

Economics 172
Issues in African Economic Development

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Issues in African Economic Development

Lecture 21 – April 10, 2007

Outline:

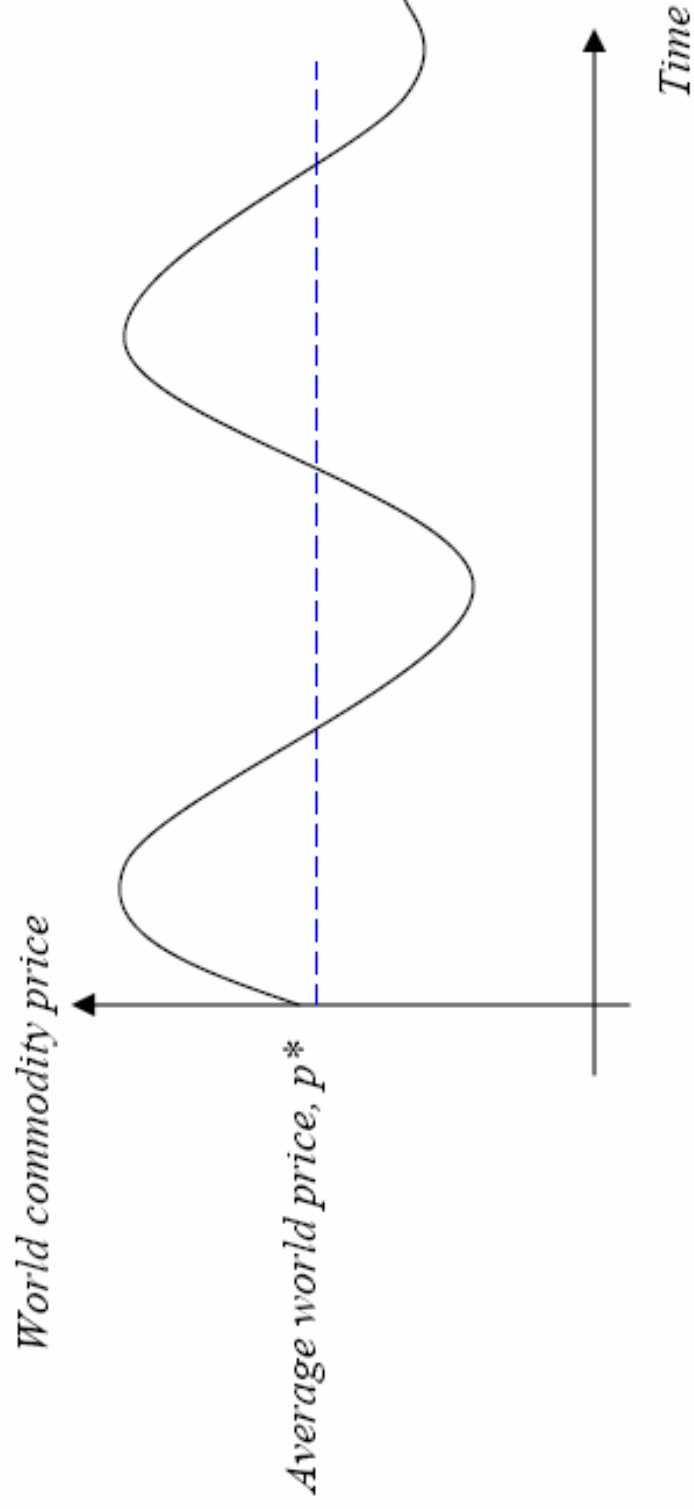
- (1) Bates (2001) on agricultural marketing policies**
- (2) Easterly (2001) on structural adjustment**

Agricultural marketing in colonial Africa

- Agricultural marketing boards can in theory insure farmers against price fluctuations, allow the government to invest in new technologies, etc.

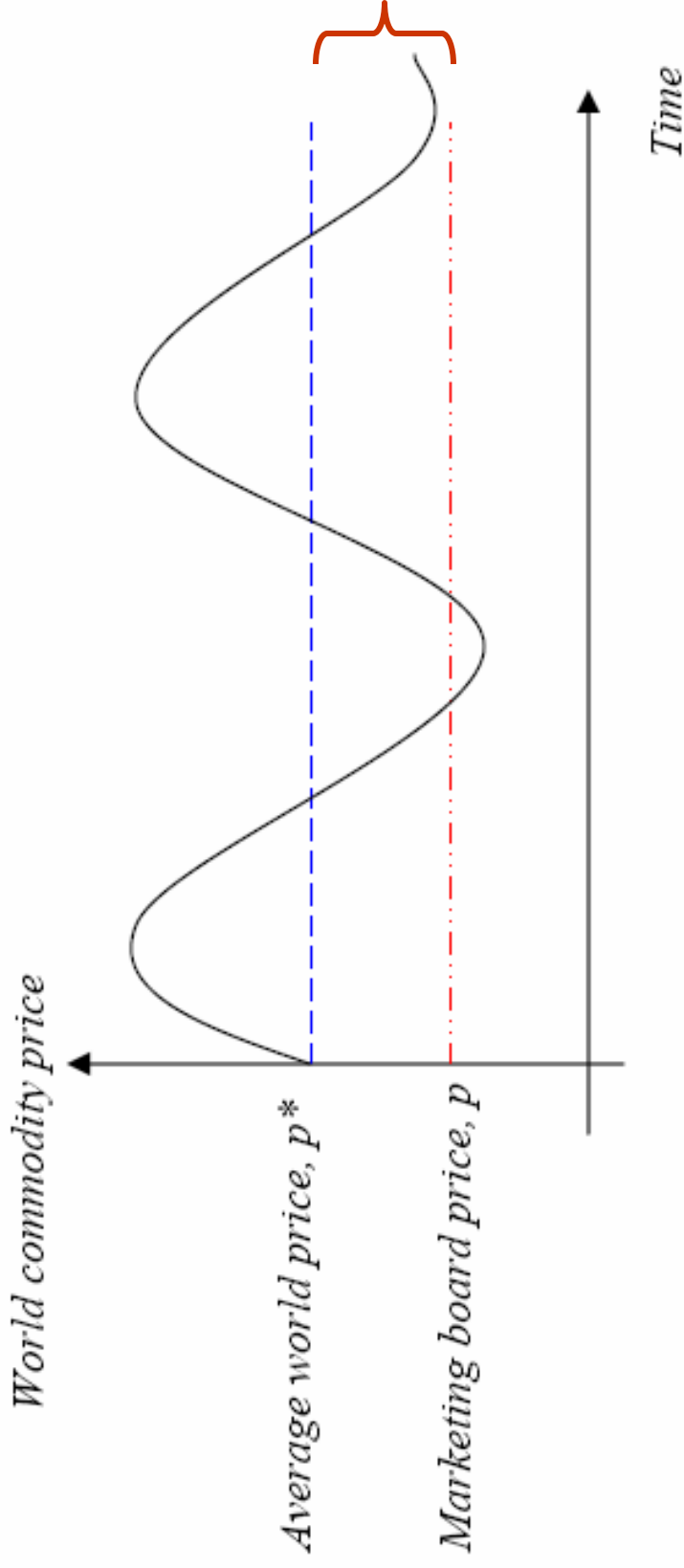
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- However, in practice in colonial Africa marketing board prices were set far below world prices, leading to a massive transfer of income from African farmers to European empires, particularly during WWII
- Post-independence governments (after around 1960 in most cases) continued the policy of “squeezing” peasant farmers in order to benefit urban residents and boost government revenue

High taxation rates on African farmers

| <u>Country</u> | <u>Crop</u> | <u>Year</u> | <u>% of World Price</u> |
|----------------|-------------|-------------|-------------------------|
| Nigeria | Palm oil | 1971-72 | 56 |
| Nigeria | Cotton | 1972-73 | 43 |
| Nigeria | Cocoa | 1976-77 | 66 |
| Ghana | Cocoa | 1962 | 65 |
| Senegal | Groundnuts | 1972-73 | 30 |
| Tanzania | Cotton | 1974-75 | 41 |
| Tanzania | Coffee | 1976-77 | 46 |
| Kenya | Coffee | 1975-76 | 93 (estates) |
| Kenya | Coffee | 1975-76 | 64 (cooperatives) |

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 - (5) Urban residents and other net agricultural consumers
- The big losers from the policy: African farmers – the majority of the population in every African country
- Agricultural purchase prices are often not set by markets in the U.S. either: U.S. farmers receive huge subsidies (opposite of policies Bates 1981 describes)

Urban versus rural politics

- There is a consensus that most African leaders focused on urban politics rather than rural control during the postcolonial period – a continuity from the precolonial and colonial periods (Herbst 2000)

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- There is a consensus that most African leaders focused on urban politics rather than rural control during the postcolonial period – a continuity from the precolonial and colonial periods (Herbst 2000)
- Imagine that the probability of a leader retaining power is increasing in both urban and rural income, but is more sensitive to urban incomes:

$$\text{Prob (Retain Power)} = F(Y_{\text{URBAN}}, Y_{\text{RURAL}})$$

where the change in the odds of retaining power with urban income is $\partial F / \partial Y_{\text{URBAN}} > \partial F / \partial Y_{\text{RURAL}} > 0$

Economic crisis of the 1970s-1980s

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- (4) High rates of inflation
- (5) Bloated state bureaucracy
- (6) Inefficient state industrial sector
- (7) High tariff rates, extensive foreign exchange controls

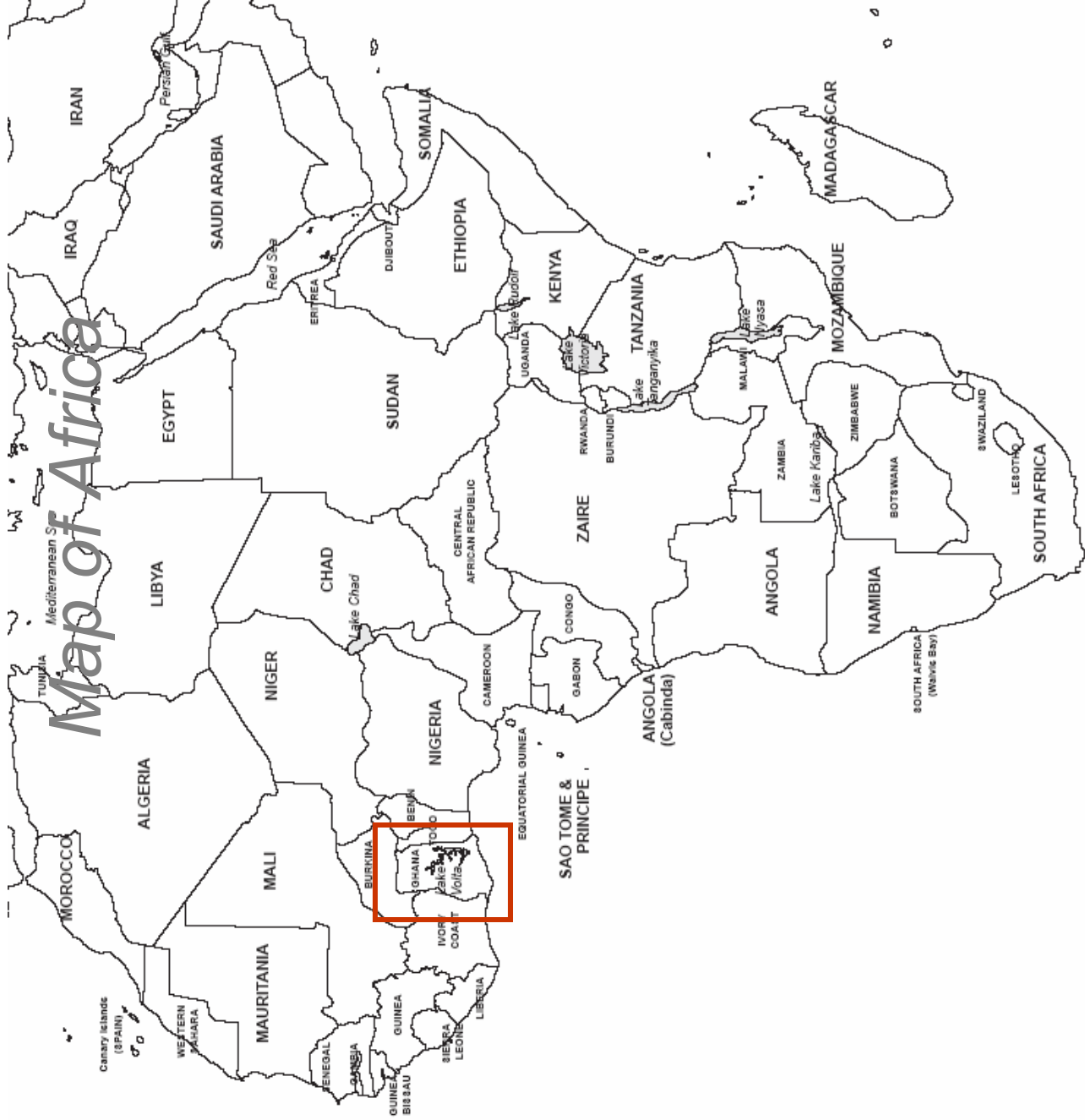
International policy changes in the 1980s

- International donors, like the World Bank and International Monetary Fund (the “Bretton Woods Institutions”) began imposing *conditionality* on loans, in the form of economic reforms. The idea was no more loans for countries pursuing bad economic policies
- The package of reforms they advocated became known as *structural adjustment*

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- The package of reforms they advocated became known as *structural adjustment*
- The debate over structural adjustment and foreign aid policy more generally is our next focus

The Case of Ghana in the 1980s-1990s



The Case of Ghana in the 1980s-1990s

- Structural adjustment reforms in Ghana, 1980s:
 - Agricultural price controls reduced, agricultural marketing boards gradually downsized or disbanded (including “Cocobod”)
 - Foreign exchange controls and tariffs reduced
 - State bureaucrats and industrial sector workers laid off, state enterprises downsized or privatized

Structural Adjustment Impacts

- Possible benefits of Structural Adjustment in Ghana:
 - Economic growth increased (becoming slightly positive, 1-2% annual per capita growth). Average per capita growth from 1961-1983 was -1.6%
 - Agricultural production began growing again
 - Imports and exports (including in agriculture) grew, e.g. fresh fruit for European markets
 - Inflation fell to low levels
 - Budget deficits reduced
 - Growth in “civil society”, civic organizations
 - Political democratization (may not be causal)

Berry (1997) on agriculture in central Ghana

- Berry studies the Kumawu region, in Ashanti territory
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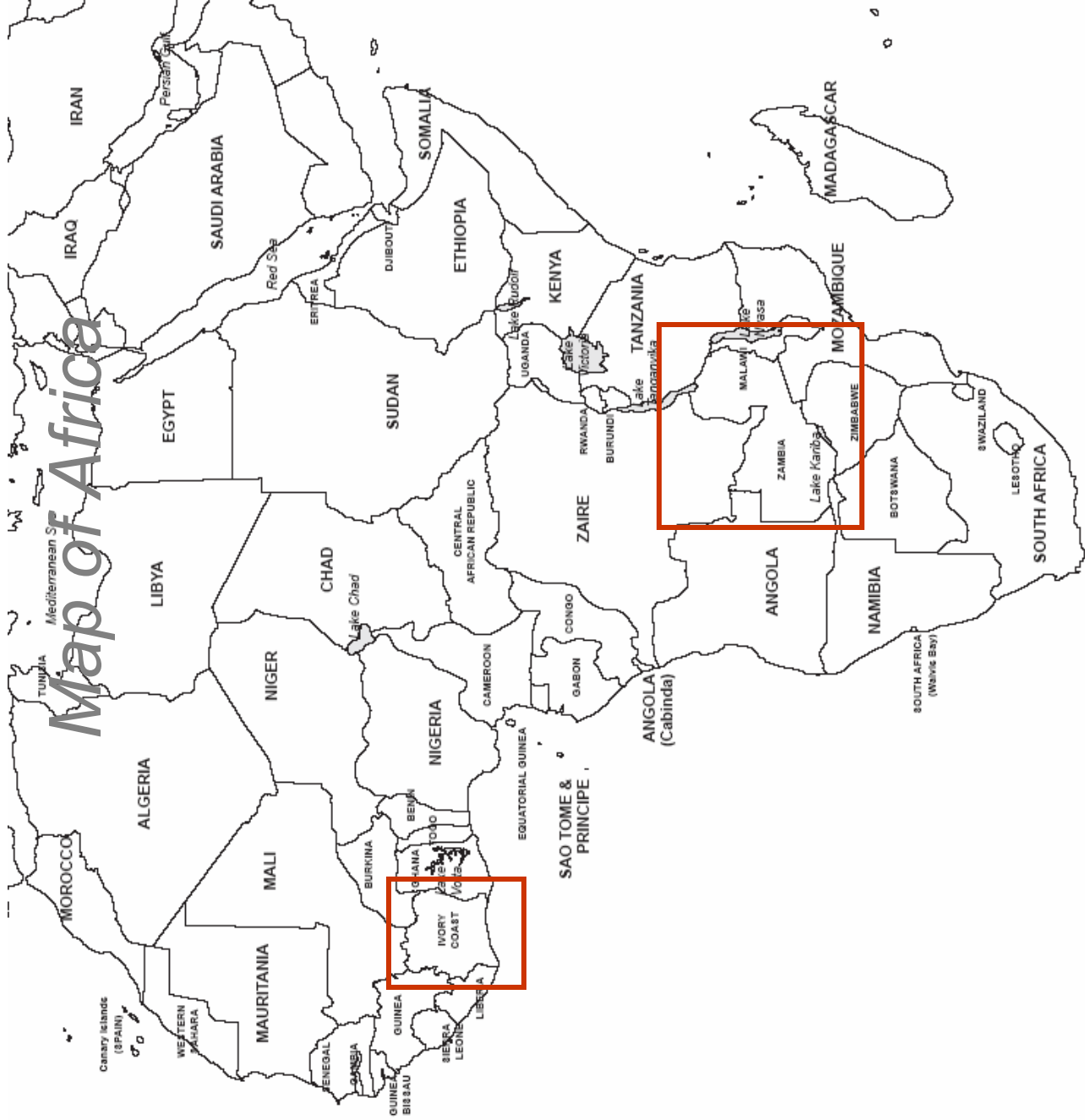
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 - (1) More exposure to market price fluctuations
 - (2) Less access to formal credit in rural areas
 - (3) “Land property rights” reforms largely unsuccessful
 - (4) Economic growth still negative on the continent as a whole (the reforms can’t be *that* successful)
 - (5) An assault on national sovereignty?

Easterly (2001) on failed reforms in Africa

- Countries received dozens of loans without actually implementing any reforms (e.g., Zambia, Ivory Coast)
 - African countries received 6 IMF Structural Adjustment loans on average in the 1980s



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- Lenders (like the World Bank) have incentives to make large loans, but few incentives to carry out serious evaluations of their programs
- There is basically no cross-country empirical evidence that increased foreign aid improves economic performance in less developed countries (despite claims by Jeff Sachs)

Leonard and Strauss (2003) on debt and aid

- In fact foreign aid may have negative effects on economic policy, local politics, and ultimately growth in the long-run:

“Over time, foreign aid also contributes to weak states. Rather than developing domestically oriented institutions, Africa’s state officials orient their actions externally. ... Western aid is sometimes thought of as a restorative response to colonialism and the slave trade. However, Africa’s high levels of ODA [overseas development assistance] had effectively extended colonial patterns of governance.” (page 30)

- For next time: continue readings from weeks 12-13

Whiteboard #1

Whiteboard #2

Whiteboard #3

Whiteboard #4

Whiteboard #5

