Chapter 7
Gross Domestic Savings, Household Consumption, and Inequality in Africa:
A Panel Analysis

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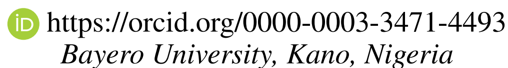

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ABSTRACT

The chapter analyses gross domestic saving, household consumption, and inequality in African countries. The study covers the period from 1989 to 2019, a length of 31 years, for 24 Africa nations from all the regions of the continent. The main econometric methods of analysis employed for the work is panel cointegration analysis. The variables used for the study to explain both gross domestic savings and household consumption trajectories in Africa include income, inequality, financial development, and government final consumption expenditure. The results show that inequality has negative effects on gross domestic saving but positive effects on household consumption in countries across Africa.

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INTRODUCTION

The importance of domestic savings and strong domestic consumption in the development of nations in modern era cannot be taken for granted. Over the years nations in Africa have suffer from lack of domestic savings; and international capital mobility into Africa is not significant to offset the lack of domestic savings. According to Keynesian theory, there is presumed equality of saving and investment. Thus, where nation's saving is lower than investment as is the case in Africa, foreign investment and debts sometimes fill the gap. This has been going on for decades since African countries experiences serious shortfalls due to falls in export revenues. Notable works such as Feldstein and Horioka (1980) has demonstrated that saving and investment rates are strongly correlated. Other works such as that of Baxter and Crucini (1993) and Irandoust (2019) pointed to the same conclusion. Liquidity problems and less than competitive insurance markets are some of the prominent features of financial markets in Sub-Saharan Africa (Aryeetey andUdry, 2000). The importance of saving to economic growth and development of nations has been emphasized by Solow growth model and by other scholars such as Hanson (1978). Saving reduces the demands for consumer goods, thus freeing resources for the production of capital goods. Modern governments use taxation to force people into saving in the situation where saving fall short of investment. The performance and subsequent crisis of 1997 in the East Asian economies put to rest the belief that developing countries are madly in need of capital from developed countries to achieve development. Instead of capital to move from developed to developing countries it was reverse of the case for these Asian economies as they become important sources of capital for developed economies. According to Flassbeck (2008), the fact that capital is moving "uphill", from poor to rich nations, contradicts conventional neoclassical economic theory. He noted that this might have contradicted a very long accepted economic theory, seeing developing countries that export surplus capital growing faster and having higher investment ratio than their peer developing countries who receive net capital inflows'.

According to Aryeetey and Udry (2000) some level of empirical evidences have indicated that the monetary value of formal sector financial assets in Africa is below the value of financial assets held by households, and financial assets in total are relatively small part of the portfolio of assets held by households. This contrast with what is found in developed countries where households hold substantial amount of their wealth in financial assets. Generally, demand in an economy composed up of demands for consumer goods and demands for capital goods. Both of them depend on factors such as level of income, inequality, prevailing interest rate, and government policies among others. Government is the most important spender in most economies around the world. Modern government use taxes to influence what is happening

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