PAUL COLLIER

The Bottom Billion: A Manageable Challenge

March 9, 2010

On March 9, Paul Collier, the renowned development economist and author of "The Bottom Billion", participated in a luncheon discussion with WAC Premier Members, and later addressed a near-capacity audience at UNF under WAC's Speaker Series undertaken in partnership with UNF.

Collier described the 2010 global economy as fundamentally different from what it was a few decades ago, when we looked at the world as comprising one million persons living in developed economies and some four million living in impoverished, undeveloped economies. Today, said Collier, the world still contains an upper one billion people living in developed economies, but there are now four billion in transitional economies, and one billion in nations whose economies are stagnating, diverging from an increasingly sophisticated world economy, mired in poverty and lacking hope. This bottom billion live predominantly in Africa and central Asia, often in land-locked countries, frequently torn by conflict and invariably governed poorly.

The challenge before us, Collier said, is reversing the divergence of that bottom billion while the rest of us converge in a globalized economy-- a challenge less daunting than those faced by our parents, which included pandemics of polio and other infectious diseases, the Cold War and global poverty. All of the constraints to development of the bottom billion are resolvable, he said, provided we approach these issues systematically and holistically, and apply the appropriate tools consistently and over a sustained period of time.

Although known natural resources in Africa are valued at only $23,000 per square kilometer compared to $127,000 pr square kilometer for OECD countries, Collier said this discrepancy suggests that Africa has vast resources not yet discovered. Properly managed and applied, those resources could fund national development. Improperly managed, those same resources become incentives to corruption and coups. Diamonds, for example, saved Botswana, but ruined Sierra Leone. What is required for each nation is a National Resource Charter, laying out the decision chain for harvesting and allocating resource assets.

The first link in such a chain, said Collier, is to fix the resource discovery process. The National Resource Charter for each country would spell out how exploration and mining contracts would be awarded--for example, through transparent auctions. The second link is to reduce the impact of inevitable fluctuations in commodity prices, either through price averaging arrangements with the company exploiting those resources or through sophisticated financial instruments. The next link in the chain is to make all receipts of resource revenue transparent, possibly using the services of an international organization—the World Bank or the IMF, for example—to maintain records and publish reports on resource revenue flows.

The fourth link in the National Resource Charter is to make the national budget transparent, utilizing simple, direct methods such as publishing in local newspapers the budgetary allocations for each school in the area so that parents (and teachers) can readily compare what was allocated against what was received, and seek redress as appropriate. The final link in the chain is to define how the funds derived from the resources would be spent, to include investments for replacement of the exploited resources in a way that best addresses the development needs of each country. Norway has already invested much of its oil revenues in its work force, for example, so now invests in global securities. Sierra Leone, on the other hand, is at the very start of the process, so should invest locally in human development and productive infrastructure.

Collier said the same reform process must also be applied to each of the other national charters—governance/democracy, budget transparency, investment and, where appropriate, post-conflict situations--that are essential to lifting the bottom billion out of poverty. The chain must remain intact, over and over again.

The impetus for each step must come from national reformers. We, the international community, cannot fight the battles for internal reforms in any of the poorest nations, said Collier, but we can shift the balance to enable those who are fighting to prevail. We can also exert enormous influence on the bottom billion through our trade policies, which can be particularly useful in priming the pump.

Citing Haiti and a small Chinese city that produces the vast majority of the world's buns, Collier explained how critical masses of textile factories (or bun bakeries) make economical the provision of parts and repair services, power, transport infrastructure and other inputs that, in turn, improve efficiency to the point that external competition is nearly impossible. The super-amalgamated, super-efficient bun-producing city thrives while Haiti, lacking the productive infrastructure even to support a critical job-producing textile industry, stagnates.

Along with certain other incentives, providing long-term beneficial trade provisions/exemptions for Haitian textile exports, as the US now does, will assist in attracting enough textile producers to make provision of support services and infrastructure economically viable in Haiti. The Africa Growth and Opportunity Act, now being debated in Congress, is another example of a positive trade measure aimed at the poorest nations. The danger at the moment is that the provisions of the Act will be extended to too many (less needy) nations, in which case it will not benefit Africa as some of the better serviced textile-producing transitional economies will continue to out-compete the bottom billion.

-Tom Brennan