General Discussion: Luncheon Address

Mr. Fischer: Isn't there a need to economize on the number of administrative bodies you set up—there seem to be several of them in your design, which would be fine if there were an excess of people who could run these things, but there is typically a serious shortage of them. You probably need to simplify and find yourself 10 people whom you can trust. Doesn't that have to be a constraint?

Mr. Collier: That is why I'd like to put them both under the same auspices of the central bank. I'm frightened of putting all the functions in one fund, because I can see the liquidity fund has to permit withdrawals in times of need. If you permit withdrawals from the Sovereign Development Fund in times of need, it will be empty every few years.

Mr. Bergsten: Paul, I want to go back to where you started in your characterization of Africa. You are probably familiar with Steve Radelet's recent book, where he argues that 17 African countries now have achieved what he calls self-sustaining growth, 6 percent or more per capita for 10 to 15 years with another six to eight countries on the cusp. That group crosscuts with yours, but is that an accurate characterization? That says almost half the continent, which shocks people when they read that, have gotten onto a self-sustaining growth path. Does that put it too strongly?

Mr. Collier: We don't know. Africa is certainly growing. A lot has changed: political governance has changed; economic management has improved a lot—most manifestly at the macro level and that is very, very clear; but of course a lot of the continent is benefiting from commodity booms. Of course, growth rates are high. Whether that will be harnessed to sustain growth or just repeat a bout of growth depends upon these decisions going right.

There are other countries in Africa that are not resource-rich, which are also growing very well. Rwanda, where I was a month or two ago, is doing extraordinarily well. Rwanda is in this do-not-start-from-here category, as land-locked resource case. But it is a determined government, which knows it is either growth or catastrophe. They just managed to improve policies in a very determined and consistent way. And they have benefited from a neighborhood which is resource rich.

I gave a talk there where I suggested they might think of themselves as the poor man's Dubai, because Dubai is piggybacking on a very resource-rich, somewhat ill-governed region—not just the Middle East. The hotel I stayed at is normally 95 percent Russian occupied. So I said, "Rwanda, you have your Russia—some of you don't know African geography—Rwanda's Russia is the DRC (Democratic Republic of the Congo)."

Mr. Mohan: I have a couple questions on the mechanics of this stuff. If you have the rent from the commodities, presumably you see the government collecting those rents in taxes, supplemental taxes or whatever? Then they put them into Sovereign Development Funds. How is that different from the old idea of appointing planning commissions or a setting up of a development bank? The difference of course being the planning commission is all budget money. The Development Bank can then leverage the money it put from the budget. How is it different from any of those two ideas that have been there forever?

The second question is on investing abroad: The government would take the money before it comes into the country and that has some implication for exchange rate management; and how the current account would be managed? How does that work? I can't quite work that through.

Mr. Collier: You are quite right. The history of Development Banks is littered with catastrophe. But let me go back to that starting point. Big government in a resource-rich poor country is, I believe, inevitable. I do not see the politics of an incompetent government handing money out. I just do not see that as likely to happen. So there is no substitute but to build the capacity supported by decision rules, which makes public money to be well used.

The first step in that is to make it go on investment and not consumption, which has been the biggest mistake. The second is then to select investment projects well and implement them decently. Getting a body which is tasked with that is the best and then scrutinized by the critical mass of citizens who understand what it is for is the best that can be done.

Your point about putting money abroad takes us back to the debates about Dutch disease. Let me just say a couple words about that. The right way to tackle Dutch disease in these economies is to focus on investment rather than consumption, because investment has a high import content. Secondly, this "investing in investing" agenda, which I sketched, has as an objective to flatten that supply curve in the nontradable sector. Third, you can target some of the investment on lowering costs in the tradable sector. If you bring down transport costs for the tradable sector of the economy, it can withstand some appreciation in the exchange rate.

There is enormous scope for doing that in Africa, because the cost base for the tradable sector is so high. I tend to prefer that strategy to a strategy of undervaluation offsetting other policy areas. Ghana now is an example of a country where the other policy errors—not enough is being put on investment, very badly chosen investments, not targeted on the export sector at all—and the central bank is trying to offset that by sterilization. It is very expensive. For other reasons, the interest rate on government bonds is 13 percent. So the central bank is paying 13 percent on an undervalued currency, so there is a risk when it redeems those bonds they will be worth more. What is it getting? Probably 1½ percent. So it is a very expensive export subsidy.

And to whom is that export subsidy accruing? What is Ghana exporting? It is exporting gold, cocoa, and oil, all of which are booming. Instead of the rents from these things accruing to the government, it is subsidizing them. There are real limits to working through undervaluation in society.

Mr. Alshabibi: Thank you very much. This is just a short clarification. You were suggesting the Sovereign Development Fund to be managed by central bankers. How would this tally with the fact that central banking deals with the financial sector rather than the real sector? I assume a lot of investment would actually be long-term and, of course, this is in the real sector.

Mr. Collier: The reason why I think it might be appropriate is sovereign wealth funds are sometimes managed by central banks. This is a Sovereign Wealth Fund with one additional decision—whether to put domestically or abroad. So, it might be appropriate for the central bank to acquire some extra skills. Maybe the fund is an agency reporting to the central bank, rather than just being a normal part of it, but it is basically a sovereign wealth fund with one extra decision category. And Sovereign Wealth Funds do belong in central banks.