Book Review Article

Adjustment in Africa

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Adjustment in Africa: Reforms, Results and the Road Ahead. The World Bank. New York and Oxford: Oxford University Press, 1994. 284 pp. £14.95.
Adjustment in Africa: Lessons from Country Case Studies. Edited by Ishrat Husain and Rashid Faruqee. World Bank Regional and Sectoral Studies. Washington, DC: World Bank, 1994. 436 pp. £17.95.

In the 1980s, the World Bank broke new intellectual ground with its claim that developing countries could adjust to adverse macroeconomic conditions via measures to boost the supply side of the economy — 'structural adjustment', as they became known — rather than by the conventional, and damaging, method of deflating aggregate demand. It pioneered the ex-post evaluation of what was freely admitted to be a gigantic experiment in development policy. In its three Reports on adjustment, in 1988, 1990 and 1992, the Bank, with exemplary candour and objectivity, laid bare not only the successes, but many of the difficulties being experienced with the new mode of adjustment. One of these was a tendency for adjustment to be associated with, and possibly to cause, lower levels of productive investment in material and human capital; another, which has proved intractable, has been a tendency for structural adjustment programmes in Africa to be much less successful than elsewhere. (Finding an adjustment programme in Africa which has worked, apart from the rather special case of Ghana, has become a popular parlour game.) Anyone interested in the economic future of Africa will thus turn with eager anticipation to the Bank's new Report in the hope of finding a truly creative diagnosis of what has gone wrong.

They will be disappointed. This Report does not build on the Bank's earlier insights on the adjustment process; indeed, of the three Reports mentioned above, the first two do not even make it into the bibliography of this study. Rather, the 1994 Report retreats into a macro-fundamentalism not previously associated with the Bank, by asserting that what is required for sustainable development in Africa, as elsewhere, is simply better stabilisation policy.

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> Better macroeconomic policies have already turned growth around in Africa. Avoiding overvalued exchange rates and keeping inflation and budget deficits low might sound like a boring recipe, but it works. It has worked in East Asia and it will work in Africa. (p. 184).

The problem with this approach, we shall argue, is not that it is boring, but that it is wrong. It is the analogue of telling a patient suffering from a wasting disease that if only he/she abstains from excessive eating and drinking, and perhaps applies leeches to get rid of an excess of 'unhealthy blood', the system will recover on its own. By contrast with many Latin American economies which during the 1980s suffered from excessive governmental stimulation of the macroeconomy (and in particular hyperinflation), the African disease is not excess aggregate demand; it is the debility of the supply side.[1] To support this argument we shall first of all examine the method by which the World Bank arrives at its conclusions; alternative suggestions for policy will then be offered.

By contrast with its practice in previous Reports, where the performance of 'adjusting' countries (i.e., those in receipt of adjustment loans from the Bank) was compared with the performance of 'non-adjusting' countries, the Bank in this Report concerns itself purely with the performance of 'adjusting' African countries, disregarding the rest. This procedure already introduces bias since much adjustment in the 1980s was carried out by countries not in receipt of loans from the Bank (Mosley, 1994, Table 6.2); but let that pass. Also by contrast with previous practice, the Bank in this Report does not compare the performance of 'strong' with 'weak' adjusters; rather, it picks out those six countries whose 'adjustment policies' *improved* most between 1981–6 and 1990–91 — The Gambia, Nigeria, Zimbabwe, Burkina Faso, Tanzania, and Ghana — and compares their performance with that of the rest. 'Quality of adjustment policy' is a weighted average of performance in respect of three policy instruments — the public sector budgetary deficit, the rate of inflation, and the competitiveness of exchange-rate policy. On each of these indicators, the government's macro policy competence is condescendingly awarded between one and four stars, signifying respectively that its performance was 'very poor', 'poor', 'fair' or 'adequate to good'. Other policy instruments, including agricultural prices, trade policy and interest rates, are considered informally, but not included in the main analysis. The Report establishes (Table 5.1, p. 138) that the six countries with the largest improvement in macroeconomic policy also had on average the largest improvement in performance in the sense of growth in per capita GNP.

1. One indicator of this is that during the twelve years 1980–91 African inflation rates were moderate, at 18.4%, and well below the average for low- and middle-income countries as a whole, at 53.9% (*World Development Report, 1993*, Appendix Table 1).

It is reasonable to begin by working within the Bank's own chosen data and terms of reference. Table 1 reproduces the comparison which the Bank makes in its Table 5.1 between the six 'star' African countries, and 'other adjusting countries', using the Bank's own data. However, Table 1 adds three further pieces of information: (i) comparable data for 'non-adjustment lending' countries, as in the Bank's previous Reports; (ii) information on the investment rate as well as the growth rate; (iii) statistical tests of the significance of the differences in performance between the various groups of countries. As reported in previous Bank Reports on adjustment (World Bank, 1992, Table A1, p. 27; Elbadawi, 1992; Elbadawi et al., 1992)[2] the 'non-adjustment lending' countries perform better than the adjustment lending countries as a group, and in terms of investment performance the countries classed by the Bank as having relatively poor macroeconomic management actually do better than the Bank's selected 'star performers'. But, and this is the crucial point, all the between-sample comparisons emerge as statistically insignificant; in particular, it is impossible to reject, at the 5% or even the 10% level of probability, the hypothesis that the superior growth performance between 1987 and 1991 of those African countries which adopted what the Bank characterises as 'better' macroeconomic policies arose from pure chance.

This simple calculation, which the Bank could perfectly well have carried out for itself, is a purely negative finding, and in itself demonstrates nothing about what policies African countries should have adopted during the 1980s. But it certainly casts doubt on facile nostrums such as the Bank's assurance that 'avoiding overvalued exchange rates and keeping inflation and budget deficits low . . . is a recipe which will work in Africa.' (p. 184).

One key analytical error in the Bank's approach in this Report is the portrayal of increases in the budget deficit, in inflation and in the protection of industry, as such, as being ipso facto evidence of 'deterioration of policy'. Such judgements on whether a particular policy was 'good' or 'bad' simply cannot be made without reference to the objectives which the government is pursuing and the initial position of the economy. Further, no valid conclusions can be drawn from a partial equilibrium analysis of these factors, such as the Bank employs. To take a specific example, it is not good economics to award Kenya and Zimbabwe marks of 'poor' and 'very poor' respectively for running budget deficits of 7.3% and 8.2% when much of the government's borrowing is increasingly being done on local capital markets to finance its own development

2. Elbadawi, we may recall, writes that 'World Bank adjustment lending (sc. in Africa) has not significantly affected economic growth and has contributed to a statistically significant drop in the investment ratio'. 'Despite the similarity in terms of the external shocks experienced by early intensive adjustment lending and non-adjustment lending countries of sub-Saharan Africa, the economic performance in the last group has been uniformaly [sic] superior to the first.' (Elbadawi, 1992: 13; Elbadawi et al. 1992: 5).

Table 1
Adjusting and non-adjusting countries: growth and investment performance 1980–91

	Growth of per capita GDP		*Gross Domestic Investment*	
	1987–91	*Difference between 1981–6 and 1987–91*	*as % of GDP 1987–91*	*Annual rate of change 1980–91*
Adjustment lending countries				
Six 'star performers'	0.9	1.7	11.9	–4.2
Other adjustment lending countries[a]	–1.5	–0.4	17.7	–1.2
Non-adjustment lending countries[a]	1.7	2.4		2.3
T-statistics for difference between sample means[b]				
(a) 'Star performers' in relation to other adjustment lending countries	+1.57	+1.29	–1.01	–0.55
(b) 'Star performers' in relation to non-adjustment lending countries	–0.41			–1.01

[a] *Other adjustment lending countries* are Madagascar, Malawi, Burundi, Kenya, Mali, Mauritania, Senegal, Niger, Uganda, Benin, Central Africa Republic, Rwanda, Sierra Leone, Togo, Zambia, Mozambique, Congo, Côte D'Ivoire, Cameroon, Gabon. *Non-adjustment lending countries* are Ethiopia, Botswana, Mauritius, Chad, Liberia, Lesotho, Seychelles, Sudan, Swaziland, Zaïre.

[b] Defined as the difference between 2 sample means and as

$$\frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{S_1^2}{n_1} + \frac{S_2^2}{n_2}}}$$

where S_1, S_2 are the sample standard deviations and n_1, n_2 the sample sizes. For the sample sizes considered here, the 'critical' value of the T-statistic (above which the difference between sample means is significant at the 5% level) is 2.16.

Sources: GDP per capita growth from World Bank (1994) Table 5.1, p. 138, supplemented for non-adjustment lending countries from IMF, *International Financial Statistics*, January 1994 edition. Investment as % of GDP and annual rate of change of investment from World Bank *World Development Report* (1993) Appendix Table 8. Entire data set available from authors for a nominal reproduction charge.

projects — a strategy of fiscal development extensively used by the East Asian 'miracle' countries. By the same token, it may have been a pyrrhic victory for Tanzania and The Gambia to squeeze the domestic economy in order to put their budgets into surplus, although it earns them star ratings from the World Bank. Even at the level of stabilisation policy, 'good macro policy' does not consist simply of a squeeze; it consists of monetary and fiscal policies which are tailored to the government's macro targets and are consistent with its other policy objectives. The Bank appears to have made a quantum leap to a pre-Keynesian parallel universe in which a smaller state sector is always desirable.

In principle, the companion volume of case studies on adjustment in Africa, edited by Husain and Faruqee, ought to be able to do a great deal to broaden our picture of what kinds of adjustment policy have been implemented, and what kinds of adjustment policy have worked, in an African environment. In practice, only the first question is illuminated. There are painstaking and valuable accounts of the adjustment process in Ghana, Tanzania, Nigeria, Burundi, Côte d'Ivoire, Kenya, and Senegal, which unlike the main Report give a great deal of weight to administrative and supply-side reforms rather than focusing purely on stabilisation measures. Of the countries studied, the first three appear in the Bank's list of 'star performers' (see Table 1) whose economic policy has improved dramatically since the early 1980s; not that this is apparent from the essay on Nigeria by Faruqee, which describes the implementation of monetary policy as 'poor' (p. 254), fiscal policy as 'persistently ineffective' (p. 251) and stabilisation as 'too elusive' (sic) (p. 239). But there is very little in this set of essays to tell us what proportion of any improvement in growth or distribution, in any of the case-study countries, was achieved by all this adjustment effort, what proportion was achieved by international capital flows, and what proportion was determined by elements of 'luck' such as weather and world trade. That would require either regression analysis or a simulation of the economy with and without adjustment; neither is attempted here. Occasionally a brave attempt is made to link up the narrative with the conclusions of the main Report, by assertions such as the following:

> Whenever adjustment programs have been pursued vigorously, results have been clearly positive with respect to both growth and alleviation of poverty (p. 10).

But such statements can be logically deduced neither from the country case studies, nor, as shown by Table 1, from the data the World Bank itself has provided; they come out of the air.

However, although the above arguments constitute a good reason for being suspicious of the Bank's macroeconomic analysis, they do not really touch on the key point. The key point is that where the fundamental problem of African economies is diagnosed as deficiency of supply, effective adjustment requires

that the full range of macroeconomic policies, and not simply stabilisation policy instruments, need to be deployed to increase aggregate supply. The main Report leaves major and crucial gaps in the range of development policy options, all of which should reasonably be considered part of the adjustment process. We shall give four examples.

(i) Capital markets A major reason why growth rates are low in sub-Saharan Africa, as the World Bank has often emphasised, is that investment rates in human and material capital are low. A major reason why investment rates are low is that the capital market is imperfect and confined to established business people with collateral: it is estimated that only 3% of small farmers in Africa are able to borrow from institutional sources, by contrast with 24% in Asia and 23% in Latin America (Desai and Mellor, 1993: 28–9). In such an environment the right policy is to attack imperfections in the capital market by channelling small savings, and aid funds where available, into institutions capable of making small loans to poor farmers and business people without collateral, which it has been proved can be done in Africa on a profitable basis, if appropriate incentives and loan collection techniques are in place (Mosley and Hulme, 1994: Vol. 2, chapters 12 and 14). However, in its discussion of the capital market (pp. 110–19), the World Bank considers as policy options only interest-rate deregulation and the reform or privatisation of banks, measures which are certain to leave existing barriers to access to capital — and to supply — intact. If the green revolution ever comes to sub-Saharan Africa, it will only be on the basis of the ability of small farmers to buy new seeds and fertilisers, an ability which will not exist as long as they are unable to borrow.

(ii) Fertiliser subsidies A second-best way of delivering green revolution inputs into the hands of small farmers is subsidies on fertilisers, irrigation equipment and other such inputs. This should be seen simply as an interim method of boosting agricultural supply until proper lending institutions are available, and the benefit from such a supply increase should be weighed against the financial cost. It is, however, significant that in Malawi in 1985/6 World Bank project staff themselves argued powerfully for the retention of fertiliser subsidies on the grounds that, for the time being, they were a crucial instrument for persuading small farmers to experiment with the use of fertilisers (Harrigan, 1991: 235). In this context it is strange to see the removal of fertiliser subsidies treated on page 88 of this Report as an unambiguous sign of progress, without any supporting empirical argument. What has clearly happened is that the fertiliser subsidy, like various other micro interventions designed to compensate for market imperfections, has been rubbished a priori on the grounds that it contributes to the macro budget deficit, which, on the World Bank's argument, criticised above, should be as small as possible. Serious research on the most

cost-effective way to put modern inputs into the hands of small African farmers has yet to get under way.

(iii) Trade policy The authors of the 1994 Report rightly make it clear (p. 12) that their preoccupation is with the removal of the damage to export prospects caused by inflexible exchange rates and quantitative import restrictions rather than with tariff levels. Nonetheless, in a year which saw the publication of the Bank's own assessment of the *East Asian Miracle* (World Bank, 1993) it is strange that its advice to African policy-makers explicitly adjures them to avoid the very use of trade policy as part of a performance contract that has been so successful in East Asia:

> In promoting exports, governments should not try to pick 'winners'. Because most African countries are small, the market segments they succeed in will be narrow. That makes it unlikely that governments (or international agencies) can identify those segments in advance. Governments can best help entrepreneurs discover and develop competitive exports by getting out of the way . . . (p. 192).

Tell that to the South Koreans! Tell that, more relevantly still, to the government of Mauritius, Africa's only successful exporter of manufactures, where the average effective rate of protection is 128% (Gulhati and Nallari, 1990: 27) and where policies of selective tariff protection, credit subsidy, and import duty exemption have been followed since the early 1980s (Mosley, 1994). The philosophy that 'government is best which governs least' would have a certain naive charm if expressed by a freshman in business school, but even in that context would only have validity in a context where firms are price-takers, markets clear according to Walrasian rules, social costs and benefits do not diverge from private ones, and agents enjoy full information. Where such conditions do not obtain, as in Africa, the Bank's presumption in favour of state minimalism is dangerously misleading.

(iv) Tax policy In spite of its emphasis on public sector deficit reduction as an end in itself (and, in an appropriately muted way, on tariff cuts), there is no discussion at all in the Report of the likely source of the additional public revenue that such an objective will require. It seems certain that new tax bases will need to be developed, and in a report such as this one would have hoped to see creative discussion of the potentialities for doing this in a equitable way: undeveloped land, foreign travel (through airport taxes) and, in some countries, tourist revenue are important potential unexploited tax bases which come to mind.

The problem with this Report, then, is twofold. Its sin of commission is its claim that effective adjustment in Africa requires little more than stabilisation

of a conventional kind, which the Bank's own figures demonstrate to be based on statistically insignificant calculations. Its sin of omission is the exclusion from the discussion of the kind of policy measures required to remove barriers to the expansion of aggregate supply in Africa. No-one is suggesting that applied economists even within Africa yet know how to fine-tune such measures to local conditions, and much research in the four areas we have mentioned above remains to be done, but to harrumph all of them out of the discussion of what economic policy should do to confront Africa's crisis in favour of yet more doses of a medicine which over fifteen years has shown few signs of working is an approach not worthy of the high standards the Bank has itself set in the design and evaluation of adjustment.

Indeed, this Report does not read like a Bank document at all; in its stress on macro fundamentals and its emphasis that 'Africa is no different', it reads like an IMF document. This is not to argue that macro fundamentals are unimportant, or that Africa does not need the Fund; but it is certainly to argue that Africa does not need the Bank's analysis or its actions to impersonate those of the Fund. For Africa's tragedy in the 1980s and 90s is that it has in many cases got these macro fundamentals right — low deficits, conservative monetary policy, low inflation, even flexible exchange rates — and it has got almost nowhere. This is the reason for believing that something much more than getting macro aggregates right is needed in Africa now, and for expressing distress that the World Bank, of all organisations, should apparently be retreating into such a position in the light of Africa's experience over the past fifteen years. Just fifty years ago, in the dawn of the creation of the Bretton Woods institutions, Keynes famously remarked that he wanted to see 'the Board of the Fund composed of cautious bankers, and the Board of the Bank of imaginative expansionists' (Keynes, 1945/1991: 194). Least of all in Africa does the historical record suggest that the way forward for the Bank in the 1990s is by acting, and analysing the economies of the poorest countries, purely as a cautious banker.

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