Economics 172
Issues in African Economic Development

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Outline:

(1) Which way forward on foreign aid?
(2) New topic: ethnic diversity and economic development in Africa
Wrapping up: what should aid look like?

- What types of development projects are likely to be most successful?

- What role should donors like the World Bank and IMF play in foreign aid?

- Should foreign aid budgets be increased / decreased?

- Does foreign aid do more harm than good?
Wrapping up: what should aid look like?

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• What role should donors like the World Bank and IMF play in foreign aid?

• Should foreign aid budgets be increased / decreased?

• Does foreign aid do more harm than good?

• The most successful developing countries (e.g., China, India) have not received much foreign aid
Next topic: ethnic diversity and development
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- Sub-Saharan Africa is the world’s most ethno-linguistically diversity continent
- 14 of the world’s 15 most diverse countries are in Africa (the one exception is India)
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- One practical policy question in such circumstances: Which language should be chosen as the national language of such diverse countries? (Laitin 1992)
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One practical policy question in such circumstances: Which language should be chosen as the national language of such diverse countries? (Laitin 1992)
-- Local languages of particular groups (“vernaculars”)
-- Local lingua francas (e.g., Swahili in East Africa)
-- European colonial languages (e.g., English, French)
## Lingua francas in Africa

<table>
<thead>
<tr>
<th>Language</th>
<th>Region (main countries)</th>
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<tbody>
<tr>
<td>Swahili</td>
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Map of Africa

Swahili-speaking area
## Lingua francas in Africa

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<tr>
<td>Chichewa</td>
<td>South-east Africa (Malawi)</td>
</tr>
<tr>
<td>Lingala</td>
<td>Central Africa (Congo)</td>
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<tr>
<td>Wolof</td>
<td>West Africa (Senegal)</td>
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<tr>
<td>Hausa</td>
<td>West Africa / Sahel (Nigeria, Niger)</td>
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Should the colonial language be retained?

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• Possible drawbacks to retaining the European colonial language as the official language:

  (1) School learning may suffer when children are taught in a language that they do not know well

  (2) Language is an important component of national identity. What does adopting a European language rather than an African language do to national pride?

  (3) Others?
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Same issues in India (English vs. Hindi vs. others)
Choosing an official language in Somalia

• Somalia is a medium-sized ethnically homogenous country in East Africa, one of the few on the continent. An ideal case for a single national language (Somali)
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• Why? (Laitin 1992)
  (1) There was a dispute over the correct Somali script
  (2) Elites have an incentive to restrict access to government jobs and power (“rents”) to those who speak the colonial language – people like themselves
  (3) Others?
Easterly and Levine (1997) on ethnic diversity

- Focus on ethno-linguistic fractionalization (ELF) as their measure of diversity. The data was compiled by Soviet anthropologists in the 1960s. \( P_i \) is population proportion of ethnic group \( i \) (e.g., Luhyas in Kenya):

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ELF = 1 - \sum_{i=1}^{N} P_i^2
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- Example:
  Three groups each with population share of $1/3$. Then $ELF = 1 - (1/3)^2 - (1/3)^2 - (1/3)^2 = 2/3$

  Two groups with population shares of $1/3$ and $2/3$. Then $ELF = 1 - (2/3)^2 - (1/3)^2 = 4/9$
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• Highest ELF Countries:
  Tanzania (0.93), Uganda (0.90), Democratic Republic of Congo (0.89), Cameroon (0.89), India (0.89), South Africa (0.88), Nigeria (0.87), Ivory Coast (0.86), Central African Republic (0.83), Kenya (0.83), etc.
Ethnic diversity and economic growth

• Easterly and Levine’s main finding is that economic growth is negatively related to ethnic diversity across all countries in the world. Regression equation:

\[ GROWTH_i = a + b(ELF)_i + cX_i + e_i \]
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<th>Outcomes/channels</th>
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<tr>
<td>Schooling</td>
<td>-0.991 (-6.2)</td>
</tr>
<tr>
<td>Financial depth</td>
<td>-0.266 (-3.7)</td>
</tr>
<tr>
<td>Exchange rate distortion</td>
<td>0.252 (3.4)</td>
</tr>
<tr>
<td>Budget surplus</td>
<td>-0.013 (-1.4)</td>
</tr>
<tr>
<td>Telephone lines/person</td>
<td>-3.07 (-7.2)</td>
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Illustrative Case Studies: Ghana

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In 1949 Easterly and Levine (1997) report that the British colonial government paid farmers 89% of the world price for cocoa – not bad at all! Due in part to inflation, by 1983 Ghana paid only 6% (!) of the world price to cocoa farmers, and ethnic divisions may be part of the explanation why if economic power leads to political influence.
• For next time: continue readings from week 14