Economics 172

Issues in African Economic Development

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Issues in African Economic Development

Lecture 22 – April 12, 2007

Outline:

(1) Easterly (2001) on structural adjustment

(2) Berry (1997) on Ghana

(3) Trade rules and development: the case of cotton

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

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  - Lost monopoly over coffee and nuts in 1991
  - Multiple cocoa buyers allowed starting in 1993, today there are 18 licensed private sector buyers
  - Cocobod staff 48,000 (!) in 1987 → 10,000 today

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  - Cocobod staff 48,000 (!) in 1987 → 10,000 today
  - Prices paid to farmers up dramatically
  - Ivory Coast instability boosted world cocoa prices

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

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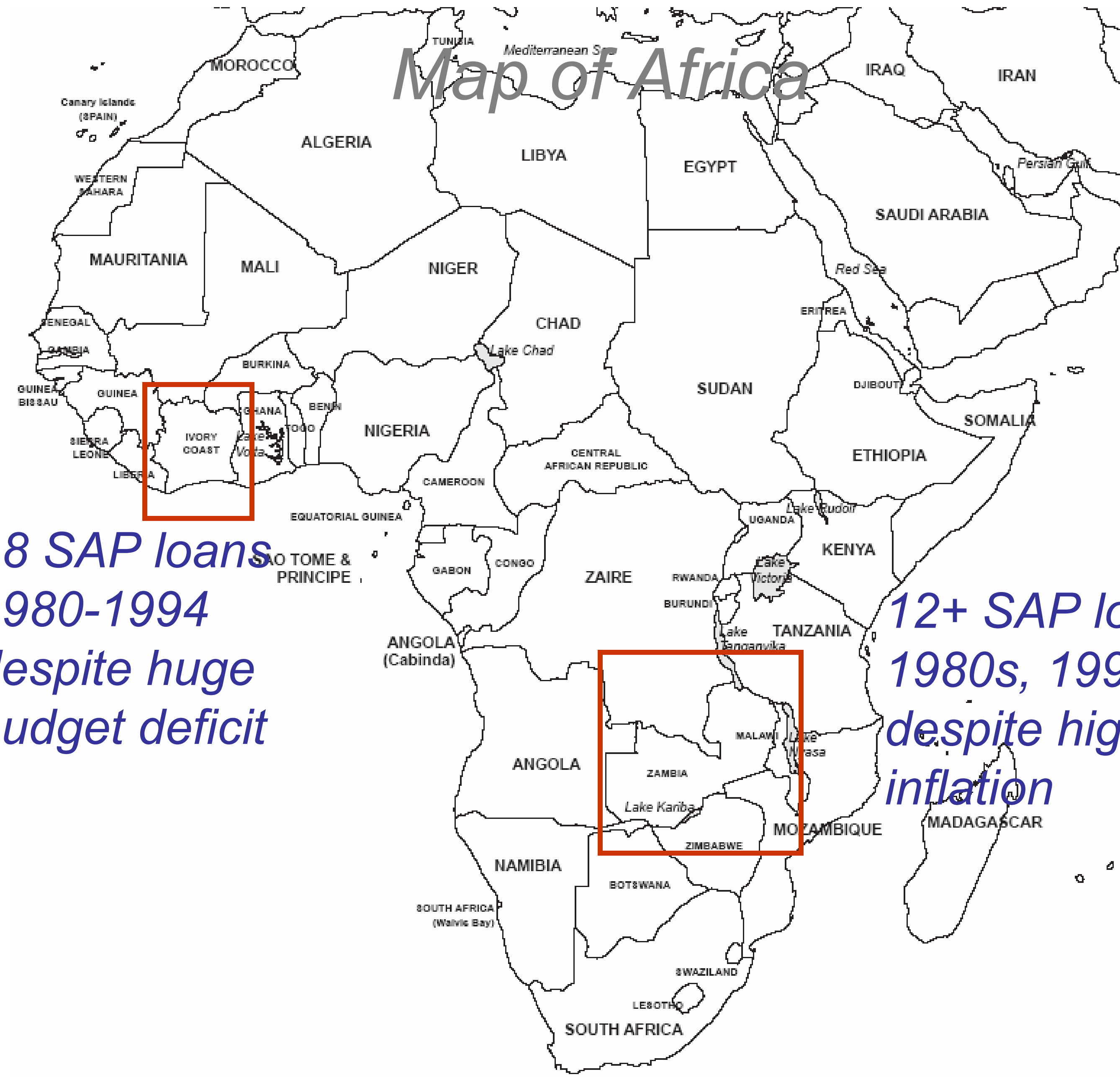
(5) An assault on national sovereignty?

Easterly (2001) on failed reforms in Africa

- Countries received dozens of loans without actually implementing many reforms (e.g. Zambia, Ivory Coast)

  -- African countries received 6 IMF Structural Adjustment loans on average in the 1980s

Map of Africa



18 SAP loans 1980-1994 despite huge budget deficit

12+ SAP loans 1980s, 1990s despite high inflation

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  -- Loans are lucrative for local rulers

  -- IMF/WB officials get promoted by “moving money”

  -- It is embarrassing to admit previous loans wasted

  -- Is conditionality a PR ploy? Are loans political tools?

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- The Sachs versus Easterly debate on the likely success of large foreign aid increases

  -- Easterly's main point: hundreds of billions of dollars have been lent or given to African countries over the past 40 years, and growth remains slow. In contrast China and India are growing largely without foreign aid

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  "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)

Trade, aid, and development

- Foreign aid is only one part of the overall relationship between rich countries and poor countries
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- There has been asymmetry in trade liberalization: there have been major efforts to liberalize global trade in products rich countries are good at (e.g., manufactures) and less at liberalizing products poor countries are good at (e.g., agriculture, textiles). There are huge rich country subsidies to their farmers

Trade, aid, and development

- For example, agricultural producers in the wealthy OECD countries need to be heavily subsidized to survive: annual subsidies about US$330 Billion – six times what rich countries give poor countries in development aid each year (Source: World Bank *Global Economic Prospects 2004*)

Cotton as a lens into international trade

- Does the current world trade system promote or hinder economic development in Africa?

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- Tens of millions of Africans (in Benin, Burkina Faso, Tanzania, etc.) rely on cotton as a cash crop, but the world market is distorted by US$4 billion annual subsidies by the U.S. government to 25,000 farmers
  – This flooding of the market by U.S. farmers leads the world market price to drop, perhaps by 10-20% (depending on the model)

Micro-evidence on cotton prices and poverty

- Minot and Daniels (2002) use household data to simulate what would happen to farmers in Benin if the cotton price rose 10-20%.
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- Meatu district in Tanzania is another cotton growing region. Farmers – and the owners of the local cotton ginnery, the only factory in the district – are hard hit when cotton prices fall, as they did in the late-1990s

  -- We discussed earlier how the lack of savings instruments makes it hard for households to insure against these sorts of price shocks in Meatu

  -- 60% of households in the district grow cotton as their main cash crop

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

Whiteboard #1

Whiteboard #2

Whiteboard #3

Whiteboard #4

Whiteboard #5

Map of Africa

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