

## Book reviews

### THE BOTTOM BILLION: WHY THE POOREST COUNTRIES ARE FAILING AND WHAT CAN BE DONE ABOUT IT

Paul Collier

Oxford: Oxford University Press, 205pp., ISBN: 019 531 1457, £16.99 (hb), 2007

‘The real challenge of development is that there is a group of countries at the bottom that are falling behind, and often falling apart’. So begins Paul Collier’s analysis of the ‘bottom billion’. The title refers to the near billion people, 70% of whom reside in sub-Saharan Africa, living in countries that are stuck in traps that prevent economic development. According to Collier, the majority of today’s development initiatives focus on *all* developing countries, but it is the bottom billion that truly deserve the focus of these efforts because they face the harshest conditions. For example, the average life expectancy in the bottom billion is 50 years old compared with an average of 67 years in other developing countries. Collier identifies four development traps – the conflict trap, the natural resource trap, the landlocked trap and the bad governance trap – to explain the plight of the bottom billion.

The conflict trap, which refers to political conflict in the form of either civil war or a *coup d’état*, generates a pattern of repetitive violence that contributes to economic stagnation. According to Collier, 73% of the people in the bottom billion have recently been through a civil war or are currently involved in one. He identifies three main causes of violent conflict – a relatively large proportion of young and uneducated males, an imbalance

between ethnic groups, and the presence of natural resources. This leads directly to the second trap, the natural resource trap.

Approximately 29% of individuals in the bottom billion live in countries whose economies are driven by natural resources. The rents associated with these natural resources result in dysfunctional democracy. Governments that derive a bulk of their revenue from natural resources do not need to provide institutions which facilitate economic exchange and growth. Instead of public service, political activity is based on the ‘politics of patronage’. This in turn leads to weak political restraints in the form of fewer checks and balances and little political accountability.

The third trap refers to those countries in the bottom billion that are ‘landlocked with bad neighbours’. The logic behind this trap is that landlocked countries are directly dependent on their neighbours’ transport systems to the coast. Where these transport systems are deficient or lacking, they prevent landlocked countries from integrating into the global market.

Finally, the bad governance trap contributes to stagnation by destroying economic progress and innovation. Governance is especially important in those countries lacking economic opportunities (i.e. resource-rich countries) because citizens are directly dependent on the government provision of goods and services. Unfortunately, most of the countries in this situation are also characterised by severe government dysfunction and corruption.

In response to these four traps, Collier considers four ‘instruments’ for addressing the plight of the bottom billion. Collier contends that aid and trade, in their current forms, are not sufficient for shifting the trajectory of the bottom billion. Collier’s solution is some mix of targeted aid, military intervention, international statutes and laws, and trade preferences. By itself, each instrument is not enough to

overcome the four traps. However, Collier contends that a combination of all four instruments, used correctly, can make a difference.

Collier is aware that monetary aid is often ineffective and, in many cases, counterproductive, as illustrated by those cases where aid is diverted into military spending. Instead of doing away with aid, Collier contends that the delivery of aid needs to be better timed and sustained. To date, aid to post-conflict countries has been ‘too little and too soon’. Aid needs to be sustained for at least the first post-conflict decade so that minimal standards of living, if not growth, can be achieved. In short, what is needed is better timed aid to take advantage of opportunities to escape the various development traps.

According to Collier, international military interventions are yet another instrument that can be used to help the bottom billion. Specifically, military intervention is important in three situations – restoring order following conflict, peace maintenance, and the prevention of military coups. Along these lines, Collier contends that international military interventions can provide ‘global public goods’ in the forms of peace and stability.

The third instrument consists of changes in international laws (e.g. banking laws regarding the assets of kleptocrats, terrorists, and so on) and norms in the form of charters. Collier calls for the creation of five international charters – a natural resource charter, a democracy charter, a budget transparency charter, a post-conflict charter, and an investment charter – that he believes will provide the incentive for reformers in the bottom billion to adopt sustainable change. I found the discussion of these charters to be the most interesting of Collier’s policy proposals.

The final instrument is trade preferences for the bottom billion. When manufacturing activities began moving to Asia due to relatively low wages, Africa

was left behind. Within this context, Collier calls for temporary protection for the bottom billion from Asia so that the bottom billion can compete and integrate into the world market. Specifically, Collier maintains that imports from the bottom billion should be subject to lower tariffs relative to those levied on the same Asian imports.

Collier situates *The Bottom Billion* between Jeffrey Sachs's *The End of Poverty*, which is critical of the lack of aid to developing countries, and William Easterly's *The White Man's Burden*, which is critical of efforts to use aid to assist developing countries. Some may find this 'middle of the road' approach more palatable than the positions taken by Sachs and Easterly. However, Collier's analysis suffers from several important shortcomings.

While Collier chides Easterly for being overly cynical toward developed countries' ability to aid the bottom billion, he fails to adequately address the issues with intervention that Easterly raises. In his writings, Easterly emphasises the dual problems of incentives and information. Reformers often lack the incentive to utilise aid effectively and also lack feedback loops to ensure accountability and the effective use of aid. Collier clearly recognises the incentive problem facing both reformers and international aid organisations. For example, Collier notes that the incentives facing aid agencies 'encourage low-risk, low administration operations that are the precise opposite of what they will need to be doing to meet the coming development challenges'. However, he never provides an adequate solution to this problem other than pointing out that it exists and needs to be corrected. The implementation of his agenda would require overcoming these problems on a significant scale with no suggested solution.

In order to overcome the information problem, Collier calls for the creation of 'independent service authorities', which involve joint efforts between the governments of the bottom billion, civil society and donors to build alternative mechanisms for supplying public goods and services. In theory, these service authorities would be held to a higher level of scrutiny by donors and NGOs. However, the proposal fails to provide an adequate solution to the problem of

co-ordinating the agendas of the various parties involved and the need to align their incentives so that goods and services are provided in an effective manner.

Another problem with Collier's analysis is that while he is critical of those who are sceptical of the effectiveness of aid and intervention, he fails to extend this same level of criticism to his own policy agenda. For instance, while he discusses the 'global public goods' generated by interventions, there is no mention or discussion of the associated 'global public bads' that such interventions can generate. Consider for instance the case of military intervention. It is true that these interventions can prevent conflict and create order and peace. But they may also contribute to global conflict (e.g. 'blowback'), the emergence of special-interest groups and cronyism, the destruction of indigenous norms, and the emergence of illiberal leaders and oppressive regimes, among other bads.

Overall, Collier's analysis provides important insights into the causes of sustained poverty. However, most of his proposed remedies are based on questionable assumptions. Collier assumes that we know what actions need to be undertaken to generate economic development and that these actions can be carried out in an effective manner. In reality, we have reason to be sceptical of both of these assumptions. We still lack an understanding of how to generate economic development via external intervention, as well as the potential for negative consequences that such efforts can generate. Further, even if we did possess such knowledge, political institutions, both in the bottom billion and in developed countries, often generate perverse outcomes even when motivated by the best of intentions. This is especially problematic for Collier's policy proposals that rely on direct interventions in the form of targeted aid and military intervention and occupation. The end result is that while calls for enlightened interventions may be endearing, they are more likely to fail than succeed.

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## THE POLITICAL FUTURE OF SOCIAL SECURITY IN AGING SOCIETIES

**Vincenzo Galasso**

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For many years, this reviewer has been swimming against the tide on UK pensions policy. Prevailing thinking is that there is too much provided by way of means-tested benefits; that private pension schemes are risky, expensive and unsuitable for 40% of the population; and that contracting-out of the state scheme is inherently poor value and causes huge complexity that undermines private provision. The first of these problems is very real but almost all the solutions that are proposed would make the situation worse. The second apparent problem simply assumes away the risks and costs of state schemes. The third problem is a myth – complexity has arisen because of the way in which the government has managed contracting-out rebates and changed the state scheme from which private schemes can opt out. The proposed solutions to these problems can be divided into two groups: socialist solutions based on increasing state pensions and corporatist solutions that involve forcing people to contribute to highly-regulated private schemes. Proponents of genuine free markets are few and far between.

Indeed, there seems to be little fresh thinking going on in the Anglo-Saxon economics profession about pensions policy. The literature is riddled with references to market failure in private provision. There is little, if any, serious literature on the greatest failure of all. When we set up a state pension scheme, voters can go to the polls and vote themselves pensions at the expense of other voters and potential voters, including people who are not old enough to vote and people who have not yet been born. A whopping externality, or social cost, can be imposed by one group of voters on another. This externality has reached over 100% of GDP in most developed countries. Fortunately, there are economists in continental Europe who are researching this issue and the latest