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Learning and Industrial Policy: 
Implications for Africa

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Over the past thirty years, Africa has suffered from deindustrialization. The quarter century from the early 1980s was a period of declining per capita income and increasing poverty. Structural adjustment policies advocated by the IMF and the World Bank were predicated on the belief that by eliminating “distortions” in the economy, Africa would grow faster – by constructing an economy based on principles of free and unfettered markets, with the government restrained to ensuring macro-stability (which typically just meant price stability), economic performance would be increased and all would benefit.

It was recognized, of course, that eliminating trade protection would result in the loss of jobs, some in agriculture, many others in industry. The strongly held belief, however, was that these workers would quickly find jobs in new industries, consistent with the country’s comparative advantage. Moving resources from inefficient protected sectors to more efficient competitive sectors would raise incomes. Little attention was paid to the distribution of income, perhaps because of an implicit belief in trickle-down economics – somehow, if the economic pie grew, all would benefit.

Things didn’t turn out as the advocates of these policies had hoped. Rather than growth there was decline. Job creation didn’t always keep pace with job destruction, and so workers moved from low-productivity protected sectors to even lower-productivity unemployment, open or disguised. When there was growth, the benefits often went disproportionately to those at the top, and didn’t trickle down to the rest of the economy.

When, growth resumed, in the first decade of the 21st century it was largely based on the boom in commodity prices. The share of global manufacturing value added in Africa in 2008 was 1.1 percent in 2008, down from 1.2 percent in 2000 (UNCTAD, 2011). Even countries that achieved macroeconomic stability and evidenced reasonably good governance seemed unable to attract much investment outside of the extractive sector.
It is imperative that this course of events be changed, particularly since the extractive sector typically does not give rise to many jobs, and certainly not enough jobs for the burgeoning labor force in many of the countries. (The African labor force is expected to grow – working-age Africans today comprise some 500m people; by 2040, that number will be 1.1 billion.2)

A propitious time for Africa

Fortunately, there are a set of events that may be propitious for the subcontinent. First, increasing wages and an appreciation of exchange rate in East Asia may enhance Africa’s comparative advantage in manufacturing. The high levels of productivity growth in manufacturing – exceeding the increases in demand – imply that global employment in manufacturing will be declining; but it may be possible for Africa to seize a larger share of these jobs.

Moreover, there are some spillovers from even imperfectly managed natural resources: higher incomes give rise to a demand for more consumption, and some of this will be locally produced and/or serviced. There is an increasingly large middle class. Indeed, by some estimates, only around a quarter to a third of the sub-continent’s recent growth is directly attributable to natural resources.3

Moreover, with the weaknesses in Europe and the United States that began with the Great Recession of 2008 looking likely to extend for at least a decade, those with funds are looking elsewhere for places in which to invest their money. Africa is looking more attractive, with its share of global foreign direct investment projects increasing to 5.5 percent in 2011.4

But many African countries still face serious disadvantages. Deficiencies in infrastructure increase both the cost of production and also the costs of bringing goods to market and of obtaining necessary inputs. There are also important shortages of skilled personnel, even in an environment in which unskilled workers are in abundance.

This paper is predicated on the belief that these disadvantages can be overcome by appropriate government policies, but such policies necessitate moving further away from the structural adjustment/Washington Consensus (WC) policies, by embracing industrial policies – policies that were shunned under the WC programs. Industrial policies are what we call those policies that help shape the sectoral composition of an economy. The term is used more broadly than just those policies that encourage the industrial sector. Thus a policy that encourages agro-business, or even agriculture, is referred to as an industrial policy.

Such government policies can enhance the ability of African economies to seize an even larger share of global foreign direct investment, to create new domestic enterprises, and to expand existing enterprises. While many countries within Africa are benefitting from natural resources, most countries have not taken full advantage of those resources, to create new industries and to provide employment for more of their citizens.