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**African Economic Development,
Infrastructural Investment and Postal Services**

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Abstract

As the network industries of African economies evolve, policy leaders confront important questions regarding potential reforms, e.g., privatization, corporatization, etc., of the institutions that operate and regulate such industries. In recent years, communication industries in particular have already seen dramatic restructuring. Policy makers have begun to debate key issues concerning the magnitude of investment in such industries as telecommunications and postal services.

In the economics literature, the development of endogenous growth theory has caused an explosion in empirical investigations of the sources of economic growth. Education levels, political structure, openness, computer infrastructure, highway capital, and telecommunications infrastructure have all been examined to identify their contribution to growth. However, the role of postal infrastructure on an economy's growth path has received only limited attention and is virtually absent from the academic literature.

Theory provides a number of mechanisms through which a growing postal industry might contribute to economic growth. For instance, investment in postal facilities and equipment leads to increases in the demand for labor and capital required for their production. Because of positive externalities, the returns to postal infrastructure may also exceed the first-round returns on other investment. A weak postal infrastructure limits the communications between firms and between firms and consumers, raising the transaction costs of doing business in all sectors. Improving the postal system would likely reduce the cost of doing business and thereby lead to increases in output. Finally, investment in postal infrastructure might create significant network externalities.

A major obstacle in assessing the impact of postal services on growth is the potential endogeneity of postal service development. I address this issue by simultaneously estimating the effect of postal services on growth and growth on postal services. Following Roller and Waverman's (AER Sept. 2001) work on telecommunications, I estimate a structural model that endogenizes the development of the postal infrastructure while attempting to measure its effect on economic growth. A second obstacle concerns the well-known measurement errors in international postal data. If not accounted for, such errors could bias the result. I control for this potential bias by using an errors-in-variables model.