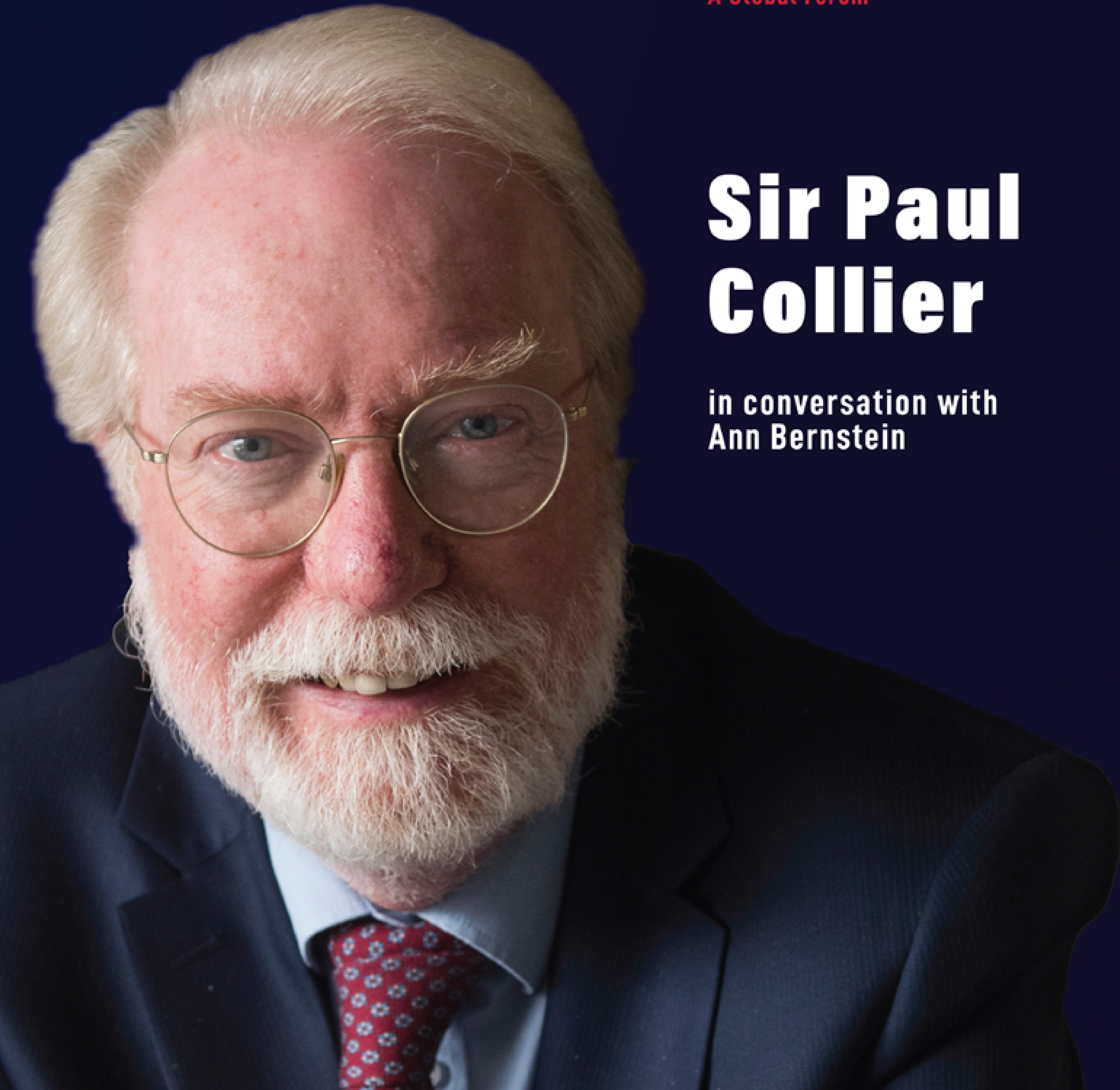
CDE @25

A Global Forum



Sir Paul Collier

in conversation with
Ann Bernstein

In November 2020, CDE initiated a series of events to celebrate 25 years since its launch in August 1995. The series focuses on global conversations on democracy, business, markets, and development.

Sim Tshabalala, CEO of Standard Bank, opened the event. "CDE has consistently been one of the country's best informed, most principled, and most interesting public policy think tanks. Over the years, it has been a steady influence for good in our economy and our society. This series acknowledges the distinguished global experts that CDE has been fortunate to work with over the past 25 years. CDE's focuses on how this country can achieve the growth, jobs, and prosperity that we so desperately need. They contribute to this in important ways, including through policy research. After all, facts do matter.

"Sir Paul Collier is unquestionably one of the greatest and most influential development economists of our time. His expertise on Africa is unrivalled. In my opinion, South Africa's private sector is one of our greatest strengths, which is why I am very excited to hear Sir Paul's views on why African needs more firms."

This is the fifth conversation in the CDE@25 series. Sir Paul Collier is Professor of Economics and Public Policy at the Blavatnik School of Government at Oxford University and the Director of the International Growth Centre at the London School of Economics. He is considered one of the world's most eminent development economists. His books include The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It, The Future of Capitalism: Facing the New Anxieties, and most recently, Greed Is Dead: Politics After Individualism. He was knighted in 2014 for contributions to research and policy change in Africa.

Ann Bernstein: It is my great privilege and pleasure to welcome Sir Paul Collier, Professor of Economics and former director of the Research Development Department of the World Bank, and advisor to many governments. Over the course of a long and distinguished career, Paul's primary research focus has been on Africa and he is one of the world's leading experts on African economies and African development. Paul, we are delighted to welcome you to the southern part of the continent, yet again, even if only on Zoom.

Sir Paul Collier: Thanks very much, Ann. It is a real pleasure to be with you again. I am very conscious that I am not an African. There is a limit to how much any outsider can know about a place or what it feels like to have lived experience of it, so I will do my best, but always remember that qualification.

Ann Bernstein: I want us to focus on Africa in this webinar: how to make capitalism work, how capitalism in Africa can help all its citizens, especially the poor, how to raise investment levels, build better cities, and ensure many larger and more productive firms emerge in Africa or come to this continent. Many people generalise about the continent as though somehow 54 different countries all have common characteristics. I often think it has a lot to do with race. Also perplexing is why South Africa is often left out of these generalisations. How do you see Africa? What can we generalise about it without riding roughshod over the particularities of the diverse countries that make up the continent?

Sir Paul Collier: Good question. It is very true that each of the 54 countries has its own history and its own context. In one sense, then, there are 54 different places. In another sense, there are many more than that, because the level of 'place' in Africa is smaller than the nation. But I think it can be useful to think about larger aggregates. 'Africa' as a single entity won't work – that's going too large. The highest level I currently dare to go to is to look at four categories distinguished by opportunities and challenges.

The three big economic opportunities are: breaking into global exports, for either industry or services; breaking into regional markets; and harnessing natural resources for growth, like Botswana did. The natural resource path is a very distinct policy challenge. That said, Botswana became, for many years, the fastest growing country in the world and there is no reason why any other African country that takes effective advantage of its opportunities can't become the fastest growing economy in the world.

There is another category of countries defined by the fundamental challenge they face, and those are the fragile states. Their big challenge is how to get a viable state with a monopoly of violence and the ability to control its territory. We can think of the 54 countries of Africa as all fitting into one or other of those four categories, sometimes overlapping, but that's as high as I would ever dare generalise about economic policy in Africa.

Ann Bernstein: Interesting answer. Let me move on to more specific topics. You've argued that what capitalism offers Africa is a combination of competition and collaboration, yet many people on this continent and globally like to think that small is beautiful: small firms, smallholdings in agriculture, and so on. As you once said, "Small isn't stunning; it's unproductive. Africa is chronically short, not of capital, but of firms. Most African firms are much too small. And micro enterprises cannot perform the miracle of productivity." What did you mean by this, and what needs to be done to change this reality?

Sir Paul Collier: The miracle of productivity is what lifts countries out of mass poverty. Until a couple of hundred years ago, mass poverty was universal on Earth. There were some people in some countries that escaped poverty, but they always did it by being predatory on other people. The only route we've ever discovered out of mass poverty involves the miracle of productivity.

The lowest level at which that happens is at the level of the individual firm. Let me give you an example of a manufacturing firm in Ethiopia. Ethiopia is interesting because micro enterprises coexist with larger firms. If you compare a micro enterprise that employs four people and a large firm that employs 50 people in Ethiopia, all of whom are working to make the same thing, the productivity of each worker is 10 times as high in the large firm as the productivity of each worker in the microenterprise. Not 10 percent more productive, or even 100 percent, but 10 times as productive. That is the miracle of productivity.

When workers are 10 times more productive, their wages can be much higher and they can share in a lot more prosperity. Now, there will be a battle over how the extra productivity is shared. In some places, all that extra productivity is captured by the rich, but it does not have to be like that. The struggle for mass prosperity is, first, to get that miracle of productivity, and then, second, to make sure that it is reasonably shared. This can truly be a miracle.

The next step, and the source of a lot of productivity gains in the modern world, is bringing firms together in collaborative clusters. Clusters of firms are usually part of a value chain, where one firm will do a task and then pass the not-completed product onto another firm which adds another little task, and then passes it on to another firm, maybe in another place, and that adds another bit of value – that is the chain of added value. That is what has characterised the east Asian economic miracle: chains of added value all the way along the coast of eastern Asia.

My favourite example that illustrates the productivity benefits of clustering comes from a city in China. It used to be a fishing village 50 years ago, but now it makes two thirds of all the buttons in the world. You can think of it as 'Buttonopolis'. Why is Buttonopolis there in China? It's because there are lots of little button firms all congregating together. Why do they go there? Because by grouping together, they all reap the productivity benefits of being close together. Suppose your buttonhole punching machine breaks down. That is no problem in Buttonopolis; you will be able to buy one in about two hours.

The other side of this is that it is very challenging to break into these kinds of value chains. I used to tell this story: "Imagine if you were an entrepreneur in Africa and you tried to break into the global market for buttons – what would happen? Even if your costs of making buttons were otherwise low, the fact that you were solo, with no other firms around you, would push up your costs. Nobody would even know about your business and you would go bankrupt." Then I discovered that one of my African acquaintances who is a very successful entrepreneur had tried making buttons; and guess what? His button venture went bust.

Ann Bernstein: In your view, "Africa's future is not a continent of happy peasants." You argue that African agriculture is so unproductive that not only are African farmers unable to feed African cities, they are also unable to feed themselves, and that hunger is more common on Africa's farms than on the streets of its cities. You have also said that Western NGOs tend to romanticise smallholders, whereas most African farmers struggle every day so that their children can escape a hard and backbreaking life. Can you talk about that?

Sir Paul Collier: I am not an African farmer, but I have talked with a lot of them, and I do think that the Western NGOs romanticise it. What many NGOs seem to want is a continent of happy peasant farmers, but that is not how farmers see themselves. If any of these NGO workers had to earn their living by being a peasant, they would be hungry, not happy. That is the fate of a lot of rural African households: there is hunger and children get stunted, and they are set back for life. I want to see an Africa that is free of hunger, and that means creating a more productive agriculture.

To get more productive, agriculture has to become more commercial. Agriculture in Europe, South America, and North America is productive, organised and highly commercial, but it is not a big employer. I see African agriculture gradually becoming more productive, which means producing more food with fewer people. Africa's population is still rising rapidly, so what are those people going to do? They need productive jobs. Those will not come from more and more farming, because farming is fundamentally constrained by the availability of land. Africa is not getting physically larger. In fact, its physical endowment of land is probably deteriorating because of climate change.

Thus, the path to resilient prosperity lies in cities, where economic activity overwhelmingly happens. What African agriculture and African food consumers need is a much stronger agro-processing industry that produces more reliable and better-quality food. Agro-processing removes the water content from food, so it lasts longer. If it lasts longer, you can store it and thereby guard against periods of hunger. The agro-processing industry can create a lot of jobs; but they are jobs in firms, not jobs for 'happy peasants'.

Ann Bernstein: Why has Brazil been able to develop large-scale commercial agriculture, but most African countries have not? South Africa is obviously one exception, in part.

Sir Paul Collier: The answer has a lot to do with rights to land. I don't hold Brazil up as a great model of governance probity – far from it. But having commercial rights to land is fundamental, not just for agriculture, but for all business activity. You need secure rights to land so that you can build buildings on it. In the case of agriculture, it typically costs a lot of money to improve the quality of land, to the point at which it is productive. So, investments in land quality, such as the huge investments that Brazilian agriculture has made, only happen if there are secure and enforceable titles to land.

This is even more important in cities. In many, probably most, African cities, the rights to land in the city are yet to be sorted out. There are typically multiple claims for the same plot of land. When somebody starts to build on the land, more and more claims come out of the woodwork because people say, "That land's mine, and so everything that was built on it is mine."

Ann Bernstein: I was once in Nairobi and was stunned to see a house with a big sign outside saying, "If anyone offers to sell you this house, it is not for sale; the owners are not selling this house", which illustrates your point. I had heard about this in fast-growing Bengaluru, but I had never seen it for myself.

Sir Paul Collier: You will find it around Lagos as well. Because of those scams, people feel very vulnerable. Micro-enterprises are much more vulnerable than big businesses. In Dar es Salaam, there are some people who have a little stall, and they dare not leave it; they have to keep a family member on that piece of land all the time. They know if they leave it, somebody else will claim it and they cannot get it back because their rights are not enforceable. Think of the massive inefficiencies involved in always having to have a physical presence just to hang on to a market stall.

Ann Bernstein: The big question then is, if more and more people are coming to the cities, what kind of jobs are they going to get? You have said that one of the reasons for African poverty is that we have failed to do what Asia did, which was to establish export manufacturing firms that got into global garment, toy assembly, and other value chains where they can find a competitive advantage. There are two parts to my question. One, why do you think we have not seen this in Africa other than one or two examples? Ethiopia has been a great hope, but it is not clear whether it will work out in the end. Second, do you think Africa has missed this boat? Is it too late with automation and digitisation taking place? Can Africa still get into the global manufacturing sector for low-income, low-skill work?

Sir Paul Collier: Yes, you can. It will be many years before these jobs are made economically unviable, if ever. Forecasts of doom and gloom are much exaggerated. Why is it difficult, though? For the reason I sketched, that the first firm to make buttons is going to fail. So, you need a lot of supporting policies in order to break into a value chain.

You need to find a realistic place to start. Mauritius managed, initially, to break into very low-end garments – T-shirts etc. – and has now moved up the escalators of skill and market sophistication, so that it can now produce very high-quality garments that sell for very high prices.

How did Mauritius get started? By being very lucky. Manufacturers based in Hong Kong tried to invest in Mauritius but found it to be unviable because the Mauritian government had built a wall of trade protection that made it impossible to bring a half-completed garment in, do another stage of the manufacturing process, and then pass it on. This was ironic because Mauritius had been given a quota under the Multi Fibre Agreement, but it remained a sugar-exporting island. The West had given them a permit to export garments duty-free, but they could not use it.

The Mauritian government then woke up to this opportunity and solved the problem by creating an export processing zone. Now, within the zone, you could import anything you liked duty-free, as long as you used it to make exports. When this sparked an explosion of garment-related activities, other businesses clamoured to be part of the zone. Eventually, the government decided to make the whole island an export processing zone. And that was it; that enabled them to take off. They got onto the escalator of rising skill and now they are the highest per capita income economy in the African Union.

Ann Bernstein: Fascinating. Let me turn now to urbanisation. There is often an ambiguity among policymakers about increased urbanisation and migration in South Africa and many other developing countries. You have argued that it is vital that cities become engines of opportunity. That is what cities are for: "high density is the handmaiden of economic activity." Can you talk a bit about that?

Sir Paul Collier: A good city is one that is both liveable and productive. And there is a tension between those two things.

I grew up in Sheffield, which was one of the first industrial cities on Earth. The industrial cities of the north of England became very productive in the 19th century because all the mills and factories clustered together. People rushed to them to partake in this miracle of productivity, where they could be much more productive than on a farm. But, when that happened, the cities of the north of England became completely unliveable. Life expectancy collapsed to 19 years. Why? Because when people cluster together, diseases spread – in this case cholera. When you live in a rural area, you naturally separate human waste from drinking water. But in the cities of northern England that did not happen; the drinking water got mixed up with the sewage, and you got cholera and death.

That is happening in some cities in Africa. We now know that cholera is entirely avoidable, as long as you put in the basic infrastructure that keeps drinking water separate from sewage. But in Africa people have flooded into cities at a pace that exceeds the capacity of city governments to finance this basic infrastructure.

At the same time, firms in cities need two essential things to be productive. To allow workers to reach the factory, to reach other firms, and to reach their customers, firms need a good transport network that allows efficient movement. Nairobi is an example of a city where that does not exist. It is deeply congested. To operate, firms also need non-human energy. The miracle that allowed the industrial revolution to start in England, at the first industrial factory ten miles from where I grew up, was the watermill. Watermill technology had been there for centuries; looms have been there for a long time, but nobody until Richard Arkwright thought to power a loom with a waterwheel. He brought two established technologies together and generated so much power that it led to the productivity miracle of the industrial revolution. Then factories turned to steam, and now we use something called electricity, but most African cities, including those in South Africa, do not have reliable and affordable electricity. Without that, firms cannot compete in global markets.

These are the basic ingredients that make a city viable, liveable, and productive. You need adequate roads and, underneath them, you must put in electricity, water, and sewage. Then you designate squares of land, call them plots, and give them to new arrivals to the city. They are usually required to pay for the plots, but if that gives them a legally enforceable title, then they will develop and build on that plot and enhance its value.

The big challenge is getting and staying ahead of the increasing population, which most (but not all) African city governments have not managed to do. Once you fall behind, the costs of retrofitting the infrastructure are about triple the cost of fitting it before people arrive. In practice, that means the cost of fitting it is prohibitively expensive, it does not happen, and you fall even further behind.

Ann Bernstein: Let me push a bit harder on housing. You have said that the accumulation of decent housing matters, both because of the difference it makes to living standards, and because of its centrality to economic development. Can you talk to us about this and how it relates to the development of an African middle class?

Sir Paul Collier: Yes. You need people who have a stake in a place. The most obvious example of having a stake in a place is owning a home, which you can improve over time. You can start with a shack on your plot, but what we see throughout history is those shacks then get replaced by proper structures, and they become multi-story, and so on. People develop these homes once they have secure access to a site that is serviced.

Why does that matter? When you have a stake in a society, you are then in a position to contribute to it, and you are likely to start paying taxes. As the value of your plot rises, some of that increase in value can be acquired by the local government quite easily. The person on the plot is better off while the city can use this revenue to finance the necessary infrastructure. In this way, creating a middle class with a stake in the system and a readiness to pay tax is crucial for the future development of African cities.

Ann Bernstein: Recently, I listened to you talk about city government and how, in your view, there has to be a lot more dialogue between equals in cities, between citizens and leaders. I liked your characterisation of effective urban leaders as 'communicators-in-chief' rather than 'commanders-in-chief'. How does that work in a big city?

Sir Paul Collier: Leaders of cities and nations are over-inclined to see themselves as commanders-in-chief, pulling levers of public policy and ordering people to do things. That does not work very well. No leader, least of all the leader of a city government, has anything like enough coercive power to achieve very much. A leader needs the vital asset of the willing compliance of a majority of citizens. And that has to be earned. All leaders are in a position to be heard because they have loud voices. But they are not all in a position to be listened to. To be listened to – in other words, to have someone pay attention and actually comply with what you are saying – you need to be trusted. And trust has to be built by behaviour over time. Some leaders have built that trust and are effective communicators-in-chief. People listen to them because they have built up trust.

Look at the most successful country in Europe. Denmark largely avoided the first and second waves of the coronavirus, got caught with a third wave at Christmas, and has already got rid of it. Why? Because the leader, Mette Frederiksen, is a very ordinary person. She is able to say "we" and other Danes think of her as 'one of them'. Denmark has built a very high degree of willing compliance. People behaved in such a way that they protected one another. If you go across the Atlantic to North America, gun sales rocketed, and it was less a case of 'protect your neighbour' than 'shoot your neighbour'. 'Shoot your neighbour', I am sure we can all agree, is not a very good strategy for dealing with Covid.

Ann Bernstein: I can't let you go without asking my last question. Many people would be surprised to know that you think Lagos has become a success story over the last 20 years. Can you tell us why?

Sir Paul Collier: I can indeed. I enjoy going to Lagos because it is so vibrant. It is a supremely confident place. Why do I admire it so much? Because three good governors of Lagos State in a row have built willing compliance around paying taxes, and they have done that by visibly using the money for clear purposes that benefited ordinary people in the city. And so, over the last 20 years, Lagos has become much more like a functioning city. People willingly pay their taxes because they see the benefits. That builds willing compliance. If you can do it in Lagos, frankly, you can do it in most places. Nigeria, overall, is not a model of trusted leadership and willing compliance. But unlike the other state governments in Nigeria, Lagos does not have oil money, so they knew they had to build a tax base, and as a result it is becoming a vibrant, functioning city. So yes, we should all celebrate Lagos.

Ann Bernstein: Thank you very much, Paul, this has been a masterclass in development in Africa – really entertaining and very informative. I can only recommend that people read your books and listen to your lectures and talks. We were delighted and privileged to have you here.

Sir Paul Collier: Thank you, Ann, and happy 25th anniversary to CDE.

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Francis Fukuyama on Populism after Trump, see here

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Published in May 2021 by The Centre for Development and Enterprise

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