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Rational Asymmetric Development, Piketty and Poverty in Africa

Simplice A. Asongu*, Jacinta C. Nwachukwu**

Abstract

An April 2015 World Bank report on the Millennium Development Goal poverty target has revealed that extreme poverty has been decreasing in all regions of the world with the exception of Africa. This study extends the implications of Thomas Piketty's celebrated literature from developed countries to the nexus between developed nations and African countries by building on responses from Rogoff (2014) and Stiglitz (2014), post Washington Consensus paradigms and underpinnings from Solow-Swan and Boyce-Fofack-Ndikumana. The central argument presented is that the inequality problem is at the heart of rational asymmetric development between rich and poor countries. Piketty has shown that inequality increases when the return on capital is higher than the growth rate, because the poor cannot catch-up with the rich. We argue that when the return on political economy (or capitalism-fuelled illicit capital flight) is higher than the growth rate in African countries, inequality in development increases and Africa may not catch-up with the developed world. As an ideal solution, Piketty has proposed progressive income taxation based on automatic exchange of bank information. The ideal analogy proposed in tackling the spirit of African poverty is a comprehensive commitment to fighting illicit capital flight based on this. Hence, contrary to theoretical underpinnings of exogenous growth models, catch-up may not be so apparent. Implications for the corresponding upward bias in endogenous development and catch-up literature are discussed.

JEL Classification: B20; F35; F50; O19; O55

Keywords: Piketty, Inequality, Foreign aid, Capital flight, Development

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1. Introduction

"Output may be growing, and yet the mass of the people may be becoming poorer" (Lewis, 1955). "Lewis led all developing countries to water, proverbially speaking, some African countries have so far chosen not to drink" (Amavilah, 2014). While Piketty's (2014) celebrated 'capital in the 21st century' is consistent with Lewis, it has taken only developed countries to the stream. The present study aims to correct this shortcoming by extending the implications of Piketty's

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findings to African countries. The relevance of Africa is also motivated by a recent World Bank report on the Millennium Development Goals (MDGs) poverty target which has revealed that extreme poverty has been decreasing in all regions of the world with the exception of Africa (Caulderwood, 2015; World Bank, 2015), despite the continent enjoying more than two decades of growth resurgence that began in the mid 1990s (Fosu, 2015a, p. 44)1. In what follows, we show why it is important to extend Piketty's celebrated literature because the growing evidence of inequality as a challenge to 21st century capitalism extends beyond the scope of developed countries (Brada & Bah, 2014).

Irrational policies are increasingly driving exclusive development (Li et al., 2011, p. 109) due to 'immiserizing growth'2 (Bhagwati, 1958). According to some accounts (Asongu & De Moor, 2015), the Top 1 percent have gained most, if not all, of the revenue accruing from the recent economic recovery (Covert, 2015). Since income inequality has substantially increased over the past decade Milanovic, (2011) and Oxfam (2015) sustain that the income of the Top 1 percent in the World could exceed that of the Bottom 99 percent by the year 2016. Consistent with Joseph Stiglitz: "There has been no improvement in well-being for the typical American family for 20 years. On the other side, the top one percent of the population gets 40 percent more in one week than the bottom fifth receive in a full year"(Nabi, 2013, p.10). Therefore, there is an imperative "Need to design the right economic policies to enhance inclusiveness specially in the developing countries" (Nabi, 2013, p. 13). Reducing exclusive development would require, *inter alia*, improving how finance drives growth (Freeman, 2010). A position that is broadly shared by the World Hunger (2010) which has concluded that the principal cause of poverty and hunger in the globe today is a mainstream economic system that has encouraged the minority to grab most of the global wealth, such that the bottom billion is abandoned just to survive.

As far as we have searched, responses to the work of Piketty have included reviews and commentaries of a diverse nature. These entail: cross-checking of facts (Branko, 2014: Krusell & Smith, 2014), data quality (Reynolds, 2014), reviews (Homburg, 2014; Allen, 2014), theoretical foundations (Morgan, 2015), a need for a more general approach to the global inequality problem (Rogoff,

[1] The concern about immiserizing growth on the continent has motivated a recent stream of studies on 'paradigm shifts'. Notably, Kuada (2015) has proposed a new paradigm of 'soft economics' in a recent book in order to elicit poverty trends in Africa. The concern about exclusive growth is also the focus of another book by Fosu (2015bc) which is devoted to elucidating: (i) myths behind Africa's recent growth resurgence and (ii) the role of institutions in the underlying resurgence.

[2] Economic growth can be associated with substantial negative externalities, producing disequalizing income-distribution. The presence of such a scenario debunks the celebrated inverted U-shape nexus between inequality and industrialisation advanced by Kuznets (1955, 1971).

2014a; Stiglitz, 2014). Among the above responses, those of Rogoff and Stiglitz are the closest to the present line of inquiry.

According to Rogoff (2014a), Piketty's approach to the inequality problem should not have been limited to developed countries. The narrative argues that it should also have incorporated developing (especially African) nations because the poor in developed countries may be considered super-rich in relative terms when perceived from less developed countries' point of view. Moreover, the notion that inequality should be grounded exclusively in capitalism has some fundamental shortcomings when issues like colonialism and slavery, among others, are considered. Accordingly, the externalities of colonialism have substantially contributed to global inequality (Frankema, 2006). Stiglitz (2014) has claimed that institutions like democracy matter more in '21st century inequality' than does to capitalism. According to his narrative, "If we get the rules of the game right, we might even be able to restore the rapid and shared economic growth that characterized the middle-class societies of the mid-twentieth century". Two elements boldly standout from the above narratives: the need to integrate less developed countries and the imperative to get institutions rights from Rogoff and Stiglitz respectively. These elements have led to a growing stream of post-Washington Consensus (WC) development models. Hence, before we consider how the two elements underpin this study, it is worthwhile to briefly highlight the post-WC models in order to enhance readability and clarity. Hence, in what follows, for the purpose of consistency, the discussed post-WC paradigms are centred on institutions and the middle class.

A recent critical comment by Asongu and Kodila-Tedika (2014) on institutions and poverty clearly articulates the importance of the middle class and inequality in the post-WC development agenda. These include, Liberal Institutional Pluralism (LIP), New Structural Economics (NSE) and the Moyo Conjecture reconciling the WC with the Beijing Model (BM). In essence, China's outstanding economic development has led to a new stream of studies clearly articulating the middle class and institutions as prime factors in the post-WC development agenda. These include: debunking the myths surrounding Sino-African relations (Asongu & Aminkeng, 2013), convergence between the BM and WC in a new development paradigm (Asongu, 2014a, 2016; Asongu & Ssozi, 2015), greater need for self-reliance by African countries in charting their course to development (Fofack, 2014), the false economics of pre-conditions (Monga, 2014), development strategies based on a mixture of successful development models with the WC (Fosu, 2013a), the NSE (Lin & Monga, 2011; Norman & Stiglitz, 2012; Stiglitz et al., 2013ab; Stiglitz & Lin, 2013) advancing a synthesis between liberalism and structuralism, the LIP[3] based on quality and types of

[3] We discuss this school of thought in substantive detail in Section 2. The interested reader can find more insights in Acemoglu et al. (2005), Rodrik (2008), Brett (2009) and Fofack (2014, pp. 5-9).

institutions in public service delivery (Acemoglu et al., 2005; Rodrik, 2008; Brett, 2009; 2014, pp. 5-9) and the Moyo Conjecture which has been partially confirmed in Africa (Asongu, 2014b) and a broad sample of developing counties (Lalountas et al., 2011)4.

As we shall substantiate in latter sections, it is important to articulate how post-WC models are linked to the extension of Piketty's findings to developing countries. For instance, while the Moyo conjecture emphasises that political rights should be prioritised because they mitigate inequality in the long-run (Moyo, 2013; Asongu, 2014a), Stiglitz (2014) in responding to Piketty, has sustained that democracy is the principal cause of inequality in the 21st century. A logical implication of this contradiction is that the issues at play may revolve beyond the underlying debates to more in-depth realities that limit both democracy and economic rights in developing countries, even in the presence of burgeoning economic growth.

In light of the above, less developed countries, the middle class and institutions are necessary to extend the implications of Piketty in the context of post-WC development models. Therefore, building on responses from Rogoff (2014a) and Stiglitz (2014), we argue that the inequality problem between developed nations and African countries is at the centre of rational asymmetric development. Piketty has shown that inequality increases when the return on capital is higher than the growth rate. We argue that when the return on political economy (or capitalism-fuelled illicit capital flight) is higher than the growth rate in African countries, inequality in development increases. The intuition for the parallel analysis is fundamentally based on high levels of illicit capital flight from African countries, far outweighing economic growth rates (OECD, 2014)5. Moreover, it is important to involve less developed countries in the inequality agenda because Piketty's literature has been celebrated on the prime basis that it has debunked the Kuznets' conjectures. But the conjectures of the latter were based on a comparison between developed and developing countries. Hence, the comparative scope of the present line of inquiry is granted and relevant to providing a more complete perspective of the implications of Piketty's study.

To the best of our knowledge, the study in African development literature closest to the current line of inquiry is Fofack (2014, p. 13) which reviewed different ideas proposed for African development over the past decades and on a

[4] There is a growing stream of literature emphasising that 'political rights institutions' are more endogenous to economic growth (Anyanwu & Erhijakpor, 2014; Asongu, 2014c). The Moyo proposal/hypothesis is founded on the Kuznet's (1955) conjecture which has been recently debunked by Piketty's (2014) 'Capital in the 21st century'.

[5] According to the Organisation for Economic Co-operation and Development (OECD, 2014), about 25% of African GDP is lost to corruption, of which a substantial portion is capital flight that is deposited in OECD tax havens. If this 25% is compared with the average growth rate of 5% on the continent, there is some rationale for inferring that the rate of illicit capital fight might far outweigh the growth rate.

development path based on self-reliance. This study consolidates the view of more self-reliance by extending the conclusions of Piketty's celebrated literature to African countries. Hence, the present paper steers clear of past models of African development. These include, among others: the Lagos Plan of Action for Economic Development (LPA, 1980-2000); Africa's Priority for Economic Recovery (APPER, 1986-1990); the African Charter for Popular Participation for Development (1990); the African Alternative Framework to Structural Adjustment Programme for Socioeconomic Recovery and Transformation (AAF-SAP, 1989) and the 2001 New Partnership for African Development: NEPAD (OAU, 1980, 2001; Adedeji, 2002; Bujra, 2004).

The rest of the paper is organised as follows. Section 2 relates Piketty's work to post- WC models. In Section 3, we ask why Kuznets and developing countries are important elements in the 21st century inequality agenda. Underpinnings for 'rational asymmetric development' and 'the spirit of poverty' are discussed in Section 4. In Section 5, we extend the Piketty's conclusions by building on responses from Rogoff (2014a) and Stiglitz (2014) and underpinnings from Solow-Swan and Boyce-Fofack-Ndikumana. This section also discusses implications for an upward bias in the endogenous development and catch-up literature. Section 6 concludes.

2. Piketty and post-Washington Consensus (WC) models

This section links Piketty's work to post-WC models. The discussion follows five main strands: the Liberal Institutional Pluralism (LIP) and New Structural Economics (NSE); the Beijing Model (BM), WC and the Moyo Conjecture; issues in a development consensus reconciling the BM and WC models; resulting ambiguities on which this present line of inquiry is positioned and challenges to the new paradigms.

In the first strand, there are two principal streams of post-WC models that have gained prominence after the 2008 financial crisis (Fofack, 2014, p. 9). These models are consistent with Piketty's literature on the failure of the capitalist model of development. Fofack is even more critical in clearly articulating how the 'private capitalism' experiment has failed in Africa. For instance, going by the definition of the WC as 'government policies based on privatisation, marketisation and liberalisation', African countries have lost decades subscribing to the prescriptions of WC. In essence, the poor economic performance of most developing countries have been traceable to structural adjustment policies based on the underlying WC for the most part (Fofack, 2014, p. 5-6; Lin, 2015).

The NSE has been presented by Chang (2002), Lin and Monga (2011), Norman and Stiglitz (2012), Stiglitz et al. (2013ab), Stiglitz and Lin (2013) and Lin (2015) who have advocated a synthesis between the structuralism and liberalism ideologies. According to the narrative, the authors have recognised both state and market failures but have failed to provide a unified economic development theory for the purpose. The LIP is oriented towards institutions that are needed at

various stages of the development process. It has focused on inter alia: institutional conditions for successful growth, institutional diversity and institutions for the effective delivery of public commodities (Brett, 2009; Rodrik, 2008; Acemoglu et al., 2005; North, 1990). While Piketty's work is related to the above on the need to rethink the WC, the argument in the current paper is aligned with the need for a post-WC paradigm that integrates certain specificities of African development which directly built on implications of 'capital in the 21st century'.

Moyo (2013) in the second strand has defined the BM as "state capitalism, de-emphasised democracy and priority in economic rights" while the WC is "private capitalism, liberal democracy and priority in political rights". According to the narrative, the WC (BM) should be a long- (short-) run development model because the WC is more inclusive and sustainable relative to the BM. In essence, a burgeoning middle-class is needed for political rights to be demanded in a sustainable manner: a middle class that would avoid the temptation of being strongly influenced by basic economic needs like food, clothing and shelter. In a nutshell, what is now coined as the 'Moyo conjecture' sustains that economic rights should be prioritised at the early stages of development while political rights should be given priority at more advanced stages of economic development. It should be noted that the Moyo conjecture is aligned with the LIP because it clearly identifies institutions that are needed at various stages of economic development. According to this view, economic institutions should precede political institutions in terms of development priorities (see Asongu & Ssozi, 2015; Asongu, 2016).

In the third strand for reconciling the BM with the WC, two important points are noteworthy. *First*, the Moyo conjecture is substantially based on the Kuznets nexus between inequality and industrialisation because it assumes that the WC would mitigate inequality in the long-run at a faster rate than the BM. *Second*, Piketty's literature has debunked the Kuznets underpinnings on which the Moyo conjecture is based. Given that the WC is the development model applied in most of the sampled countries on which Piketty's findings are based, issues surrounding the paradigms are open to debate because the Moyo conjecture and Kuznets' underpinnings are based on comparative analyses between developed nations and developing countries.

We devote some space to discussing how the attempt by the Moyo conjecture to merge the NSE and LIP has left room with which to motivate the positioning of this study, that is rational asymmetric development and the spirit of poverty in Africa. First, on the foregoing relationship with the LIP, the conjecture has complemented the paradigm by clearly articulating an institutional design of development. In line with the narrative, the transition from low-income to higher- income should be accompanied by a trading-off of 'economic rights priorities' for 'political rights priorities'. Second, the NSE paradigm is complemented by laying down some foundations for a unified economic theory

that accounts for both market and state failures. In essence, whereas the proposed BM as a short-run development, preference favours prudence in economic openness and state regulation, the WC (or long-term) alternative is opposed to the stated preferences.

A substantial challenge to the NSE paradigm (see Acemoglu et al., 2005, p. 387) is the absence of some kind of causal nexus between economic growth and a specific institutional design. Asongu (2014a) argues that this conjecture has tackled the issue by establishing that economic and political institutions should have priority in the early or latter stages of industrialisation. This contribution has steered clear of the fundamental 'one-size fits all' framework which does not incorporate the structural and institutional challenges at various stages of the development process. In the same vein, while political rights should be prioritised because they mitigate inequality in the long-run (Moyo, 2013; Asongu, 2014a), Stiglitz (2014) in responding to Piketty, has sustained that democracy is the principal cause of inequality in the 21st century. A logical implication of this contradiction is that the issues at play may revolve beyond the underlying debates to more in-depth realities that limit both democracy and economic rights in developing countries, notwithstanding burgeoning economic growth.

In Africa for instance, where poverty has been substantially documented to be associated with huge volumes of illicit capital flight (Fofack & Ndikumana, 2010, 2014; Boyce & Ndikumana, 2008, 2011, 2012ab; Asongu, 2014d), neither democracy nor sustainable economic rights might be achieved despite the apparent economic growth. In this context, the implications of Piketty's work may hold valuable lessons for development economics when extended to African countries in light of the theoretical underpinnings of the catch-up literature. But before we engage in this dimension, more foundations need to be discussed in subtle detail, inter alia: underpinnings for the 'rational asymmetric development' and the 'spirit of poverty' as well as motivations for including developing countries and Kuznets in debates on 21st century inequality.

3. Kuznets and developing countries have motivated responses to Piketty

'Capital in the 21st century' has featured prominently in most scholarly debates in recent months because it has debunked the widely celebrated Kuznets' (1955, 1971) conjecture on an inverted U-shape relationship between inequality and industrialisation. For brevity and lack of space, we resist discussion of the Kuznets' theory. What is more relevant for the present inquiry are the following two questions. First, is there a stream of literature on inequality in developing countries consistent with the narrative of Piketty? Second, why should developing countries matter as much as developed nations in the celebration of Piketty's work?

To the first question, we have already highlighted the notion that the Kuznets conjectures on which the celebration of Piketty's work substantially draws is based on a comparison between developed and developing countries.

Hence, it is only natural that the findings of this literature be extended to a broad sample of developing countries. But of more direct bearing to this line of defence is Rogoff's (2014a) response on issues of 21st income inequality. Why only capitalism? Why not colonialism? If capitalism is not fair for developed countries in terms of equalized income distribution, the issue should be more serious in former colonies. According to Rogoff, while the brilliant work of Piketty has documented within-country inequality from rich countries, a substantial part of the cultural groundswell around his book emanates from people who acknowledge themselves to be within the middle-income strata in their own nations, but who from relative perspectives are in the upper-middle class and to some extent even super-rich by global standards. The narrative argues that the exclusive focus on the developed world may not align well with the policy prescriptions of progressive global wealth tax aimed at correcting issues of global income disparities between richer and poorer countries: the latter nations being ultra-wealthy by global standards. The idea of a global wealth tax is not only tainted with enforcement issues but also with concerns about credibility. It is politically implausible because the fundamental causes of global inequality like colonialism are not taken into account: "Piketty argues that capitalism is unfair. Wasn't colonialism unfair, too?",

Rogoff concludes that "In accepting Piketty's premise that inequality matters more than growth, one needs to remember that many developing-country citizens rely on rich-country growth to help them escape poverty. The first problem of the twenty-first century remains to help the dire poor in Africa and elsewhere. By all means, the elite 0.1% should pay much more in taxes, but let us not forget that when it comes to reducing global inequality, the capitalist system has had an impressive three decades". Two insights from the about citation merit critical emphasis: (a) the ambiguous role of capitalism as an instrument for developed nations to lifting less developed countries out of poverty and (b) the justification that inequality also matters more than growth in the fight against poverty in developing countries. The former is engaged in Section 4 while the latter is consistent with the second question of Section 3 highlighted above, which we now address.

On the second issue, developing countries also matter as much as developed nations in the celebration of Piketty because inequality, it is claimed, also matters more than growth in the fight against poverty in less developed countries. This statement arises from the arguments of Piketty on developed countries which are consistent with a growing stream of the literature on developing nations emphasising the need to articulate inequality in the poverty-growth nexus (see Fosu, 2015a; Thorbecke, 2013; Kalwij & Verschoor, 2007). These currents include, among others: the critical role of inequality in the alleviation of poverty (Ali & Thorbecke, 2000; Datt & Ravallion, 1992; Kakwani, 1993); the essence of income-inequality in the growth elasticities of poverty (Ravallion, 1997; Easterly, 2000; Fosu, 2015) and policy-making (Adam, 2004). Therefore, the coverage of more developed nations by Piketty is consistent with

evolving currents from African countries (Fosu, 2008, 2009, 2010a, 2010b) and broader samples of developing nations (Fosu, 2010c).

Given that clarifying the second question of this section is crucial for the present study, we devote another paragraph to engaging the underlying literature analytically. It can be summarised by as much as in developed countries, in developing nations inequality also matters more than growth in poverty mitigation. Accordingly, a recent stream of empirical literature has established that the response of poverty to growth is a decreasing function of inequality, since the inequality elasticity of poverty is higher than the growth elasticity of poverty. In essence: "The study finds that the responsiveness of poverty to income is a decreasing function of inequality" (Fosu, 2010b, p. 818); "The responsiveness of poverty to income is a decreasing function of inequality, and the inequality elasticity of poverty is actually larger than the income elasticity of poverty" (Fosu, 2010c, p. 1432); and "In general, high initial levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty directly for a given level of growth" (Fosu, 2011, p. 11).

In light of the above, the Fosu conclusions on developing countries converge with Piketty's literature and Lewis' caution: "Output may be growing, and yet the mass of the people may be becoming poorer" (Lewis, 1955). These intersections of Piketty, Lewis and Fosu are consistent with a growing stream of literature on post-2015 sustainable development goals (Ozgur et al., 2009; Timmons et al., 2009; Monika & Bobbin, 2012; Bagnara, 2012; Singh, 2014; Miller, 2014). Therefore, in charting the pattern towards greater industrialisation, there is an urgent policy syndrome in developed as well as in developing nations of accounting for inequality in the growth effect on poverty (Asongu, 2015a). Within the context of the present study, it entails incorporating some capitalism-motivated rationales for asymmetric development that may dampen the effects of growth on poverty

4. Underpinnings for 'rational asymmetric development' and 'spirit of poverty'

In this section, we: (i) elucidate the concept of rational asymmetric development employed in the study; (ii) engage the rationale of asymmetric development in capitalism-fuelled illicit capital flight on the one hand and on the other hand, (iii) the implications of capital flight in increasing poverty with particular emphasis on case studies from resource-rich and high-growth African countries. The hypothesis of increasing poverty levels which motivates this inquiry is substantiated in the fourth strand with hard facts from a recent World Bank report on attainment of the Millennium Development Goal extreme poverty target. As highlighted in Section 3, it is also fundamental to understand the ambiguous role of capitalism as an instrument by developed nations to lifting less developed countries out of poverty. Hence, a fifth strand in the section is

devoted to briefly discussing the ambiguity of foreign aid when illicit capital flight outweighs economic growth.

The first strand above provides some framework for the conception of 'rational asymmetric development' employed. Within the context of the paper, it refers to unfair practices in globalisation adopted by advanced nations to the detriment and impoverishment of less developed countries. The interested reader can find more insights into capitalism-driving rational asymmetry in 'Making Globalization Work' (Stiglitz, 2007) where "The average European cow gets a subsidy of $2 a day; more than half of the people in the developing world live on less than that. It appears that it is better to be a cow in Europe than to be a poor person in a developing country" (p. 85). Moreover, "Without subsidies, it would not pay for the United States to produce cotton; with them, the United States is, as we have noted, the world's largest cotton exporter" (p.85). The Chang (2007) 'Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism' also clearly articulates the asymmetric development position adopted by this study. An interesting African narrative is told by Mshomba (2011) who has provided a systematic review of relations between Africa and the World Trade Organisation (WTO).

In the second strand, the rationale for asymmetric development in capitalism-fuelled illicit capital flight is driven substantially by a plethora of factors, among others: tax evasion by multinationals and investment of siphoned funds by African public officials in markets with security and high turnover. (i) Multinational corporations in Africa have been using questionable accounting practices to declare low profits and hence pay less tax to domestic governments. This engenders negative implications for economic sustainability in domestic economies (Osabuohien et al., 2013, 2014, 2015). (ii) There is a growing stream of literature claiming that a substantial chunk of the wealth siphoned off by corrupt African officials is deposited in offshore financial centres that are under the jurisdictions of OECD nations (Boyce & Ndikumana, 2003). Hence, the off-shore financial centres are politically and economically managed by the corresponding OECD nations. The interested reader can find more insights substantiating this study by the European Network on Debt and Development on addressing development's 'black hole' through capital flight regulation (EURODAD, 2008). Features of capitalism-fuelled illicit capital flight documented in the report include, inter alia: tax havens, investment and abusive transfer pricing, tax concessions, the emergence of hedge funds together with private equity, speculation and volatility, capital account liberalisation and its implications, the International Monetary Fund's (IMFs) failure in financial regulation and surveillance, European countries facilitating capital flight and regulatory failures in private equity and hedge funds. The above narrative can be summarised in one sentence: asymmetric development is fundamentally driven by capitalism-fuelled illicit capital flight practices. The poverty implications of such practices are worth elucidating.

The third strand discusses the implications of capital flight in increasing poverty and inequality, with particular emphasis on case studies from resource-rich and high-growth African countries. We first briefly discuss why capitalism-motivated illicit capital flight dampens the growth effects on poverty before presenting some case studies. Consistent with Asongu (2014d), capital flight has substantially increased inequality in less developed countries owing to regressive effects in wealth distribution. In line with the narrative, individuals that indulge in such activities for the most part are among the politico-economic elites who have been taking advantage of privileged positions to siphon off and channel stolen funds to more advanced countries. According to the underlying literature (Boyce & Ndikumana, 1998, 2001), the acquisition and transfer of such funds very often entails legally questionable practices like trade misinvoicing (or falsification of trade documents), kickbacks on private and public contracts and embezzlement of export income. The unappealing consequences from shortages in income and unfavourable foreign exchange terms engender a higher negative weight on the poorer faction of citizens. Moreover, Asongu (2014d) has sustained that the regressive effect of illicit capital flight is further strengthened by financial imbalances which culminate in devaluations that have a less negative effect on the wealthy because they often possess foreign assets that insulate them from the unappealing effects.

We now discuss some country-specific cases in which economic growth has been accompanied with substantial capital flight leading to low levels of wellbeing and lack of basic needs. In line with Ndikumana and Boyce (2012), resource-rich countries in Africa have been associated with the highlighted features. We consider the examples of Equatorial Guinea, the Republic of Congo and Gabon, which are among Africa's wealthiest countries. Congo, Gabon and Equatorial Guinea are 15th, 5th and 2nd respectively with corresponding per capita incomes of $1,253, $4,176 and $8,649. These countries have also been endowed with massive oil reserves, ranking 7th, 8th and 10th for Gabon, Congo and Equatorial Guinea respectively. Meanwhile citizens of these nations are living in abject conditions. They are lacking elementary schools, drinkable water, basic social services, decent sanitation and health care. In terms of population immunisation against measles, Gabon and Equatorial Guinea rank second- and third-to-the last with 55 percent and 51 percent respectively. Moreover, the odds of a child reaching his/her fifth day are higher in Equatorial Guinea relative to the sub-Saharan African average.

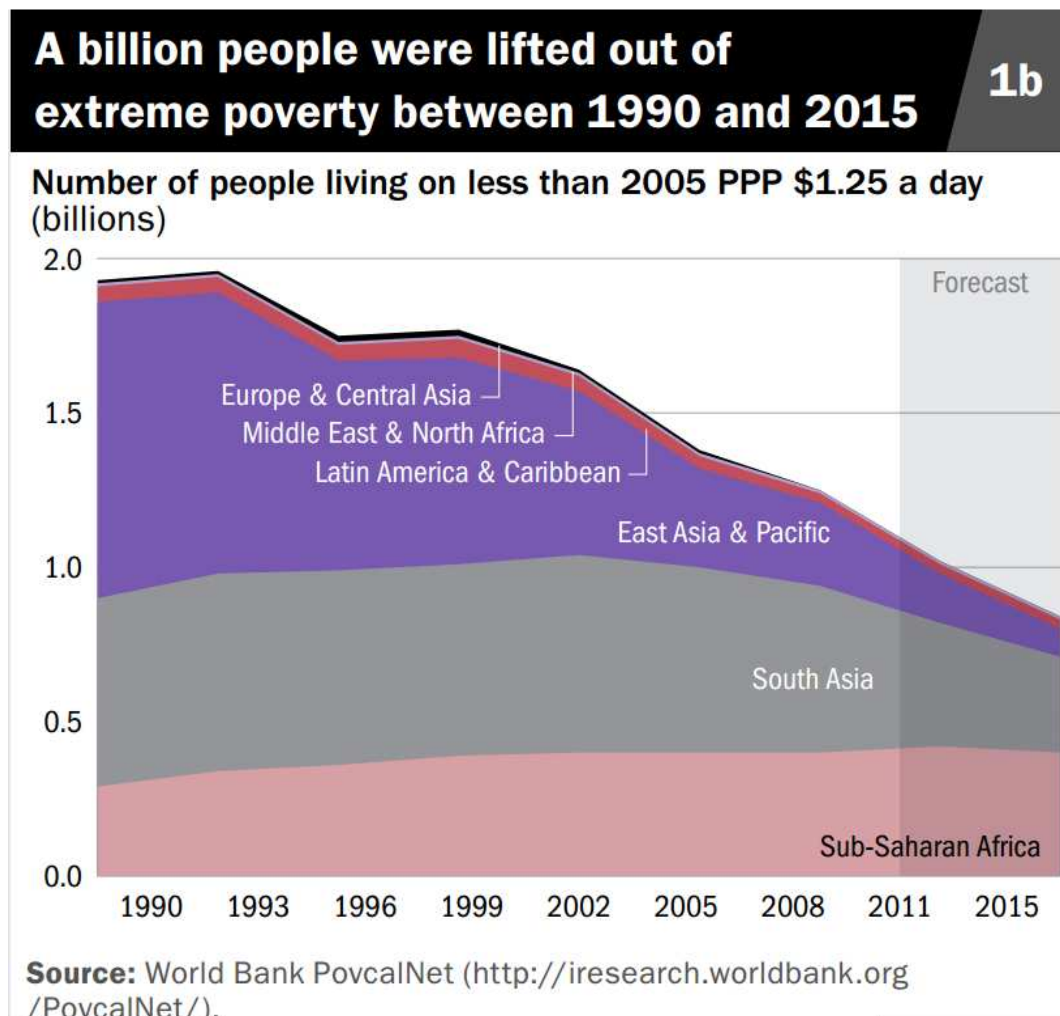
It is also important to devote space for an in-depth analysis of how capital flight has reduced the quality of growth in the three countries. The Quality of Growth rankings recently published by the IMF show deterioration in the positions of these underlying countries between 1990 and 2011 (Mlachila et al., 2014, p.27). From a comparative assessment of 93 developing nations in the periods 1990-1994, 1995-1999, 2000-2004 and 2005-2011, the performance of these countries has worsened over these periods. Congo Republic (59th, 70th,

74th and 84th); Equatorial Guinea (76th, 73rd, 76th and 88th) and Gabon (58th, 61st, 67th and 69th) respectively.

The hypothesis of increasing poverty which motivates this inquiry is substantiated in the fourth strand with hard facts from a recent World Bank report on attainment of the Millennium Development Goal (MDG) extreme poverty targets which, as has been said, revealed that extreme poverty has been decreasing in all regions of the world, with the exception of Africa, where 45 percent of countries in Sub-Saharan Africa (SSA) are substantially off-track from achieving the MDG extreme poverty target. As shown in Figure 1 below, whereas extreme poverty has been declining in all regions of the world, it has unfortunately been increasing in SSA. This is despite over two decades of growth resurgence that began in the mid 1990s (Fosu, 2015a, p.44). It follows that the African continent is still the poorest in the world, in spite of recent narratives of the continent being one year ahead of time in the MDG poverty target (Pinkivskiy & Sala-i-Martin, 2014). This stream of optimistic literature has substantially drawn from currents in Africa rising (Leautier, 2012) and an African growth miracle (Young, 2012), which might have been more concerned with articulating neoliberal ideology and capital accumulation while neglecting more fundamental ethical concerns like inequality, unemployment and ecological decay (Obeng-Odoom, 2013, 2014). Whereas responses to the dismal poverty trend on the continent have included a new stream of literature on reinventing foreign aid for a more inclusive post-2015 development agenda (Simpasa et al., 2015; Jones et al., 2015; Jones & Tarp, 2015; Page & Söderbom, 2015; Page & Shimeles, 2015), we argue that it is necessary to balance this new stream of foreign aid literature with fundamental concerns of illicit capital flight.

In the fifth strand, we briefly discuss the ambiguity of foreign aid in mitigating poverty in situations where capital flight is higher than economic growth. Though the stated purpose of this study is not to discuss the issue of foreign aid, unfortunately we cannot resist assessing the political economy of development assistance because foreign aid is a substantial dichotomy of illicit capital flight. Accordingly, there is mainstream consensus that capital flight is about tenfold the annual development assistance flows and twofold the amount of debt repaid by developing economies annually (Diak, 2014). A recent theoretical postulation that capitalism-driven debts fuel inequality (Azzimonti et al., 2014) has been verified and confirmed in Africa (Asongu et al., 2015). The fact that Africa is a net creditor to the rest of the world is now a widely accepted economic fact in academic and policy circles (Asongu, 2014d). In what follows, we briefly discuss the paradox of capital flight in a capital-starved African continent before extending the implications of Piketty to Africa in the light of the literature we have analytically engaged this far.

Figure 1: Comparative regional poverty levels



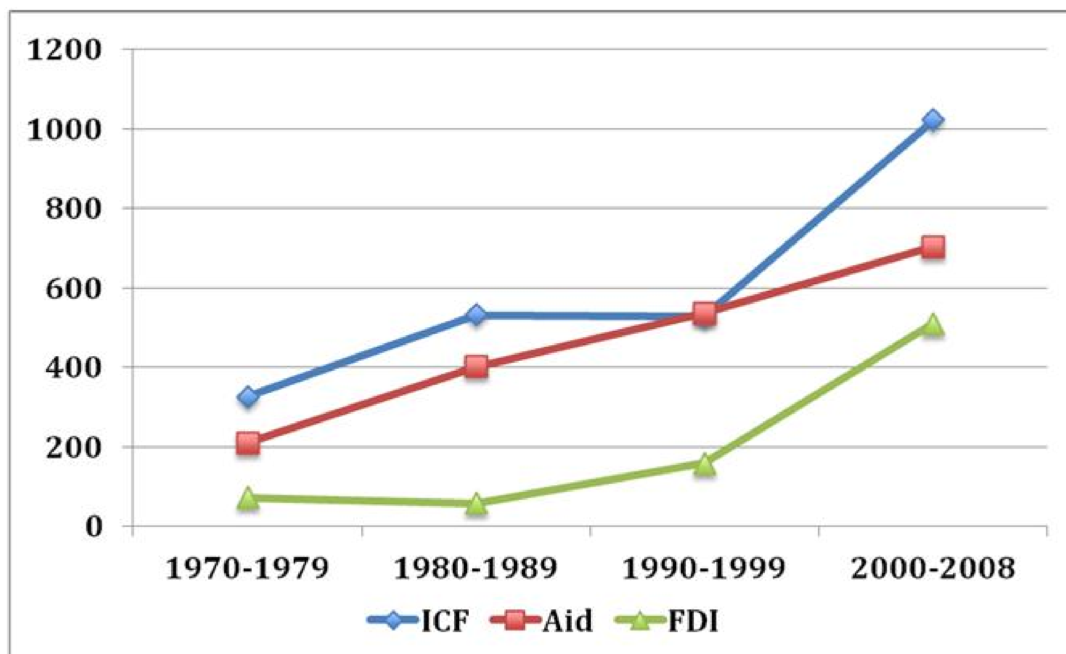
5. The paradox of African capital flight and extension of Piketty

5.1 The paradox of capital flight from a capital-starved Africa

Consistent with Asiedu et al. (2012), a reason for Africa's underdevelopment is lack of investment capital. In accordance with the Harrod-Domar model, three arguments have been put forward: (i) the continent has a financing gap because invested capital is less than the capital required for investment in sustainable growth; (ii) long-term development can be achieved if the financing gap is filled and (iii) in order to bridge the financing gap, Africa would need external capital in the form of debts and development assistance. Hence, there have been recurrent calls for more foreign aid and attempts at attracting other forms of financing, like foreign direct investment (FDI) or long-

term capital from domestic financial markets, which have not been very successful (Asiedu, 2004; Bartels et al., 2009; Tuomi, 2011; Asongu, 2012; Darley, 2012). Consistent with this description, the relevance of external capital in African development is clearly articulated in the Millennium Development Goals (MDGs) and New Partnership for African Development (NEPAD). Figure 2 below highlights the position that illicit capital flows have been increasing at the higher rate relative to FDI and foreign aid.

Figure 2: Illicit Capital Flight (ICF), Foreign Aid, and Foreign Direct Investment (FDI): Average Annual per Country Flows, 1970-2008 (million, constant 2008 $)



Source: Asiedu et al. (2012)

Consistent with Asiedu et al. (2012), reliance on external financing to address the investment needs to fight poverty in Africa is problematic for at least three reasons. First, foreign aid and FDI are volatile and volatility has adverse consequences on economies (see Kangoye, 2013). Second, an extensive literature on growth shows that the effect of foreign aid on economic growth is ambiguous, with provocative titles like 'foreign aid follies' (Rogoff, 2014b), sceptical conclusions from surveys, documenting literature on more than 40 years of foreign aid (Doucouliagos & Paldam, 2008, 2009) or the debates (Asongu, 2014e) and clarifications (Asongu, 2015b) on the questionable economics of foreign aid for inclusive human development in Africa. Third, the region has made very unsuccessful attempts at attracting FDI. There is an interesting stream of FDI (Asiedu & Lien, 2011; Anyanwu, 2012) and African business (Rolfe &

Woodward, 2004; Bartels et al., 2009; Asongu, 2013a) literature supporting this position.

We conclude that given previous unsuccessful attempts at attracting external flows, the trend is not very likely to change. Hence, it is unrealistic to substantially rely on external finance for investment needs in the short- and medium-terms. In proposing a solution, the authors have recommended that sub-Saharan African nations establish effective strategies toward mitigating illicit capital flight within the framework of a broader agenda of resource mobilization for economic development. Extending the implications of Piketty with Solow-Swan and Boyce-Fofack-Ndikumana is a step towards consolidating this recommendation.

5.2 Extending Piketty with Solow-Swan and Boyce-Fofack-Ndikumana

It is interesting to first of all clarify the conjectures of Boyce-Fofack-Ndikumana and Solow-Swan before discussing how the underpinnings are relevant in extending the implications of Piketty.

First, the concept of catch-up or convergence motivated by Solow-Swan (1956) builds from an assumption of diminishing returns, such that less developed countries are endowed with a higher marginal capital productivity. In this light, due to similar levels of savings, poor economies are expected to grow faster relative to their developed counterparts. Hence, a negative correlation is expected between initial income levels and future growth rates. Therefore, the extension of Piketty in this study is typically consistent with the theoretical underpinnings employed in cross-country income convergence literature (Solow, 1956; Swan, 1956; Baumol, 1986; Barro, 1991; Barro & Sala-i-Martin, 1992, 1995; Mankiw et al., 1992; Fung, 2009) which has been recently extended to other fields of development, notably: financial markets (Narayan et al., 2011; Bruno et al., 2012), intellectual property rights (Asongu, 2013b; Andrés & Asongu, 2013), forecasting of political crisis (Asongu & Nwachukwu, 2015), knowledge economy (Asongu, 2013c) and inclusive human development (Asongu, 2014f). In this light, extending Piketty's work is within this recent stream of literature employing the theoretical underpinnings of Solow-Swan within broader development frameworks.

The use of Boyce-Fofack-Ndikumana is to emphasis studies which to the best of our knowledge have substantially enriched the literature on African capital flight. Hence, it is neither meant to underestimate contributions from other authors in this research area nor to consider works of underlying authors as supreme relative to those of their peers in the field. Therefore, the analogy as far as we have reviewed is limited to our knowledge at the time of this study.

The extension of Piketty is a three-step exposition: conclusion, implication and recommendation. Piketty has concluded that (i) when the return to capital is higher than the growth rate, inequality increases. Hence, (ii) the poor cannot

catch-up with the rich. He has proposed an ideal solution (iii) of progressive income taxation (targeting the return on capital) that is based on automatic exchange of bank information. As an extension, (i) we postulate that when the return on political economy (or capitalism-fuelled illicit capital flight) is higher than the growth rate, there is asymmetric development between rich and poor countries. (ii) Therefore, poor countries in Africa may not catch-up with the West. (iii) The ideal analogy proposed in tackling the spirit of African poverty is a full commitment to fighting illicit capital flight based on an automatic exchange of bank information. Hence, contrary to the theoretical underpinnings of exogenous growth models, catch-up may not be so apparent unless missing aggregate savings are restored through genuine commitments to fighting illicit capital flight. This has important implications for the upward bias in endogenous development.

5.3 Implications for the upward bias in endogenous development and catch-up

Contrary to some evidence documenting catch-up by African countries with a direct assessment of questions like "Is Africa Actually Developing?" (Alan & Carlyn, 2015, p. 598), there are strong arguments with which to suggest that it is not. While the underlying literature sustains that Africa is catching-up because it is experiencing a higher growth rate relative to developed countries or declining poverty relative to other regions of the world (Fosu, 2015a)6, this catch-up may not be so apparent when a fraction of GDP lost to illicit capital flight is factored-in. A natural criticism that may arise could be whether the corresponding illicit capital flight is deducted from GDP ex-ante or ex-post of per capita GDP convergence estimations. Accordingly, corruption from African elites has been documented to substantially derive from the inflation of consumption and investment components of GDP (Boyce & Ndikumana, 2003). Boyce and Ndikumana have documented an interesting literature on public debts and private assets as core determinants of capital flight in Sub-Saharan African nations.

It is logical to infer that a substantial amount of siphoned funds is considered ex-ante of GDP per capita computations and hence, illicit capital flight is part of reported GDP. It follows that if illicit capital flows from an economy are higher than the growth rate of the underlying economy, catch-up with developed countries will remain elusive. This inference is based on the assumption that illicit capital flows are hidden in tax havens based in developed countries. We have already alluded to why illicit capital flight is: (i) higher than

[6] It should be noted that the period of catch-up advanced by Fosu (2015a) is consistent with the sample periodicity (or from the mid-1990s) during which Africa has experienced growth resurgence. This is consistent with the earlier position by Alan and Carlyn (2015) of Africa catching-up with the USA from the mid-1990s.

economic growth and (ii) deposited for the most part in developed nations in the introductory section. Moreover, there is a substantial body of literature confirming that a great portion of illicit capital flows are deposited in OECD countries (Boyce & Ndikumana, 2003). As an implication, there may be an upward or positive bias in the endogenous GDP of African nations used in the convergence literature. This may partly explain why Africa's growth miracle has been underestimated by about 400 percent (Young, 2012) and goes a long way to casting some shadow on recent findings establishing that Africa is on time for the MDG extreme poverty target (Pinkivskiy & Sala-i-Martin, 2014).

In order to understand the wider implications of the above in the catch-up literature, it is important to extend the analysis beyond the light of income convergence and engage how the inferences reflect the scarce human development catch-up literature. Consistent with Asongu (2014f), by 2008, Konya and Guisan (2008, p. 9) acknowledged that only three studies had examined catch-up in living standards, notably: Mazumdar (2002), Sutcliffe (2004) and Noorbakhsh (2006). Following Konya and Guisan, to the best of our knowledge, only three more studies have been added to the scarce literature on human development catch-up. These include: Mayer-Foulkes (2010), Clark (2011) and Asongu (2014f).

Mazumdar (2002) examined if the human development index (HDI) converged during the period 1960-1995 in 91 countries and concluded on the absence of convergence. Sutcliffe (2004) has also rebuffed the idea of the HDI convergence in 99 countries using a more updated sample (1975-2001). According to Sutcliffe, the idea of HDI convergence may be a hidden agenda of some multilateral organisations like the IMF to reduce the acknowledged setbacks of the long-run world economic history. In the same vein, the idea of catch-up between Africa and the West, given appalling rates of African capital flight, may be partly explained by the elucidations of Sutcliffe. The findings of Noorbakhsh (2006) have been subject to many criticisms (Konya & Guisan, 2008, pp. 28-29).

Hobijn and Franses (2001) and Neumayer (2003) have also assessed catch-up in living standards. While the former have established the presence of divergence in living standards, the latter has argued that living standards be viewed from a broader spectrum and not limited to a simple index. Asongu (2014f) who has assessed catch-up in inequality-adjusted HDI (IHDI) in African countries has concluded that the income component of the IHDI moves slower than others and hence requires more policy intervention. In light of the above, the debate on catch-up in development remains widely open. Hence, our postulations after extending Piketty's implications to the nexus between Africa and developed countries are quite plausible.

6. Conclusion

This study has assessed the inequality problem in light of policy implications from Piketty's celebrated 'Capital in the 21st century'. We have first situated Piketty in post- Washington Consensus models. Next, we have presented a case for the missing dimension of developing countries in the underlying literature. The study has then reconciled the conclusions of Piketty with Solow-Swan and Boyce-Fofack-Ndikumana in the catch-up and capital flight literatures respectively. We have also analogically demonstrated that consistent with the underlying literature, when the return on political economy (or capitalism-fuelled illicit capital flight) is higher than the growth rate, it would be difficult for Africa to catch-up with the West. In our view, the spirit of African poverty is in rational asymmetric development between rich and poor countries.

It is not the purpose of this study to deny some important successes in human development which Africa has experienced over the past decades, such as a reduction of infant mortality and progress in life expectancy, educational enrolment and information and communication technology. The main aim has been to lay some foundations for the extension of Piketty's work to other developing countries. The logical postulations advanced in this paper have been based on verifiable and justifiable stylized facts. Whether they withstand in-depth empirical scrutiny is an interesting future research question.

An important personality that would easily subscribe to this analysis is the former IMF director and former German president, Horst Köhler whom we cite in verbatim confirming 'rational asymmetric development' with regard to poverty in Africa: "And third, there is an African proverb: 'Beware of the naked man who offers you clothes.' And my goodness, we Europeans are naked, with our double standards and our comfortable hypocrisy vis-à-vis our past and present contribution to Africa's problems. It is high time we regained our credibility. Take corruption: combatting corruption is not a one-way street. Corruption in Africa also comes in the guise of representatives of Western corporations and European bank accounts, so we cannot ignore the global kleptocratic model of capitalism that is sucking obscene amounts of capital out of Africa in particular – and certainly more than is being invested in the continent as development assistance. Chief among the beneficiaries of this flight of capital are the European banks where African despots and tax-evading corporations stash their billions. If we finally brought order to the international financial system and allowed the tax havens to wither away, that would be credible!" (BMBF, 2014, p. 30).

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