Looking for traps and treats for ‘The Bottom Billion’

A review of:
Paul Collier: *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It.*

By
Paul Hoebink
Professor in Development Cooperation

June 2008
CIDIN, Radboud University Nijmegen
E-mail: p.hoebink@maw.ru.nl
Looking for traps and treats for ‘The Bottom Billion’


Let me start this review by making an important remark right at the beginning: I think the appeal Paul Collier is making in his book ‘The Bottom Billion’ and in the articles and world tour that surround it, is highly sympathetic. At least far more sympathetic than that of an other former World Bank economist who was touring the Netherlands last year, William Easterly, who during this tour amply demonstrated that he did not want to go in discussion with anybody criticising his views or his book.

Again, I like the plea and the objectives of ‘The Bottom Billion’. I like for example several of the suggestions and recommendations:

- I like the idea of a charter on bank deposits and let us then not only address that message to the Swiss, but also to Luxembourg (PM Claude Juncker is very proud to be member of the G-0.8) and to South Africa (where the Mobutu family seems to have deposited its millions)
- I am very much in favour of a charter on international investments, but then not a one-sided one as the OECD was proposing and that Paul Collier seems to support, but one in which also the experiences with Royal Dutch Shell in Ogoni-land and Trafigura (to quote two Dutch examples here) are integrated, in which thus Corporate Social Responsibility has an important place.
- I agree with much what Paul Collier writes on military interventions. An early intervention, preventing a long lasting and costly civil war, must indeed be cost-effective in terms of victims but also in money-terms. But I think it will be very difficult to convince our political leaders of the benefits of an early intervention. Kuwait is far more important than Rwanda, Afghanistan far more important than Darfur. And let us not be naïve on the several imperialisms or neo-colonialisms that play a role in the background: in commenting on the new European rapid intervention force (pp. 129-130) Paul Collier seems to have forgotten what the ‘Françafrique’ means and what ‘Papa-ma-dit’ did). Collier’s recommendations on the aid-industry are less convincing. Some of them are already applied by the aid bizz, others are questionable: his plea to bring more technical assistance in

---

1 This review follows two discussions with Paul Collier at the Ministry of Foreign Affairs and at the Scientific Council for Government Policy (WRR), both The Hague, June 4, 2008.

2 Collier suggests in commenting on the OECD’s Multilateral Agreement on Investments that ‘the NGOs misread what the charter was about’ (155).

3 It is however questionable if Collier’s main example – the British intervention in Sierra Leone – is easy to repeat in other situations and not very specific.

post-war situations to rebuild institutions is often common practice. His plea to fine-tune interventions is well heard, but in his recommendations on it nearly arrives at the idea that we have to substitute the one blanket-approach for four blanket-approaches. It seems to rely on two – what some call ‘questionable’ – assumptions: we know what actions need to be undertaken and we know how to carry them out. It leads to a conclusions that Collier gives us Sachs at one page and Easterly at the other.

The central argument of ‘The Bottom Billion’ is appealing. In five parts and eleven chapters Paul Collier tells us that the bottom billion of poor world citizens are caught in countries that suffer from at least four important traps: 1. they are in civil war, 2. have abundant natural resources which lead to greed, 3. they live in landlocked countries with bad neighbours, and 4. they are badly governed. Every trap gets a separate chapter. It is, according to Collier, difficult to escape from these traps. Globalisation doesn’t help, because the bottom billion are marginalised in the world economy. Instruments that can help them are: aid, military intervention, laws and charters and trade policy. Again four chapters. The bottom billion however were left alone by the international community, but this should come into action now, because the problems of the bottom billion will spill over to other countries, to us. And thus the last chapter presents an agenda for action.

An assessment of ‘The Bottom Billion’ then boils down to two questions: What is the value of the four traps? In what way do the policy prescriptions follow the analysis of the four traps? It is clear that we have to define ‘value’ and this leads to two sub-questions: are the four traps defined realistically and based on reliable scientific evidence? Are there other traps that are of more importance than the traps identified by Paul Collier? It is also clear that finally the policy prescriptions should give an answer to the problems as identified in the form of the four ‘traps’.

Rethinking the book looking at Table Mountain with an impeccable blue winter sky at its back - there are worse places to philosophise – I was wondering why this book also irritates me so much. I have read all the acclaim for it from The Statesman to the Economist, from the New York to the Financial Times, but I miss in all these very positive reviews a real discussion on the values of this book.

I see ten reasons why this irritation pops up, time and time again:
1. It starts, as I have heard also from other readers, at page 7, where Paul Collier indicates he is not going to list the 58 countries of the bottom billion, because he does not want to stigmatise these countries. I can imagine that over time countries fall off the list or make a return on it. Ghana might go off now, but be back when civil strife arrives there. It irritates me anyhow not to know where the ‘bottom billion’ is, because it makes it more difficult to verify all the conclusions and judgments in the book. They are in 58 countries, Collier writes. 70% of them in Sub-Sahara Africa. In the majority of them people have gone through civil strife. Most of them live in landlocked countries. That is all we know. Evidently one starts to guess and make lists. If we can not include India or China, where then to find one billion. Not in Sub-Sahara Africa, because I suppose we have to deduct Nigeria and South Africa (and maybe also Angola). If we do, we have not 700 million left but only 500. And if we look at

---

5 For the Netherlands this is important, because by the orthodoxy of Minister Eveline Herfkens bilateral technical assistance was abandoned. It is partly redressed now in new agreements with SNV, but the instrument still can not be used to its full extent.
6 Christopher Coyne in his review in Economic Affairs, March 2008, pp.82-83.
the land-locked countries in SSA we only have 225 million. Landlocked Asia has about 120 million. And are all these left alone by the donor community, as Collier suggest? Conclusion: we might miss several hundreds million. I am not that much interested in demography and I know that Bottom Billion brings a nice alliteration, but remember, Doctors without Borders has in the past been heavily criticised because they exaggerated the number of refugees by several tens of thousands.

2. Then there are three irritation point on the value of the type of regression analysis that one will find in most of the papers that sustain the book. I think that the value of that research is close to zero. I will start to illustrate that with comments on the databases that are used in the regression analyses of Paul Collier and his colleagues. Only in one place (p.68) Paul Collier admits that a database that he uses – in this case the CPIA database (Country Policy and Institutional Assessment database) of the World Bank ‘has the disadvantage of being subjective’. He then concludes, but ‘there is no real alternative’ and prolongs on the route. I visited recently again several African countries, but if you would ask me which is the most corrupt of them, I would not be able to tell. Still the World Bank database on corruption is grounded on this type of highly subjective judgements. The Transparency International database was recently criticised for the same reason by one of the founders of TI. A recent World Bank evaluation on the World Bank ‘Doing Business’ database concluded that it can not be used for cross-country analysis, be it alone because continuously changes are made also with regard to rankings. It is not necessary to emphasise here that it is regularly used in this way.

   Also the database on development assistance is seriously flawed and doesn’t present ‘real aid’, that is the real value of aid. This because of tied aid, debt reduction, and technical assistance. Jagdish Bhagwati, then with UNCTAD, calculated already in 1968 that the value of aid was reduced by 30%, when aid was tied. There should also be a discount for aid provided for economic-commercial and political-strategic reasons. The real value of aid might be less than two thirds of what one finds in the DAC-statistics.

   The question of course then is the value of research which is working with such unreliable data? Collier evades this question and he does, like all his former colleagues of the World Bank, not show any doubts or seem to have any reluctance when presenting the results of cross-country regressions.

3. Several of the concepts used in this research are flawed. The main one might be fungibility. Paul Collier states (page 103): ‘We estimate that something around 40% of Africa’s military spending is inadvertently financed by aid’. 40%? 40% of the defence budgets of Egypt, Libya, Algeria, Tunisia, and Morocco? Or 40% of Nigeria, Sudan, Angola and South Africa? In terms of amounts of aid and in terms of amounts of defence spending that is impossible. It suggests that nearly half of total aid to Africa or at least a quarter of aid to Sub Sahara Africa is diverted to defence budgets. Paul Collier could only come to the conclusion that 40% of aid is diverted to military spending, when he assumes that aid is 100% fungible. This is of course

---

8 In some of his papers other remarks can be found, e.g. on the datasets on inequality.
12 Total military spending of these four countries alone is suggested (based on figures of the CIA World Fact Book) to be more then $ 10 billion. Total military spending in Africa is, according to SIPRI, supposed to be $ 18.8 billion and $ 9.0 billion for Sub Sahara Africa. Figures differ among sources. Total aid for Africa in 2006 was $ 43.4 billion and for Sub Sahara Africa $ 39.9 billion. Sources: SIPRI, CIA World Fact Book. CIA World Fact Book: https://www.cia.gov/library/publications/the-world-factbook/ , OECD/DAC.
not true. In very aid-dependent countries aid might be fungible only for 5 to 10%. The investments of the government of Mozambique for example are quoted to rely for 80% on foreign aid. It is unthinkable that Mozambique itself at the present moment is able to finance even 10% of that. But also in a country like South Africa where aid is minimal compared to government spending, aid might not be fungible to its full extent, when donors are financing programmes in niche areas.

But the most important point here is that all types of societal and historical complexities are left out in the construction of far too simplistic models. Daron Acemoglu, professor at MIT, commenting on the Collier and Hoeffler papers concluded: ‘The economic framework is very deficient. It has a number of serious conceptual and methodological problems’. To give one example: if you want to study the relation between ethnic diversity and civil war, it might not be important that there are hundred ethnic groups or only two. Historic, economic and social relations between these groups are of much greater importance than the numbers and these historic and social relations you can not find in a Russian atlas on ethnic diversity, data of which Collier and Hoeffler use in their analysis. This type of regression analysis doesn’t allow for complexity: if you have to build in all the factors that are of influence on a social phenomenon you can not run your computer programmes anymore.

This is in particular of importance in the discussion on the effectiveness of aid, since aid in general is only a very minor contributor in the totality of actions and activities that cause social change.

4. My last criticism on this type of research is that the authors in 95 of the 100 cases are jumping to conclusions. On 14 May (2008) the Dutch morning paper de Volkskrant opened with the headline ‘Development assistance is promoting corruption’. It carried an interview with another World Bank economist, Simeon Djankov, who through ‘thorough research’ was able to demonstrate this ‘fact’. I understand that a journalist of de Volkskrant is not able to read between the lines of his paper, published last December under the title ‘The Curse of Aid’. But I think a journalist of what is supposed to be a quality newspaper, should raise his eyebrows when Djankov actually states: ‘Look at Zimbabwe that was a donor darling in the seventies, look where it stands now’. I had hoped then that such a journalist would have said: ‘But Mr. Djankov Zimbabwe did not even exist in the seventies and when it came into existence in the eighties donors were very reluctant to provide assistance, because fighting between ZANU and ZAPU more or less started immediately’. This is nonsense presented as scientific evidence. A respected newspaper shouldn’t print this kind of nonsense and certainly not on its front page.

What I like to illustrate with this example, is that I expect of those economists doing regression analysis some modesty and seriousness in the presentation of their results. Mr. Djankov could have said: ‘What we read out of our statistical analysis, is that there seems to be a positive relation between the provision of aid and corruption, but of course it needs further and deeper analysis to assess if this relation in reality really exists’. Mr. Djankov then should have taken the plane to Dakar, Cotonou and Bamako and should have done a series of interviews with donors, civil servants, politicians and civil society. I think that he then would have come to the conclusion that the new aid architecture – contrary to what is often felt– is reducing corruption.

---

15 It is clear that if you send a reaction to De Volkskrant this will not be published. De Volkskrant obviously doesn’t want to spoil their nice front page headlines.
There are several places in Paul Collier’s book and in the background papers of it, where the same mistake is made: Collier presents findings of regression analysis as real life facts and when the statistical efforts don’t help him enough or not at all, Collier presents circumstantial evidence, like quoting uncritically a minister of Finance of Nigeria for example (p.116). Acemoglu, quoted above, indicates on the Collier and Hoeffler papers: ‘The correlations that are interpreted as causal effects are really no more than correlations’. And that is thus true for all remarks in Collier’s book about civil war and democracy, civil war and resources etc.16

A regression analysis and the relation between certain social phenomena that it discovers or not discovers become a social, economic and political reality in this type of conclusions. Let us go back to the famous paper of Paul Collier’s colleagues Dollar and Burnside. They ‘discovered’ that there was a positive relation between aid and growth only in ‘good governed’ countries. When the same analysis was done again a few years later by Easterly and others and they extended the analysis by a few years up to 1997 the relationship disappeared.17 So does that mean that ‘good governance’ does not matter anymore? I could also quote here evaluations of structural adjustment: if you start your regression analysis in 1984 the results of structural adjustments might be positive, but if your analysis starts in 979 they are definitely not.18 Conclusions of regression analysis should thus be presented at best as indications of how certain relations might be and not as being the one and only truth.

The official evaluation of the World Bank research by a team of high-flying experts was particularly strong and very critical on the aid-effectiveness papers by Burnside and Dollar and by Dollar and Collier: ‘Much of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable’. It also concluded that the researchers ‘appeared to think that the attribution of causality can be solved by technical means’.19

5. How many traps are there and what is the value of each of these traps? Are there four traps that Paul Collier identifies real traps and are they the most important ones? I don’t have many problems with what Paul Collier states on the trap of being land-locked and surrounded by bad neighbours. My problem starts with the natural resources trap. Is there a natural resources trap if we look at Norway, Canada, the Emirates or even at Dubai? Of course not, it becomes a trap, as also Paul Collier indicates, when the resources fall in the hands of greedy politicians. Is there a resource curse in the Netherlands? Is there a Dutch disease at the moment in the Netherlands with high oil and gas prices? With unemployment at the lowest rates of Europe certainly not. And I sincerely doubt if there was a Dutch disease in the seventies. What the Netherlands did with its oil and gas incomes in these days, was finance in a socially acceptable way the transition of a traditional industry economy (low technology ship building, textiles and clothing, shoe-making, coal-mining) to a high technology and service based economy. This by allowing redundant workers to benefit from the social security nets. So

16 See also footnote 18 for some excellent recent papers that question the resource curse and that show that relations between resource abundance, resource dependency and resource rents at one side and civil strife and conflict at the other are far more complex than Collier and Hoeffler suggest.
17 It is remarkable that for example also Djankov quotes this example (in: Aid with Multiple Personalities, December 2006), but that it does not seem to bring him to some modesty with regard to his own conclusions.
20 The ‘Dutch disease’ explanation suggests that high income of natural resources raises a country’s prices and thus also the price of other export products, which make them uncompetitive. My point here is that the Netherlands in this period like other Western European countries became uncompetitive in (old) labour intensive industries against cheap imports from Mediterranean and Asian countries.
what we might see here is not a natural resources curse or trap, but – with reference to Bayart and Chabal/Daloz – a robber barons or a kleptocrats trap.\(^{21}\) Again, there are big problems with causality here. Are resource rents making that democracies malfunction (p.42) or are malfunctioning democracies making resource rents into a curse? And are democracies going to malfunction exactly when resource rents are around 8% of national income (p.43) or could it also be at 16%?

Why do we stay with four traps? We could extend them. I personally think that in Sub-Saharan Africa by far the most important trap is the ‘not-a-nation trap’, fostered by politicians there are ethnic loyalties first and there is little loyalty to the nation. This with disastrous effects for African politics. The second most important trap might be the low-social development and ignorance trap, which leads to a weak institutions trap. My good friend and colleague Simon Maxwell, who states that he loves ‘The Bottom Billion’, sees amongst others an inequality trap, a poor endowment trap and a catch-up trap.\(^{22}\) There was certainly a Washington-consensus trap and we might conclude that there is also a poor policy advice trap. With all these traps there might not be a real trap anymore, but only a morass.

6. Paul Collier describes aid agencies as difficult to change and also in his recent article ‘Is Aid Oil?’ he seems to have completely missed the enormous changes in the aid architecture that we have seen in recent years. In ‘Is Aid Oil?’\(^{23}\) he analyses still only the old forms of aid, like project aid and technical assistance. Collier does not comment at all on the newer aid instruments like Sector Wide Approaches and General Budget Support. He seems to have missed the Paris Declaration and does not seem to know, what the enormous effects of it are on the aid machinery. Nothing also in his recent writings and comments on the European Code of Conduct on the Division of Labour and Complementarity. One could describe that all as belonging to the ‘aid theatre’, but then you have missed important changes in the ways donors provide aid and cooperate these days. It makes all the advice Collier gives on aid in chapter 7 and 11 questionable.

7. The seventh source of my irritation is ‘Economists’ arrogance’. Let me give one example, but several more can be found in the book. On page 157 Collier states commenting on a trade campaign of Christian Aid: ‘Trade policy is the area of economics least well understood by the NGO world’. And two pages later Collier writes again in a critique on this campaign: ‘Trade policy is unusually difficult for people to understand’. I could quote more places. But on trade and economists I could indicate that up till now I have only come across two or three economists - and I asked them that regularly in debates on trade and development - who knew: a. what England en Portugal were trading from the 16\(^{th}\) up to 19\(^{th}\) centuries; b. what the Treaty of Methuen was and what the consequences of it were for Portugal; and c. who the Conde de Ericeira and Marques de Pombal were and what their action was. It at best means that these economists have not read their classics (Adam Smith and David Ricardo) well, but

\(^{21}\) In a recent paper Christa Brunnschweiler and Erwin Bulte criticised also the causality that Collier and Hoeffler find in their papers on the resource trap and the relations between resource rents and conflict. They conclude: ‘The last word in the resource curse debate is far from having been spoken; but economic advisors should be aware that natural resources do not necessarily spell doom for development. Instead, their development can be a valuable part of a sustainable development strategy’: Are Resource-Rich Countries Cursed? Linking Natural Resources to Slow Growth and More Conflict. In: \textit{Science}, 320 (May 2, 2008): 616-617. The two background papers are: Christa Brunnschweiler/Erwin Bulte, The resource curse revisited and revised: A tale of paradoxes and red herring. In: \textit{Journal of Environmental Economics and Management}, Vol. 55 (2008), p. 248-264; and: Natural resources and violent conflict: Resource abundance, dependence and the onset of conflict, February 2008 (paper submitted to the Oxford Economic Papers).


what is far more worrying that they don’t seem to know what comparative advantage means in real economics.

8. My irritation also stems from the absolute nonsense that I am sometimes reading. The most obvious example is on page 103: ‘We estimate that something around 40% of Africa’s military spending is inadvertently financed by aid’. I already quoted that. On the next page (104) Collier states: ‘The World Bank is far better protected from political influence than the European Union’. Apart from that this is a very odd comparison between totally different institutions, the observation would have gained value if it said ‘American political influence’. A page later (105) we read as an illustration again of the causality problems: ‘Big aid indeed makes a coup more likely’. It fits in Daren Acemoglu’s observation on these papers: ‘The theoretical framework is rather simple and does not build on anything that has been done in the past 20-25 years’. I rest my case here, but I assure the reader that I have at least ten more of this sort of examples.

9. The book stops where it should have been giving some extra historical and contextual analysis and deepened the analysis on states and policies of the bottom billion. I could have taken Paul Collier back to the beginning of the sixties when a rebellion was launched in Katanga and when the CIA staged a coup against Patrice Lumumba which brought sergeant Joseph Désiré to power (Joseph Désiré renamed himself Mobutu Sese Seko later). I could have asked Paul to go to the end of the sixties, to the Biafra war and the role of oil companies like Shell in it; or to the mid seventies and the way the CIA organised this strange coalition against the government in Angola, by financing Holden Roberto and Jonas Savimbi. I could have brought Collier also to the friendship between Giscard d’Estaing and the cruel emperor Bokassa, to show that diamonds are a president’s best friend. This all to show the complicity of Western powers in the trap of the ‘curse of resources’. Paul Collier definitely seems to forget that the resource curse was not a coincidental curse, or one which is on the shoulders of African leaders alone.

Paul Collier stops also where Joe Stiglitz goes on. I think that it would have been very important, if Collier would have really analysed what the donor community has been doing and what kind of complicity it has with the failure of states, what it has been doing in post-war situations, what the World Bank advice over the years has been with regard to export agriculture and de-industrialisation, what the effects of the Washington consensus has been in the eighties and nineties. A serious analysis of changes in the aid _bizz_ is absent, as also a deeper evaluation of what donors have been doing in post-conflict situations is lacking. It makes that there is no real bridge between the problem analysis (the four traps) and the policy prescriptions. It is easy to conclude that Collier’s recommendations ‘hang in the air’.

10. Joe Hanlon concluded in his review of Collier’s earlier book _Breaking the Conflict Trap_, that it was ‘both challenging and intensely annoying’. I would repeat that for this book. The conclusion is that I miss too much history, political science and contextual analysis in Paul Collier’s book. Paul Collier prides himself in the introduction of his book to be a man who is interested in many aspects of development. Still, I miss in the articles and papers which form the basis of this book references to important historic and political science books and articles, to for example Bayart, Chabal and Daloz, Meredith. References in his book and papers are mainly to his own papers and that of World Bank colleagues. One of the conclusions of the World Bank research evaluation holds: ‘The degree of self-reference rises almost to the level of parody’.

Paul Collier, with his position between the negativism of William Easterly and the overwhelming optimism of Jeffrey Sachs, has become a Saint in what he himself calls the aid

---

biz and buzz. I left the church when I was fifteen and have become highly suspicious not so much on Saints – they often lived decent lives of theologising or of support to the poor and oppressed – but of the believers. If you criticise the Saints, you will receive frowns from heaven, but the believers will call you names, will try to exclude you from the debate and will spit at you. My long time solution for this has been to buy an umbrella. I always have thought and think that it is important to criticise also the Saints. Because, what should our Ministers and Ministries do with the readings of the Saints, what should they get out of this book? What with this appeal for 500 to 700 million of the poorest that our Ministers and Ministries have, according to Paul Collier, abandoned? At least twice our Ministers and Ministries followed World Bank and IMF economists uncritically and the results for development policy and our policies in these organisations could certainly be described negatively, in particular of course in the years of Structural Adjustment, but also in the discussions on and follow up of ‘Assessing Aid’. So my recommendation would be: be more critical, take what you think is good out of the book and be suspicious on the ‘science’ behind it and thus also on some of the recipes.25

---

25 Maybe he is the last one we should quote on this type of analysis, because his book The White Man’s Burden is built only a two or three of these type of papers, but Collier’s statistical analysis leads William Easterly (in: Economic Affairs, March 2008, pp.82-83) to the conclusion on Collier’s book: ‘If Collier’s statistical analysis does not hold up under scrutiny, unfortunately then his recommendations are not a reliable guide for deploying foreign aid, technical assistance or armies. Economists should not be allowed to play games with statistics, much less with guns.’