Articles

Piketty and Africa

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Piketty's (2014) text, Capital in the 21st Century, has been hailed as an important text by economists of all persuasions. It has been deemed so important that it has been reviewed not only in leading academic journals but also in the more general columns on economics. The text is both longitudinal in time and global in its scope. The research extends across Europe, Asia, Africa, and the Americas and covers the dynamics of capital and income growth from the 1700s to 2012.

Piketty's key point is that ever since the early growth period of capitalism, the returns to capital have been persistently greater than the returns to income. As a result, the world has been witnessing an increasing wealth gap between returns to the two crucial components of capitalism's dynamic. The key elements of Piketty's analysis are the inequality in the growth of capital and income expressed as r>g, and the two funda-mental laws of capitalism expressed as á =râ (first fundamental law where â = capital/income ratio and r represents the growth rate of capital) and â=s/g (where s is the savings rate and g represents the growth rate of income).

Piketty's research space covers the period from 1700 to 2012. The hypothesis he sets out to explore is how the two key variables of capital and income have behaved over time in terms of the rate of return on capital and the growth rate of income. Piketty's findings are that except for the period in France referred to as 'les Trente Glorieuses' from approximately 1945 to 1975, the growth rate of capital has consistently outperformed the growth rate of income. The reason for this anomalous period, according to Piketty, is that 'the budgetary and political shocks of two wars proved far more destructive to capital than combat itself. In addition to physical destruction, the main factors that explain the dizzying fall in the capital/income ratio between 1913 and 1950 were, on the one hand, the collapse of foreign portfolios and the very low savings rate characteristic of the time (together, these two factors plus physical destruction, explain two-thirds to three quarters of the drop) and on the other the low asset prices that obtained in the new postwar context of mixed ownership and regu-lation (which accounted for one-quarter to one-third of the drop' (Piketty:148).

It was in this context that Kuznet's 1955 paper made the strong case for income convergence both within nations and between nations. The reason for this is that Kuznets argued that 'income inequality would automatically decrease in advanced phases of capitalist development, regardless of economic policy choices or other differences between countries, until eventually it stabilized at an acceptable level' (Piketty: 11). Piketty then states that 'Kuznet's position was thus diametrically opposed to the Ricardian and Marxist idea of an in egalitarian spiral and antithetical to the apocalyptic predictions of the nineteenth predictions of the nineteenth century' (Piketty: 11).

But as Pikkety's data show, Kuznet's hypothesis proved to be valid for the relatively short period of 1945 to 1975. The general trend has been r > g ever since the development of the economic system known as capitalism. The theoretical upshot of all this is that Say's Law of Markets has been effectively debunked. The rescue of the system has been undertaken by two approaches: the Marxian prescription and the Keynesian prescription. Marx's prescription was that the workers seize power and overthrow the capitalist system. Keynes argued instead for governmental deficit spending. Marx's prescription, though logically derived, has not been implemented anywhere. The Keynsian prescription has been variously implemented under the rubric of the 'mixed economy welfare state'. The result has been that the Gini coefficients of the mixed economy welfare states have been less than 0.30 over time. Piketty's text has included data primarily for the continents of Europe, Asia, and Africa.

Parsing Piketty on Africa

While appraising the Asian situation positively, Piketty's appraisal of Africa's economic performance has been negative. In stark terms, he compares the average per capita income of Europe with that of Africa. Piketty states that the average annual per capita GDP (2012) of Africa as a whole is €2,600 while that of Europe is €30,000. The comparative figures for North America is €40,000, that of South America is €10,000, while that of Asia is €7,000 (China €7,200; Japan €30,000; India €3,200). In the context of Africa, there is the issue of the colonially-derived distinction between North Africa and the rest of Africa on the spurious grounds presumably of 'race'. In this instance, Piketty cites the North African average as €5,700. This number is problematic given that apart from Libya and Algeria, North Africa is a non-industrialised area of Africa much at par with the rest of Africa with exception of South Africa. This discrepancy brings up the important question of how currencies are calibrated and exchange rates determined. Erik Reinert (2007) poses the same question that came to him while on a visit to Peru in Latin America, and a guest of that country's president: 'What is it about this 'market' that rewards people with the same level of productivity with such different real incomes in different countries?' (Reinert:2). After a tea party with Peru's President, Reinert states: ' While it was clear to us that building schools was a good idea, no one seemed to have any clear ideas about the causes of poverty' (Reinert:2). An encyclopedia search was unhelpful leading to Reinert's question: 'Why is the real wage of a bus driver in Frankfurt sixteen times higher than the real wage of an equally efficient bus driver in Nigeria, as the World Bank recently calculated? I set out to find the answer, and this book is the result' (Reinert:2).

Piketty's text is essentially about the growing inequality within countries but also between the nations of the North and those of the South, specifically, in this case, the continent of Africa. On Africa specifically, Piketty writes: 'The only continent not in equilibrium is Africa, where a substantial share of capital is owned by foreigners' (Piketty: 68). As a result the income of Africans is 5 per cent to 10 per cent less than total output (Piketty: 68). Piketty's telling point is that 'with capital's share of income at about 30 per cent, this means that nearly 20 per cent of African capital is owned by foreigners' (Piketty: 68). Africa's imbalance is further evidenced by the fact that 40 per cent to 50 per cent of its manufacturing sector is owned by foreigners. Piketty also points out that 'In Africa, the outflow of capital has always exceeded the inflow of foreign aid by a wide margin' (Piketty: 539). This outflow would necessarily include the outflow of the capital funds by 'unscrupulous African elites' as Piketty puts it. Piketty states further that, for the 21st century, Africa is the only continent where the capital/income ratio would be lower than for other continents because of its slower development rate (Piketty: 461). Such a claim is no doubt premature given that the 21st century is still a long way to completion.

The end result of the above-described situation is that, on account of reduced tax contributions, no doubt exacerbated by rent-seeking corruption, the development process greatly decelerated. While tax proceeds for Western Europe is approximately 45-50 per cent of national income, for African governments only 10 per cent is collectible (Piketty: 491). And that 10 per cent may not be attained for some African countries. The end result of this is: 'the historical evidence shows that with only 10-15 per cent of national income in tax receipts, it is impossible for a state to fulfill much more than its traditional regalian responsibilities: after paying for a proper police force and judicial system, there is not much left for education and health (Piketty: 491). Education and health, these are foundational criteria for the modern welfare state.

To counter this negative economic appraisal of Africa in the world's economic landscape, what are Piketty's recommendations for change? His proposed global wealth tax would, no doubt, include Africa. But this proposal is patently utopian, as Piketty himself understands (Piketty:515). And even if successful, who would be the distributors of such largesse to the nations of Africa? Even if successful, such gestures would no doubt help in the ongoing enrichment of Africa's rentier classes.

In all of this,the key point that Piketty makes in his text is that the returns to capital have been consistently greater than the returns to income and this principle applies a fortiori to Africa. The vast difference in average per capita GDPs of the Euro-American complex and African-nations needs explanations. Accor-ding to Piketty the respective GDPs are €24,000 (Europe) and €40,700 (U.S.) and €2,600 (Africa). The other solution that Piketty offers is the one which has been increasingly put into practice in Africa: immigration. As he puts it: 'A seemingly more peaceful form of redistribution and regulation of global wealth inequality is immigration. Rather than move capital, which poses all sorts of difficulties, it is sometimes simpler to allow labor to move to places where wages are higher' (Piketty: 538).

Piketty's partial solution here for Africa in the form of immigration is problematic because it would tend to exacerbate Africa's perennial problem of the 'brain drain', according to which those cadres with substantial amounts of human capital invested in them migrate to Euro-America especially where wages are much higher. This would only be deleterious to development projects on the continent. Yet, even those individuals with basic skills would tend to migrate to higher wage areason the basis of the observation made by Erik Reinert that wages for the same jobs are widely disparate for the Third World and Europe (Reinert 2007:2).The problem is exacerbated by the fact that while wages in the South are generally low, the prices of imported commodities are generally atpar with those in the North: third world wages, first world prices. This is especially the case in Africa.

The Deep Structure of the African Economic Problematic

Piketty's solutions to the economic problems of Africa should be seen as only reformist in nature. The world's neoclassical economic system remains intact with the solution being only a global wealth tax on international capital and emigration as a partial solution to Africa's problems.

The issue lies squarely with the question posed by Erik Reinertconcerning wage differentials between the North and the South. The question here is: how is economic value determined? An immediate answer is that economic value is determined minimally by the costs of production and the level of demand for the product. But this is not how value is determined in the modern international economic system. Post-colonial Euro-America has established a monetary structure according to which this trading bloc has designated unto itself the world's convertible currencies to which all currencies must be converted in order to transact trade. The major convertible currencies are the dollar, the euro, and the British pound.

On account of this arbitrary and imbalanced structure of currencies, there will always be an increasing demand for those currencies for purposes of international trade. But given that the countries in question are technologically underdeveloped and can export only less-valued raw materials and agricultural products, the ultimate result would be ever-increasing trade deficits in terms of dollar/euro/pound valuations.

The optimal solutionwould be to implement a kind of economic intra-Africa trade and economic integration model that would entail three or four African central banks for its main regions, each dispensing strong and viable currencies. Instead of trade by way of the reserve currencies of the North, such could take place by means of the transnational African currencies. One important point in all this is that the African continent need not look to Euro-America for the purchase of capital goods necessary for development. Such are now easily available from East Asian nations such as China, Japan, and South Korea. The expectation is that in due coursesuch needed capital goods would be produced locally.

The question now is whetherthere has ever been attempts at such intra-African socio-economic possibilities. The answer here is in the positive with the early pan-African model touted by Kwame Nkrumah according to which intra-African trade and coordination would be the way forward. His text,Africa Must Unite (1970) provided the appropriate template; similarly, Cheikh Anta Diopwith his Black Africa: The Economic and Cultural Basis for a Federated State (1978). There were setbacks with the fall of Nkrumah but the idea of an intra-African dynamic was later revisited with the proposals offered by theOrganisation of African Unity with its Lagos Plan of Action. The Lagos Plan of Action for the Economic Development of Africa, 1980-2000 (1980) was formulated as a master-plan for Africa's development by means of internal development, intra-Africa trade, agricultural development, manufacturing development, human capital development, industrial development, etc. This developmental plan was counteracted by the World Bank sponsored Berg Report by World Bank Economist, Elliot Berg in the form of Accelerated Development in Sub-Saharan Africa: A Plan for Action (1981). Berg's statement on Africa's development focused instead on trade liberalisation within the context of a globalised Ricardian trade model. In this context, Africa's markets would be open and would trade in raw materials for the finished value-added products of the industrialised world.

Given the hegemonic influence of the World Bank and IMF on Africa's economies, in terms of their lending criteria and recommendations, most African nations end up being debt-strapped mainly on the basis of their currency valuations with respect to the world's reserve currency, the U.S. dollar. Their prospective governmental expen-ditures would, therefore, be reduced. If this situation is compounded by the normally weak tax bases of most African nations then there is less scope for the required investments in human capital, health, and basic infrastructural needs. Piketty's comments on this issue are complementary: 'Tax levels in the rich countries rose (from 30-35% of national income in the 1970s to 35-40% in the 1980s) before stabilizing at today's levels, whereas tax levels in the poor and intermediate countries decreased significantly. In Sub-Saharan Africa and South Asia, the average tax bite was slightly below 15 per cent in the 1970s and 1980s but fell to a little over10 per cent in the 1990s' (Piketty: 491). But the key point Piketty makes in this connectionis that tax receipts should be sufficient to handle all infrastructural needs in the crucial areas of education and health.

It is evident that the necessary condition for economic development is adequate investment in human capital. Only with adequate investments in human capital in its diverse forms would there be the establishedgroundwork for efficient manufacturing and industrialisation. In fact, economic growth theory in its diverse forms lays emphasis on this fact. In the case of neoclassical growth theory the classic Solow-Swan model has been enhanced by the importance attached to investment in human capital by theorists such as Romer (1990). The Solow-Swan model was founded on the principle of technology as an exogenous growth element. But Romer – no doubt influenced by Becker (1964: Human Capital: A Theoretical and Empirical Analysis) – argued that improvements in technology derive ultimately from human capital production, which in turn springs from human capital investments. Thus, an original Solow-Swan Cobb-Douglass production function would be trans-formed from AKaL1-b to AKaHbL1-a-b[A technology, K capital, H human capital, L labour]. There have been a number of other more recent research efforts that point out the clear connection between investment in human capital and economic growth and development. Examples of such are Hanushek (2013) and Pelinescu (2015).

Piketty stresses the importance of human capital investment when he writes: 'Consider first the mechanisms pushing towards convergence, that is, toward re-duction and compression of inequalities. The main forces for convergence are the diffusion of knowledge and investment in training and skills. The law of supply and demand, as well as the mobility of capital and labor, which is a variant of that law, may always tend toward convergence as well, but the influence of this economic law is less powerful than the diffusion of knowledge and skill and is frequently ambiguous or contradictory in its implications. Knowledge and skill diffusion is the key to overall productivity growth as well as well as the reduction of inequality both within and between countries' (Piketty: 21).

But this position is in direct conflict with Piketty's argument that Africa's export of heavily capitalised human labour would tend to equalise the great differences in per capita GNI between Euro-America and Africa. The problem is a much wider one than how Piketty sees it. A global wealth tax is indeed highly utopian and the export of highly trained African personnel would be very detrimental to Africa's development.

Africa's developmental problems stem directly from two issues: 1) there are too many small, mainly agricultural, states that are mainly on economic life support. The UNDP's annual Human Development Index demonstrates this from the fact that the lowest ratings in terms of all socio-economic variables by the fact of i)the hegemonic influence of the IMF and the World Bank over the economic life of the world's weaker nation states–especially African states, and ii) the controlling and baneful influence of the all-powerful hegemonic U.S. dollar as the world's reserve currency. It is the powerful influence of the U.S. dollar along with the IMF and the World Bank that are in almost full control presently of the economic path of the nations of Africa.

The developmental argument has always been that for Africa to develop its countries should seek first to transform themselves from low-skilled agricultural countries to value-added manufacturing then on to output in terms of services and industrial production. But this need not be the case. The key necessary and sufficient condition for development is investment in human capital in all its dimensions. Thishas been occurring but the major impediment here has been the flight of well-trained human capital from the continent to other areas where wages and greater economic opportunities abound. But it is evident that the end result of this approach which concentrates on much investment in human capital would be greater per capita productivity and higher wages. The evidence is provided by the per capita GDP of the countries of New Zealand, Iceland, Denmark, and Portugal.These countries would then be compared with four African nations applying the same metrics. The UNDP's Human Development Index rankings implicitly demonstrate the role that investment in human capital plays in economic development.

From the data presentedabove it is evident that there is a clear correlation between years of education – i.e. investment in human capital – and per capita productivity. It is interesting to note that countries such as Iceland and New Zealand, though not at the cutting edge of the latest modern technology production output such as in the case of China and South Korea have been able to be very effective in the employment of their human capital. China's HDI ranking is 90 with a per capita GNI of $12,547. Its per capita schooling is 7.5 years. South Korea, by contrast, trains its citizens to the level of 11.9 years and carries a per capita GNI of $33, 890. Its HDI rank is 17. Again, the years of schooling index is explanatory in this instance.

The goal of development for the nations of Africa should be to attain the productive level of nations such as Japan, South Korea and China. The descriptive model here is the one known as the 'Flying Geese' model (Reinert 2007:141) according to which a country's economic develop-

Group A

Country	Years of Education	Per Capita GDP (PPP)	HDI Index (Max: 1.0)	UNDP HDI Rank
Iceland	10.6	$35.182	0.899	16
New Zealand	12.5	$32.689	0.913	9
Denmark	12.7	$44,025	0.923	4
Portugal	8.2	$25,575	0.830	43

Group B

Country	Years of Education	Per Capita GDP (PPP)	HDI Index (Max: 1.0)	UNDP HDI Rank
Ghana	7.0	$3,852	0.579	140
Senegal	2.5	$2,188	0.466	170
Nigeria	5.9	$5,341	0.514	152
South Africa	9.9	$12,122	0.616	116

Source: UNDP, HDI, 2014

ment progresses from basic manufacturing in areas such as fabric and textile production to increasingly more technological items and further on to the production of heavy industrial and electronics goods. The classic cases in point are the developmental paths of South Korea and China. South Korea and China are well known not only for their production of heavy duty industrial goods but also for their vanguard positions in the production of complex electronic items such as computers, high definition televisions, mobile phones, etc. But it should always be noted that both countries spend heavily on human capital in terms of education. One ready proof of such is the impressive performance of both nations in international competitions in mathematics, science and reading. In the 2012 OECD international tests of 65 nations in mathematics, science, andreading of fifteen (15) year olds, China and Korea were in the top five nations (OECD PISA Database, 2012).

But the GNI productivity of nations such as Iceland and New Zealand proves that a nation could achieve high HDI ranking essentially from investing heavily in human capital and producing the appropriate workforce. But issues concerning the hegemonic influence of the IMF and World Bank must be tackled. The issue of intra-African trade, often in conflict with the baneful influence of the core-periphery syndrome,must also be confronted. The old problem of the conflict between the advanced capitalist nations and post-colonial Africa as exemplified by the 1981 Berg Report and the 1980 Lagos Plan of Action is still part of the dynamics of Africa's economies. The Economic Commission of Africa's Adebayo Adedeji's (1984) paper effectively sums matters up. The paper stresses the importance of collective effort under the rubric of African agency as a necessary condition for development. In this regard, The Lagos Plan of Action could be revisited and deliberated on for developmental considerations.

Conclusion

Picketty's text offers some useful comments on the parlous state of Africa's economies but his recommendations are inadequate for matters that are quite complex. His suggestion of a 'global wealth tax' is rather utopian given the Ricardian comparative advantages that the North gains from Africa in terms of core-periphery trade imbalances.

Africa faces the serious problems of exchange rate valuation. Africa's low exchange rate valuations with regard to the so-called hard currencies is a major cause of the economically debilitating 'brain drain' that is now afflicting the continent. But, as was discussed above, one pathway to development would be maximal investment in human capital. Human capital investment carries with it a set of multiplier effects which lead not only to increased productivity but also to the growth and maturation of civil society. The cases of Iceland and New Zealand are instructive in this regard. In his text, Piketty points out that Africa is the only continent not in equilibrium with a substantial amount of its capital owned by external others. The goal should be to rectify this situation by way of solution to the issues and possible solutions discussed above.

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the destruction of great amounts of capital infrastructure during WWI and WW II, "wars", heralded a period of new capital investments which required much investment in labour in the form of human capital.