

Discussion of  
***Sub-Saharan Africa:  
Navigating Headwinds***

Discussion for IMF-IIEP Forum

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## **Discussion of *Sub-Saharan Africa: Navigating Headwinds***

- An impressive, insightful report in outlook and its two themes
  - Demographic Dividend; and
  - Value Chain
- Also some great nuggets and nutshells in the report, for example:
  - “By 2035, the number of Africans joining the working age population (ages 15–64) will exceed that from the rest of the world combined.”
- Holding off comments on the Themes until later discussion;
- Won’t address details of near-term forecasts per se; instead:
- Ask some questions (hopefully of some general interest); and
- Offer thoughts on longer-term growth issues; which also...
  - May shed light on some of the near-term issues examined in the report
  - May also lead to questions about formation of implied forecasts that extend out to as far as 2050

## A naïve question for the authors about forecast point values

- Report through Chapter 1 (p.26) uses the word “risk”: 29 times
- And the report uses the word “uncertainty”: 10 times
- Notes various vulnerabilities to negative shocks
- No upside risks mentioned (except for “upside” risk that population growth could be significantly faster than projected...)
- My naïve Question: Are such risks incorporated to any extent in point estimates of (for example) growth?
- Or, are these reasons that point estimate could be stated as lower?
  - Types of uncertainty mentioned includes policy, political, financial stability
  - But for this purpose primarily have conventional forecast risk in mind

# The report identifies strong headwinds...

- Most strong headwinds are identified and highlighted in the report, including:
- Sharp declines in oil prices; and in other important commodity prices –
  - Importers benefit from oil price declines, but limitedly so
  - Impact heterogeneous as noted; short to medium term difficult to predict
  - Longer term downward price pressures seem unavoidable
- Export opportunities may be further limited in the short to medium run
  - Growth slowdown in China already more pronounced than assumed in the report
  - Opportunities for exports to Europe are unusually uncertain
  - “The outlook for the United States remains strong” (news this week strengthens doubts)
- Current tightening fiscal policies may have more lasting effects
  - Infrastructure complementary to private sector profitability;
  - Hard to forecast, but potentially a “multiplied” effect
- Conflict risk has grown, particularly across the Sahel
- Local but large impact of Ebola in three countries
- Some other more persistent headwinds e.g. governance, climate, poverty itself

# Question: The Recent Commodity Price Declines: Back to a Century(ies) Long Trend?

- The report notes the commodity price decline in the last 18 months, and carefully documents its short run impacts
  - Data through 20th Century show in general declining trend in real prices
  - Correspondingly, unfavorable long term trends of the terms-of-trade
  - The super-cycle never quite broke out of the very long term trend
  - Harvey et al (REStat, 2010):
    - “Overall, eleven major commodities show new and robust evidence of a longrun decline in their relative price.”
    - “In the very long run, there is simply no statistical evidence that relative commodity prices have ever trended upward.”
  - What if the lower prices are persistent, and then worsens?
  - How does it affect the forecast through 2050?
- \*See David I. Harvey, et al, “The Prebisch-Singer hypothesis: Four centuries of evidence,” REStat 2010

## Still Need a Renewed Focus on Agriculture

- Through Ch. 1, Agriculture has just 5 mentions, none favorable
- Louise Fox, *Youth Employment in Sub-Saharan Africa*
  - Presented at IIEP early last year
  - “Over the next 10 years, at best only 1 in 4 of SSA’s youth will find a wage job, and only a small fraction... “formal” jobs in modern enterprises. Most young people will end up working... in family farms and household enterprises”
  - Even in the simulated “game changing scenario,” problem is the very low base
- So, substantial part of employment increase must be found in agriculture for at least the next 30 years
  - Focus on increasing agricultural productivity unusually crucial for average growth
  - Environmental degradation and climate change may be having a still-small- but accelerating- impact on growth, poverty, and development
- Low poverty elasticity of growth in SSA requires more inclusivity:
  - Estimated at -0.7 vs. -2.0 in rest of developing world excluding China (WB ‘13)
  - Even in recent high growth years in SSA, number of poor still rising; and
  - Average income of people living in poverty stagnant at ~71 cents per day\*

\*See Laurence Chandy blog: <http://www.brookings.edu/blogs/africa-in-focus/posts/2015/05/04-africa-poverty-numbers-chandy>

\*See World Bank, The State of The Poor, 2013 [http://www.worldbank.org/content/dam/Worldbank/document/State\\_of\\_the\\_poor\\_paper\\_April17.pdf](http://www.worldbank.org/content/dam/Worldbank/document/State_of_the_poor_paper_April17.pdf)

# Poverty reduction can *cause* growth

- Of course, (inclusive) growth can cause poverty reductions, directly and indirectly
- Less appreciated: Poverty reduction can cause growth and development, while failure to address poverty can raise constraints on prospects for development because\*:
  - Poor health, nutrition, and education lowers economic productivity of people in poverty, leading directly and indirectly to slower growth
  - Higher income for the poor raises demand for locally produced basic goods
  - Often, the poor lack access to credit, which constrains growth, e.g.:
    - Lost opportunities for entrepreneurship which may benefit society
    - Makes them unable to finance their children's education, also limiting the skilled labor force needed for development
    - Incentives for high fertility for old-age financial security
  - Social exclusion/injustice associated with poverty also causes economic stagnation
    - Political and social reform needed to overcome constraints to access to land, water, basic resource based livelihood opportunities
    - Elite control of natural resources translates to social and political power to protect elite interests in extraction that may be inconsistent with modernization
    - Inadequate voice for the poor who know their public goods needs
    - Other features of a broader social justice agenda which as many have pointed out is *also* a foundation of economic efficiency
    - The poor may be susceptible or coercible to participating in civil conflict

\*See Michael P. Todaro and Stephen C. Smith, Economic Development, 12<sup>th</sup> Edition, pages 248-250.

Thank you