is meant to give notice that central banks will not allow supply shocks to set off wage-price spirals. It also affirms that they will not accommodate budget deficits.

Unlike fiscal policy, monetary policy can be continually adjusted without lengthy decision or implementation lags. Unfortunately, the lags between monetary actions and their effects on economic activity are long and variable. This complicates monetary management due to the need to forecast economic conditions many months ahead.

Central banks have only one main policy instrument. They can control the supply of reserve money, usually by means of treasury bill auctions or open market operations. That allows them to control either market interest rates on short-term securities or the money supply. Currently most central banks use their indirect control of short-term interest rates as the primary policy tool. They raise rates when they believe that too rapid demand growth will generate inflation and reduce them when they fear slow output growth.

Because of the difficulty of predicting demand movements and the response of prices to these movements, together with our imprecise knowledge of the effects of interest rates, central banks cannot prevent fluctuations in output, employment or prices. But, in the absence of major shocks a gradualist monetary policy together with a sound fiscal policy can be expected to keep the economy on a stable path.

Although routine monetary operations pose difficulties in Africa, as elsewhere, the core central banking problems arise from supply shocks, balance of payments problems, and fiscal imbalances. An early response to shocks is required because inflation caused by excess demand will continue as long as price increases are matched by increases in nominal demand. Moreover, if the inflation is allowed to persist, expectations of continued inflation become established. Subsequent price rises make stabilization more difficult to achieve.

Financial System: An important concern for all African central banks is the financial system. After years of mismanagement, the banking systems of many African countries are being restored to solvency, supervision is improving, and central banks have moved toward indirect control of the supply of money and credit (Duesenberry and McPherson 1992; Alexander, Balino, and Enoch 1996). Even with these changes African banking systems will still directly serve only a small segment of the economy. When working well, they provide a safe haven for those who wish to save in financial form rather than in real capital.

Financial stability is essential for efficient intermediation and financial deepening. African financial markets remain thin with few opportunities for the expansion of specialized organizations such as merchant banks and finance houses. African governments have complicated the situation by attempting to promote financial development through various "supply-leading" financial initiatives. These have not worked since financial development largely depends on the expansion of markets and the reduction of intermediation costs (McKinnon 1973; North 1997). These, in turn, require economic liberalization and mechanisms that more closely integrate African economies with the global financial system.

Capital Flows: A major objective of restoring financial stability is to reverse the trends in capital flight and currency substitution (Bhattacharya, Montiel and Sharma 1997; Gastanga, Nugent and Pashanova 1998). African countries now have long experience with capital outflows. We know from IMF and other data that Africans residents hold large deposits in foreign banks.[3] Those offshore investments represent African savings that might have been usefully invested at home. Any African country that can make investment conditions attractive enough to induce its citizens to bring their wealth home will raise investment and accelerate growth. Indeed, this is the first step in attracting foreign direct investment.

To end capital outflows and encourage the return of flight capital, African governments have to rebuild confidence in the future of their economies. This requires, among other things, price stability, a consistent approach to exchange rate management, and monetary and fiscal policies that help countries bring their external debt under control.

Debt Management: There have now been many attempts, mostly by the donor community, to resolve Africa's debt problem. Initiatives include selective debt write-downs, write-offs, and concessionary refinancing. The most recent program for Highly Indebted Poor Countries (HIPC) has been seen as a "debt exit" strategy for some countries. The economic decline following the Asian crisis has reduced the prospect that African countries will grow at rates needed for such an "exit" to occur.

In principle, net aid flows are large enough to cover the debt service payments for most countries. There are frequent delays in those flows due to donor disbursement procedures or the problems of meeting conditions attached to aid. External debt is only part of the problem. Many African countries have large stocks of domestic debt due to past deficit financing, SOE losses, and loan guarantees that were called.

These debts are so large they narrow the options for macroeconomic managers. Debt is no longer a "cushion" for current operations. The shortage of foreign exchange reserves places greater stress on the need to adjust. African governments have to be far more pro-active in addressing their debt problems. The “aid exit” strategy suggested below is also a “debt exit” strategy.

None of the above activities is independent. Monetary and fiscal policies, exchange rate and debt management require coordination. But, interpretations of what is involved vary. In the franc zone, the regional central banks dominate monetary policy and have a role in determining fiscal limits for member countries. The exchange rate is fixed and non-negotiable. In other African countries, governments determine fiscal policy, strongly influence monetary policy and, with few exceptions, manipulate their exchange rates.

Some countries have sought a more rational approach to macroeconomic policy by granting their central banks independence. In practice, the impact of central banks on policy rarely depends on their statutory position. Central banks do not usually act in ways that are strongly opposed by their governments.[4] More important are the governor's political influence and the central bank's reputation for economic expertise.

5. Enhanced Productivity

Institutional reform and prudent macroeconomic management can provide a stable setting for growth and development but they do not, in themselves, increase output. The sustained growth of output requires the accumulation of human and physical capital (so as to "embody" new technology and new information) and continued increases in the efficiency of resource use.

Important determinants of Africa's poor growth performance have been low rates of accumulation (reflecting the low savings rate) and inefficient resource use. This is evident from the aggregate data. Over the period 1975 to 1996, real output, the labor force, and the supply of capital (derived from gross investment data) increased at annual rates of 2.2, 2.6, and 2.1 percent, respectively.[5] Based on these data, total factor productivity rose marginally and labor productivity, i.e., output per worker, declined. By contrast, there were solid gains in total factor and labor productivity outside Africa during the same period. These have been essential features of Africa's “marginalization” within the world economy (Collier 1995, Yeats *et al.* 1997, Rodrik 1997).

Increasing the Supply of Productive Resources: To increase the supply of productive resources across Africa, the rate of investment has to rise sharply. Governments cannot borrow their way to prosperity. They are already overburdened with debt and, by running deficits, augment it. Nor can they expect international assistance much beyond the increases of the last two decades. Net aid to Africa (excluding Nigeria and South Africa) increased from 5.0 percent of GDP in 1975 to 10.1 percent of GDP in 1996.[6] Finally, instability and shrinking markets have led most private investors to view Africa as a last resort rather than the "last frontier." The additional resources needed to sharply accelerate the rate of investment will be difficult to find.

Nonetheless, an immediate response could be made through public sector savings. For the government, this would require changes in fiscal policy that eliminate the budget deficit. Many opportunities exist. African governments have too many overseas missions. Their officials travel abroad too often with too little effect. Military budgets are excessive. Public sector capital depreciates rapidly because of poor maintenance. And, losses due to corruption by public officials are large (IRIS 1996; Bardhan 1997). Furthermore, public revenue is reduced through tax fraud, kickbacks, the non-recovery of debt to the public sector, and tax concessions based on cronyism. SOEs can respond similarly as well. They can eliminate losses by selling or closing loss-making activities.

Over time, the government's domestic efforts to mobilize resources will be enhanced by the effects of financial deepening (as the macro economy stabilizes) and residents begin to repatriate flight capital. These, in turn, will stimulate flows of foreign direct investment.

A further boost to the supply of productive resources will occur through measures that reduce the incentives for skilled workers to emigrate. Throughout Africa, many skilled workers left rather than tolerate the excesses of one-party states and autocratic leaders (Sandbrook 1986; Ayittey 1992, 1998). Many found local salaries and conditions unacceptable. These economic refugees --- doctors, teachers, university lecturers, and accountants --- have been among the most productive, motivated, and innovative workers.

How long it will take to make a substantive difference to the supply of productive resources is difficult to predict. The main determinant will be the pace at which local and foreign investors become convinced that African governments are committed to sustained economic reform. Donors can support this process, but only to the extent that African governments continue to take the lead.

Raising the Efficiency of Resource Use: Africa's declining labor productivity is directly related to institutional weaknesses and macroeconomic problems noted earlier. The effect can be described as "running Adam Smith in reverse" (parallel to the earlier reference to Hobbes). Smith emphasized the efficiency gains associated with specialization. He also noted that the degree of specialization and division of labor depended on the "extent of the market"[7] (Goldsmith 1995).

Those advantages have been lost across Africa through collapsing real effective demand, imploding markets, and declining business opportunities. Individuals and firms have found that diversification is essential to spread their risks and minimize the decline in their incomes. Such "safety-first" or "coping" strategies make sense for individuals even though they raise unit costs and reduce total production.

Many farmers, for example, have selectively withdrawn from the cash economy and expanded their subsistence-based activities (crops and livestock). That approach increases their changes of survival at the cost of declining production and productivity.[8] Agricultural productivity has been seriously undermined by over-taxation in various forms: price controls, rigged exchange rates, pan-seasonal and pan-territorial pricing of outputs and inputs, marketing restrictions, export controls, and high protection for manufacturing (World Bank 1981:45-49; ECA/OAU 1989:2-3; Eicher and Baker 1992). Subsidies on fertilizer, fuel, irrigation water, and "cheap" credit have provided inefficient and incomplete offsets. With precarious food supplies and rising populations, it is essential that farm output throughout Africa be increased.[9]

Removing the policies that adversely affect agriculture will help raise productivity and output. But, the full benefit of a constructive agricultural policy cannot be obtained without substantial investment in agricultural infrastructure and rural health and education. Such changes begin to redress poverty in Africa while providing a foundation for countries to move into labor-intensive manufactured exports.[10]

Deteriorating education standards have lowered productivity (Freeman and Lindauer 1998). Workers entering the labor force in many sectors have fewer skills than their predecessors. Employers have adjusted by fragmenting tasks and providing additional training. Both adjustments have raised costs. Shrinking markets and declining economic activity provide new workers with fewer opportunities for "learning-by-doing," reducing the scope for innovation and initiative.[11] A related problem has been the decline in the quality of management. The reduction in business activity has diminished the scope for grooming future managers. For their part, managers have been pre-occupied responding to crises, diverting their attention from the challenges of promoting growth.

Productivity has also been adversely affected by financial instability. The lack of financial development, noted above, has kept intermediation costs high. Capital which might have been invested locally has been transferred abroad. Furthermore, the financial disruption associated with deficit financing and unsustainable levels of debt has eroded the confidence needed to stimulate investment, innovation, and growth.

Opportunities for raising productivity have been limited by the lack of regional cooperation in Africa. The Global Coalition for Africa (GCA 1996) reported that more than 200 organizations dealt with regional cooperation in Africa. None functions in ways that expand regional markets. Most countries belong to several regional groups creating duplication and confusion (Gibb 1998).

Finally, bilateral trade relations in Africa have done little to enhance the confidence and stability needed for raising investment and productivity. Disputes are common among neighbors. These have restricted cross-border trade and commerce denying producers and consumers the benefits of local comparative advantage.

6. A Framework for Restarting Growth

To restart and sustain growth and development, five issues are crucial:

- Public sector restraint
- Government saving
- Institutional deepening
- Constructive responses to globalization
- Ending aid dependency

Public sector restraint: To redress the excesses of the past, African governments have to permanently reduce what they attempt to accomplish. Few governments have the capacity to venture beyond education, health, infrastructure, an effective judicial system, and sound macroeconomic management. Priorities have to be established and mechanisms (sale, leasing, greater private sector competition) have to be found for disengaging from non-priority areas (Bennell 1997; World Bank 1997). Government activity should not continue to subtract value.[12]

Government as Saver: A practical indication of public sector restraint will be a sharp rise in government savings. Development specialists used to stress this point (Heller 1954; Meier 1970:190-210). Few governments took heed. But, without large sustained increases in savings, African governments have no *permanent* way out of getting out of debt or moving beyond aid.

Institutional Deepening: Most successful economies are characterized by popular input to public decisions, competent civil services, rule of law, effective financial supervision, and prudent macroeconomic management. None of these institutions evolved overnight. All such institutional development, indeed *all* development, is "work in progress."

This is especially the case with leadership. Vital at all times, effective leadership has a special role of maintaining a growth-oriented focus when key institutions are weak. An enlightened leader would encourage those institutions and foster a setting in which economic management is both efficient and accountable.[13]

Responses to Globalization: The strategy of relying on "aid not trade" for three decades has bankrupted most African countries and "marginalized" the continent. Opening up involves risks, particularly when international markets become unstable (FRBKC 1997; Pill and Pradhan 1997; Knight 1998). Nonetheless, the benefits of expanding markets and increased specialization created by trade greatly outweigh the advantage that might accrue to any African country on the basis of its own real effective demand (Reisen 1989; Goldsbrough, *et al.* 1996; Kreuger 1997; OECD 1998).

A constructive response to globalization will require African governments to shape their policies starting from the constraints and opportunities within the global economy. Such an approach does not "limits the sovereignty" of African governments. In reality, debt, deficits, and declining real incomes impose far harsher limits.

Ending Aid Dependency: There is now little doubt that foreign aid only works when governments are dedicated to reform (Orme 1995; Dollar and Pritchett 1998). But, breaking out of the "tangled web" that exists between African governments and donors is difficult. One approach would be for all African governments to devise their *own* medium term strategies for working themselves off aid. Even with such strategies, aid to Africa would not immediately diminish. It will take time and resources to deal with debt and reconstruction. Moreover, emergencies will always require a special response.

Nonetheless, the process of designing an aid exit strategy will be invaluable for African governments. It will focus attention on the changes in local policies, institutions, and links with donors needed to move African countries beyond aid. Properly conceived, an "aid exit" would be a "debt exit" strategy as well.

7. Concluding Comments

To restart and sustain growth and development, African governments should take the initiative. Several issues are important. First, economic reform has to be sustained. Start-stop reform is a dead-end. Second, all African governments should design and begin implementing an aid exit strategy. Third, African governments should focus on measures that stimulate accumulation and raise productivity. Their own operations provide an ideal starting point. Fourth, the organizations central to economic management have to be strengthened. Fifth, African governments should recast their policies so as to take advantage of globalization. There is no future in isolation and disengagement.

Bringing these strands together requires leadership. Restraint is essential and leaders must be held accountable for their performance.

A report by the European Commission (1996: iv) on relations between the European Union and the Africa, Caribbean and Pacific (ACP) countries stated: “The colonial and post-colonial periods are behind us and a more politically open international environment enables us to lay down the responsibilities of each partner less ambiguously.” For African governments, one responsibility is a full-scale effort to restart and sustain growth and development. This paper provides a framework for beginning that process. Meeting the challenge will not be easy. However, it will be much easier than if stagnation and decline were to continue.

Table 1. Contributions to Growth Differentials Between East/Southeast Asia and Various Regions, 1965-90 (percent, annual average)

	Contribution of each variable to the difference in Per capita growth relative to East/Southeast Asia		
	South Asia	**Sub-Saharan Africa**	**Latin America**
Initial Conditions	0.3	0.7	-1.2
Initial GDP per capita	0.5	1.0	-1.2
Schooling	-0.2	-0.4	-0.1
Resources and Geography	0.2	-1.0	-0.6
Natural Resources	0.1	-0.2	-0.2
Landlocked	0.0	-0.3	-0.1
Tropics	0.5	-0.2	0.0
Coastline/land area	-0.3	-0.3	-0.3
Policy Variables	-2.1	-1.7	-1.8
Government Savings Rate	-0.4	-0.1	-0.3
Openness	-1.2	-1.2	-1.0
Institutions	-0.5	-0.4	-0.5
Demography	-0.9	-1.9	-0.2
Life Expectancy	-0.5	-1.3	0.1
Growth in working age population	-0.3	0.1	-0.2
Growth in total population	-0.2	-0.7	-0.1
Difference in:			
Predicted Growth	-2.5	-3.9	-3.8
Actual Growth	-2.9	-4.0	-3.9

Note: The ten economies in the sample from East/Southeast Asia are Hong Kong, China, Singapore. Korea, Taiwan, Thailand, Malaysia, Indonesia, the Philippines, and Papua New Guinea.
Source: Radelet, Sachs and Lee (1997).

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Endnotes

[1] Without rapid growth and development, African countries will remain “wards of the international community” (Krugman, 1989: 184).

[2] An example is Zambia Airways. In the three years before being shut in early 1995, it had lost more than $100 million. Closing the airline raised national saving and GDP and increased the supply of foreign exchange.

[3] A study by Ibi Ajayi (1997) suggests that capital flight from Africa has been modest. This contradicts numerous other studies showing the opposite (Collier and Gunning 1999). Revelations that the former Nigerian dictator Sani Abacha had (at least) $750 million abroad indicate that even these estimates need revision.

[4] There is now a large literature on central bank independence (Goodhart 1994; Jenkins 1996; Blinder 1998). All of it favors the trend to "freeing" the central bank of government influence. Here, the best is the enemy of the good. In practice, governments and central banks are mutually dependent. Effective macroeconomic management is impossible without their joint cooperation.

[5] Sources are *World Development Indicators* 1998 CD-ROM and *African Development Indicators* 1998/99.

[6] *African Development Indicators* 1998/99, Table 12.9. South Africa and Nigeria are excluded since both received minimal amounts of aid.

[7] Smith wrote (Smith 1776, Skinner edition 1979:121):

> When the market is very small, no person can have the encouragement to dedicate himself entirely to one employment, for want of the power to exchange all that surplus part of the produce of his own labour….

[8] Block (1994) argued that productivity measured in “wheat units” had not declined in Africa. This is *not* reflected in the food security or health data (*African Development Indicators* 1998/99 Tables 8-5, Part 13). Agricultural productivity has improved in some areas but it has been localized (Schioler 1998).

[9] *African Development Indicators* 1998/99 Tables 2-17, 5-35

[10] One clear lesson from Asia's "emergence" is that rapid increases in agricultural productivity preceded the shift to manufactured exports (AsDB 1997:104-106).

[11] Ironically, none of the mainstream growth theorists has seen the possibility of economic regression through “incapacity-through-inactivity” (cf. Solow 1997). This outcome would emerge from running an endogenous growth model backwards.

[12] Dealing with redundant public servants has delayed labor market reform across Africa. One scheme would be to identify redundant workers and keep them on the payroll at a "base" level of pay. These workers would contribute to improved efficiency by simply staying out of the way. This arrangement would be significantly cheaper and more effective than most redundancy schemes now in place.

[13] One area that has so far been poorly addressed has been the organizational consequences of the HIV/AIDS pandemic. Organizations are under severe stress through the loss of staff, the waste of staff time, the high cost of training, and increasing opportunism through the break down in accountability. Additional stress is being added by the requirements of reform, most of which add to rather than remove administrative and analytical burdens.