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Hans Singer's Legacy: The Problem of Commodity Exporters Revisited?

Hans Singer Memorial Lecture on Global Development 2009

Conference Proceedings

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The problem of commodity exporters revisited

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Conference proceedings

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Prof. Dr. Dr. h.c. mult. Sir **Hans Wolfgang Singer**

(born 29 November 1910 in Wuppertal; deceased 26 February 2006 in Brighton),

a renowned international economist and one of the most influential development practitioner of the 20th century has studied in Bonn and graduated from the Economics Department of the University of Bonn in 1932. Being Jewish, he fled the Nazi terror in 1933 and settled in the UK.

After World War II, in 1947, he became an influential development scholar with the United Nations (UN) for two decades. During his time at the UN Hans Singer was a significant driver of establishing important organizations like UNICEF, UNDP and the World Food Programme. The main scientific finding of Hans Singer is the Singer-Prebisch Thesis, which states that the terms of trade for commodity exporting developing countries tend to deteriorate over time. From 1969 until his death he joined the Institute of Development Studies (IDS) at the University of Sussex.

In commemoration and in honour of Sir Hans Singer the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) and the Institute of Development Studies (IDS) with support from the Institute for Political Science and Sociology of the University of Bonn established the "Hans Singer Memorial Lecture on Global Development" which took place for the first time on 18 May 2009. It is foreseen that the Memorial Lecture will alternate between Bonn and Brighton on an annual basis.

The "Hans Singer Memorial Lecture on Global Development 2009" has received generous support from:

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Contents

The Hans Singer Memorial Lecture: Bonn to honour one of the 20th century's outstanding development researchers[1]

Dr. Thomas Fues

On 18 May 2009 the first "Hans Singer Memorial Lecture on Global Development" took place in Bonn. The Memorial Lecture, a joint initiative of the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) and the Institute of Development Studies (University of Sussex) with support from the Institute for Political Science and Sociology of the University of Bonn was created to honour one of the twentieth century's most influential European development researchers, whose academic career began at the University of Bonn. It was in Bonn that he was to acquire his first academic degree, in economics, in 1931. He had already gained the support of Joseph Schumpeter, at that time a professor of political economics in Bonn, for his planned doctoral studies. However, Schumpeter, who was later to achieve eminence in his field, soon left Bonn for a position at Harvard University. Singer was in the midst of writing a new dissertation when he was forced to flee the National Socialist terror regime because of his Jewish background. In 1934 he arrived, by a roundabout way, in the UK, where he was soon to become a member of the group of Cambridge scholars around John Maynard Keynes.

Since World War II, Sir Hans Singer – he was knighted by Queen Elizabeth in 1994 – shaped, in key ways, both the academic debate on the countries of the South and the practice of development policy. From 1947 to 1969, Hans Singer held a number of prominent posts in the United Nations' development sector. From 1969 to 2006, the year of his death, he was a member of the teaching and research staff of the Institute of Development Studies (IDS) in Brighton. Hans Singer devoted the better part of his life to efforts to give the economic sciences a new, emphatically moral orientation geared to practical applications and advisory work. That may be the reason why he has, until today, received relatively little recognition in his own discipline, that is, outside the field of development studies.

It was at the United Nations that Hans Singer developed his widely acclaimed theory on the long-term deterioration in the terms of international trade for developing countries specialised in the export of primary products, the so-called Prebisch-Singer Thesis, a hypothesis that has since become a core element of international economics. According to the Prebisch-Singer Thesis, integration into the world economy on the basis of exports of agricultural and mineral commodities works to the detriment of this group of countries, while at the same time the industrialised countries stand to benefit, disproportionately and systematically, from international trade. Hans Singer identifies the root structural cause of this interdependency, with its alarming implications for development policy, in institutional disparities in the labour markets of developing and industrialised nations. In connection with a mission to Kenya in the early 1970s that he headed, together with the

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[1] "The Hans Singer Memorial Lecture: Bonn to honour one of the 20th century's outstanding development researchers" was first published as "The Current Column" on 11 May 2009.

renowned development scientist Sir Richard Jolly (IDS), on behalf of the International Labour Organization (ILO), Hans Singer also published some pioneering findings with immediate relevance for development practice. Together, the two development researchers developed the innovative idea of redistribution with growth, a concept that involved a reassessment and acknowledgement of the informal productive sector.

Alongside the theoretical impulses he provided for development research, Hans Singer published a number of key conceptual contributions bearing on the development and qualification of international institutions, most of them part the United Nations system, including the United Nations Children's Fund (UNICEF), the World Food Programme (WFP), the UN Industrial Development Organization (UNIDO), and the UN Research Institute for Social Development (UNRISD).

The prodigious list of Hans Singer's publications bears witness to an extraordinary creative power and at the same time serves to document the breadth of the interests that accompanied him in the course of his scholarly career, encompassing a period of over 70 years. He held his last lecture, on the origin of the 0.7 percent goal set for development policy, one week before his ninety-fifths birthday. It was no doubt his own biography that induced Hans Singer to work unceasingly for social justice, human development, and poverty alleviation, which he saw as the central concerns of scholarship and politics. He furthermore trusted in the ability of international institutions, and the United Nations in particular, to create and sustain peace.

Hans Singer received broad international recognition and was honoured on numerous occasions; a total of five commemorative publications were dedicated to him in his lifetime. In Germany, the University of Freiburg awarded him an honorary doctorate in 2004.

Hans Singer – A pioneer of development research

Prof. Dr. Dirk Messner

Dear Ladies and Gentlemen, dear Colleagues, dear Friends,

It is an honour for me to welcome you all in the name of the three Institutions here and in the name of our Institute, the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE). And it is an honour for me to present some introductory remarks on behalf of our colleagues focussing on the work of Sir Hans Singer and focussing on the relevance of Hans Singer for all of us as individuals, as scientists, as researchers and as political practitioners.

I would like to make four brief points.

My first point is that I would like to especially welcome the daughter-in-law of Hans Singer. She is here this evening as well as the grandchildren of Hans Singer. Thank you very much that you accepted our invitation; it is an honour and a privilege for us to have you all here. And you should feel in this room that for all of us Hans Singer was a very important person, a very special personality. For many of us he was important as an intellectual, as a great thinker, as one of the most important development researchers of our times. And he has written so many important papers, that all of us have cited so often. So he was very important as a researcher and as an intellectual. And for many of us he was very important as a teacher, too. I remember my times at the university studying economics and political science. And in all our textbooks it was reported always to be able to cite Hans Singer, so he is very important for many of us in this room as a teacher, too.

And for some of us, for some privileged like Richard Jolly, he was not only a major researcher, an important person, a very important author of very important papers; he was a colleague and a friend. From the perspective of the citizens of Bonn, it is also a privilege for us and we should honour that Hans Singer, Sir Hans as we have called him, has been working, studying and influencing our thinking here in Bonn at this University. We are proud that he has been studying in Bonn.

We all know that he had to leave in 1933 as a political refugee and his entire family had to flee from Germany as a result of German fascism. We all know that and we feel very honoured that you are here today, this evening to celebrate Hans Singer with us. So again thank very much for that.

My second point is that I need to thank another person and that is Sir Richard Jolly. Richard Jolly is actually another hero of development research, as we all know. Richard Jolly is one of the most influential thinkers in development research, development theories and practical international development co-operation of the last decades. And thank you for that, for your activities and I praise you for the idea to bring together the Institute of Development Studies, the University of Bonn and the German Development Institute / Deutsches Institut für Entwicklungspolitik to organise this first Hans Singer Memorial

Lecture on Global Development. And hopefully we will be meeting again next year in Brighton for the second Lecture followed by the third Lecture back in Bonn. So, we are really building bridges between the University of Sussex and its Institute of Development Studies, our Institute and the University of Bonn, reflecting on the legacy of Hans Singer's work. So, Richard, thank you very much, that was a brilliant idea! We had those discussions only one year ago at the beginning of June 2008, during the Annual ACUNS Meeting where we discussed the development policies and strategies of the United Nations. And these issues are obviously very strongly linked with Hans Singers work and I know that Prof. Dr. Uwe Holtz, from the Institute of Political Science and Sociology of the University of Bonn, who is here this evening, was one of the persons from the University of Bonn who pushed this initiative forward. Prof. Holtz, thank you very much for your help and engagement.

The third point that I would like to make is, that I had actually the chance to meet Hans Singer twice. I met him in 1996 and 1997. He was 85 years old and I was 35, or so. A half century between us. It was not only that I had the chance to see him and to talk to him. No, I even had the pleasure to have an office at IDS next door to Hans Singer. Can you imagine what incredible luck for me? I had been working at the Institute of Development Studies as a guest researcher and next door to my office I had one of the biggest thinkers in development research of our times and I had the chance to talk to him on a daily basis. You can imagine that? And what I would like to emphasise is that Hans Singer was very modest, although he was so famous, so important, so influential, so widely cited. He was very modest, very humorous; humour was very characteristic for him. He was very open minded, innocent--that was a point you mentioned also, Richard. He was someone who had written so many books, so many articles, developed so many concepts, but he always listened. He was not someone who told the rest of the world how the road moves forward, he had the capacity to listen and to learn by listening. I think that was a very important characteristic of Hans Singer. And he was very straightforward in his thinking. 85 years old when I met him in 1996 and 1997. He was there every day for two hours writing articles that were published the next day in the Herald Tribune, The Times etc. Productive and very influential at age 85--I was very impressed because he was not only an excellent intellectual, from his personality he was also a very impressive human being. That was what I wanted to emphasise. It was a great pleasure for me to have had the chance to meet him.

I should develop two points that he mentioned very often in 1996 and 1997 when we met. I heard two important messages from Sir Hans. The first one: He told us that in development research we are talking too much about policy and too little about polity and politics. Too much about policy, we are doing this and this programme, and too little about politics: that's about power, political processes and polity, that's about institutions – today we call it governance, governance issues. This was among the most important messages for us younger researchers. The next one in 1996, 1997: he was very much focussing on his articles for the Herald Tribune and The Times how to bring together global development trends with local development issues very much on the ground. Global development trends like migration, urbanisation and global environmental challenges and financial markets. He wrote a set of papers on the instability of financial markets. And he tried to understand what this meant for local development and children and poverty and health systems and how to bring these local-global interdependencies together. For me, this was one of his legacies. Reflecting on the bridges between the local processes and global trends and how to translate that in policies that work in very concrete, real contexts, in specific countries. Hans Singer was interested not only in theories, in concepts, in numbers – but also in real changes in the real world. That was an important message to us. This was my third point – this was about Hans Singer and my great chance to talk to him.

My last point is about our guest lecturer Prof. Dr. Paul Collier. While we are talking about Hans Singer, one of the most important development researchers of the last century, we are privileged to welcome another hero of development research. Paul Collier is one of the most important, influential and brilliant development researchers and economists of our time. Welcome Paul, I am very happy that you are here this evening and that you accepted our invitation. Most of you know probably his most important work: "The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It". I can ensure you that he has written dozens and dozens of articles that you should read as well. They are brilliant. His book that was published in 2007 is really a bestseller not only on development research but also on global development and the global economy as such. Paul, thank you very much for agreeing to come. This is a very good start."

Hans Singer – the gentle giant

Prof. Sir Richard Jolly

Hans Singer was a gentle giant. His intellectual leadership and extraordinary energy issued from a small man, of modest appearance and mild-mannered stance, head often cocked to one side, bushy eyebrows with a friendly but questioning smile. He was loved and deservedly feted for his visionary and creative thinking, bold, innovative and positive in contrast to his gracious and unassuming style and total disregard for outward appearances. When he was preparing to receive his knighthood from the Queen, he considered for several weeks whether he should wear his old suit or buy a new one. In the end, he bought a new one – from Marks and Spencer!

In the UN he was widely known and admired for his outstanding professional qualities, his ready willingness to help and his scrupulous avoidance of gossip and infighting. The old guard of the UN remembered Hans as one who had maintained his integrity even while he was singled out for personal attack by Senator McCarthy (for his work on SUNFED, the proposed Special UN Fund for Economic Development). Indeed, because of these pressures on him, Hans Singer resigned from the UN in 1953 and was on the point of leaving when Dag Hammarskjöld, newly appointed as the Secretary-General, directly appealed to Singer to stay which, fortunately for the UN, he did.

I was privileged to know Hans for over 42 years – from 1963, when, as a graduate student collecting data for my thesis, I shared a house with Hans for two months in Addis Ababa. In 2005, a week before his 95th birthday, I chaired his last lecture in IDS, when he spoke to some 60 or 70 graduate students.

Professor Paul Collier will no doubt say more Hans Singer's intellectual contributions. I want to underline four points about Hans the person.

In 1936, when he had just obtained his doctorate and been part of the outer circle round John Maynard Keynes in Cambridge, Hans was asked to undertake the study of unemployment in Britain – which later was published as *Men without Work*. For this, Hans lived for some months with unemployed families in six towns of Britain, learning informally in the evening the human costs of unemployment. I wonder how many students would do this today, after they had studied under one of the most famous economists of the century?

In 1947-1948, after Hans had started work on the terms of trade, he was asked by Maurice Pate, the Executive Director of UNICEF, to write a paper on Economic Development and Children. Hans Singer put aside his trade work for several months to write what became UNICEF's first report on *The Role of Children in Economic Development*. Many times over his lifetime, Hans came back to issues of children – opportunities for improving nutrition in Kenya and Young Human Resources in Korea in the 1970s, the Impact of World Recession on Children in the 1980s. Hans gave advice when in UNICEF we published *Adjustment with a Human Face* in 1987. It was typical for Hans to drop work on the conventional for what he considered more important – though unconventional.

Thirdly, Hans was never one to pontificate on developing countries at a distance. Alec Cairncross, at one time the head of the UK's Government Economic Service, commented as follows: "Hans's life has been anything but cloistered. He has made frequent journeys half around the world. There are few of the developing countries that he has not visited and still fewer that he has not advised. He must have addressed a wider variety of academics in a wider variety of places about a wider range of subjects than any other economist, living or dead. He has moved from continent to continent, expounding, advocating, and devising strategies of economic development. His influence has been felt as much by word of mouth in the succession of countries where he has lectured as through the pile of working documents and published reports that survive like spoor from his travels."

Finally, as adviser or consultant, Hans's strength was his willingness to listen and his total concentration on the problem and needs as felt by the agency or group he was advising. It was this which made him the economist of choice of so many parts of the UN – UNICEF, WFP, ECA, UNRISD, UNIDO, ILO and many others. My former colleagues in UNICEF always thought that Hans was special consultant to them – unaware that half a dozen other UN agencies were thinking the same.

How does one assess the longer term impact of a person like Hans Singer? In the UN Intellectual History Project, we have identified four ways in which ideas and their originators have impact:

- By influencing the ways that issues and situations are perceived;
- By defining agendas for action;
- By helping build alliances for change, which help mobilize NGOs and other groups to press for action;
- By becoming embedded in some new or existing institution, which is given the mandate to carry forward the ideas into action.

In all these ways, Hans Singer's life as a development economist had real impact. But there is a fifth way, as John Shaw has made clear in his excellent biography[2]:

- By inspiring the next generation to emulate his example.

Hans Singer has provided more than enough stepping stones to help all of us along the path.

2 D. John Shaw, Sir Hans Singer: The Life and Work of a Development Economist (Basingstoke, Palgrave Macmillan) 2002.

Hans Singer's legacy: The problem of commodity exporters revisited

Prof. Dr. Paul Collier

Introduction

It is an honour and a pleasure to give this lecture, the first in what will be an annual series of lectures on development. Hans Singer combined in high measure three roles that today are seldom found together. He was, of course, a researcher: it is his most celebrated research that will be the subject of my talk. But he was also deeply engaged in the world of policy. When Hans Singer studied for his doctorate this was indeed a combination to which many economists aspired: his supervisor, John Maynard Keynes, provided the perfect model. Like Keynes, Hans Singer focused his research on matters of urgent public policy, and wrote to address a wide audience. Today, much of that has been lost: academic economists write for each other and have manifestly become too detached from policy. But Singer's third role should also be recognized: he built organizations, first at the United Nations and then at the Institute for Development Studies (IDS). Building organizations takes flair and persistence. In the academic world such characteristics are rare: academics tend to be drawn from that part of the population that is clever but incompetent and so few manage to leave a legacy beyond ideas. That combination – research, policy, and organization-building – was what makes Hans Singer a role model. In a more modest way I have tried to follow that same path. In addition to my academic work I have tried to engage with the world of policy. I wrote *The Bottom Billion* to help build a constituency of informed opinion among ordinary citizens who could then encourage our politicians to move our development policies beyond gestures. And I have tried to build organizations, both directing the research department of the World Bank where I was brought in by Joe Stiglitz, and through founding the Centre for the Study of African Economies at Oxford, which twenty-three years later is the achievement of which I am most proud.

The path of commodity prices

But my lecture is going to be about research. Hans Singer's most celebrated research result was the proposition that global commodity prices were in long term decline relative to the prices of other goods and services. He then inferred from this proposition that commodity exporters were going to be in deepening trouble unless they managed to diversify their economies. In particular, he was concerned that commodity exporters should industrialise.

Non-economists will not appreciate how radical was the proposition that commodity prices were in decline. It was radical because orthodox economic theory had deduced precisely the opposite proposition, known as the Hotelling Rule. On this theory global commodity prices would rise relative to the prices of other goods at the world real interest rate. The underlying theoretical intuition is not complicated. Since commodities left in the ground are assets, they will only be left there if the expected return on them is the same as on other assets, namely the world interest rate. As long as expectations of returns are not systematically wrong, then this will indeed be the path that commodity prices follow.

So, who was right, Singer or Hotelling? Singer's research was conducted in 1949: we now have the benefit of an additional 60 years of commodity prices. Taking the full sweep of prices over the last century, the consensus is now that Singer looks to have been right about commodity prices with the one exception being oil. So, why was Singer right, or, restated, why is the Hotelling Rule wrong?

I think that there are four limitations with the Hotelling Rule that between them make it inapplicable. First, it ignores extraction costs. Suppose that copper companies expect the world price of copper to decline rather than to rise. According to Hotelling, they should at once take all the copper out of the ground and cash it in for bank deposits. But of course, significantly to accelerate the rate of extraction of copper would be very costly and so the degree of asset substitution between commodities and financial assets is limited. Second, commodities left in the ground are highly illiquid: the typical low-income country cannot borrow now on the collateral of a mineral to be extracted only some decades in the future. Yet low-income countries need revenues now and so their extraction plans cannot be set according to the expected long term path of prices. Thirdly, as we have experienced over the past year, whatever the long term path of commodity prices the short term path is extraordinarily volatile. This creates such radical uncertainty as to what future prices will be that any view of the trend must be heavily discounted in calculations of returns. The only certainty on which production decisions can be based is the current price. Finally, the future price will be dominated by developments in technology. This was Hans Singer's core concern: technical progress in production would, he argued, drive prices down in the highly competitive markets for undifferentiated commodities but would be captured by firms and workers in the markets for the differentiated products that characterised goods and services. To this, I think, should be added technical progress in consumption. Over time output needs less and less inputs of basic commodities. Indeed, far from running out of them, which is a periodic panic story in newspapers, commodities which were at one time valuable have tended to become obsolete. In the nineteenth century nitrates were hugely valuable because they were the essential input for explosives. Technical 'progress' in military destruction has drastically reduced the value of nitrates. I expect that the same will happen to oil: by 2050 to avoid global warming we will have switched to non-carbon sources of energy and oil will no longer be valuable. After all, the reason that the world moved on from the Stone Age was not because we ran out of stone. So, I expect that even oil, the one commodity that to date has not followed the Singer hypothesis, will fall into line.

The resource curse and its causes

Singer was right about the declining long term trend in commodity prices, and about the need for commodity exporters to diversify. But even he underestimated the problems that commodity exporting countries face. Even high commodity prices have turned out to be a two-edged sword for exporters. Together with Benedikt Goderis I have researched the effect of commodity prices on the subsequent economic performance of exporting countries (Collier and Goderis, 2007, 2008, 2009a, 2009b). Based on 40 years of global data we try to simulate the short and long term effects of the recent commodity booms. I should emphasise that we are not trying to forecast commodity prices: rather, we pose the question suppose that prices had remained at their boom levels what would this have done for the growth of exporting economies? We find that in the short term commodity booms always produce growth. But in the longer term of two decades, on average they end up reducing rather than increasing national output. In other words, the 'resource curse' is unfortunately a reality. However, while this is the average, it conceals a wide diversity of performance. The resource curse is not inevitable: Botswana harnessed diamonds to transform its economy from an impoverished backwater to the fastest-growing economy in the world. Malaysia harnessed its natural resources to finance the social and economic infrastructure for the electronics export zone of Penang, transforming an impoverished region into a global powerhouse. We find that what separates the successes from the failures is governance: a topic that Hans Singer turned to in the last decade of his life. Above a threshold of governance countries harness commodity revenues for long term development, while below it they go from boom to bust.

Why is governance so important for commodity exporters and what typically goes wrong? The exploitation of commodity extraction for the benefit of society fundamentally depends upon government. Whereas in other areas of economic activity government may or may not be critical, in commodity extraction it necessarily has a central role: the 'minimal government' model, fashionable in the 1980s, is completely inappropriate in a resource-rich country.

The first step that has typically gone wrong in resource-rich, low-income countries has been the discovery process. Anke Hoeffler and I have used global data on the value of known natural sub-soil assets to compare the OECD – rich countries – with Africa. As of 2000, the typical square kilometre of the OECD had $125,000 of known sub-soil assets waiting to be exploited. In contrast, the average square kilometre of Africa had only $25,000 of known sub-soil assets. Most likely, this reflects a massive failure in the discovery process in Africa: the scope for resource extraction may be five times what it currently appears to be. The discovery process is highly dependent upon governance: investors have to be confident that if they make the irreversible investment in a mine, that property rights will be secure. Governments have an incentive to renege on agreements once investments have been made: a problem, economists refer to as 'time inconsistency'. Because resource extraction is much more dependent upon fixed and irreversible investment than other forms of economic activity, the problem is particularly acute.

The next problem of governance in the management of natural resource extraction is taxation. Typically in the past, secret deals have been negotiated between companies and ministers. Such deals are good for companies and all too often good for ministers, but not for the country. Companies have a double advantage over societies: they better understand the true value of the resource, and they have more control over their negotiating team than citizens have over ministers. A better approach that secret deals is a transparent auction in which rival companies are forced to reveal true value by the pressure of competition. Tax systems should also be robust to changing circumstances. In particular, they should anticipate that world prices of commodities will fluctuate so that when prices are high tax rates should be higher than when prices are low. Currently, tax rates are often not designed for these contingencies so that there are painful and slow renegotiations in the wake of price changes. For example, the Zambian government initially negotiated a deal for copper mining when the world copper price was low. Instead of the tax rate being contingent on the price companies were given long tax holidays. During the copper boom of 2006-2008 these companies made huge profits which were tax free. But by the time the government had renegotiated, the copper price had collapsed.

So far I have considered what might be thought of as the ‘upstream’ governance problems of harnessing natural assets for development: discovery and taxation. Now for the ‘downstream’ problem of governance that concern the use of these revenues.

First and foremost, the use needs to be distinctive because natural resource revenues are not sustainable. Most fundamentally, as natural assets are extracted they are depleted and so much of the revenues should be used for the accumulation of replacement assets. Hans Singer’s point that prices are in long term decline reinforces the unsustainable nature of resource rents. Hence, a resource-rich country should have a much higher savings rate than a resource-scarce country. To date, the opposite has usually been the case: resource-scarce East Asia has saved well over 30 percent of GDP, whereas resource-abundant Africa has saved less than 20 percent. Resource-rich Africa needs a quantum leap in its savings rate.

Depletion is one distinctive feature of resource riches; the other is volatility of revenues. As the past year has demonstrated, revenues are subject to massive and unpredictable fluctuations. This provides a further reason for saving: during booms savings should be particularly high so that busts can be cushioned. Here there is evidence of social learning. The commodity booms of the 1970s were often disastrously mis-managed: far from saving, governments often borrowed to gear-up the boom: for example, Nigeria borrowed heavily, and then had to repay once oil prices crashed in 1986, greatly amplifying the shock from the fall in oil prices. During the recent commodity booms most governments saved rather than borrowed: Nigeria accumulated around $70bn of reserves.

Finally, what should savings be used for? There is considerable concern about Dutch Disease in resource-rich countries: the tendency for commodity exports to make other export activities uncompetitive. One model that some low-income countries have sought to emulate to avoid Dutch Disease is Norway, which has built up a sovereign wealth fund in foreign financial assets. This may be appropriate for Norway, but it is unlikely to be so for a low-income country. Norway is already very capital-abundant and so does the return on further investment within Norway is probably low. In contrast, low-income countries are extremely capital-scarce and so need to invest within their own economies. Investing in the country as opposed to saving abroad need not generate Dutch Disease. On the contrary, if investment is well-chosen it can facilitate rather than handicap diversification into other exports. For example, the investment can be targeted to the infrastructure that other export activities need, as the government of Malaysia did with the export zone at Penang.

However, one reason low-income countries are capital-scarce is that the process of investment is often inefficient. The first and critical step in raising the investment rate is a phase of ‘investing-in-investing’. That is, accumulating the capacity to implement large investment programmes efficiently. This involves both building civil service capacity to design and manage public investment and helping the private sector to raise its investment rate. For example, the construction sector is likely to be an investment bottleneck because it produces those capital goods – structures – that cannot be imported. The government of Botswana, which managed investment well, drew up an annual plan for the construction sector, identifying problems that might prevent local firms from implementing projects and then addressing them. This is an example of 'investing-in-investing', but unfortunately, to date Botswana has been exceptional.

To summarise where we have got to, resource-rich countries face the challenge that living off commodity exports is ultimately unsustainable. But they also have an opportunity. The revenues from commodity exports could provide the finance for transformative development, enabling resource-exporting, low-income countries to become diversified, middle-income economies. Over the past half-century the impediment to this transformation has been mis-governance: harnessing natural assets for sustained development requires that a whole chain of decisions go right and usually one or more of them goes wrong.

Democracy to the rescue?

Until the recent commodity booms, the major opportunity for development for resource exporters was the pulse of income from the commodity booms of the 1970s. One possible explanation for mis-governance during those booms is that in almost all resource-rich low-income countries governments were autocratic. During the 1990s this changed: democracy, or at least elections, spread across the low-income world. Possibly this has improved governance sufficiently for natural assets to be better managed. This is a researchable proposition and, together with Anke Hoeffler, I have recently investigated it (Collier and Hoeffler 2009). We find that natural resource revenues and democracy is not a successful cocktail. In the absence of natural resource revenues democracies outperform autocracies on the criterion of economic growth, but above a critical level of natural resources this is reversed. Far from democracy disciplining governments to manage resources better, resource revenues appear to corrupt democracy. The results are not entirely bleak: we find that the damage from democracy comes from electoral competition and that with sufficiently strong checks and balances the net effect of democracy is positive. But the form of democracy that spread during the 1990s was lop-sided: elections without checks and balances. Elections can be promoted anywhere, whereas checks and balances take time to build. So, to date, we cannot rely upon democracy to provide the sophisticated economic governance that is needed to harness natural assets for transformation.

So what can be done?

So, what is to be done? I will close with two initiatives with which I have been associated: an attempt by an academic economist to influence the world of policy.

The first concerns the need for diversification into industry. The task of breaking into modern industry is now harder for a low-income country than it was thirty years ago when China led the way. The reason is that the late-comers to industrialisation now have to compete with China, which while still having low wages has built up hugely competitive clusters of exporting firms. For example, one city in China now produces two-thirds of the world's buttons. Button firms congregate together because by doing so their costs are reduced. To give a couple of example, buyers go to the city because there is so much choice and so marketing costs are lower, and specialist equipment repair is available so that the downtime from broken machines is reduced. Now imagine yourself to be the first button-making firm in Ghana or Kenya. Even if your government provides the same infrastructure as China, and your workers work for the same wages, you will go bankrupt: you are the first firm and so, lacking a supporting cluster, your costs are higher than in China. We in the rich countries can help countries such as Ghana and Kenya to break in by intelligent use of our trade policies. What the late-comers to industrialisation need is protection, but in our markets not their own. Their own markets are largely irrelevant for modern global manufacturing: the Kenyan market for buttons is not sufficient to build a button cluster. What they need it temporary privileged access to our markets: privileged, that is, relative to China and other established producers. In case this sounds politically impossible, I should add that since 2001 both the USA and Europe have been doing it. The USA has been doing effectively, though the Africa Growth and Opportunity Act (AGOA), and Europe has been doing it ineffectively through Everything but Arms (EBA). Over this period African exports of garments to America have increased sevenfold, whereas they have declined absolutely to Europe. The devil with all trade deals is in the detail. AGOA is far from perfect, but crucially it has generous 'rules of origin' so that an African firm can qualify without having to perform every stage of the production process of a garment. EBA set the rules of origin more strictly, effectively killing the possibility of producing garments competitively in Africa for export to Europe. Now Europe has a second chance to get things right through the negotiation of Economic Partnership Agreements. There are some indications that rules of origin will be more generous. Of course, privileged market access is not enough to pump prime the late-comers into industrialisation. But it would complement the efforts of governments. Each effort is made more worthwhile if supported by the other. This mutually supportive agenda is the subject of the latest UNIDO *Industrial Development Report*, which I co-authored (UNIDO 2009).

The second initiative aims to help the citizens of resource-rich, low-income countries to get up to speed in the sometimes complicated chain of decisions that need to go right in order for natural assets to be an opportunity instead of a curse. Getting these decisions right cannot just depend upon a single good finance minister: the range of decisions spans the whole of government, and the time period over which they must be taken and implemented is a generation. There is no substitute for an informed society that can hold government to account again and again. I wrote *The Bottom Billion* because I believe that even in our own high-income societies there is a need for a more informed citizenry on development issues. But in resource-rich countries the need is far more acute. In *The Bottom Billion* I proposed that the international community should draw up a Natural Resource Charter that spelt out the chain of decisions in terms that were readily accessible. Such a Charter could complement the Extractive Industries Transparency Initiative, which was launched by the international community in 2003 to encourage integrity in resource revenues. Integrity was the right place to start, but given the complexity of the economic decision chain it would be the wrong place to stop. And then I realised that it was no longer necessary to wait for international public organizations to do something: thanks to the internet ordinary people could do it ourselves. A group of academic economists, lawyers and political scientists formed, including Michael Spence a Nobel Laureate, started to draw up a set of principles, which we called 'Precepts'. To explain the Precepts we drafted a citizen's guide and a practitioner manual, and started consulting stakeholders, revising in the light of their comments. In May the Charter was launched at a conference in Oslo, and in Dakar at the Annual Meetings of the African Development Bank. You can visit the website and comment on it at naturalresourcecharter.org. The Natural Resource Charter has no legal status: it is simply an attempt to help resource-rich societies make better use of their natural assets. You can help by spreading the word.

Conclusion: Hans Singer's legacy

So finally, I return to Hans Singer's legacy. I hope that in this lecture I have built upon the tradition into which Keynes inducted him as a student and which came to define his life: that of the engaged researcher. More specifically, I think that he would have approved these two initiatives both in substance and in spirit. As to substance, the acute economic management problems facing resource-rich countries if they were build sustainable development, and the difficulties of later-comer industrialisation, were both key aspects of his work. As to spirit, the approach of reaching beyond an audience of fellow academics to build informed societies was surely dear to his heart.

Revitalizing the United Nations: Five proposals[3]

Prof. Dr. Dr. h c. mult. Sir Hans W. Singer

1 Relations between the Bretton Woods institutions and the UN

This question is specifically referred to in the General Assembly resolution requesting the Secretary-General to submit his report on an Agenda for Development and also in the draft report itself. It clearly has important institutional implications and is likely to be an important area of discussion during the coming years.

Legally the IMF and World Bank are specialized agencies of the UN and their Terms of Agreement provide for guidance by the UN General Assembly and ECOSOC. However this has clearly become realistic. The current practice of distinguishing a 'Bretton Woods system' from the UN System, although legally incorrect, reflects reality. The main reason why the financially powerful countries have shifted their support to the Bretton Woods (BW) System, and why their support for the UN system has eroded, lies in the different voting methods governing the two Systems. The Bretton Woods system is essentially based on the principle of one dollar one vote – voting proportionate to financial support – whereas the UN system is based on one country one vote. This gives the financially powerful countries control of the Bretton Woods institutions which they therefore consider as 'their own'. The UN system, after the first few years, now has a built-in majority of developing countries.

The preference for the BW system is rationalized on the grounds that these institutions are more effective and have recruited more skilled and competent staff. But, to the extent that this is true, it may be taken as a consequence of lack of support and lack of resources for the UN system. This creates a vicious circle: Alleged lack of competence leads to withholding of resources which in turn makes it more difficult to recruit and keep competent staff or undertake effective action which will then be taken as a reason – or pretext – to withhold resources. By Contrast, the BW System can be said to benefit from a benevolent circle.

We must assume that the unequal distribution of support and resources between the two systems will continue as long as this difference in voting systems persists. It is therefore suggested that thought be given to ways of moving the two voting Systems closer together, i.e. moving the BW voting system in the direction of the UN system, while moving the UN system in the direction of the BW system. It is realized that the UN system of one country one vote is embodied in the UN Charter and greatly treasured by the developing countries. But what is suggested here is not a unilateral abandonment of this voting system but a package: what the developing countries lose in the UN they would gain in the BW institutions. But the main point is that a rapprochement of the two voting

[3] "Revitalizing the United Nations: five proposals" was originally published in 1995 in the special edition of "ids bulletin" "Fifty years on: The UN and economic and social development", Vol. 26, No. 4, October 1995. Reprint by generous permission of the Institute of Development Studies (IDS).

Systems would induce the financially powerful countries to distribute their support and resources more evenly.

It is often claimed that the UN voting system is 'more democratic' man the BW system, but this is not entirely clear. The system of one country one vote gives equal voting powers to very large countries and to tiny countries, and thus discriminates against people in the larger countries. The UN Charter begins with the words: 'We the peoples...', not 'We the countries' or 'We the governments...'

There are some precedents for voting Systems which represent a compromise or combination of the UN and BW Systems. One example is in the Global Environmental Facility (GEF); another example is the proposed voting system in the World Trade Organization (WTO). In both these cases, the essential feature is a requirement that a majority both of member countries and of financial contributions is required. While this carries a danger of more frequent stalemates, it emphasizes the need for compromise between North and South and should give all concerned confidence that their interests are safeguarded.

It may seem Utopian to propose such a far-reaching change involving changes in the Charter and Terms of Agreements of the various institutions. However, the Suggestion is put forward here in the belief that without a change in the direction here proposed the present unsatisfactory distribution of support and the erosion of UN support is likely to continue.

Meanwhile, a number of smaller and readily implementable suggestions can be made to mitigate the erosion of the Status of the UN in relation to the BW institutions. It is dearly an anomaly that while the President of the World Bank and Managing Director of the IMF address the ECOSOC there is no reciprocity: the Secretary-General is not represented at the annual meetings of the World Bank and IMF and does not bring the views of the UN to the attention of the Directors of the Bank and Fund. There is no reason why the Secretary-General or President of ECOSOC should not be the voice of the UN heard at the annual meetings of the Bank and Fund and why in the documentation for these meetings the UN should not bring relevant decisions of the General Assembly and ECOSOC to the attention of the Directors. Moreover, the Bank and Fund might well be requested to submit an annual report to the General Assembly and ECOSOC to explain what attention they have paid to the resolutions of the General Assembly and ECOSOC, in accordance with their Terms of Agreement. The present Speeches by the President and Managing Director to ECOSOC do not fulfil this function -they are more in the nature of expressing their views about the current Situation and action required. There is no reason why they should not continue to have this opportunity, but it is suggested that the UN should have the same opportunity at the annual meetings of the Bank and Fund.

What is said above about the Bank and Fund would equally apply in future to the World Trade Organization.

2 A new integration of peace and development

The old dichotomy of emergency (largely connected with conflict today) and development becomes more and more questionable. The roots of conflict are not only military and political (within the man-date of the Security Council), but also (and more fundamentally) economic and social. This raises questions of preventive action (already touched upon in **Agenda for Peace**) and of the proposal to create an Economic Security Council contained in the 1994 issue of the UNDP Human Development Report and possible alternatives.

The proposal for an Economic Security Council would raise difficult questions, since it would create a new principal organ of the UN, it would require a change in the Charter, It would also raise questions of size and membership (although such questions might have to be faced anyway in connection with the present Security Council). Presumably there would be no veto in an Economic Security Council. Given the difficulties of creating an entirely new organ, perhaps priority should be given to considering alternatives. The simplest alternative would be to extend the mandate of the present Security Council to deal with 'threats to peace' also preventively and in the form of economic and social emergencies – before they erupt into actual military conflict. In fact this may not need a new mandate at all, but could be treated as a clarification of the present mandate – in that case it would not need any legal change at all. However it may be considered that such an extended mandate should not be subject to the present veto and non-military (not-yet military) threats to peace might be dealt with by a separate committee of the Security Council - a parallel to the present Military Committee.

The other alternative – also discussed in the **Human Development Report 1994** – would be to strengthen the capacity of ECOSOC to deal with such non-military threats to peace. For this purpose a special new high-level segment of ECOSOC could be created, with smaller membership than the present ECOSOC, and meeting in continuous session with periodic high-level meetings.

Whatever solution is adopted there is now a consensus that there is a gap to be filled. Agenda for Peace has drawn attention to the opportunities and need for preventive action in the case of tensions (often triggered by economic and social emergencies) which can be foreseen to carry acute dangers of military conflict. There is also a present gap in dealing with the other end of the development/emergency continuum. The question of reconstruction and rehabilitation after conflict should also be tackled by an Economic Security Council or whatever alternative is preferred. This may involve new relations with the Bretton Woods institutions, especially the World Bank. As indicated by its official title – International Bank for Reconstruction and Development – the World Bank was expected to be strongly involved in post-war reconstruction. In the event, this function did not develop, largely as a result of being overtaken by the Marshall Plan, and then withered away as a result or preoccupation of the World Bank first with specific development projects and later with structural adjustment programmes and debt collection. Perhaps the time has come to restore the reconstruction functions of the World Bank in close collaboration with whatever UN mechanism carries out the functions proposed for the Economic Security Council.

A special concern of the Economic Security Council (or its alternatives) should be the question of food security. The abolition of the World Food Council has created a gap and the problem is further accentuated by the GATT Agreement and the creation of the WTO. By general consensus, this will lead to a rise in international food prices and a reduction in food surpluses. Thus the need for food aid or other forms of providing food security for poor food-importing countries, especially in Africa, will in-crease, while at the same time the cost to donors of giving food aid will increase and surpluses will diminish, thus reducing the willingness to give food aid. This creates a Situation calling for inter-national vigilance and action which should be the concern of the UN in collaboration with the new WTO. Among the actions required would be the activation and enlargement of the International Emergency Food Reserve, including the pre-positioning of food Stocks in danger Spots in advance of actual conflict.

3 The need for global economic management

In the original Bretton Woods proposals global economic management was assumed to be in the United Nations (General Assembly and ECOSOC), Although at the time of Bretton Woods the UN did not yet exist (being created a year later at San Francisco) its creation had already been announced and the broad outlines of its organization were under negotiation. This impending arrangement was also reflected in the Terms of Agreement of the actually and World Bank which made them specialized agencies of the UN and provided for guidance by the General Assembly and ECOSOC. The IMF was visualized, with much larger resources than actually materialized, as a powerful instrument of dealing with financial, monetary, and balance of payments disequilibria, with an overriding objective of full employment, and with many of the functions of a world central bank. The World Bank was established on a project basis and not visualized as being involved with macroeconomic policies or structural adjustment problems.

In the event today, whatever macroeconomic global management exists has been moved out of the multilateral System altogether and is now in the hands of the G7. This cannot be acceptable as a satisfactory solution of the problem: the G7 represents little more than 10 per cent of mankind and even with the possible future addition of Russia it would still only represent a small minority. Moreover it is clear that the G7 – quite apart from insufficient attention being paid to the implications of macroeconomic measures for the rest of mankind, especially the developing countries - has not even proved able to promote satisfactory coordination among the 7. There is now spreading acceptance of the fact that global economic management must be made more democratic and move back in some way and to some extent to the multilateral framework visualized at Bretton Woods and San Francisco.

Simple measures have been proposed which would not directly involve the UN institutionally although they would be clearly welcome to the UN. The principal such measure is an enlargement of the G7 to make it more representative and effective, and to include such developing countries as Brazil (for Latin America), Nigeria (for Africa), India (for Asia), and Eastern Europe, perhaps on a rotating basis. The inclusion of Russia is already on the agenda.

There are however other proposals which would concern the UN more directly. One suggestion would be for the Secretary-General or his appointed representative to participate in the discussions of the G7, more or less as a spokesman for the majority of mankind now excluded and as a guardian of their interests. Another proposal is for the UN Secretariat to be involved in the preparation of documentation and agendas for the meetings of the G7, with a view to drawing attention to neglected areas, urgent problems, and particularly problems concerning the developing countries (such as the debt problem, deteriorating terms of trade, etc). Mr Sutherland, the then Director General of GATT, in a letter to the **Financial Times** (7 June 1994) has proposed that the new WTO, jointly with the World Bank and IMF, should 'evolve a single coherent Statement on issues of economic concern for the G7. It may be suggested that this would be a proper task for the UN (which need not exclude submissions by the IMF, World Bank or WTO, and should certainly involve consultation and collaboration with these institutions). The restoration of the objectives of growth and full employment, as well as the newly prominent objective of poverty reduction, should be the special task for the UN to keep in the forefront of the G7 discussions. The Implementation of decisions at the recent Social Summit should be brought by the UN to the agenda of the G7 and firmly kept there. The creation of an Economic Security Council (or the alternatives suggested above) would in itself serve to bring global coordination back to the multilateral forum where it was intended to be, at least in the area at the cutting edge of development and emergency.

4 Strengthening the resources of the UN

As previously explained, the question of resources is closely intertwined with questions of political support and competence. In the case of the UN this intertwined complex threatens to take the form of a vicious circle. This circle could be broken by reviving political support from powerful countries, perhaps at the price of a change in the UN voting system. Another way of breaking (he vicious circle is by giving the UN independent resources which would enable it to tackle the problem for which it has responsibility more effectively and promptly (and perhaps in doing so then elicit further support and contributions, thus breaking the vicious circle). In this connection, the possibility of providing resources for the UN from some form of international taxation is now increasingly raised and is now firmly on the international agenda.

Various forms of international taxation have been mooted. Perhaps a leading candidate for consideration is the proposal for a tax on international currency transactions. This has been supported most recently by the Nobel Laureate, James Tobin, in the **Human Development Report 1994**. Given the current huge volume of foreign exchange transactions, a very small tax rate would yield a large revenue – for example a tax of 0.05 per cent would yield $150 billion a year. Such a tax rate would be too small to deter genuine trade or capital movements, but it would have the merit – in addition to providing resources for international purposes – to deter disruptive speculative movements and to re-store greater autonomy both to national monetary policy makers and also to the IMF. This could be expected to result in greater weight being given to economic fundamentals and less to personal enrichment by functionless gambling. Other international taxes have been proposed including taxes on air travel exploitation of common resources such as the Arctic Seas, etc. A system of tradable permits for pollution would also lend itself well to help to finance international purposes including the UN (although the basic purpose of such proposals is to provide funds to compensate victims of pollution). This last proposal of tradable permits has the advantage of applying market principles ('the polluter pays'), thus helping to 'get prices right' by internalizing the cost of pollution. Given the present support for market orientation in important quarters, this idea should have some appeal and deserves serious consideration.

The idea of international taxation is by no means new. m his original memoranda in preparation for the Bretton Woods Conference, Keynes had pro-posed a tax on balance of trade or balance of payments surpluses, at the rate of l per cent a month. His idea was that this would be an inducement to surplus countries to increase their Imports thus helping in the achievement of the full employment objective. At the same time, the yield from this tax would provide resources for deficit countries enabling them to maintain their Imports, further contributing to full employment. At the time, this proposal vanished without a trace, but the present recurrence of unemployment, balance of payments disequilibria, and the need for finding resources for international purposes might serve to revive interest in this proposal.

Even without such novel instruments, UN resources could of course be increased if member countries paid contributions more promptly, if international commitments such as the 0.7 per cent aid target, commitments as a result of the Rio Conference resolutions, contributions to the International Emergency Food Reserve, etc were more fully and more promptly discharged. This would require concerted action by the contributors since otherwise we would face a 'prisoners dilemma' Situation, with each country waiting for the others to contribute.

There are also other latent international resources which could be activated and used for the benefit of international action, specifically of UN action. There is the power, unused since 1981, to issue Special Drawing Rights (SDRs) through the IMF. The Managing Director of the IMF is himself on record as advocating an issue of SDRs to the extent of $36 billion. If part of this issue could be reserved for international purposes, or alternatively if the richer member countries of the IMF could forego their quota of SDRs for the benefit of the UN or for other agreed international purposes, the problem of resources would be that much nearer to a solution. Similarly, there is latent international capital available in the gold reserves held by the IMF – the sale of some of these reserves is also increasingly suggested. Ultimately this comes back to the question of political will. Once the principle of International taxation or tapping of latent inter-national resources is accepted, the detailed forms of such taxation or mobilization should be amenable of international agreement.

5 Specific roles for the UN

The present role of the UN system in the narrower sense – excluding the Bretton Woods system – is now often defined as looking after the 'soft' parts of development: social factors, poverty reduction, employment, vulnerable groups, women, children, refugees, war victims, health, etc, while the Bretton Woods system would look after the 'hard' facts of development, i.e. money, finance, trade, as well as macroeconomic policies, dealing with debt problems etc. Such a division of labour between 'hard' and 'soft areas is also mentioned in the Secretary-Generals Report on an **Agenda for Development**. There would be a great deal of scepticism among development professionals about such a division of development issues into 'hard' and 'soft issues. Moreover, the implication that the hard issues are more important and the real core of development and require greater competence to deal with is out of tune with more recent insights into the development process. These recent insights tend to place increasing emphasis on human capital and human resources – presumably in the soft area – as distinct from physical Investment and financial resources presumed to be in the hard area. From that point of view, the UN system could be quite satisfied with responsibility for the allegedly soft part of development, provided that both parts were taken equally seriously and equally supported with resources. That however is not the case. Insofar as the soft parts of development – poverty reduction, health, education, etc – are taken as seriously as they should be, they are then undertaken by the Bretton Woods institutions which command the necessary support and resources and are presumed to have competence derived from their experience of dealing with the hard parts of development.

A good example is the field of technical assistance. Under the 'Kennedy Compromise' of around 1960, soft financial aid was allocated to the World Bank (IDA) while technical assistance and food aid were allocated to the UN (UNDP and WFP). The UNDP was supposed to be the chief funding agency and coordinating agency for technical assistance through-out the UN system. Yet today the World Bank gives as much or more technical assistance than the UNDP and the IMF is rapidly expanding its technical assistance operations without having to rely on funding from the UNDP. In an effort to restore the role of the UNDP, attention is now focused on enhancing the role of the UNDP resident representatives to that of UN coordinators or even UN ambassadors. Similarly, there is a parallel effort to place the technical assistance activities of UN agencies into a country-programming framework, devised and negotiated by the UNDP. All such proposals may improve the efficiency and coherence of UN technical assistance and enhance the role of the UNDP, but they do not solve the problem of relationship with the Bretton Woods system. To give the UNDP or UN representative the enhanced role aimed at, the Suggestion may be made that the UN coordinator should take part in the discussion of stabilization and structural adjustment programmes; perhaps representatives of specialized agencies should also participate. Some of these programmes have a crucial impact say on agriculture and health, and presumably the field officers of the FAO and WHO have more concrete country knowledge and competence than Washington-based macro-economists. (Similarly on the governments' side, one would wish for these negotiations not to be limited to ministries of finance and central bank officials but to include representatives of the ministries of agriculture, health, etc – but that is a matter for governments rather than the UN system.)

In pursuit of this greater coordination of technical assistance and operational programmes by the UN at the country level it has been proposed that all these programmes (UNDP, WFP, UNICEF, HCR, etc) should be merged into a single Institution. However, this proposal ought to be resisted. It could make matters worse by depriving UN operations even of some of the support which they now enjoy. Organizations like WFP, UNICEF, and others have established a clear identity of their own, their concrete purposes attract both political and financial support; they have backing in public opinion which in the long run may influence governments of contributing countries. It would be counterproductive to throw all this away by a merger into one large omnibus institution without the distinctive identity and distinctive appeal of the present agencies.

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