

THE POVERTY OF NATIONS

Lousy government is the root cause of the world's worst poverty, observes **Gaurav Sodhi**

The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It

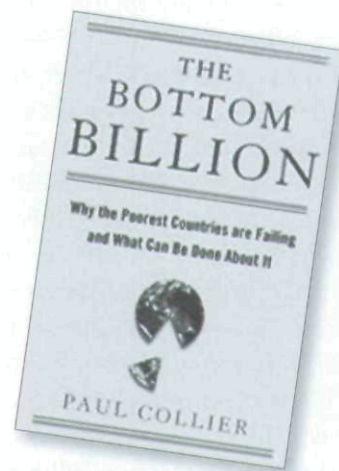
by Paul Collier

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Reviewed by Gaurav Sodhi



There is no shortage of books about Africa. The continent attracts the interest of researchers not because it is poor, but because its poverty seems entrenched, while Asia and even South America bound ahead with higher growth rates and into higher living standards.

Recently, there have been two controversial schools of thought on the issue of global poverty, and on African poverty in particular. If you believe Jeffrey Sachs, what the world needs now is aid, sweet aid. In *The End of Poverty: Economic Possibilities for Our Time*, he advocated a massive new aid push by the developed world, to relieve the world of the most severe poverty by 2015. The UN, the World Bank, and political figures around the world—most notably Tony Blair—have fully endorsed this approach.

On the other side sit the apostles of William Easterly. An ex-World-Bank official, Easterly has been a harsh critic of aid and the development industry that has grown up around it. In his book *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, he argues fiercely that aid is part of the problem—that because of it NGOs and do-gooders receive no feedback from their actions and are unaccountable for their promises.

Sachs and Easterley have stirred a rousing debate about development and aid. Of the two, Easterly poses the more interesting solution to the problem,

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if the more depressing one. There may not be much that the developing world can do, he argues. Aid contributes to the problem rather than solving it. Well-intentioned NGOs work badly because they are not disciplined by feedback or accountability. Local governments must do more.

Paul Collier sits somewhere between these two squabbling sides. His new book, *The Bottom Billion*, is intriguing not so much because of the solutions he advocates, but because of the way it divides the world to analyse the predicament of its poorest people. Where most economists see the world in terms of developing countries and developed countries, and of rich and poor, Collier's more nuanced approach is to say that growth is more important than absolute income levels. His worldview divides the growing from the stagnating.

Of course, the growth camp includes the developed world. But it also takes in developing countries such as China, India, and Vietnam. These are poor countries with large populations, but they are experiencing economic growth and their living standards are rising (in many cases, swiftly). The growth camp consists of about five billion people, and constitutes the vast bulk of humanity for whom, Collier contends, globalisation has worked. In many places, the poverty of these people may be shocking, but it is being managed by pro-growth policies and in all of the growing countries there is now the expectation of a better life in the future. This is a good way of looking at the problem of global poverty.

Collier is concerned about the billion people—scattered around the world, but concentrated in Africa, central Asia, the South Pacific, and elsewhere—whose governments have failed and whose countries are going backwards. For these people, there is no prospect for employment today or in the immediate future. In the places where they live, the only respite for grinding poverty is migration.

Poverty traps

Tolstoy's *Anna Karenina* famously begins, 'All happy families are alike; each unhappy family is unhappy in its own way.'¹ Likewise, Collier suggests that while the roads to growth are similar, there are many roads to ruin. In *The Bottom Billion*, he

suggests that there are four main ways to wreck a country, and each requires a unique solution. He is optimistic that global poverty is a fixable problem, and outlines four 'poverty traps' as well as the ways to avoid them.

Many of Collier's predecessors, including Sachs, have long claimed that to be poor is itself a trap. Collier is adamant that poverty itself is not a trap. If it were, all of humanity would be left in its clutches.

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The first trap is armed conflict. Most of the countries that are home to the bottom billion have been engaged in substantial civil wars. The average civil war lasts ten times as long as the average international conflict. Civil wars destroy economies, which, according to Collier, typically take fifty-nine years to be rebuilt. Even then, a country that arrives at a post-conflict situation still has a 40% risk of falling back into conflict.

Collier looks at sixty-six post-conflict situations, to find out whether peacekeeping reduces the risk of further deterioration. He presents statistics aplenty to show that they do. This leads him to the most controversial aspect of the book—his emphatic support for military interventions. Acknowledging that interventions are somewhat out of favour because of Iraq, he nevertheless argues forcefully for the West to take the lead in preventing countries from becoming a post-conflict statistic, noting that the cost of preventing a conflict is far less than the cost of rebuilding a society post-conflict. He singles out Sierra Leone as an example of successful military intervention, and invokes the memory of Rwanda to warn of the consequences of inaction.

Collier's recommendations show he is no idealist. He does not believe democracy is an automatic fix to political woes. The first thing countries need to do is to stabilise law and order; then they need to achieve robust economic recoveries. As he says, 'growth is not a cure all, but a lack of growth is a

kill all.' His focus on economic recovery sets him apart from other military hawks.

The resource curse is the second trap. There seems nothing inherently wrong with being commodity-rich. After all, Australia, Norway, and Canada have all done tremendously well by exploiting their resources. But in the absence of sound institutions, politics becomes a competition for access to resource rents. Diamonds, says Collier in a memorable quip, are a guerilla's best friend.

Collier is extraordinarily pessimistic about resources. It is not only, as was once thought, that dependence on resources encourages autocratic governments. He argues that in resource-rich countries, democracies also perform poorly. Instead of the democracy disciplining the government,

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resources corrupt the democracy. In these countries, governments win elections by bribery, not as a reward for governing well. In this regard, Australia and Angola have something in common.

The natural resources trap is not primarily about Dutch disease, where high domestic currency values generated by strong resources exports make other industries less competitive internationally. Collier is adamant that resources present a political problem that the poorest countries are not equipped to deal with. Having a central source of revenue in the ground tends to create vast amounts of patronage, and destroys rulers' need to seek approval from their citizens. In other words, resources don't just crowd out other industries: they also crowd out the interests of the people. Bad government is almost always the result.

One wonders whether, in the midst of the largest resources boom in a century, natural resources should not be given more prestige, rather than being dismissed as a 'trap.' Botswana, after all, has managed to grow swiftly and use its diamond-derived wealth to foster development.

The third trap, says Collier, is to be landlocked, particularly if neighbouring countries are poor.

Being landlocked is not a trap for European countries, because Europe is a large consuming block that trades readily. This analysis ignores the fact that Switzerland's wealth predates that of most of its European neighbours, leaving open the question of how, exactly, that landlocked country got rich. But Collier's point is legitimate. Who can Rwanda sell to? Burundi? Uganda? The Democratic Republic of the Congo? These countries are poor and lack transport infrastructure. Collier correctly identifies low transport costs as a key to engaging successfully in globalisation.

The fourth trap described by Collier, bad governance, has been much-analysed, and Collier does not deviate greatly from standard arguments. Of course, good governance is important, but his suggestion of tying aid to governance performance, and of establishing 'statutes and charters' seems a weak solution—a bureaucratic out. To achieve high growth rates, economies need to be reformed. Yet often, elites will try to prevent reform because they benefit from the status quo. Collier's analysis is brutal but correct: he identifies the real conflict as being within the bottom-billion countries themselves. It is between the status quo and reform. He unashamedly argues that the rich world should support the reformers, saying, 'We should be helping the heroes.'

The myths about African poverty

Analysing these traps as only an economist can—armed to the teeth with numbers and statistics—Collier works to dispel a number of myths that have surrounded Africa and poverty. Foremost of these is the idea that most wars are caused by ethnic conflict. He argues, instead, that ethnic diversity matters when there are two equally large groups, but less so when there are larger numbers of ethnic groups involved.

Collier dismisses activists and campaigners in the rich world, whom he sees as advocates of a 'vanity fair' approach to development. Activists who say that poor countries should protect their economies with trade barriers are to him 'idiots,' while many NGOs 'inhabit a fantasy world.' He dismisses fashionable causes as glamorous distractions. For example, fair trade ensures 'people get charity as long as they stay producing the crops that have locked them into poverty.' Preoccupation

with HIV/AIDS is equally damaging because it does not touch the difficult policies that create poverty. Africa was dirt poor before the emergence of HIV, and will be dirt poor after it.

Importantly, Collier argues that globalisation alone will not solve the bottom billion's problems. He is no anti-globalist, though, insisting that globalisation is working for most of the world's population—most of all for its poor, whose living standards are converging with those of the developed world at an unprecedented pace. He contends, contrary to common perception, that the world is not open to African trade and that this holds the continent back. Overwhelmingly, African products are commodities and agricultural goods, and in developed countries there are often high subsidies for local producers that will keep African products out. The US and Japan simply aren't open to these goods. Europe pretends it is, but it isn't.

The book is filled with mind-boggling examples of trade protectionism that suggest Collier has spent many evenings rummaging through the pages of EU trade legislation. Goods produced in Somalia are free of duty for European destinations, but goods produced in Kenya are not. The EU is open to Somali products, he suspects, because only a reckless business would produce in a country with multiple insurgencies and no central government for a decade. EU industries are safe from Somali competition without protection from tariffs. This creates perverse incentives. Kenya, under this trade regime, would do better to set itself up as a failed state and ditch all attempts at probity. Lesotho exports shirts to the US but not to the EU, because shirts from Lesotho are not manufactured in a way that Brussels bureaucrats deem acceptable.

Solving the problem

One of Collier's most controversial solutions to entrenched poverty is to undertake more military interventions in troubled areas. This was always going to be controversial, because of the dissension about Iraq, and Collier is defensive about the proposition. But while Iraq has not fared well, he argues that a thousand British soldiers changed the course of Sierra Leone's recent history, and bemoans that no military action was taken to stabilise Rwanda in the early 1990s—the result was nearly a million deaths.

Collier is cautious, but surprisingly conciliatory, on the contentious issue of aid. He lists many aid projects that have failed, vanished, or been exploited by elites, yet he still believes aid has a role. He recommends aid be heavily deployed in post-conflict situations, mainly as a way of reducing taxes. Post-conflict countries have fragile private sectors and little cash to spend on providing

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services. Tax these, argues Collier, and they disappear. So, aid should be used to displace taxes rather than to subsidise government employment. Most importantly, a policy of reconstruction has to actually involve construction—infrastructure must be built.

Low income, economic stagnation, and dependence on commodities all put countries at high risk of having their populations join the bottom billion. Worryingly for Australia, many of our neighbours in the South Pacific display these symptoms. After reading Collier's book, Papua New Guinea looks especially vulnerable.

Collier's arguments are all sound. He presents them well, and backs them up emphatically and empirically. The book is packed with numbers. But one suspects that Collier has fallen into an obvious trap himself: complexity. In the typical style of economists, Collier uses a book to explain the poverty of nations when a sentence would have served. Resource-dependency, wars, and conflicts are reasons for poverty, to be sure, but they are all symptoms of the same disease. The real snare for the bottom billion is bad government.

Endnotes

- 1 Leo Tolstoy, *Anna Karenina*, trans. Richard Pevear and Larissa Volokhonsky (New York: Penguin, 2002), 1.

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