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COMMENTARY

Africa's Poverty Trap

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There is a sad law I have noticed in my economics career: the poorer the country, the poorer the economic analysis applied to it. Sub-Saharan Africa, which this month marks the 50th anniversary of its first nation to gain independence, Ghana, bears this out.

There has been progress in many areas over the last 50 years -- life-saving drugs, the Internet, air conditioning, Powerpoint slides, the iPod, the acting of Penelope Cruz -- yet the same poor economics on sale to Ghana in 1957 are still there today. Economists involved in Africa then and now undervalued free markets, instead coming up with one of the worst ideas ever: state direction by the states least able to direct.

African governments are not the only ones that are bad, but they have ranked low for decades on most international comparisons of corruption, state failure, red tape, lawlessness and dictatorship. Nor is recognizing such bad government "racist" -- this would be an insult to the many Africans who risk their lives to protest their own bad governments. Instead, corrupt and mismanaged governments on the continent reflect the unhappy way in which colonizers artificially created most nations, often combining antagonistic ethnicities. Anyway, the results of statist economics by bad states was a near-zero rise in GDP per capita for Ghana, and the same for the average African nation, over the last 50 years.

Why was state intervention considered crucial in 1957? Africa was thought to be in a "poverty trap," since the poor could not save enough to finance investment necessary to growth. Free markets could not get you out of poverty. The response was state-led, aid-financed investment. Alas, these ideas had already failed the laugh test then, as the late economist P.T. Bauer pointed out. The U.S. in 1776 was at the same level as Africa today, yet it escaped the poverty trap. The same was also true for the history of Western Europe, Australia, Japan, New Zealand and Latin America. All of these escapes from poverty happened without a state-led, aid-financed "Big Push."

In the ensuing 50 years, there have been plenty more examples of poor countries which grew rapidly without much aid -- China and India (who each receive around half a percent of income in foreign aid) being the most famous recent examples. Meanwhile, aid amounted to 14% of total income year in and year out in the average African country since independence.

Despite these reality checks, blockbuster reports over the last two years by the U.N. Millennium Project (led by Jeffrey Sachs), Mr. Sachs again in his book "The End of Poverty," the U.N. Development Program (UNDP), the Tony Blair Commission for Africa, and the U.N. Conference on Trade and Development (Unctad) have all reached what the UNDP called "a consensus on development": Today Africa needs another Big Push. Do they really think nobody is paying attention?

Africa's poverty trap is well covered in the media, since it features such economists as Angelina Jolie, Madonna, Bono and Brad Pitt. But even Bill Gates, at an appearance at the World Economic Forum in Davos, Switzerland in January 2007, expressed indifference to Africa's stagnant GDP, since "you can't eat GDP." Mr. Gates apparently missed the economics class that listed the components of GDP, such as food.

The World Bank and the International Monetary Fund have good economists who have criticized state intervention. Under the pressure of anti-market activists, alas, they have soft-pedaled these views lately in favor of African governments producing National Poverty Reduction Strategies to meet U.N.-led Millennium Development Goals by the year 2015. The role of private businesses is to be the subject of bureaucrats' "sustained action." As Kofi Annan explained in a rare U.N. reference to the market, "Success will require sustained action across the entire decade between now and the deadline. . . to grow the small and large businesses able to create the jobs and income needed."

The cowed IMF and the World Bank never mention the words "free market" in thousands of pages devoted to ending poverty. Even the World Bank's 2005 World Development Report "A Better Investment Climate for Everyone" doesn't mention the forbidden words.World Bank economists are so scared of offending anyone on Africa that they recite tautologies. The press release describing the findings of the 2006 World Bank report "Challenges of African Growth" announces: the "single most important reason" for Africa's "lagging position in eradicating poverty," finally "has been identified." It is "Africa's slow and erratic growth." The next World Bank report may reveal that half a dozen beers has been identified as the single most important reason for a six-pack.

Today Unctad (in its 2006 "Big Push" report) still offers to make possible government "infant-industry policies" for "small, fragmented economies" by setting up a regional market, presumably so Burkina Faso and Niger can help absorb the potential output of the Togolese automobile industry. Unctad lacks everything but chutzpah: All aid to Africa, it said, should be moved into a new U.N. Development Fund for Africa, to which Unctad helpfully offered its "in-house experience," by creating a Commission on Aid and Development inside of Unctad. Unctad will thus permit the economics of Africa to at last "escape from ideological biases," so we can finally understand "why economic activity should not be left entirely to market forces."

The free market is no overnight panacea; it is just the gradual engine that ends poverty. African entrepreneurs have shown what they are capable of. They have, for example,launched the world's fastest growing cell phone industry to replace the moribund state landlines. What a tragedy, therefore, that aid agencies have foisted the poorest economics in the world on the poorest people in the world for 50 years. The hopeful sign is that many independent Africans themselves are increasingly learning the economics of how to get rich, rather than of how to stay poor.

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