The Present Pattern of Growth, Inequality and Poverty in Sub-Saharan Africa

By
Erik Thorbecke*

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*H.E. Babcock Professor of Economics, Emeritus, Graduate School and International Professor, Cornell University
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• Period Starting Around 2000 in Sub-Saharan Africa:
• Quantum Jump in Aggregate Growth
• Significant Reduction in Absolute Poverty
• Very High and Persistent Income Inequality
• Achievement of Successful Inclusive Growth Requires Reduction in Inequality, Creation of Stable Jobs in non-Agriculture and Smoother Structural Transformation
Main Messages

• Recent Structural Transformation more Effective than pre-2000
• Small Scale Agriculture Still has Essential Role to Play as Engine of Growth
• Rural Urban Migration Can be Accelerated and Facilitated by Infrastructure Investment (e.g. Rural Roads, Schools, Clinics...) and Improved and more Relevant Rural Education and Training
2. Growth, Inequality and Poverty Performance within Sub-Saharan Africa, 1990-2012

GROWTH

• Quantum Jump in p.c. GDP growth rate (at constant $2005) for SSA as a whole, from 0% in 1960-2000 to 2.5-3% in 2000-2012

• E.g. between 1990-2000 and 2000-2012: Angola from -2% to 10.4%; Ethiopia from -0.5% to 7%; Nigeria from 0.2% to 4.3%; Tanzania from 0.1% to 5%

• Out of sample of 37 SSA countries, 32 countries $\uparrow$ 3 countries $\downarrow$; only 2 countries $\downarrow$
Poverty Trends

• **Incidence of Poverty** 1999-2010: Headcount ratio at $1.25 day/line for SSA Region Fell from 58% to 49%

• **Fell in 27 Countries**, Remained the same in 7 Countries and Increased in only 3 Countries.

• **Spectacular Country Examples**: Burkina-Faso 67%→45%; Ethiopia 55%→31%; Senegal 47%→30%; Uganda 61%→34%
Inequality

• Very High Income Inequality
• Little Evidence that it is Falling
• Out of 26 SSA Countries for which we have Observations over time about Same Number of Countries indicated Rising Gini Coefficients as Declining Gini Coefficients
• Worrisome: South Africa Gini in 2008: .63
3. The Interrelationship Linking Growth, Inequality and Poverty

- The Interrelationship among Growth, Inequality and Poverty is Fundamental to Understanding the Structure and Dynamics of Growth and particularly Inclusive Growth

- Process of Globalization (exogenous) and Country’s Development Strategy (endogenous) Affect Structure of Growth, Inequality and Poverty
3. The Interrelationship Linking Growth, Inequality and Poverty

• A Development Strategy Affects Poverty through a Number of Channels in Particular through the Growth and Distribution Channels. Poverty Outcome is Country (Setting-) Specific.

• Bourguignon’s Growth-Inequality-Poverty Nexus and Triangle
Impact of Globalization and Development Strategy on Growth, Inequality and Poverty Nexus

Globalization, Development Strategy → Growth → Poverty

Kuznets: 
- Classical +
- Modern -

Growth → Distribution (Inequality) → Poverty

Distribution (Inequality) → Growth
Anatomy of Growth: the Growth-Inequality-Poverty Nexus

• Every Link of the Growth-Inequality-Poverty Nexus and Causal Chain has to be Explored.

Links:

• Impact of Globalization and Development Strategy on Structure of Growth and on Income Inequality.
  ◦ Contrast Effect of Kenyan Horticultural Exports with that of Nigerian Oil Exports

• Impact of Growth on Inequality (Kuznets)
  ◦ Kuznets’ Law Essentially Dethroned
Anatomy of Growth: the Growth-Inequality-Poverty Nexus

● Impact of Inequality on Growth
  ◦ Two conflicting theories:
    ▫ Neo-classical (Kaldor): Inequality Good for Growth
    ▫ New Political Economy of Development: Inequality Reduces Future Growth

● Impact of Growth on Poverty
  ◦ Depends on Pattern of Growth:
    ▫ Pro-poor or Anti-poor
Growth-Inequality-Poverty Nexus


• Findings: 1. Income Growth was main Engine in Poverty Reduction; 2. Yet in many Countries High Inequality was major Constraint to Poverty Reduction (Filter)
4. Distinct Features of Inclusive Growth in SSA

- **Inclusive Growth**: Latest Paradigm of Development Community → Climax of Long Evolution in Development Doctrine
- No Unique Definition
- AfDB defines Inclusive Growth as” economic growth that results in a wider access to sustainable socio-economic opportunities for a broader number of people, regions or countries, while protecting the vulnerable, all being done in an environment of fairness, equal justice, and political plurality.”
Most Crucial Features of Inclusive Growth in SSA Context

• **1. Reduction in Inequality**: Pro-Poor Growth: Relative vs Absolute Definition of Pro-Poor Growth

• **2. Creation of Stable Jobs** (in contrast with Vulnerable Jobs) Largely Outside of Agriculture

• **3. Successful Structural Transformation**
Most Crucial Features of Inclusive Growth in SSA Context

2. Creation of Stable Jobs:
   - Demographic Dividend: Largest Work Force in World in 20 years; Lowest Dependency
   - Potential Sectors: Manufacturing, Tourism, Construction (Infrastructure), Transport and Communication...
5. Recent Structural Transformation and its Impact on Inclusive Growth

• What is the Structural Transformation?
• Given that about Half Labor Force in SSA is Still Employed in Agriculture →
• Focus on Setting 2 groups of Countries: Coastal-Resource-Scarce Countries (e.g. Senegal, Ghana, Benin, Kenya, Tanzania, Mozambique) and Landlocked-Resource-Scarce-Countries (e.g. Ethiopia, Uganda..)
Structural Transformation

*Successful vs. Flawed Structural Transformation

*Until Early 2000’s Workers in SSA Pushed out of Agriculture rather than Pulled into more Productive non-Agriculture Jobs: Migration of Misery

*Contrast Successful Asian ST with Flawed SSA ST Based on WDR/2008
Structural Transformation in SSA 1960-2000

Drop in labor without overall growth in Africa...
Deviations from Normal Pattern for Ag Share of Labor Force, 1960-early 2000s

The structural transformation in Asia ...

... except in a few countries that retained labor in agriculture.

Drop in labor without overall growth in Africa ...

... except in a few countries that experienced growth.
Recent Structural Transformation during Current Growth Spell

• I updated WDR/2008 Data Set
• Sample of 14 SSA Countries, 2000-2011
• ST Appears more Normal for most Countries
• Mali is only Case of Flawed ST
• Botswana, Ghana, Liberia Reveal Rising Share of Ag. Employment out of Total Employment. Could Reflect Increasing Productivity within Ag. Sector
Figure 6. Recent Structural Transformation in Selective SSA Countries

Log of GDP per capita (constant 2000 US$) during 1999-2011

Employment in agriculture (%) during 1999-2011
Recent Structural Transformation during Current Growth Spell

• Tentative Conclusion: Present ST in SSA Relatively More Inclusive, Reflecting:
  * More Orderly & Productive Rural to Urban Migration Process
  * Changing Policy Environment in Ag. with some small increase in Ag. Productivity and Switch to Higher Value Crops
  * Yet Much More Needs to be Done
6. Structural Transformation, Rural-Urban Migration and Job Creation

• How Can ST be Accelerated and Facilitated so that it Acts like a **Lubricant** to the Rural-Urban Migration and the Creation of Non-Agricultural Jobs?

• First, **Infrastructure Investment**: Rural Roads, Schools, Clinics, **through e.g. Public Works Programs** → Labor-intensive, Reduce Transaction Costs of Farmers, Expand Overall Production Capacity
Structural Transformation, Rural-Urban Migration and Job Creation

• Secondly, ST can be Made more Effective through Integrated Rural Development and Rural Education and (Vocational) Training.

• Provides Moving and Migrating Ag Workers with more Appropriate Skills to Obtain Non-Ag Jobs
Conclusion

• Premature to State that Present Growth Spell in SSA Signals the Beginning of an African Renaissance but it could…..

• To be Sustainable Present Growth Process has to Continue to be more Inclusive Fueled by Improved Governance, a Reduction in Inter-ethnic Conflicts and greater Integration within SSA