Africa's Lost Decades, 1974-1994

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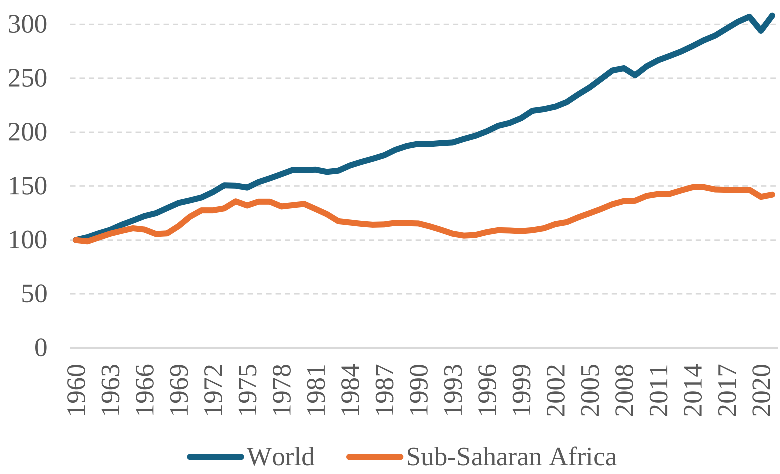
1. Introduction

In the 1980s most African economies hit rough waters, as prices of food and petrol spiralled out of control, governments struggled to pay their employees, electricity shortages caused factories to operate below capacity, and infrastructure crumbled. This period had a profound and long-term effect on living standards. Many older, middle-class Africans will recall a 'before' and 'after'. The 'before' of the 1960s and 70s, when a secondary school teacher or mid-ranking bureaucrat in Accra or Dakar could comfortably support a family in the city and perhaps purchase a car or an apartment with the help of a subsidized mortgage scheme. And an 'after' the crisis years of the 1980s and 1990s, when the way to make ends meet was through a patchwork of income streams - an unpredictable salary, perhaps a small business or farm, and the occasional remittance from a brother or sister overseas.

Statistics bear out popular perceptions that the 1980s and early 1990s were indeed a bleak period for Sub-Saharan Africa (hereafter 'Africa'). Economists primarily use Gross Domestic Product (GDP) to measure economic health – a metric that captures the total value of all goods and services produced in a country or region during a year, from agricultural products like rice and maize to manufactured goods like shoes and blankets, or the construction of homes and meals served in restaurants. When a country's GDP per capita increases, average incomes and living standards typically rise; conversely, when production declines, average incomes generally fall.

Figure 1 shows the aggregate GDP per capita of the world and sub-Saharan Africa indexed to the year 1960. While many African countries enjoyed modest per capita growth in the early years of independence, by the mid-1970s and early 1980s most began to falter. By 1995, two-thirds of African countries had a lower GDP per capita than in 1975. Across Africa as a whole, GDP per capita declined by 23% between 1975 and 1994. Table 1 indicates that the average annual rate of growth per capita fell from 2.1 between 1960 and 1973, to -0.5, in 1974-94, and then recovered to 3.0 in the late 1990s and early 2000s.

Figure 1: GDP per capita, indexed (1960 = 100)



Source: World Development Indicators, 2025.

Although global growth slowed during the 1970s, most other regions recovered within a few years, whereas Africa endured nearly two full decades of negative or negligible income growth. This is why some refer to the period as 'the lost decades', as they were years when countries lost out on development.

Not all African countries experienced this decline uniformly. Table 1 shows how average annual growth rates varied across countries and by period. The countries are grouped by severity of crisis in the 1974-94 era. In a few small nations, such as Botswana and Mauritius, incomes continued to rise throughout the 1980s, the 'no crisis' group. At the other extreme, in some countries GDP per capita more than halved between 1974 and 1994. These cases of serious economic collapse were mostly in countries disrupted by civil wars, like Angola, Mozambique, and Liberia, where economic shocks were compounded by insecurity and displacement, which prevented people from farming, mines from operating, or factories from running. Conflict clearly exacerbated Africa's economic decline in aggregate: the number of civil and interstate conflicts grew in the late 1970s, and through the 1980s and 1990s, roughly a quarter of Africa's countries were at war in any given year. In some, like Liberia, Sierra Leone and Rwanda, the economic breakdown contributed to the onset of civil wars, while other wars predated these economic shocks.

Table 1: GDP per capita growth by country (organised by severity of crisis c.1974-94)

	1960-73	1974-94	1995-2018
No/Mild Crisis			
Botswana	8.3	6.6	4.0
Cabo Verde	2.0	2.2	4.6
Comoros	3.1	0.6	1.9
Congo, Republic	3.0	1.2	0.9
Equatorial Guinea	5.5	1.1	9.5
Lesotho	4.1	1.6	1.4
Mauritius	2.0	3.7	2.3
Seychelles	2.5	4.2	5.1
Eswatini	7.1	3.2	2.8
Moderate Crisis			
Benin	1.0	0.0	0.8
Burkina Faso	1.5	0.2	1.3
Burundi	1.8	0.8	-1.1
Cameroon	1.5	-0.1	2.4
Chad	-2.0	-0.7	3.5
Côte d'Ivoire	3.1	-2.0	2.4
Ethiopia	2.8	-1.5	4.2
Gabon	4.4	0.1	2.2
The Gambia	1.5	-0.4	1.6
Ghana	0.1	-1.2	3.4
Guinea	1.6	0.2	2.6
Guinea-Bissau	4.5	-0.6	0.6
Kenya	2.3	0.5	2.4
Malawi	2.8	-0.8	1.1
Mali	0.7	1.2	1.8
Mauritania	3.7	0.5	3.3
Namibia	1.9	-0.7	2.0
Nigeria	3.4	-0.9	4.6
Rwanda	0.4	-2.9	2.6
Sao Tome and Principe	4.2	-0.4	2.3
Senegal	-0.7	-0.7	1.3
Sierra Leone	2.2	-0.3	0.8
South Africa	2.5	-0.5	2.7
Sudan (Former)	-2.1	0.2	3.0
Togo	3.2	-1.7	1.0
Tanzania	2.0	-0.2	4.9
Uganda	1.2	-1.3	2.9
Zambia	0.8	-2.2	4.9
Zimbabwe	3.3	-0.4	-0.4
Extreme Crisis			
Angola	2.8	-4.3	7.6
Central African Republic	-0.8	-1.7	-2.0
Congo, Democratic Republic	0.7	-4.5	1.8
Djibouti	1.2	-3.5	1.7
Liberia	1.7	-11.3	3.6
Madagascar	0.1	-2.3	1.0
Mozambique	2.7	-3.5	-0.2
Niger	-1.2	-1.7	1.3
Average (simple)	**2.1**	**-0.5**	**2.4**
Average (population weighted)	**1.9**	**-1.2**	**3.0**

Note: Country groupings based on author judgement. **Source:** Maddison Project Database, 2020.

Between these extremes we find a comparatively stable group of countries that nonetheless failed to grow between 1974 and 1994, such as Tanzania, Côte d'Ivoire, Cameroon, Malawi, Togo, Senegal and Zambia. In this 'moderate crisis' group, GDP per capita was on average flat or falling by up to 2% annually. This chapter will focus more on such countries, where we can identify the economic conditions and policies that seem responsible for this period of lost growth. The question at hand is why even those countries with relatively stable governments, struggled economically for such an extended period. We will look at how economists have explained this downturn and ask if African countries are more vulnerable to periods of booms and busts than others, and what this implies for the future. Underlying these descriptive questions is an urgent policy question: could different government or international community actions have shortened the crisis or mitigated its severity? We cannot give a definitive answer to this question, but the chapter shows some of the ways in which scholars have debated it.

To retain focus, our discussion emphasizes common macroeconomic dynamics and public policies rather than country-specific idiosyncrasies. While droughts and epidemics—including HIV/AIDS—also impacted incomes in parts of the continent, our analysis here sets aside weather and health shocks to concentrate on macroeconomic drivers.

We mark 1974 as the beginning of the lost decades. In some countries, like Senegal, Uganda and Ghana, economic decline began in the 1960s, while others grew well into the 1980s. But in 1973 a global event triggered turmoil around the world and sparked difficulties for many governments: the Organization of Petroleum Exporting Countries (OPEC) oil embargo, a response to a war in Israel, sent oil prices around the world soaring. By 1974, the resulting oil price surge began to affect economies profoundly. Countries dependent on imported oil saw their import bills balloon relative to their exports, tightening government finances. In 1979 a second oil price shock (this time as a result of the revolution in Iran), compounded problems for oil importers. After 1980, oil prices started declining again, but now spiralling inflation led central banks to raise interest rates, which slowed down global growth and kickstarted a wave of debt crises across Latin America, the Middle East and Africa.

2. Global shocks and African indebtedness

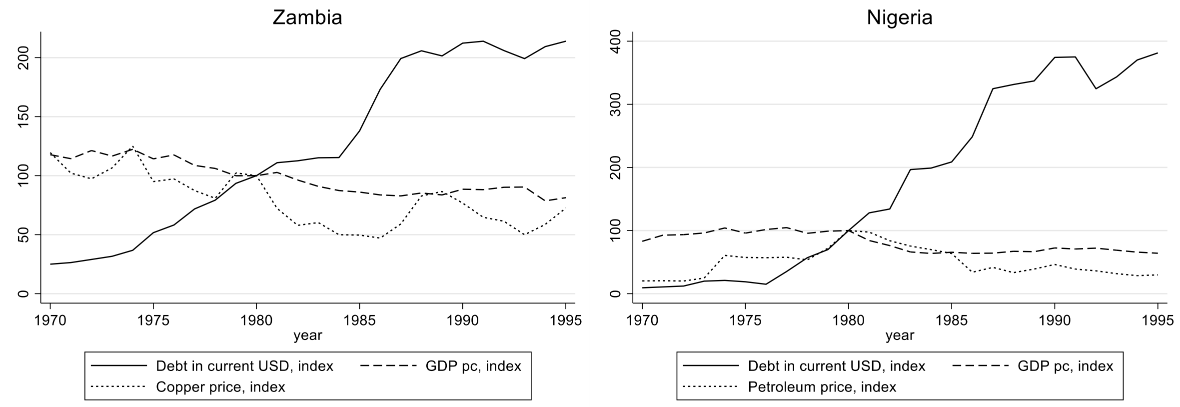
Economists have long debated whether Africa's crisis stemmed from external forces - events that lay beyond the control of governments, such as global commodity prices or droughts - or internal policy choices, such as how to set the exchange rate or allocate the government budget.

The most debated trigger for the crisis is what economists call 'deteriorating terms of trade', which means that the price of the types of goods that a country imports (for instance oil), is rising faster or falling slower than the price of the goods it exports (for instance cotton or coffee). For example, for every ton of coffee or cocoa a country sells overseas, it can buy less petrol to fuel cars and generators with the proceeds, and in such a case, the price of transport and electricity is likely rising relative to the average income and people will be worse off.

When export values fall relative to imports, the real income of households producing goods for exports, such as cotton and coffee, fall, and the government's revenue shrinks, affecting its ability to pay public servants. This in turn lowers 'domestic demand': households spend less on services and goods, from restaurant meals to taxi rides, creating a ripple effect that reduces income of the restaurant owner and the taxi driver. Furthermore, when households and governments face financial constraints, they often postpone or reduce investments in for instance fertilizers and infrastructure maintenance, which lowers income further in the years to come, by making agricultural yields lower, or the cost of transporting crops over bumpy roads higher.

In theory, a decline in terms of trade needs not immediately trigger a crisis because governments can offset the impact by borrowing or delaying longer-term investments. The International Monetary Fund (IMF) was established in part to provide such temporary financial relief. When shocks are short-lived, borrowing can help to maintain production and consumption levels and ease future debt repayments. This is indeed how many governments responded. In the late 1970s, several African nations began borrowing extensively, largely from the IMF or bilateral creditors, to meet their basic import needs. Zambia, a copper-producing country, offers a prime example, shown in Figure 2. After copper prices peaked in 1974 and then entered a prolonged decline, the country's debt began to mount. By 1978, Zambia had secured a two-year IMF standby arrangement (a type of loan) to support its import requirements. Between 1970 and 1980 its external debt stock almost quadrupled.

Figure 2: GDP per capita, debt and export prices in Zambia and Nigeria, 1970-1995

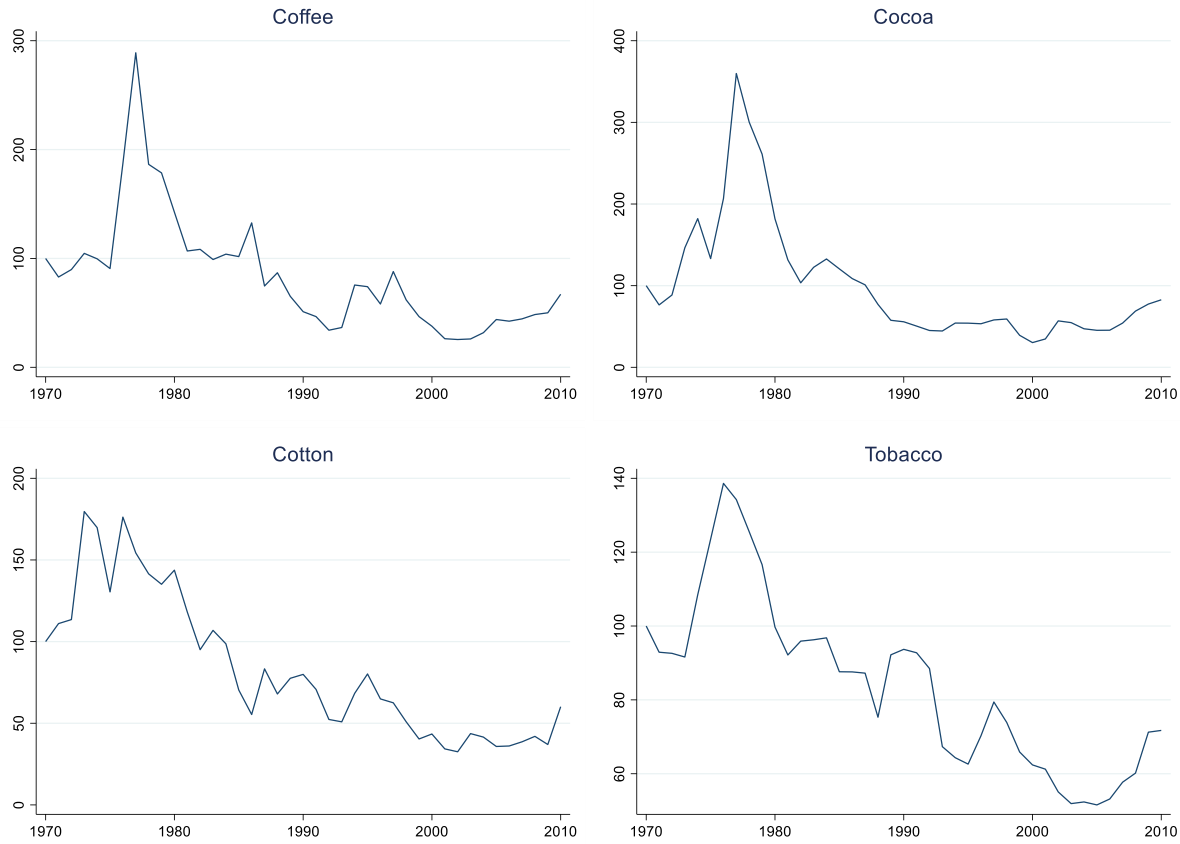


Source: GDP per capita: Maddison; Debt: WDI; commodity prices: Jacks (2019).

But borrowing by countries in distress is not the whole story. Until 1980, African terms of trade were mixed, and although import prices were increasing, some key African export commodities also rose sharply in price, as shown in Figure 3 which tracks the prices of commodities over time, relative to their price in 1970 (thus a value of 200, for instance, means that the commodity is selling for twice as much as in 1970). For instance, coffee-producing nations such as Rwanda, Kenya, and Tanzania saw surging export earnings in 1976–77 when coffee prices spiked, while cocoa producers like Ghana and Côte d'Ivoire benefited from price spikes in 1974 and 1977. Oil-producing countries like Nigeria and Cameroon profited from the oil price shocks of 1973 and 1979. These export windfalls boosted government creditworthiness and encouraged borrowing for major infrastructure projects or state-owned enterprises. African governments were able to borrow more partly because oil price shocks had enriched some oil-producing states, providing funds for international investment which kept global interest rates low. While most of the borrowing was from other governments and multilateral institutions, richer countries, like Cameroon, Côte d'Ivoire and Nigeria, also secured loans from private banks.

In Nigeria, for example (Figure 2), the rapid expansion of the debt stock between 1976 and 1981 coincided with rising government revenue from high oil prices. Some of this debt funded recurrent spending, particularly when oil prices dipped in 1978, although the government also increased investment in large infrastructure such as seaport and airport developments and energy. Many have since questioned whether these investments were well chosen and executed. Côte d'Ivoire took on considerable debt between 1976 and 1979 when the cocoa sector boomed, to finance industrial ventures in sugar production and oil palm processing, transport infrastructure and hydroelectric schemes, and a range of other ventures.

Figure 3: Index of prices of African export commodities (1970=100)



Source: Derived from Jacks (2019). *Note:* Prices are adjusted for inflation.

By the 1980s, however, the prices of Africa's main export commodities—including oil—began a steady decline. Even the more successful economies of the 1970s soon faced mounting debt burdens. Between 1970 and 1980, Africa's external debt soared, rising from US$6 billion to US$42 billion according to the World Bank's World Development Indicators; by 1990 it had risen to US$150 billion. As inflation took hold in Europe and North America, rising interest rates reduced the availability of cheap money, further straining the ability of African countries to repay their loans. To compound the problem, most had taken out loans denominated in foreign currency (typically US dollars). Without a recovery in export prices, it became harder to earn the foreign currency that was needed to repay dollar-denominated debts.

Many countries entered a debt crisis. Mounting debt repayments forced governments to reallocate scarce resources away from investments that could stimulate recovery. They also started renegotiating and postponing debt payments to (mostly bilateral) lenders and borrowing more from the IMF and World Bank to help them meet debt payments to other creditors. In some cases, countries even defaulted unilaterally, by suspending repayments rather than negotiating with creditors, which typically prevents countries from accessing further financing until a return to the creditor negotiation table. This was typically a last resort, usually by countries in conflict or under military dictatorships, such as Liberia in 1986 and Sudan in 1991. In Liberia, Samuel Doe's brutal military regime racked up considerable debt in the early 1980s that it then struggled to service, and in 1986 it became the first African country to be declared ineligible for IMF funding; in 1989 a civil war broke out that put debt resolution on hold until the 2000s.

3. Policy failures and structural adjustment

To what extent did poor policy choices and corruption worsen the crisis? As African governments increasingly turned to the IMF and World Bank for loans, these institutions gained substantial influence over national economic policies. In the 1980s, policy conditionality became more formal and prescriptive. Reports from these institutions frequently argued that the crisis was at least in part self-inflicted. With appropriate policy changes, economic recovery was possible.

Let us take a brief segue into the political economy of the IMF and World Bank. If IMF economists had concluded that there was nothing the governments of Côte d'Ivoire or Tanzania could do to significantly raise growth rates and export earnings, this was tantamount to admitting that they couldn't in good faith continue lending as there would be no prospect for repayment. Consequently, creditors would need to write off debt instead. But in the 1980s, bailouts were not politically or economically palatable for Western donors, especially as many were pursuing austerity domestically too, so debt relief was approached cautiously. For medium-income African countries, moreover, accepting debt relief risked tarnishing their reputations and jeopardizing future borrowing from private creditors.

Financial management

Let us now examine some of the major policy debates of the era. One of the most contested issues was exchange rate management. During the 1970s, countries maintained fixed exchange rates, meaning that governments decided how many cedis or shillings would buy 1 US dollar. Having a strong currency, with few shillings to the dollar, made imports cheaper and facilitated travel abroad.

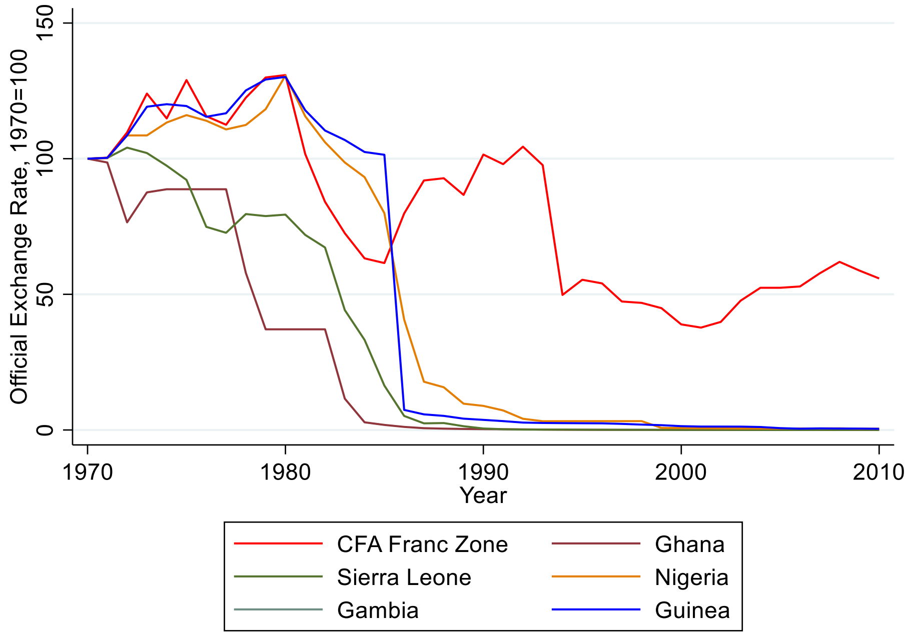
But for those that produced goods for export, a strong currency was a disadvantage. In Ghana for instance, a strong cedi meant that cocoa producers received less cedis for each kilo of cocoa than they would have with a weaker currency. By the early 1970s, the Ghanian exchange rate was so overvalued that it reduced the incentives of farmers to produce cocoa, while in the border region it encouraged smuggling of cocoa to Côte d'Ivoire and Togo, where prices were considerably higher. In addition, an overvalued currency makes imported goods cheaper, potentially undermining domestic production. If a country with an overvalued exchange can import rice more cheaply than domestic producers can supply it to the market, this will disincentivise farmers from producing rice.

The IMF and World Bank recommended that governments devalue overvalued currencies, a measure that typically sparked a short-term inflationary surge by raising the cost of imports. In the medium term, however, devaluation was intended to restore incentives to produce goods both for export and the domestic market. Many countries repeatedly devalued their currencies between the late 1970s and 1990s. For instance, Ghana devalued in 1971-2, 1978 and 1982, and Nigeria in 1986, as shown by the large falls in the official exchange rate index charted in Figure 4.

The political economy of exchange rate policy in countries belonging to the two CFA Franc Zones is more complicated.[1] These former French colonies retained a common currency after independence, pegged to the French Franc. This meant that an individual government couldn't do as it pleased with its currency and instead had to make decisions together with other members. Consequently, the CFA Franc was not as overvalued in the 1980s as in many Anglophone countries, but by the 1990s the currency probably was too strong. Because they had to act as a group, devaluation was harder to orchestrate, and the optimal size of the devaluation differed by country. These countries therefore devalued later than most Anglophone countries, with a 50% devaluation against the franc in 1994, forced through by France (Figure 4). Whether this devaluation was of the right magnitude remains debated and is a source of discontent and anger in many CFA countries still today.

[1] West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal and Togo; Economic and Monetary Community of Central Africa (CEMAC): Cameroon, Central African Republic, Chad, Republic of the Congo, Gabon and Equatorial Guinea (since 1985).

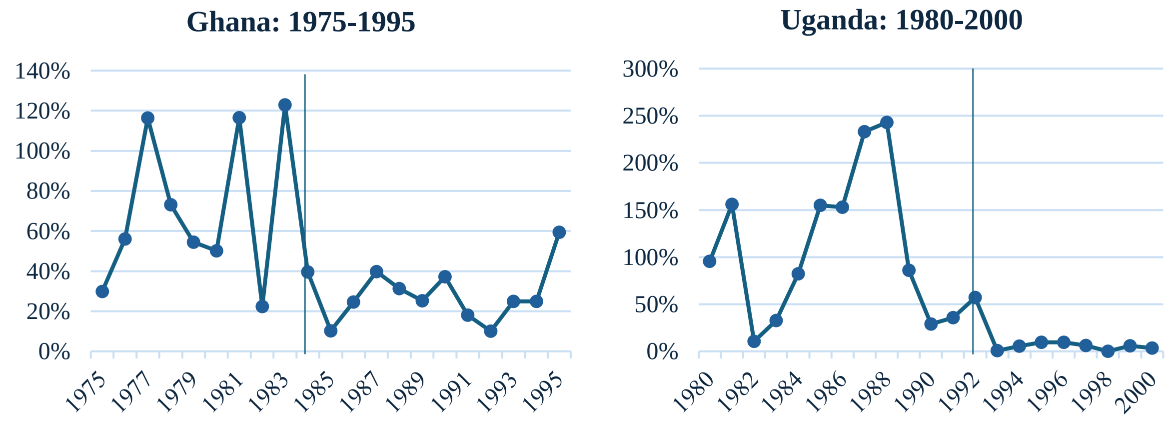
Figure 4: Official exchange rates in West African CFA Franc Zone and selected West African countries (LCU to USD)



Source: World Development Indicators, 2025.

Another contentious policy issue was monetary expansion. In countries with independent monetary policy (those outside the CFA zones), governments sometimes resorted to printing money to meet domestic expenditures. When the economy is strong and has lots of ability to absorb and produce more goods and services, monetary expansion is sometimes a useful policy tool that can help to stimulate more production. But in many African economies during the 1980s, increased money supply did not stimulate production but instead led to runaway inflation. Figure 5 charts the inflation rates in Ghana and Uganda. IMF-led reform programs usually mandated an end to such practices, and in cases like Ghana in 1984–85 and Uganda in 1992 (these reform years are marked by vertical lines in Figure 5), where policymakers were committed to change, halting monetary expansion did quickly bring down inflation.

Figure 5: Annual inflation rates in Ghana and Uganda



Source: Ghana: WDI 2025; Uganda: Simson, 2019.

However, government budgeting under conditions of high inflation has some political advantages. When governments allow inflation to reduce the real value of expenditures, they can effectively trim their budgets without making hard choices about which budget lines to cut. When inflation subsides, fiscal deficits force governments to decide which expenditures to reduce and makes these budget cuts more publicly visible.

Expenditure and price management

Later, under structural adjustment programs (SAPs) (see more under section 3.3), the IMF and World Bank also often set conditions for realigning the budget. One area of focus was the reduction of subsidies to state-owned enterprises. During the 1960s and 1970s, many newly independent countries emphasized industrial development by subsidizing nascent industries to foster domestic production. They correctly recognised that producing raw minerals or agricultural commodities made their economies vulnerable. However, Africa's nascent manufacturing industry, which often produced simple consumer goods like clothes and shoes or processed food, were very vulnerable to the price of imports. As the costs of inputs and energy rose, these industries became increasingly uncompetitive. Many governments initially tried to prop up their nascent industries, which squeezed budgets and export earnings even further. But in the longer term, many manufacturing industries failed. This wiped out some industries entirely, and with it coveted industrial jobs.

Lastly, in part to complement the exchange rate controls, many countries had complicated systems of price controls. This meant that the price of certain goods – both imported and domestic - say a kilo of rice or gallon of petrol - were dictated by the government. At the margins, price controls can help to reduce profiteering and redistribute income. They often work in concert with import licences. An importer would get access to foreign exchange at the official rate, but was required to sell said good, say petrol, at a given price, which is in practice was a way of subsidising petrol. Price controls on domestically produced goods, for export or the domestic market, acts in practice as a further tax on the producer.

But in a context of high inflation and scarce foreign exchange, managing goods and prices so that supply and demand match becomes very difficult. Moreover, to signal to citizens in urban areas, that rely heavily on food purchased in the market, governments often wanted to keep official prices low for political, rather than economic, reasons.

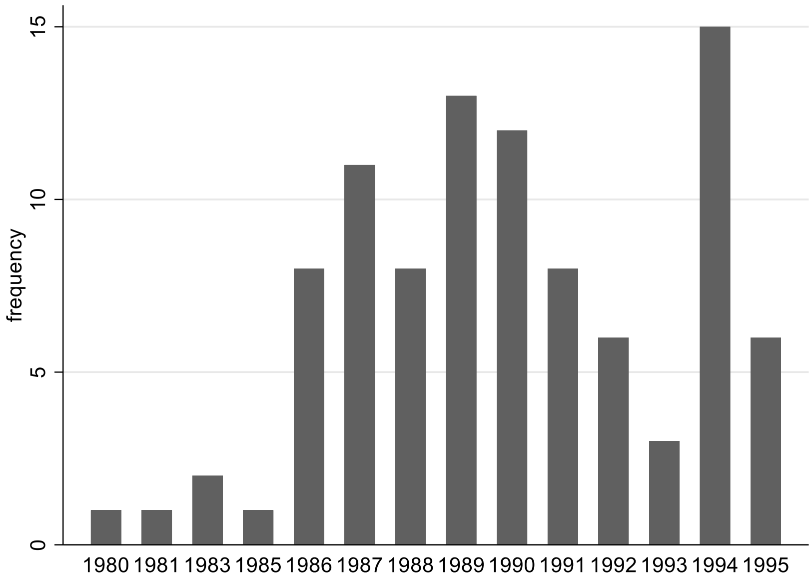
For goods produced in the country (think rice, beans, maize), if prices are set so low that farmers are unwilling to supply goods, it often leads to shortages and possibly a decline in overall production (why should a farmer sell maize or rice for the market, if they can make no profit at all?) Alternatively, it stimulates a black market where prices are higher than those stipulated by the government, which means the price controls are ineffective and are pushing people into illegal trade that is harder to tax and regulate.

In practice, in many African countries people responded to these market disruptions by falling back on family farms and informal markets. Even in urban areas, many wage earners still owned an agricultural plot, or had a close family member with access to land. Urbanites came to rely more on these family networks to supply them with food, thus retreating from the market and the zones of exchange that the government could oversee.

The elusive recovery

Throughout the late 1970s, 80s and early 1990s, most countries in Africa undertook repeated structural adjustment programmes. Figure 6 counts the number of World Bank's structural adjustment loans to African countries. The World Bank approved around 100 structural adjustment loans or grants to 27 Sub-Saharan African countries between 1980 and 1995. The IMF approved 79 structural adjustment loans to 30 African countries between 1986 and 1995[2], and 73 stand-by arrangements between 1984 and 1995.

Figure 6: Number of World Bank structural adjustment loans or grants to African countries approved by year



Note and Source: Constructed based on a search of the World Bank Projects and Operations Database, and extracting projects titled SAL, SAC, ADJ or with structural in title.

In essence, SAPs sought to manage a reduction in spending and redistribute a diminished income pie, in ways that would improve incentives to produce and invest. By design, these policies had distributional effects, and in the short term they made some groups worse off. For urban residents in particular, the withdrawal of price controls often raised prices of basic goods, and closure of factories meant that people lost their jobs.

[2] Under the Structural Adjustment Facility, Extended Fund Facility, Compensatory Financing Facility.

The structural adjustment reforms are strongly associated with growing hardship, poverty and inequality, as living standards in most African countries declined during this era of repeated borrowing from the IMF and World Bank. But it is hard to determine whether the reforms caused poverty to rise, or whether poverty levels would have risen anyway (possibly by even more), than in the absence of reforms. In particular, the charge that SAPs increased inequality are worth examining in a little more detail. The perception among many is that inequality increased in this period, as the middle class looked with anger at a small, political class enriched through corruption. But if we were to use a measure like the Gini index, this seems unlikely to be borne out by the statistics. By conventional measures, inequality probably fell, as it was the comparatively better off that had the most to lose. The poorest small-scale farmers, who produced much of their own food, were less affected by inflation or falling cash crop prices. In aggregate, child mortality rates continued to fall in most countries throughout the period, which suggests that consumption levels for the poorest can't have been declining that much (or else infants and children would, very sadly, have been dying in greater number).

The biggest fall in income was probably felt by those in what we might think of as middle class professionals, such as teachers, doctors, nurses, and even factory workers, who had high salaries in the 1960s relative to farmers. These groups saw their incomes plummet as inflation raised the costs of food and other goods, while their employers (often the government), failed to raise salaries at the rate of inflation. In Kenya the average public sector salary fell by 70 percent between 1973 and 1994, adjusted by inflation, and the gap between the income of skilled and unskilled employees declined. Farmers producing largely for the international market were also hit hard, but these tended to be richer farming households. It is worth recognising that the collective memory of this period is strongly shaped by this strata of society, as they were the most literate, most mobile (many emigrated), and most vocal.

Structural adjustment reforms also aimed to reduce corruption by forcing governments to publicly confront difficult fiscal choices. This sounds good in theory, but in practice it can be destabilising. Corruption was certainly not new to African countries in the 1970s or 1980s, but there is good reason to think that crises exacerbate corruption. Economic decline reflects badly on the government of the day. As people experience growing economic hardship, they blame the state, and in more extreme cases, have so little to lose that they are easily recruited into predatory gangs, militias or rebel armies. This gives potential coup leaders or rebel factions a greater chance of success. In such a situation, rulers often find themselves resorting to undemocratic tactics to stay in power, by buying the loyalty of individual strongmen or groups that can deliver political support or stave off coups or social unrest. The various sources of rents offered by state-owned enterprises or import licences, can be thought of as siphons used to compensate powerbrokers in society, which kept the government from collapsing. But by turning off the corruption tap, governments lost this ability to buy off opponents or had to find ways of diverting other resources towards that aim.

Governments were right to worry. SAPs often did lead to social unrest, and sometimes to coups (keep in mind that few African countries were democratic at this stage, so voting an incumbent out of office was rarely an option). The coups in Ghana in 1981, Nigeria in 1983, Sudan in

1985 and Mali in 1991, for instance, were at least in part a reaction to increased public discontent and protests against SAPs.

But the other, arguably even more worrying dimension of the story, was that SAPs didn't seem to bring about the promised economic recovery. Many countries were permanently under SAPs of various forms for the best part of two decades. Côte d'Ivoire for instance, received 26 structural adjustment loans in the 1980s and 1990s.

Some studies concluded that many African governments subverted the programmes and didn't actually carry through with the needed reforms, particularly so countries with strong political relationships with the US or other Western countries such as Côte d'Ivoire and Liberia. These Western countries (with the largest IMF Board voting rights) watered down the requirements for fresh loans from the IMF (they also wanted to keep African government afloat, so that they didn't default on loans to their own governments). One of the conclusions repeatedly reached by the World Bank was that structural adjustment reforms worked when governments took the lead and decided on their own accord that said reforms were needed, which implies that creditor conditionality was only of marginal value anyhow.

An alternative view is that African governments did carry through serious reforms, but the medicine just wasn't working. Some saw this as evidence that the advice was flawed or wildly optimistic. By failing to highlight the need for debt relief and a resurgence in capital investment, the IMF reform packages simply kept countries stuttering along at growth rates well below potential. Debt payments remained high, prices of exports remained low, and government budgets were therefore too small to repair roads and railways or restore the salaries of bureaucrats to living wages. But this reading of the situation, the benefits of structural adjustment were just not large enough to turn the tides.

4. Deeper causes of African economic volatility

From the 1990s and onward, economists began to think about Africa's economic woes as rooted in deeper institutional weakness or environmental constraints rather than unfavourable terms of trade and debt problems alone. Institutionalists pointed to weak governance in particular, by which they meant that the political game didn't deliver the right outcomes for growth. Because the political system lacked checks and balances, it revolved around rents and projection of political power rather than broad-based investments. Reform efforts were subverted for short-term political gain, and what resources were available for social investments, were rarely invested well. In the late 1980s for instance, President Houphouët-Boigny of Côte d'Ivoire famously built the world's largest church in his hometown Yamoussoukro, at considerable cost to the public purse. In both Liberia and Sierra Leone, construction of hotels and urban infrastructure boomed ahead of the meetings of the Organization of African Unity in Monrovia in 1979 and Freetown in 1980, which probably did little to improve longer-term economic competitiveness. Because the formal political system was unstable and untrusted, governments feared coups and social uprisings and therefore spent a growing share on the military after independence, which also crowded out forms of expenditure that might have been better for the economy and welfare.

Others looked to Africa's place in the world economy to explain its political and economic problems. In particular, it seemed that the region was trapped in the production of primary commodities for export, and such goods experience more price volatility than manufactured goods, making it vulnerable to repeated booms and busts. Colonial rule is thought to have contributed to these problems, by encouraging colonial economies built on undiversified commodities for export while doing little to promote infant industries. By this reading of events, the 1980s was just the latest oscillation of a cyclical pattern of economic growth and decline. These oscillations, moreover, seem to be amplified by debt. When commodity prices are high, creditors lost sight of the risk of falling prices and lent too liberally, fuelling the commodity boom further. When prices were low, creditors quickly withdrew and a debt distress become a self-fulfilling prophesy. Because institutions were weak, it also proved difficult for governments to credibly commit to using policy to act countercyclically, by saving windfall earnings or curbing borrowing during upswings. The temptation to spend rather than to save proved hard for politicians to withstand.

Many African independence leaders had not been oblivious to these risks, and the 1960s and 1970s saw many (in retrospect) short-lived attempts to promote economic diversification and particularly industrialisation, in for instance Ghana, Zambia, Côte d'Ivoire, Cameroon and Tanzania. But many subsequent analyses have seen these industrialisation efforts as all but doomed to fail, as it put African economies in competition with Asian ones, which had larger, cheaper, and more disciplined labour forces, at a time when African countries were still underpopulated, smallholder economies with poor infrastructure.

How, then, did some African countries escape this period unscathed? One way of testing this idea is to look at the outliers. Botswana is perhaps the most exceptional case. Few people writing in the early 1960s would have predicted that it would be the most successful economy on the continent as it was a small, poor, rural and land-locked country with a hostile neighbour (South Africa). Yet Botswana proved to be one of the few countries to remain democratic through this period, it also managed to invest well and lift the majority of its population out of poverty. Many have argued that good governance (in part due to ethnic homogeneity) was the key to Botswana's success, but this was probably not a sufficient condition for success. Botswana's economy was intimately tied to its main export: diamonds. Diamond prices were less volatile in the 1980s than most other commodities in part because the main producer (DeBeers) controlled so much of the world's supply and could therefore steer prices. Moreover, Botswana's diamonds were mined by a big firm, Debswana, 50% owned by the government, rather than small scale miners, so the revenue was easier to collect. Thus Botswana's revenue kept growing during the 1980s and government never faced the same degree of economic volatility as most of its neighbours.

Lastly, another elephant in the room is the effect of population growth on output per capita. All the GDP discussion so far has focused on GDP per capita, but population was also growing at record speed during this era. Aggregate GDP (not divided by population), was in most countries still positive, even as per capita incomes declined.

The relationship between population growth and the growth of GDP per capita, however, is not clearcut. At the beginning of the period, many African countries were still land abundant, meaning that there was still unutilized productive land that could be put under cultivation. Thus a growth in population tended to bring more land under cultivation. But as the most productive land was claimed and more marginal land brought under production, land productivity probably failed to keep pace with population growth. Given that other sectors of the economy, such as industry, were contracting, population pressure therefore probably contributed to falling living standards.

Population growth also influenced government spending patterns: with very young populations and a great desire to increase educational attainment, spending on education typically increased. In Kenya and Uganda, education spending consumed about a fifth of central government spending in the early 1960s, but by the late 1990s this had risen to a third. This crowded out other types of social investments, such as infrastructure. Furthermore, the big expansions in educational enrolment were often coupled with falling educational quality and a reduction in per student spending.

Nonetheless, some have argued that we should see economic performance in this period in a brighter light, given the population growth it sustained. And if the continent was underpopulated in the 1950s, and if low population densities were in fact a hindrance to industrialisation and other economic diversification, then increased population pressure, increased educational attainment and urbanisation means that conditions for growth looked very different post-crisis. Furthermore, population growth clearly cannot explain the whole story, as African economies did eventually recover in the 2000s without any sharp decline in the birth rate.

5. The real recovery

Most countries in Africa hit their lowest GDP per capita in the 1990s and started to recover thereafter. The economic outlook was considerably brighter by the 2000s, when several African countries, such as Ethiopia, Mozambique, Tanzania and Uganda, were among the fastest-growing in the world.

The recovery was driven by a reversal of the conditions that sparked the crisis, and again, external factors mattered a lot. Rising prices for African exports, particularly minerals and oil, but also some cash crops such as cocoa, contributed to rising incomes. With growing resource demand from Asia in particular, prices for key African export commodities like oil, copper, iron-ore and bauxite, rose sharply in the early 2000s. Debt relief also made a difference. In 1996, the members of the IMF and World Bank finally agreed to grant significant debt relief to low income countries, under the Heavily Indebted Poor Countries (HIPC) initiative. Uganda became the first country to meet the criteria for this debt relief in 1998, and 31 other African countries followed suit in 2000s. This allowed countries to begin borrowing again, and an increase in investment tends to stimulate growth, creating new job and business opportunities. Around the same time, Chinese lending and investment in Africa began to grow, which also helped to create jobs, fuel demand for domestically produced goods, and improve transport infrastructure.

Analysts have also highlighted some deeper, and more fundamental changes to African societies and economies that began to bear fruit in the 2000s. Many countries democratised in the 1990s or 2000s and on the whole governments became more accountable to their citizens. Rapid urbanisation and growth in educational attainment has probably been a contributor to this; with large, young, and literate urban populations, there are far more people engaging actively with the political process. A more educated population is also making African countries less reliant on skilled labour from abroad, and more competitive in industries that employ skilled workers. Birth rates remained high but seem to have reached their peak in the 1980s, alleviating some pressure on government and household budgets. Furthermore, as incomes rise in Asia, a few parts of Africa where population densities are high and wages low, such as Ethiopia, are making small inroads into the global market for labour-intensive manufactures. Ethiopia's government has promoted an export-led initialisation programme since the early 2000s through industrial parks, which crowded in manufacturing firms and about 90,000 jobs by 2020, primarily in textiles and apparel. Countries across East Africa, with Kenya in the lead, have also diversified into horticultural production for export, which is more capital and labour-intensive than traditional cash crop production.

6. Looking to the future

After almost two decades of relatively strong growth (c.1998-2016), the continent's growth rates slowed again in the late 2010s (Figure 1). Today, many international organisations and commentators are looking back to the past to make sense of the future. Some fear that we are witnessing another boom-bust cycle, with the bust, once again, triggered by global turbulence, including the covid pandemic, wars in Europe and the Middle East, and commodity price volatility. Again, global ripples seem to be rising to swells once they reach vulnerable primary commodity producing economies in Africa. High levels of borrowing since 2008 during a period of unusually low global interest rates, has resulted in debt distress in almost half of all African countries, and pushed countries like Zambia, Ghana and Mozambique into default.

Nonetheless, it is also important to recognise that much has changed since 1974. To use history as a tool for understanding the present, we want to look to both the similarities and the differences.

As in the 1970s, most African economies remain dependent on a narrow range of primary export commodities—now more focused on minerals than on cash crops. This continued reliance means that they remain vulnerable to fluctuations in global demand and prices. As in the past, many countries today owe considerable debt in foreign currency, which also constrains their ability to pursue ambitious investment plans. Furthermore, the global system for managing and renegotiating debt is just as fractious, if not more so, than in the 1980s owing to China's larger creditor role, which means there is less trust and coordination amongst creditor nations.

The policy regimes in today's indebted countries, however, look different to the 1970s, as the reforms of the era gradually took root. Relative to the 1970s and 1980s, African currencies are not serious overvalued, inflation is broadly under control, many former state-owned enterprises have been privatised, and governments operate less direct control over imports, exports and prices. But by some readings of the history of the period, these policy 'distortions' were not the main source of the problem anyhow.

Perhaps more importantly, some of the structural constraints that were thought to have inhibited African development, are abating. Africa is the only region in the world that continues to experience significant population growth, while other regions face aging population. The widening income gap between Africa and Asia may still create new opportunities for industrialization. Large and dense urban populations create new economic possibilities and new political fault lines, that may come to condition and constrain governments in new ways. History offers us thought experiments, but it cannot predict the future.

Study questions

1. Why are the years between 1974 and 1994 often referred to as Africa's "lost decades"? What key economic trends characterize this period?
2. What is meant by "deteriorating terms of trade," and how did this impact African economies during the 1980s?
3. What were the advantages and disadvantages of devaluing the exchange rate?
4. Did the economic crises of this period affect different segments of society differently? Which groups were hit hardest and why?
5. Why did many structural adjustment programmes (SAPs) fail to achieve their intended goals?
6. Are there lessons from the lost decades that could help African countries avoid similar economic crises in the future?

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About the author

Rebecca Simson is a departmental lecturer in economic and social history at the University of Oxford. Her research focuses on the history and economic development of postcolonial Africa. She has written on the history of public sector employment in Kenya, Tanzania and Uganda, ethnic and regional inequalities in education and employment provision and inequality dynamics in developing regions.