

# Opportunities and Challenges for African Development—a comment



University of Zurich



**Katharina Michaelowa, University of Zurich**  
***katja.michaelowa@pw.uzh.ch***

## Overview

- Brief summary of Prof. Tumusiime-Mutebile's main policy conclusions
- Some complementary thoughts



## Summary of main policy conclusions

1. Africa needs more private (formal) economic activity
2. Direct subsidies to firms (to internalize externalities) are usually not well-targeted (rent-seeking)
3. More general measures could be:
  - (a) Public good provision / provision of goods with strong externalities: education (incl. vocational training), infrastructure (incl. power, transport infrastructure, etc.), strengthened institutions / reduced corruption
  - (b) Currency devaluation, other trade stimulation
  - (c) Support demographic transition

As a Central Bank governor, Prof. Tumusiime-Mutebile also discusses some general equilibrium effects → potential repercussions of (a) and (b) on the government budget and the economy as a whole.



## Some complementary thoughts

1. How to implement these policies?
  - Local political economy extends beyond rent-seeking by private firms for subsidies
2. How to get the timing right?
  - Complementarities, threshold effects...



# 1. How to implement these policies?

The current situation reflects a political equilibrium.

Moving away from there is thus irrational for the policy maker.

Examples:

(a) Support demographic change:

Interference generally disliked by the population as a whole  
(→ Indira Gandhi 1977)

(b) Devalue the local currency:

As mentioned in presentation → against consumer preferences  
Notably, preferences of urban elites  
(usually main consumers of imported goods)

[By the way, also problematic from an internat. perspective—ignored here.]



# 1. How to implement these policies?

## (c) Education:

- Education for all leads to a loss of advantages for a so far privileged and politically powerful “elite”
- The “elite” will demand specialized high quality education (e.g., general higher education), but other types of education (e.g. vocational training) may be much more of a priority for the private economy
- Moreover, without a firm basis of primary and secondary education for all, the selection of appropriate students will be based on a very limited sample (and not be skill-based).

## The challenge:

How do we move away from an undesirable political equilibrium?



## 2. How to get the timing right?

- Various complementarities, e.g.:
  - Investment in education will not work without labor market prospects
  - Stimulating investment will not work without an educated workforce
  - Credible social insurance systems may help reduce birth numbers
  - Less responsibility for big families may reduce corruption
  - But as long as there is corruption, social insurance will not be credible
- Threshold effects:
  - When can we move from one policy area to the next?

**The challenge: Where to start? How to sequence?**

Can we learn from Asia in this context? Or from Mauritius or Tunisia?