Transcript of Development Drums Episode 46 – Morten Jerven

Host: Owen Barder. Guest: Morten Jerven

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Owen Barder
Thanks for downloading Development Drums Number 46. My name is Owen Barder, at the Center for Global Development and our topic today is economic growth in Africa and why economists get Africa wrong? My guest is Morten Jerven. Morten is an economic historian at Simon Fraser University, in Vancouver, Canada. He has a PhD from the London School of Economics and he works on the link between economic development and the history of colonial Africa.

A couple of years ago Morten grabbed the world's attention with his book Poor Numbers, which argued that we are being mislead by bad development statistics. Morten is here today in the London offices of the Central for Global Development where he has been presenting his new book published today; Africa: Why Economists Get It Wrong, which argues that mainstream economists have fundamentally misunderstood the growth performance of Sub-Saharan Africa. He says, the bottom line is there is no bottom billion. Morten, welcome to Development Drums.

Morten Jerven
Thank you, Owen.

Owen Barder
Morten your first book, let's focus on this question of Poor Numbers. You say that there are a litany of reasons for thinking that the economic statistics that we work with are misleading. Can you explain why that is?

Morten Jerven
Well, yes I fundamentally say that we have a knowledge problem, which is much bigger than we would like to think. That we know much less about economic development, poverty, economic growth in poor countries than we'd like to think that we do. I tend to say that our knowledge problem is doubly biased. We know less about economics in poor countries, and we know less about the economics of poor people in those poor countries. So therefore the knowledge problem is pretty serious if you think about development statistics as being an effort in aiding the effort of helping these people in these countries getting out of poverty.

Owen Barder
But surely if I download a dataset from the World Bank, world development indicators that's what people use to do economic analysis of developing countries, the World Bank

is publishing the data. They've scrutinized it. They are publishing consistent datasets. Isn't that the best information available, isn't that good enough information to do analysis of what's happening in poor countries?

Morten Jerven
Yes, well it is perhaps the best available knowledge, but we – the way this knowledge is presented in a way that makes us think that we know much more than we do. So if you download that dataset, you could easily get the impression of that you have labor statistics for all countries in the world, that you have poverty statistics for all countries in the world, that you have economic growth statistics for all countries of the world and access to clean water or infant mortality for all countries in the world. Not only in all countries, but even on an annual basis and that somehow all these data are directly comparable. So that you download the data set, you get the impression that these are all functionally equivalent knowledge units and you can make a global comparison across.

Owen Barder
And isn't that true?

Morten Jerven
No, it is not. A lot of these data are extrapolations. There are missing data, which are reported as if there was data. The World Bank monitors poverty in 70 or so countries. Through the past 25 years, it has only have had poverty data on sometimes less than half of these countries. A recent World Bank study reported a serious or acute data destitution for about half of these member countries, which they purport to record poverty in. Yet we are presented by global and world headcounts of poverty as if these data were available.

That's one side, is poverty data. Other issues pertain to the measurement of GDP, gross domestic product, the total sum of goods and services produced or consumed in one country in one year, which is used to not only rank countries who should get aid, who shouldn't, who's been successful over the past 10 years, who hasn't. That is also used for most of our metrics of you want to say something about taxation, well share of GDP. You want to say something about whether the people are spending on education or so, well, share of GDP. And so poor numbers is fundamentally about that important big number and I think while we all know that this is GDP – is the measuring GDP accurately is a big task to get that right, and surely it's a kind of an approximate which depends on data availability and definitions.

I think we got really aware of the size of the knowledge problem when it was announced first in 2010, that Ghana doubled their GDP from when they rebased from 1993 to 2006 benchmark year for how they measured GDP. And then last year when Nigeria changed their base year from 1990 to 2010 and found out that their GDP doubled – almost doubled as well. And Nigeria overnight out jumped South Africa, as the richest country in the sub-Saharan Africa.

Owen Barder
So let's focus on this GDP number, which as you say the measure of national income is used in lots of ways, it's used to assess progress, it's used to assess how much poverty there is when we look at income per person and so on. Now, when I began in the British Treasury, I learned that we measure GDP in three different ways: we look at output, we look at income, and we look at expenditure, and then we – ideally those very different ways of measuring GDP will adapt the same number, because in theory those sort of will be the same and there's usually a little bit of a residual that where these different estimates differ and then we average the more, but we pick one and we – that's our measure of national income. So why doesn't it work in sub-Saharan Africa? Why can't we measure GDP accurately?

Morten Jerven
Well in theory, it should work. But it doesn't matter if you have a perfect index, or perfectly designed measurement technology. It all depends about basic data availability. So let's – if you do it the expenditure way, you will think about it as GDP equals personal consumption, government consumption, investment and plus-minus exports and imports. The problem for that type of estimation is, yes, sure, you got some information on government expenditure. And, yes, on investment, sure, you got some, you know some about the highways, the roads, the ports and that stuff. But there is the headache that you miss out of all the rural house building, all the rural road building, or planting of trees, all those kind of things, tool improvements, perhaps also missing a lot of purchases of cars and all other things that are, I mean, small and medium businesses, but let's disregard that, we have some information there. Export and imports, well, that might be well measured in some places like in Mauritius, Uganda less well, they measure their trade in Mombasa. That's a problem if you know where Mombasa is. Mombasa is in Kenya and…

Owen Barder
That's part of the colonial heritage, right?

Morten Jerven
Yes.

Owen Barder
It was set up to export from East African community.

Morten Jerven
Yes. From the mind of a colonial administrator anything by definition of importance has to pass through Mombasa, everything else was not even footnotes. And so that's – so but we have some – at least we have formal recorded data, but then on personal consumption perhaps the most important bit and which is the biggest bit in all the countries we know of is not well measured. Some countries have not measured it, some countries might get data on it every five years, but it's not as if in Tanzania you can just pulled off the tax records and get the personal income returns and get some idea about the size of this. This has to be estimated indirectly as a residual as you say.

Owen Barder
But this is not a new point surely. I mean, in the U.K. there is always been this question of where the boundary is? The famous quote is it Pigou who said if you marry your cook, then GDP goes up – GDP goes down, at that point, because what was a paid-for-service when you were paying your cook it becomes an intra household transaction and it doesn't count as GDP. So the boundary of what counts as production has always been a contested issue in every country and since GDP began and we know that we don't do a good enough job of measuring child care and work in the household for example, then there are lots of other services that don't get properly measured in GDP. How is that different from what you're talking about?

Morten Jerven
Well, I think that's – yes, it's that paradox of or the importance of the production boundary as it's often called in national accounting is there and it's in every country. And I think if we do debate GDP in Britain or in Norway or Canada, it is exactly the production boundary we would like to debate. We want to know, should we include the home making as a part of the economic services, why is it counted towards GDP when you pay for someone to take care of your children, while it's not when you do it yourself, shouldn't lesser be valued and so for like that when – and this was well – that point was well made by Stiglitz in their Mismeasuring Our Lives report.

Owen Barder
Right. And there's a famous Bobby Kennedy quote about it I think.

Morten Jerven
[10:11] Yes, and so I think that – and as one of the interesting things to take away from that report I thought from my purpose was that they said that well, you could make all this kind of adjustments to it, but then you will be measuring so much by proxy and so much by assumption and not based on real data, so the data themselves will be meaningless. Well, this is pretty much the situation in many of these countries which I have studied on sub-Saharan Africa. So when – because we know so little of even this contested boundary, what was in it, what was out, it is – then a lot of measurement is going on by a proxy.

So the income and expenditure approach, it is simply not that makes it feasible to measure it like that, instead use the production approach. So you go down the sectors from agriculture, manufacturing, mining, transport, hotels, restaurant services and so forth. And in any given year, you try to adopt as much information as you have and that's when you make a benchmark year.

And then in one year you might then make an appropriate guess of the total size of value added in that economy. Next year you will not have the time to do as a good job or maybe there is no household survey or maybe there is no agricultural survey and so forth like that. So, I think you'll make short-term guesses from year-to-year. And this might be okay for in Ghana's case, this turned out to be okay in '94 to '95, '96. Year 2000 they started to get seven years ago, since they had an update and so forth like that, then we come to 2010, they redid it and made a new benchmark with new better data and found out in the meantime they were guessing, they lost track of half of the economy.

The same thing happened in Nigeria as well where they updated from 1990 to 2010 and found that they have missing a lot of data on the way. Definitions have changed and found out the size of the economy was double. And that makes mockery of reports written prior for instance about what is the investment required in the Ghanaian agriculture sector in order to take them to middle-income status when it turned out it was an accounting exercise. It makes mockery of reports that are trying to tease out the – what's the reason behind a 25% income gap between Nigerian and Senegal and so forth like that.

Owen Barder
So I want to understand, are we saying – are you saying that the data are highly uncertain. If you take an estimate of GDP in a particular country, there's just a big margin of error that it could be out by quite a lot? Or are you saying that these numbers are in some sense biased, so they are systematically under reporting or over reporting the real level of national income in the country. I mean, it seems to me that if the problem is just as a bigger margin of error around these estimates, than there is around estimates in Norway, I feel I can live with that, right? It means I have to adjust my – I have to be careful about describing my results if I am using that for research to point out that there's a margin of error that could be affecting my conclusions, but it's still better than nothing, right, to be using that estimate? Or are you saying that these numbers are actually misleading us, because they are systematically too high or too low.

Morten Jerven
Well, yes, for some numbers it's true that you're just talking of bigger error margins. And some of these error margins are so big that it makes comparisons unfeasible and sometimes they're still able to do a little bit, depending very much what the kind of analysis or report you're supposed to write. But there is also that misleading part where you think you have observations, data, things that are given, when you actually don't. So that's what we talked about when there are observations in the millennium development monitoring report or the world development indicators that are actually not observations, it is borrowing data from neighboring countries, drawing a regression line from the previous two estimates or all the …

Owen Barder
Is that unreasonable? If you've got two data points, 10 years apart is it unreasonable to fill in the gaps to interpolate. I see how extrapolation beyond the last point for which you have data is difficult, but is it really bad to interpolate the data?

Morten Jerven
Well, it is, I mean if you want – you talk about poverty falling in sub-Saharan Africa in during Africa Rising for instance, it would be inappropriate to use an extrapolation of a movement that goes between 2002 to 2008 to say something about what has happened in

poverty since 2008, because what we are interested in is how has the recent boom affected economic growth. How has recent efforts by donors targeting Millennium Development Goal number one affected this. If the data is actually not related to things that are happening on the ground, but is statistically linked to previously found elasticities or predictable relationships between growth and poverty. So if you're – your fundamental question is does growth lead to poverty reduction? Surely you don't want to have a measurement of poverty where it is already assumed constant a relationship between poverty and growth. So it's always uncertain …

Owen Barder
If you have calculated the poverty numbers by assuming relationship between growth and poverty, then you're always going to find a relationship between growth and poverty when you look for it in the data?

Morten Jerven
Yes. So they – and there are stories in academia of all this time that you know someone wanted to know what was driving agricultural productivity in a country for certain time period. And they've, used a perfect – all the nice variables about investment, labor and weather, and they found out that they got 100% fit, which meant that they just replicated exactly the way they estimated agricultural productivity of the statistical office.

So sometimes, some of these definition, because we don't have data sometimes these kind of assumptions are being made. So, I think at the statistical office, so I think may be one of our most fundamental questions would be what happens to the so-called informal or unrecorded economy when there is growth in the formal economy? That's the old question since the Lewis model, unlimited supply of labor and what happens to welfare, growth, and so forth during that process.

And the big question is whether when the cocoa sector grew in Ivory Coast or Ghana, at certain points in time, did that harm the subsistent economy, the food economy or did it have a positive feedback effect. And we can get these datasets and tease out all kinds of effects, but that's completely meaningless if the data was generated with a firm assumption about this relationship to begin with. So that's one way in which we are misled by data by not understanding how the data came to be there.

Owen Barder
So you say in a book, I was struck by this in Poor Numbers, we will come to your new book in a second. You say in Poor Numbers that some of the social statistics about things like infant mortality and health conditions, who is going to school, those kinds of questions are getting better, while the economic data are not getting better or perhaps getting worse, the gaps are growing. The suggests that there has been some effect from donor countries on priorities for data collection. And some of the problems of growth in investment in agricultural data in developing countries is somehow the fault of bad decision making by donors. Can you say something about that?

Morten Jerven

Well, I think one has to be careful about when one talks normatively and when one talks descriptively about this. So I think that descriptively saying there has been more – there is clearly more poverty statistics now than ever before. Poverty – measuring poverty in sub-Saharan Africa is something we started doing in ‘80s before that we don’t. So the history of poverty goes back to Ivory Coast in the mid-’80s. Before that we don’t have poverty estimates, and we have them now. We have more than we used to have. We still have – lack them for about half and there is only 10 or so countries that have more than four or five points in time to draw a line from.

There has been one – the basic workhorse for any statistical office is the population census. So in colonial times some places had censuses, but they were – had lots of problems with them. People tried very, very consciously to try avoid counted in some cases. They’re unsure about what will happen to them if they were counted and sometimes they were not counted at all, they were reported on the basis of colonial administrators or their indirect rulers, chiefs or other people who were in charge.

Then you have population census been instigated on quite high basis in ‘60s to ‘70s, but then capacity to do so falls apart together with civil war and so forth like that ‘80s, ‘90s. And then so in most recent census year or census decade is the most successful on record. That means that there is more population censuses conducted. So yes, there is more of that demographic social statistic with the Millennium Development Goals there has been an effort to collect more frequently and on even more countries on many of these things like maternal health for instance is a big one where we did knew very little, but now know much more.

Owen Barder
[20:14] So descriptively there’s more data, normatively I’m happy to say that’s good.

Morten Jerven
Yes.

Owen Barder
Descriptively there is less economic data than there was or it just hasn’t grown as much as the social data?

Morten Jerven
Well, there is some exactly to measure that perfectly is a problem, but I’d think that – I think there is less economic statistics available now than there were in the ‘60s, that’s pretty clear. So one – there is a lot of suggestions for governance indicators out there. One kind of shorthand way of measuring what a state do and what the state knows about themselves and what they’re interested in or how they are affected by donors’ priorities is to bring a ruler to a well-stocked library.

Let’s go to London School of Economics, go to the second floor, to the stats section there, bring a ruler and then measure the length of statistical publications for each country. I promise you Botswana is meters and meters. Guinea-Bissau very short. Now do the same exercise now measured by decades. You'll find that country like Zambia has very few statistical publications in the '80s and '90s. The lost decades are truly their lost decades. '60s and '70s you have lots of statistics. Again, now more and more publications coming out in the later years, but then you start looking at what type of statistics you will see.

You will see that industrial and labor statistics were important and prioritized in the '60s and '70s, disappears in the '80s and '90s and then we have a short little burst of interest in informal sector on record of the economy. The economic aspects of that in the '90s, but then, since then it's been poverty, it's been social indicators and so forth, which means that they are better able to describe and also perhaps sometimes act upon poverty problems, maternal health problems, we might track where they're and which countries we should use less resources on or so forth. But it also means that they central banks in Malawi have little information to base their decisions upon what to do with interest rates and so forth like that.

Owen Barder
So let me just challenge you on whether this matters.

Morten Jerven
Yes.

Owen Barder
And then we'll move on to your new book. So part of me thinks, of course it would be nice to have the public good of official data in a statistics, we could make better decisions. But half of me thinks well, Britain had its industrial revolution long before the concept of GDP was invented. Sir Richard Stone began national accounts in the 1930s and we did a lot of industrialization and a lot of improvements before then without having goods statistics. So it's clearly possible for countries to grow and succeed without having good data and it is not obvious to me that anywhere in the top 10 list of problems that many African countries face is that they don't have good enough data on which to fine tune their economy. So obviously it's bad for us as researchers and academics that these data don't exist, but is it something that the world should care about as compared to lack of access to vaccines or lack of access to world markets, because of the trade restrictions.

Morten Jerven
Well exactly where it should be on the priority agenda is it has to be weighed up with a lot of factors and I don't think it would be – not be very humble of me to say that I know exactly how that priority list looks like. What I would like to point out is that as you say, it's perfectly feasible to run a country without data. It's also even perfectly feasible to rank the paper on poverty lines without having data either, which has been shown over and over again.

But I do think that it's important to know that when the data are actually not data according to the definition of something that it's given, it is useful to know that. I think that there is a lot of short-term and long-term thinking that needs to be taken seriously by statistical officers and leaders of emerging economies today. They might have had informational -- they might have informational gaps that are costing them. There might be data that are being produced because donors pay for them. But other data such as on – President of Tanzania, Jakaya Kikwete is re-elected on the basis of promising to do something about unemployment. Yet there is no known numbers on unemployment. So it's hard for me to say exactly how this would matter, but surely it would facilitate some kind of debate, which is currently being short cut by the way in which statistical priorities are defined and also how they are funded.

We talk a lot about accountability in development. I think it's kind of accountability and development statistics, it has been bit lopsided in a sense that a lot of the statistics investment is being done – for poor countries is being done in Washington DC and London for monitoring. Monitoring about whether what donors do and what whether their priorities are being met. Very different kind of accountability than what think tanks, members of parliaments, politicians and academics in Uganda and Tanzania would think about what accountability matters.

Owen Barder
So is the message that this might be different if donors were to provide funds for national statistical officers that enabled them not just to collect information that donors were interested in about school attendance, but also core economic statistics that are general public good. Is that the policy conclusion that we should roll that just donors needs to – it's the usual prescription in development that we should do fund for your projects and fund more institutionals and program funding to enable these kind of core public goods to be delivered. Is that what we should conclude from this?

Morten Jerven
That's one of the conclusions, I think you should and you could draw from my work, and I think that frequently you see that there is a negative consequences of project-based funding and statistical offices and someone comes in the door with a big bag of money and says we have this survey, we would like to have it done in nine months, here's money for per diems. In effect you're paying for statistical officers not to be at their desk, not to analyze and disseminate frequent data needed by the parliament or the central bank. The central bank sits on the other side, frustrated, like they do in Malawi that they haven't got data on electricity, cement, for four years, whereas the donor gets their data through and their report through the door, and that's unintended consequence. I suppose, that's something that should be relatively easy to coordinate if there was a will to do so.

So I think, yes, but of course the will to do this it is not only about funding, it's also about political will in the country concerned. It's about the willingness to let the statistical office be independent, which is often isn't legally, financially as well. Ideally it may be a statistical office, funding should not be tied neither to donors nor to governments, but it should be like a university functioning as an endowment of sorts. So we have a theory about how a statistical office may facilitate, as you say, through public debate through providing public goods and also do a, kind of a – be an assurance of quality of some of that.

At the current rates, the statistical offices are not getting the space it needs to do that; not the funding, not capacity knowhow. I think it is possible to do much better. Have one look at the central banks and their rights to institution we trust and do work and attract good human capital and be able to get the same people working in these institutions for years and years. They're generating their own statistical capacity and so forth like that. That was a main focus in the reforms of insuring their independence, because they were so centrally linked to monetary theory at that time. So, it was self evidently possible. Meanwhile, we kind of did all these reports and reforms on justifying poverty reduction and growth – the return to growth, but did not spend that much time, very little time and energy to ensuring the same kind of funding and legal independence to provide reliable data to monitor.

Owen Barder
I'd like to turn now to your new book, congratulations, published today, Africa: Why Economists Get It Wrong. And I'd like to explore what it is that you think that the – and I think you're talking mainly about the macroeconomics profession. What it is that we're getting wrong and there's a conventional wisdom among development economists that most African countries have on average, failed to grow as fast as the rest of the world. And you say that this description of the failure of growth of Africa is wrong. So why is that description wrong?

Morten Jerven
[29:55] It is – yes, so macroeconomists particularly the work that focus on analyzing Africa in a global context using some data on all countries in the world, among them Africa, have gotten their analysis wrong in some very fundamental ways. And, I think, I was most strongly, kind of way of understanding that most clearly is to go to the Economist front page year 2000 where Africa was depicted as the hopeless continent and it was asked whether they had a character flaw that kept – that African economies had a character flaw that kept it incapable of economic development and then only 11 years later the tables have turned completely and we had the Economist saying the hopeful continent. And you could reasonably ask the Economist and their editors whether they had the character flaw that made them incapable of having a consistent judgment. But I would argue that that would be kind of unfair to the Economist, because they were – in 1999 they were taking direct lessons and impetus from the mainstream economic growth literature. So, they, not only in the 1999 did a survey of economic growth literature to-date describe Africa's growth experience as a chronic failure, as latest in 2007, the famous book Bottom Billion described again reemphasized that the central problem of the bottom billion is that they never experienced economic growth. And then you start looking at the actual growth pattern. So the problem – so we have an economic literature that is able to explain why African economies are not growing. Yet we know that African economies on average has been growing for at least two decades since the mid 1990s until now. We know that also African economies grew in the '50s and '60s.

Owen Barder
Do we know that African economies are growing now? I thought our previous discussion was that we don't know enough about, I mean, are you confident that African economies are growing now?

Morten Jerven
Yes.

Owen Barder
Okay. So we do know – so they're growing now, are you – I saw from your book that you're also saying that even in the period when we were saying there was no growth in Africa that actually what you had was periods of some growth and then falling back in the face of shocks, is that a reasonable characterization, and those cycles were not being picked up in these long run averages?

Morten Jerven
That's right. So those – the problem of the – so the current knowledge problem is that yes, African economies have been growing. Some of that – much of that growth has been overstated, yet there is still growth. So, whether you should take it as a given that Ethiopia grows at 12% a year for the past decade? I wouldn't think so. Maybe it's more like 5% and 6%. Is Nigeria growing 12% a year? No, I think less. I think that there are a lot of these changes in benchmarks, political pressures to deliver growth relying on projections rather than estimates and so forth. Hence, all to grow – push the estimates up and further up.

But that does not hide away from the fact that if you look on the total physical amount of goods leaving and entering the African continent now compared to two decades ago, there has been growth. So there has been some growth, how that relates to the unrecorded sectors, how that relates to income inequality and poverty, that's my message, we don't know very well.

Owen Barder
Right

Morten Jerven
But yes, let's sidestep that and say okay, so if we take some of these main macroeconomic patterns as given, then why is it that development economists somehow neglected or were unable to see or abstracted away from, economic growth in the '50s, the '60s and the '70s and yet again used two decades to discover that African economies were growing. Apparently these are the experts that have the – take the pulse on the African economy, how could they miss all of this.

And then the explanation goes back to a literature, a cross-sectional growth literature that grew up in the 1990s. And they used what they call the dependent variable, what needs to be explained averaged GDP growth. And the key here is average, so they then did the world – the world economies grew on average from in the ‘60s, ‘70s, and ‘80s about 3% per capita or something, while the African average was about less than 1%.

So there was somehow a minus 2% of growth shortfall as it was often called, that needed explaining. And the way that this was put into a model was by Barrow who put up a growth model where you had all the kinds of variables would like to think FX growth, but then also added what is called a dummy variable so that you get if the variable was – the dummy variable took the value 1, you were an African country, if you were a non-African country took the dummy variable zero. So that meant that when they run their regression controlling for all factors you would like, there were still a significant large negative African continent dummy.

The interpretation of that was that there were some characteristics of the typical African economy that impacted growth negatively, that was not yet captured. So that’s where the Economist front page took their impetus from saying that it’s a character flaw. There is no dummy to speak of if you approach growth differently as rather than to think about it just as average, but to think about it, try to explain why did African economies grow in the ‘60s and ‘70s and why was there a decline in ‘80s and ‘90s and why is there again an acceleration of growth in the past two decades. That’s a completely different explanation problem and I argue that we should maybe work more on looking at trajectories of economic development, what is behind of those, not only clean causal exogenous factors, but trying to see what’s going on.

And then – but instead of doing that in the – from the – that was the kind of the why African economies are growing slowly, was the first generation of growth literature. And you could have thought that with also contemporary views of that literature which was very – had mixed views about how useful it had been, how robust it was and also many people pointing out that things are not well measured. You’re using – you say that good institutions is bad for growth, yet you are using observations of institutions taken from the 1990s, which doesn’t …

Owen Barder
So let me just – sorry to interrupt, so this is quite a startling claim. What you’re saying is that there is a whole industry of econometricians mainly and economists generally who are trying to explain a problem that doesn’t exist, so they’re all sitting there with this question of why is Africa not growing and the rest of world is growing? And then they are running a series of economic analyses that show that it is something to do with institutions or something to do with aid dependency or something to do with disease or colonial history, all of which are trying to find statistical explanations for a problem that isn’t there. Is that a fair characterization of the accusation?

Morten Jerven
It could be, but I’ll qualify it a little bit.

Owen Barder
Okay.

Morten Jerven
I think that there is no, as I would like to point out, there is no – there is something that is there, the income difference between Tanzania and Germany is real.

Owen Barder
That's not invented, that's not a failure of data collection.

Morten Jerven
The question is what is the most useful thing to focus on? Should I explain why there is $20,000 per capita gap between Tanzania and Germany? How interesting is that of a research question compared to trying to explain why Tanzania's GDP per capita quadrupled over the 20th century? That's very, very different types of questions.

And instead of realizing that they focused too much on average growth in the early, the first generation of growth literature, we got a new type of growth literature that actually doesn't explain growth at all. It explains differences in GDP per capita instead. It took it as given, as it is written down several times, African economies have experienced a chronic failure of growth, our task is to explain why that is. And that's when we got into this literature that tried to find character flaws. Things, historical events, geographical events that made that these nations were thrown down a growth path where there was no growth, why they were stuck in growth, zero growth traps. And that's why where we get this literature that emphasizes that why history matters, institutions matters.

Owen Barder
[39:18] So part of what you say in your book is that many of the things that are used as explanations for why growth is low, might actually be consequences of low growth. So those might be economic factors like high inflation or high public debt or possible explanations of why growth is low, but they are also possible those could be caused by low growth. And similarly poor institutions could be a cause of low growth or they could be a consequence of low growth.

And so part of what you do in the book is you say that if you go hunting for explanations of the difference between Malawi and Germany, then you will find all kinds of explanations such as institutions or economic policies and so on that are perhaps not the cause of low growth, but are actually the consequence of it. But don't econometricians – aren't they suppose to be correcting for that? Aren't they suppose to be looking for causation with all these clever techniques to prevent – you're accusing them of making rather an obvious mistake?

Morten Jerven
Well, yes. I am accusing them of making a rather obvious mistake. And I think it's pretty obvious that the mistake is there in the literature if you start reading it. I mean, so both – all economists can't be right. So that's the good news. There are disagreement amongst them. So and then can all economists be wrong? Well, maybe so, but they surely cannot all be right. So that for instance then Jeffrey Sachs claims that malaria has a negative

impact on – in the geographic camp, that it has a negative impact on economic growth and therefore income today, whereas Acemoglu and Johnson and Robinson would claim that malaria does not have an effect on the income today. It has an effect on the institutions yesterday and institutions do affect income today. So those are two – there might…

Owen Barder
Two different stories?

Morten Jerven
Yes, two different stories. They might actually be right about a little bit of these things. But I think that's besides the point I think. Whether they have managed to explain 30% or 60% of the income gap between Tanzania and Germany, is still not, it's maybe an – it tells an interesting story, some of it is compelling. It's not very new, this how Europe, underdeveloped Africa type of arguments is hardly knew. As they also say as well that these, like, oh, it's difficult to be rich in poor country, in hot countries, that's as all the development theory you can get and the same with developing economists, the discipline came together with these claims about colonial and slavery and so forth like that.

So it's kind of rediscovering this that some countries have a different climate and they have a different history. But then to jump along and say like this is the right type of history and this is the right type of geography, it is not obvious. It's not an obvious – it might make sense today, you might find an econometrically statistical significant results today. It might not be true in two decades, it might not be true two decades ago. So you got a question yourself how much effort should you be putting on building this kind of literature. Partly, so someone thinks that concerns me about it, so one of the thing is that is fundamentally built on what I call the subtraction approach.

Owen Barder
Right

Morten Jerven
So let's say for a minute that we agree that history in institutions matter. I don't think that's a context there, you would be very strange to think that there are not these – that there is only labor and capital floating around this world and nothing else matters. It will be – there are other things. And these are sometimes called history, sometimes called institutions and can be called lots of different things, you can be more specific about it.

Going from that intuition and having that intuition is not a major feat, I would think. But then what this literature has done is to measure institutions or history in a very specific way. So that you measure the colonial impact as numbers of settlers arriving in the country. You measure the impact of slavery as the numbers of slaves exiting countries that did not yet exist, and you have also ways about measuring institutions which is then you know that institutions matter because they're part and embedded in that political economy they come from, yet the way we measure this in the literature is to measure institution as something that can be ranked from zero to five, where three is medium and two is not so good. Germany is at 4.5% and Tanzania's problem is to go from 2% to 4%.

Owen Barder
So it's measured as the difference between where a country is and being Denmark?

Morten Jerven
Yes. So then what you do in effect is that you play the world as if making it completely flat. It's thinking them as functionally equivalent, that you've the same – that the data means the same thing in all countries and that you can somehow measure history or institutions on this scale, on this metric. And I think that one of the problems you get is that the subtraction approach that you get lack of development being explained as lack of something else. So rather than to explain why something happened to Tanzania, you explain why something did not happen to Tanzania, and that's the upside-down world which we're in, that's the main paradigm, it has been for a long while in mainstream economics.

Owen Barder
And we fill that gap by saying they should be more like us? That's the tendency.

Morten Jerven
I think that as a development practitioner your main – if you work in this field, I think your main – the kind of idea you have to fight the hardest is that when you step off the plane in Dar es Salaam or Lagos or something and then your gut tells you oh it's different here, let's fix the way it's different and that's the way you shouldn't study something. You should figure out why things work like they do.

Owen Barder
But in Africa, in the case of – if your story is that many African countries have experienced prolonged periods of growth and then fallen back for example after the oil-price crisis in the 1970s. There is some explanation to be had of why African countries fell back more and for longer and more permanently in a more serious way than other countries also experienced that shock that didn't fall back. So there's still perhaps you're going to accuse me of still being engaged in a subtraction analysis that I want to know why things are going wrong.

It does seem to me that it is an interesting question to ask, why did things go more wrong in the face of a negative shock in some African countries than things went wrong in Europe or the United States in the face of a shock in world markets? So and doing the same explanations for that lack of economic resilience, on those explanations the same as the explanations for low growth. It's because of bad policy-making, poor institutions, don't you end up in the same – doesn't your analysis take you to the same place that if you had more effective governments, less corruption and so when you would have better economic growth, but the trajectory is different that would explain why is the negative shocks had this lasting impact on Africa in a way that they didn't have a lasting impact elsewhere.

Morten Jerven
No, you don't. It's very different, it's radically different. There the diagnosis of why growth was slow in the 1980s and 1990s which then became reaffirmed very strongly by this mainstream economic literature described in the book coincided with the policy advice of the World Bank and the IMF and the structure adjustment programs and so forth.

I think looking back, it's pretty clear to me maybe not to everyone, pretty clear to me that the diagnosis tended to overemphasize the importance of policies. They overemphasize the ability of these governments to affect their own surroundings. They overemphasize the importance of institutions and so forth like that. And they tended to underemphasize the power of world markets. They tended to under analyze the way in which these economies were integrated in world markets and how much they were depending on prices.

And they kept persisting with that type of explanation although on the face of it, growth was not returning although we are fixing prices you were liberising and so forth like that, the growth was not returning. And they moved to saying, oh, it's not the policies, it's the institutions. Yes, so governance matters. And then – but while it was obviously clear that growth that means – if you look upon this in a 150-year perspective, as I do as an economic student, growth is likely return when world markets improve again. And they did improve, and growth did return and there has been growth for a decade, a decade and half now. Yet the response of some of these institution would be saying look it worked, now the policies are fine. I am still awaiting, but there will be a literature, I'm sure of, coming around the corner, which will show correlates between growth and democratization, as if democratization in the past decade cost economic growth.

And again, we might be painting ourselves in the same corner that we underemphasize the importance of world markets and overemphasize the importance of policies. So I think part of that is the main – the emphasis that economic growth literacy gives to the policy-able environment, so the kind of things that these institutions can affect so it has bigger, perhaps more interesting to do something about it.

Owen Barder
But what's your explanation for why world markets and the – for example the oil-price shock had a worse effect in Africa, in most African countries, not in the oil producers, than it did in Europe. It's one thing to say well the problem here was world prices not local policies, but you still need to explain why the consequence was worse in African countries leading to lower growth on average over time, than in other countries which didn't fall too far or rebounded more quickly. So, there is still an explanation to be had of why this difference, isn't there?

Morten Jerven
[50:20] There is and that would be part – piece together by showing how African economies are more – relatively more dependent on exports and imports and world

market prices, that they were getting loans that were more expensive in the ‘60s and ‘70s and that they were engaged in this very structure adjustment program where they were having a long period of stop start reform or austerity reforms which some of them were misguided, some of them were okay, but anyhow there was going back and forward and it was a period, if you understand that these political and economic stability in sub-Saharan African economies depends on the availability of rents rather than to think about only rents as been something that this reducing growth it may be something that is generating stability.

So if these – if we take it as given that African politics were a bit weaker, a bit less entrenched. There is a good idea why such an economic downturn might have a more decisive impact on these places when the rents disappear almost completely, it my turn into a destructive rent seeking. So then to paint a story across the ‘60s, ‘70s and ‘80s and ‘90s as this was destructive rent seeking throughout and these were systems decided to pillage their own populations throughout will be misleading, because then you’d negate the ‘60s and ‘70s after the story and you would also paint the picture that somehow if we just get rid of institutions that distribute marketing goods, taxation and so forth to get rid of these institution that distribute rents, which is what states do, then growth will return, which is surely there. I mean, I’m not saying that policy-making in sub-Saharan Africa was somehow perfect. But I think to put – it’s about putting the emphasis of the explanation in the right place I think.

Owen Barder
And so we now are in a period we think of rapid more economic growth in sub-Saharan Africa, and yet our literature about development is still very much literature based on the subtraction principle on identifying institutions that African countries don’t have that would make them a bit more like us. Do you think that means that we are missing an opportunity to think about how policy should be structured at a time of the economic growth?

Morten Jerven
Yes. I think that the emphasis in the macroeconomic literature has been on explaining why these economies are failed. I think there has been an emphasis on getting clean causal results for what has been sacrificed has been the type of research that might generate direct policy advice for the Ministry of Industry or Finance or the central bank in Kenya for what to do with growth. So, we have tools to explain why they are not growing, but we have very tools to explain why they are growing and what to do with the growth.

So we have kind of an overemphasis on the literature is explaining exactly the opposite of what you need to be explaining at the moment. And part of that is I mean, it’s not – it will be unfair to say that the economists should always focus on what is useful. They have – they should be geared by their own disciplinary requirements and so forth. So, that’s not – I’m just pointing that out that there’s that an emphasis in the literature that maybe needs to be corrected there.

Owen Barder
Do you have an example of the kind of thing that might – that we might be failing to think about and tackle that we will come to regret in a few years' time for not having thought about it at this – in this period of growth. And in particular, I suppose are there things that we should be doing now that would – not that we should be doing now that policymakers should be doing now that would make countries more resilient to the next downturn. So, that you don't have the repetition of periods of growth and then periods of stagnation.

Morten Jerven
Yes, as I do in the book, I advocate strongly for approaching growth as to recurring rather than to be failed. And I think that the policy implications both for a researcher and an actual policymaker are quite different on the African growth recurring paradigm. That means that you have to make interventions today in order to prepare yourself for a possible downturn, rather than to go say look now you've done all your governance and the institutional reforms that all you need, just carry on.

What you actually need to do is to think how to generate industry, how to increase productivity in agriculture and so forth. Thinking about how those – there are rents becoming available now, but who captures them and where are they reinvested. So in the '60s and '70s States had the labor statistics, they had industrial statistics, they had agricultural statistics. They have institutions that – such as marketing boards that bought and sold food and export crops. They had agricultural extension officers who were – work was to deliver technical solutions and so forth to the countryside.

There have development corporations that were taking money that became rents, that became available to the state and try to invest those in industrial activities. So more than very – all successful and very few of them successful as it is with public governance between them. There are more failures than successes. But I think that what the problem is that there has been a tendency of writing out '60s and '70s of the history, but also in terms of thinking about that we can learn something from the policy implications of it.

And so we got this idea that the state was the problem – that someone showed those very convincingly, that development corporation can be used by the state to give certain favors to some people, and others not. And they showed that an agricultural extension services may mean that some people get fertilizers and others don't. But that – the policy implication from that is not to bereft the state of all these abilities to affect its surroundings.

Owen Barder
Right. So just – I'm sorry to labor the point, but your point there is that if the '60s and '70s were actually a period of growth, that then reversed, then we should be learning something about how that growth took place and all the things that we – the policymakers said we should get rid of in the '80s and '90s might actually have been throwing out institutions that either were successful in contributing to that growth or could be successful in the future – in future growth episodes. And we've got rid of those

institutions or we've encouraged developing countries to get rid of those institutions that might actually be important for making a success of periods of growth. Is that a correct summary of what you're saying?

Morten Jerven
Yes, and not only that. There is also wrong policy implications coming out of the literature as well, that saying that institutions matter, okay what institutions matter, private property matters or secured property rights is supposed to be in the theory, and the way it's measured becomes risk of expropriation or private property rights. And therefore Tanzania should now introduce the land titling to all country, to everyone in Tanzania.

They are doing that. World Bank is financing that, but that's very much taking from the institutions matters. Type of literature and forgetting that land rights are only worth anything, if the land is worth at least the transaction cost of tackling it. And if there is some kind of financial institution that will serve you and so forth like that. Land rights are not all private. There are different ways of getting to institutions like that. It's not we shouldn't expect – in Why Nations Fail, there is this kind of story about Congo, why Congo is so poor today? And Acemoglu and Robinson tells that it's because they don't have private property rights.

And because they didn't have private property rights, they didn't invest in their agricultural land. They didn't introduce the plough and that's why they're poor today. They're ploughing high productivity agriculture sector. But I couldn't differ from the truth. I mean, you wouldn't plough in Congo for three reasons, because you don't have cows, they will have sleeping sickness. You wouldn't bother to plant, because land is abundant, so it's a waste of time. So the rational institution is not to plough. And even if you were that stupid to ignore the dying cow and the factor that land is abundant, so you're just wasting your effort. If you did plough in this area, soil fertility is shallow. So that the fertility will disappear in the first rain.

So this is the way of thinking through that one institution matters, the plough and private property rights and that we'll need to export it to all kinds of places. So we can learn from long-term patterns of economic growth which was what you were talking about. One of these are that as I point out in the book. In the late 19th century, Ghana became from a country that didn't produce any cocoa to become the world's largest producing cocoa. And this was an indigenous capitalist reaction. It was not some state or so forth like that.

It was not driven by a state securing private property rights. These are situations about how to invest in trees and make sure that these rights were protected, were developing as they were needed to be. A market in land did develop later on as land becomes scarce and so forth like that.

So it's a – it is true that institutions matter and that history matters, but we show here that they didn't need in Gold Coast, they didn't need a John Lockean state where everyone has their own private parcel. There is a contract between the individual and the state and so forth. There are different solutions to get to whatever this development state is.

Owen Barder
[60:48] So I'm wondering whether you're already challenging the state of economics as much as you think you are. It seems to me that a lot development economics has shifted in recent years to studying these micro-questions. The huge boom in randomized controlled trials, lots of interest in how individual problems are solved at local level, what we can learn from that and lots of thinking about that. And so I wonder whether your critique of Paul Collier, Burnside and Dollar and growth regressions and so on is criticism of – an out of date criticism of an economics profession that has already moved on.

How – to what extent do you think that development economics hasn't understood the points you're making about local evolution of institutions, local – the circle of institutions in economic growth and policies, feeding off each other. It seems to me that a lot of what you said, a lot of people listening to this, working in development would be nodding when you talk about Ghana solving its own problems of how to manage the cocoa trees, something that they've known all along. And this is not news to lots of people working in development.

Morten Jerven
Right. I mean, this I think you're right that there has been a kind of a movement towards micro and randomized controlled trials and so forth. The book is about macro. And it's about the big patterns, the big stories that are being told. I do think that we still are working with that why has Africa frame, and that is still with us. I think we're still in a world where we think that institutions can be is a kind of best practice paradigm.

I think that most of us are people who are caught in both camps, that we are aware that institutions are belonging to its very particular context. The first half of the day and the second half of the day running regressions pretending that the institutions are the same everywhere. So I think that I'm not really like expecting a mainstream macroeconomist to open my book and say, oh my gosh, what have I been doing. I'm rather thinking to provide a tool for students of economics for PhD. students, graduate students, practitioners and so forth how to deal with this conventional wisdoms that come from the economics discipline that are there and everywhere.

If you start to think about the biggest kind of commercial wisdoms, conclusions, what have we learnt over the past two decades of economic research and growth and patterns of growth and poverty, wealth and poverty of nations, these are the kinds of literature that I do criticize and I do show that there are different stories to tell. I think it's also underestimated how these wisdoms travel. So you might be very well aware of that weaknesses of how you match your property rights in your own regression, but you're only kind of illustrating a bigger theoretical point in a sense and you're trying to show to your to your tenure committee that you're able to perform within your discipline.

But that kind of wisdom does not communicate that well outside the literature. So it's also correction to I think that there is no doubt that macroeconomic, although we didn't like to say they got a lot of things wrong and that might be outdated and so forth like that. I think is still the most powerful message delivery. Like that the main stories we tell, the narratives, the stuff we can read about in the Economist and elsewhere, comes from this work, from macroeconomic literature. And that's why I would provide – I hope that I can provide a tool to not only for macroeconomists, but for a lot of us, how to read economics better and also how to, as I said, I would like to emphasize that this is – I'm advocating a – I'm not advocating to abandon macro. I think macro is very important. But I think that there needs to be an emphasis on studying economies rather than to study economics.

And that means disbanding the subtraction approach, the global datasets and getting serious about studying the country in question and mixing not only relying on downloaded datasets and the computer and models, but actually to do deep contextual research, interdisciplinary research, if history matters and institutions matters. That's a very interesting paradox. So that means that all that literature that uses global datasets is irrelevant. That means that you – if truly local history and institutions matters means, okay so skip doing that type of research, you need to go back to country studies and understand why their land property rights system in Ethiopia works like it does. It is not that interesting but it's different from the one that you have in Norway.

Owen Barder
So these are issues very close to our heart of the Center for Global Development, understanding the numbers, understanding evidence, understanding what it tells us, but most of all understanding what policymakers can do and really challenging inappropriate global prescriptions and thinking about what's really going on, on the ground in individual developing countries. So I want to thank you for your earlier book Poor Numbers, and for your new book published today Africa: Why Economists Get It Wrong.

You have been listening to Development Drums with me Owen Barder from the Center for Global Development and my guest today has been Morten Jerven. Morten, thanks very much for coming on Development Drums.

Morten Jerven
Thank you, Owen.