The Monfort Plan

The New Architecture of Capitalism

Jaime Pozuelo-Monfort
The Monfort Plan
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The Monfort Plan

The New Architecture of Capitalism

JAIME POZUELO-MONFORT
To the Extreme Poor

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In an article published in *This Is Africa*, the quarterly magazine of the *Financial Times*, Columbia University professor Jeffrey Sachs wonders whether world leaders would be courageous enough to invent and design new programs and institutions with the legitimacy and the engagement to pull the world out of and away from the current crisis and target a more fair and sustainable future. A new architecture is the only path toward a better world that we dream of, a utopia (universal welfare state).

So far, world leaders have not been courageous (although there have always been exceptions—leaders who have had to pay a high price, sometimes compromising their own lives), and the peoples have not been motivated to stand up and rebel. In fact, we have been spectators, impassive eyewitnesses. Aid funds were substituted for loans; international cooperation for exploitation; and democratic multilateralism for plutocratic groups from the most prosperous and developed countries. Worst of all was (before a total absence of reaction capability) the substitution of the values for which we had fought hard so many years, for the laws of the market. These plutocratic groups squeezed the United Nations, and the globalizers declared and started an unbelievable race to increase weaponry stocks (for past wars, by the way). The result is an economy of war ($3 billion is spent every day on arms whereas 60,000 to 70,000 individuals starve to death), a virtual economy based on an unbridled speculation with no regulation. In 1991, I wrote, “with the Berlin Wall a system has sunk in which equality had forgotten freedom. Now, if the system does not change radically, the alternative system based on freedom that has forgotten equality will also fall.” And both systems had forgotten justice.

As could be expected, capitalism has now also sunk . . . but it has been rescued. We must be on alert, because we could forsake a great opportunity and accept one more time that the rescued do not rescue those who suffer from hunger and thirst. It is time for the rebellion of the masses, peacefully, quietly, with tenacity, to transition from a saturation economy that includes 20 percent of humanity (the prosperous district of the global village) to a global economy of sustainable development, which in addition to improving the livability of the planet increases its number of customers.

“Extreme poverty originates and perpetuates,” writes Jaime Pozuelo-Monfort, “because developed countries have failed to reform the six components of the Axis of Feeble, an Axis that must be defeated in an intellectual war that uses the Weapons of Mass Persuasion. The six components of the Axis of Feeble are: agriculture, trade and labor rights, small arms trade” (what about the big ones?) “extractive industries, financial architecture, and brain drain.”

Numerous wars of the past defeated the Axis powers and the East Powers, and current wars—based on lies and simulation—try to defeat the so-called Axis of Evil. The Axis of Feeble is maintained thanks to the hard work of the Pirates of Heartless Capitalism and the Bretton Woods Elites, who have been serving the plutocrats and
who, if things do not change, will use their propaganda instruments to oppose a paradigm shift.

In the first part of his autobiography, the American diplomat George F. Kennan noted, “We of this generation did not create the civilization of which we are part and, only too obviously, it is not we who are destined to complete it. We are not the owners of the planet we inhabit; we are only its custodians.” We will not defeat the Axis of Feeble if all custodians do not become active passengers and not mere spectators.

The Monfort Plan is of particular interest because now that the peoples can have an active virtual participation, each and every one of us can begin and take off on the journey of a lifetime. The Monfort Plan is designed, with astonishing imagination, to attract many readers and individuals to key issues for the future of the planet and humankind. It is through education that the average citizen can increase her or his level of consciousness. Only if, as a society, we widen our cognitive space will we be able to compare and be motivated to work without pause for the benefit and sake of future generations.

It is urgent that we accomplish decisions when dealing with questions and processes that, because of their very own nature, are potentially irreversible. Years ago, I stressed the importance of this “ethics of time,” because we can reach levels of no return in social issues (migratory flows, radicalization of those who have time and again seen unfulfilled promises that were previously formulated), as well as in environmental issues.

We are approaching a tipping point as a global society. We must become women and men capable of inventing a new tomorrow. The creative capacity, this mystery, is our hope. Jaime Pozuelo-Monfort has identified 100 Expert Dreamers, disciples of Roosevelt and Marshall, of Clayton and Kennan, of Monnet and Schuman, who can serve the global public interest. The Expert Dreamers will defeat the Axis of Feeble and the Pirates of Heartless Capitalism with their wisdom and intellectual strength.

The inhabitants of the blue planet, its custodians, must recover the courage of the visionaries of the 1940s and 1950s, who created an architecture that changed the world for good. Today’s dominant oligarchies have been incapable of embracing change and have been driven by inertia, the great enemy of progress. Certain financiers and entrepreneurs—“because of their greed and irresponsibility,” in the words of President Barack Obama—have led us all to this multifaceted crisis (financial, geopolitical, food-related, ethical, and democratic) and to a geopolitical situation absolutely paradoxical and overwhelming: China is the world’s most capitalist country and Pakistan is a nuclear power! While the guidelines of Reagan and Thatcher were inexorably implemented, the world remained silent. Now, with a perplexed and irritated world, it is very likely that the scientific, academic, and intellectual communities will lead this transition from the force to the word.

We must start living a life with a different look, in full color. We must, one more time, dream and love. The Sleeping Beauty must wake up and rescue the Forgotten Continent. The American Giant will fall in love, one more time, with the Sleeping Beauty.

As it is so beautifully advocated by the Earth charter, it is necessary, in this beginning of the century and the millennium, to initiate a new order, “a new beginning.”

FEDERICO MAYOR ZARAGOZA
Former Director General of UNESCO (1987–1999)
January 2010
Today’s world is a world of increasing inequality, poverty, and despair, a world in which the current players are incapable of coping with a reality that is too rough to acknowledge, too uncomfortable to deal with, and too disproportionately harsh to face. Thirty plus years of development aid have proven ineffective. The major international players in the financial arena are incapable of providing solutions. The Bretton Woods era is gone and the so-called Washington Consensus is a mere reflection of what it once was. We are living in a new world, a new reality where the Cold War and Reagonomics no longer exist, and where globalization and unilateralism have gained relevance as drivers of the first years in the twenty-first century.

The private equity shops and hedge funds of the world acquire major relevance in a financial landscape that is more and more sophisticated and hard to understand and cope with. This is especially true for a majority of individuals in the developed and developing worlds, who no longer control their financial stability, as it is subject to international traders, hedgers, brokers, and speculators. Microfinance is claimed to be the most important tool devised to fight against poverty in the last 30 years, but it only reaches a fraction of the extreme poor. New financial services for the poor do not arise because the poor have no collateral, and because the poor lack the ability to earn, save, and repay. Western financial institutions are timidly entering emerging markets to offer financial services, and are more often investing and de-investing to speculate on the short-term and earn positive returns above the benchmark that beat the market. In the meantime, the price of basic food skyrockets because of the turmoil in the oil markets, and because the West needs to satisfy its hunger for energy with alterative energy sources, namely biofuel.

A world based on the maximization of economic profit, in an extreme derivative of capitalism led by the wealthiest, is leaving equity and global justice behind. By failing to incorporate redistribution to the global agenda, this economic basis forsakes the poor, leaving those with no safety nets to the mercy of the better-off and the corporations—both of whom claim to have become sustainable and responsible with their philanthropic activity, reaching a point of equilibrium where they will stand for years to come.

It is, however, time to change the course of this journey and admit that capitalism is not heading in the right direction. We need more regulation. We need Institutions to be above Markets, we need to protect the more vulnerable with Global Redistribution schemes and welfare systems that enable the incorporation of the poor to the benefits of the lifestyle enjoyed in the West (underlined terms will appear throughout this book and are included in the two-page figure located between Chapter 15 and Chapter 16, which summarizes the New Architecture of Capitalism. Readers are encouraged to identify the terms in the two-page figure as they are found in the text, so as to understand step-by-step the New Architecture of Capitalism).
We need to provide the basic infrastructure to those who lack it, so that the poor get on the ladder of development and become economically self-reliant once and for all. Investors have to start looking at the social return of their investments. Investors have to start computing the collateral damage of some of their investment decisions, which are sound economically speaking in the short term, but bring about calamity and turmoil in the long run. Consumers have to start discriminating among products, and penalizing those manufacturers who are not ethical and sustainable, thereby rewarding those who strictly comply with a set of internationally established standards. These standards must define an ambitious agenda to ensure the respectful treatment of the environment and humankind.

There is a trend that needs to be accelerated. Muhammad Yunus won the Nobel Peace Prize in 2006 for his contributions to fighting poverty through microfinance. Albert Gore won the Nobel Peace Prize in 2007 for his activism against Global Warming. Society acknowledges the efforts of key individuals who have decided to fight the world’s most serious threats. But the trend has to be accelerated. We need our politicians, corporate leaders, and investors to become aware of the challenges of an unequal world. We need our politicians, corporate leaders, and investors to make every effort toward sustainability.

A NEW GENERATION

I believe I belong to a generation that has to step forward and lead the change of approach to politics, corporate strategy, and finance. It is a new approach that has to come from the very roots of the society and from the society’s own citizens. These citizens must stand up for sustainability; they must stand up and denounce unethical behavior among politicians, corporate leaders, financiers, and money managers. The pressure of those who vote, the pressure of those who buy and invest is a Trojan horse with the potential to boost and accelerate a trend some have timidly started to adopt.

I become multidisciplinary to better understand a complex world in which solutions to problems are no longer easy. I become multidisciplinary to consensuate approaches to the crises we face, to hear experts from different disciplines, and to reach agreement with the leaders of society. I become multidisciplinary to communicate and expose the problems—our problems—and to propose and engineer solutions to social problems. In doing so, I hope to contribute to making of this world a place where our children and grandchildren can live comfortably regardless of where they are born or where they choose to settle.

I am a hunter of impossible dreams, an explorer of the twenty-first century, a consultant of the twenty-second century, and a representative of a forward-looking mentality that is not anchored in the ideas of the past. I am an inhabitant of Decemland, the land of 10 percent. I am a dreamer who loves and a lover who dreams. This mentality is one that asks why not instead of why, prefers alternative to continuous, and prefers to start from scratch rather than persist in pursuing the wrong path.

The academic and professional trajectory I have decided to pursue is as unusual as my ideas, but it is not less appropriate for that reason. The unusual and non-standard has the ability to innovate and make a difference. Innovation sets the new forward-looking trend to be followed by the standard approach, by those who argue
the default logic should become little more than an input assumption to understand the rationale of why we move in a certain direction.

I look around and realize I am obligated to be a social entrepreneur, because those around me lack the ability or the energy to react. It is my responsibility to continue deepening my knowledge, because my energy and enthusiasm are a gift that I have been given for the purpose of awakening in others the necessary realizations. We must abandon the de-facto thinking process and shift our focus to more important issues, to another dimension concentrating on the welfare of all and not only of a fraction of the global population. My desire to change is a reflection of all of us, many of whom do not dare to move. I am not afraid to lead. I am not afraid to suggest change. I dare, therefore I am.

Changing today’s reality of finance for development requires creativity, the ability to propose unheard-of mechanisms within the developed world and to implement them via public policy. The public administrations of the developed economies have been so far incapable of taking the current level of development aid to the next level. It is no longer a matter of devoting the 0.7 percent of a country’s gross domestic product (GDP) to development aid, which most developed economies do not even fulfill to date. It is, rather, about setting mechanisms in place able to considerably raise the amount of funds available for development. This must be executed in a consistent and sustainable way, so as to make a significant impact on our ability to radically change the basic infrastructure in extreme poor countries.

In this context, my aim is to offer an alternative to today’s economic architecture: an alternative with a different color and flavor, an alternative able to suggest—from a profound understanding of today’s complex economic and financial reality—public policies exclusively centered in coping with the increasing gap in income and inequality between rich and poor nations, a niche player in the fields of economic development and finance for development.

The political class in Europe is static and anchored in past issues, which although once important in essence and nature, will not take Europe a step further and make it the leading power of the first half of the twenty-first century. Europe needs a new generation of public administrators, consisting of those who are truly European, understanding of Europe’s multicultural reality, but also of Europe’s set of values. These values are rooted in the conception of universal rights of Health Care and Education, in a society centered around the idea of a welfare nation-state.

I belong to a generation that has not undergone war. I belong to a generation that has seen Europe grow larger and more stable, and continue to expand and integrate. I belong to a generation that has for the first time lived in different parts of Europe, made international friendships, and learned not only the language, but also the culture of each country of residence. I am, first and foremost, European.

I believe a new set of revolutionary ideas will depart from the young, enthusiastic individuals of my generation. I am ready to step forward and become part of that generation of leading contributors to a changing world, and I have a plan for change.

IT IS TIME

For years, the neoliberal economic principles based on Milton Friedmann’s work and the Chicago school tradition have emphasized that the results of Adam Smith’s
theory of the invisible hand maximize the aggregate welfare of society based on an individual’s pursuit of happiness. This approach reinforces the greed and the unsustainable quest for economic profit that lack regard for basic human dignity and the environment. This greed is behind the 2007 to 2008 financial crisis of Wall Street bankers. Regulation is only a first response to a deeper problem dwelling in the very roots of capitalism.

Robert Bates, a professor of government at Harvard University, emphasizes that economic reform is strongly attached to democratic reform, inferring that the former is only possible if the latter occurs (Bates 2004).

In their book *For the Common Good*, H.E. Daly and J.B. Cobb (1989) point out, “The axiom of greed must be rejected because real people, unlike Homo Economicus, are not insatiable.” They add, “The view of Homo Economicus derived from anthropology and still underlying the existing discipline is radically individualistic,” concluding, “Society as a whole is viewed as an aggregate of such individuals” (Daly and Cobb 1989).

Economic growth has been emphasized by the political, economic, and corporate elites. This economic growth failed to incorporate the sustainability clause. Natural resources are finite. The depletion of natural resources harms the environment and the viability of capitalism in the long run. Sustainability comes into play in a new economic paradigm. Marcel Jeucken (2004) describes sustainable development as a triple bottom line that includes the three Ps: people, profit, and planet.

Once upon a time in 1944, in a small town in New Hampshire called Bretton Woods, the economic elite of 44 nations met to determine the skeleton of the subsequent economic and financial architecture. Such economic architecture would aim at avoiding the pitfalls of the interwar period, which led to the emergence of Nazi Germany and the eruption of World War II. Those times are no longer representative of the current climate. Today’s challenges are of a different nature. They include extreme poverty, inequality, widespread disease, conflicts that are exacerbated by the availability of weaponry, corruption, money laundering, and tax evasion, all of which contribute to the persistence of unethical behavior in today’s capitalist economies.

It is time to look beyond the present tense to imagine the kind of world we intend to devise for 2050. The Bretton Woods Elites represent an older generation of retiring baby boomers who have proven ineffective in dealing with the problems of our time: extreme poverty, environmental sustainability, human dignity, and climate change.

It is time to transition from the old paradigms and consensuses to new approaches. The transition has to ensure the whole of society and its operating mechanism turns sustainable, thus being respectful of basic human dignity and the environment. In order to accomplish this, the transition must also propose international standards fulfilled by nation-states and design new institutions with the ability to provide Global Public Goods, which work based on the principle of Global Redistribution.

We lived a fairy tale that is over. We were part of a Western society that slept a beautiful dream. I decided to wake up to the reality of an unequal world and realized that our current economic institutions are ineffective. The European Union as Sleeping Beauty must wake up and assume a historic responsibility it owes to the African continent and the United States and lead the path toward a New Paradigm, financing the change, and proposing and executing reform.
On the quest to find the Expert Dreamers of today who will help build a new capitalism, I interacted with thousands of individuals throughout Europe, the United States, and the developing world.

I met Rodrigo de Rato Figaredo (FMN) in June 2008 at the Lazard branch office in Madrid (Spain) (names in bold throughout the book belong in the category of Expert Dreamers, and three letter initials correspond to organizational areas). In March 2006, I sent Rodrigo a letter with some of my thoughts for a redefined capitalism. Rodrigo was Spain’s finance minister from 1996 to 2004, and managing director of the International Monetary Fund from 2004 to 2007. The letter was part of a group of 10 letters that I sent to the following individuals besides Rodrigo: Joaquin Almunia, Raymond Baker, Josep Borrell, Jimmy Carter, Bill Clinton, Hernando De Soto, Susan George, William Greider, and Jeffrey Sachs.

At the end of our meeting, I gave Rodrigo a paper I had finished a few days before in the class “The European Union and the Challenges of the Twenty-first Century,” which I took at Columbia University in 2008. I finished the paper in May 2008. Subsequently, I mailed a copy of the paper and a letter to the European Union’s 27 Commissioners and to President José Manuel Durão Barroso in an attempt to tell these important leaders that it is time. It is time to move ahead. It is time to never give up and to fight the great evils of our time. It is time to start materializing utopia, to start dreaming of the History of Tomorrow.

We need to become, one more time, men and women of stature and embrace the vision of the great men of the twentieth century. We need to become disciples of Marshall and Truman to defeat, once and for all, the great evils of our time. There is a Window of Opportunity. There is no other exit out of the crisis. Let the Glorious Forty begin.


JAIME POZUELO-MONFORT
January 2010

A note about the artwork in The Monfort Plan: Artwork is credited as follows: Richard Cole illustrated Chapters 1 to 5, Claudio Muñoz illustrated Chapters 6 to 11, Andrzej Krauze illustrated Chapters 12 to 15, Bill Butcher illustrated Chapters 16 to 20, David Bromley illustrated Chapters 21 to 25, Mike Luckovich illustrated Chapters 26 to 30, Nigel Holmes designed the Summary Figure featured in the central pages, Peral designed the African map featured in Chapter 19, and finally, Joe Cummings illustrated the Who is Who in The Monfort Plan featured in Chapter 29.
The time of international crisis in the financial markets; the ongoing food shortage triggering riots among the extreme poor; the failure of the Doha Round and the inability of the World Trade Organization to sell a framework of multilateral agreements in which the European Union and the United States are not willing to give up their agricultural subsidies; the questioned role of the International Monetary Fund; the politicization of the World Bank in the post-Wolfensohn era; and the increase of inequality and extreme poverty numbers on a global scale put us in a scenario in which a new economic paradigm is necessary—a new consensus able to substitute the old-fashioned and virtually dead Washington Consensus.

It is time to embrace the problems of today, of our generation, and to remind our politicians that extreme poverty and hunger are behind many of the relevant issues they have to deal with today in their foreign policy agendas. Chapters 1 to 5 propose a new consensus and explain what a paradigm shift should involve. They also explain, in detail, the impact of globalization on poverty, the reality of aid, and recent trends in income inequality and income distribution, as well as introduce Global Redistribution as a first step prior to the creation of Global Public Goods and a Universal Welfare.

After reading Part I, the reader should understand why a New Economic Architecture is necessary in today’s environment. A New Economic Architecture involves reforming six key areas that originate and perpetuate poverty. Without reform, the North and the South will never be on the same page. Before we start writing the History of Tomorrow, it is essential to depart from a Page One that is representative of everyone on the globe.
A NEW SAPLING IN BREITON WOODS

Artwork by Richard Cole.
CHAPTER 1

Bretton Woods and the Washington Consensus

To have one’s name not known at all is to confront a barrier that can be broken through only with much effort and luck. To become known, on the other hand, too widely—to become known, in particular, as having something to offer that a great many people want—is to step out onto the slippery path that leads to fragmentation of effort, hyperactivity and—eventually—sterility.

—George F. Kennan, Memoirs 1950–1963

Seven hundred and fifty delegates from 44 nations met in Bretton Woods, New Hampshire (United States), in July 1944. The meeting designed a new international financial architecture that could help reconstruct a devastated Europe and foster world trade after the protectionism that emerged in the interwar period 1918 to 1939, and more precisely in the Great Depression that followed Black Monday of 1929.

The Bretton Woods summit was the successful beginning of a phenomenal creation process that designed from scratch the International Bank for Reconstruction and Development, which would later become the World Bank, and the International Monetary Fund (IMF); resurrected the League of Nations to create the United Nations (San Francisco, 1946); and started the General Agreement on Tariffs and Trade (GATT 1947) that would later become the World Trade Organization. The Bretton Woods summit also fostered an environment in the United States in which the Economic Recovery Program for European Reconstruction (Marshall Plan) could be widely agreed upon by the political elite and explained to the American electorate.

The World Bank and the International Monetary Fund awarded a majority vote to the economic powers of the time. The voting power has not shifted ever since. Today, Belgium has more representative power than India in the World Bank. The United States has veto power in the International Monetary Fund. Both institutions are based in Washington, DC, and subject to political bias and interference of the U.S. administration.

The president of the World Bank has traditionally been an American. The managing director of the International Monetary Fund has traditionally been a European. The United States and Europe have monopolized the institutions since their
creation. The presidents and managing directors of both institutions have exerted their personal operating approaches to development aid from the institutions they represent. Well-known World Bank presidents Robert McNamara (1968 to 1981) and James Wolfensohn (1995 to 2005) fought poverty in different, relatively successful ways. World Bank presidents in the 1980s and early 1990s applied lending policies that were biased by the ongoing Cold War between the United States and the Soviet Union. They fostered economic regime changes from socialism to capitalism in many developing countries triggering episodes of negative growth and exacerbating conflicts between Marxist and right-wing guerrillas.

The term Washington Consensus was coined by the economist John Williamson. Williamson is now promoting a revised version of his consensus, hoping to leave behind “the stale ideological rhetoric of the 1990s” (Clift 2004). In a 2002 speech entitled “Did the Washington Consensus Fail?” Williamson, an economist at the Peterson Institute for International Economics, enumerated “the ten reforms that I originally presented as a summary of what most people in Washington believed Latin America ought to be undertaking as of 1989”: fiscal discipline, reordering public expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment, privatization, deregulation, and property rights (Williamson 2002).

In an op-ed published on the International Monetary Fund’s Review of Finance and Development, Jeremy Clift (2004) summarized his vision beyond the Washington Consensus. Clift reckons that the term Washington Consensus “became a lightning rod for those disenchanted with globalization and neoliberalism or with the perceived diktats of the U.S. Treasury.” Clift adds, “Around the world 10 middle-income developing countries experienced major financial crises between 1994 and 1999 that damaged living standards and, in some cases, toppled governments and left millions worse off.” The bailout packages of the IMF proved unsuccessful in repeated instances. The macroeconomic conditionality attached to many bailout packages of the IMF and certain loans of the World Bank only deepened the poverty trap of many developing countries.

In 1996, Michael Camdessus, who then headed the IMF as managing director, pointed out, “Even though the monetary system had changed since 1944 the goals of Bretton Woods were as valid today as they had been in the past” (Dammasch 2000). The fellow French native Dominique Strauss-Kahn was appointed managing director of the IMF in 2007 with the support of French President Nicolas Sarkozy. Unlike the French visionaries of the 1950s, Robert Schuman and Jean Monnet, Camdessus and Strauss-Kahn seem to be determined to perpetuate the current status quo.

According to J. Barkley Rosser and Marina Vcherashnaya Rosser of James Madison University, the Washington Consensus took for granted that inequality would be fundamentally positive for economic growth and prosperity. Inequality was to be promoted in the post-Soviet world that followed the fall of the Berlin Wall in 1989 as an expected yet desired outcome. The James Madison scholars conclude, “We also now see that income inequality itself may well play a role in increasing the size of the underground economy through social alienation and general dislocation, especially in conjunction with macroeconomic instability” (Rosser and Rosser 2001).

The Bretton Woods institutions are in serious need of reform. The Washington Consensus is virtually nonexistent. Out of Williamson’s 10 requirements, fiscal discipline and property rights are the only two that would hold sway in today’s
environment, although fiscal discipline has been undermined by Western democracies that have run exorbitant deficits in the aftermath of the 2008 economic crisis during the Great Recession. Since 2000, a handful of goals, rounds, and consensuses have proliferated in the international arena, but none have become the new de facto approach to be embraced by both the developing and the developed world. The variety of consensuses is presented hereafter.

**THE MILLENNIUM DEVELOPMENT GOALS**

In 2000, the 189 members of the United Nations unanimously approved the Millennium Development Goals (MDGs), a set of eight goals primarily related to education and health. The men behind the definition and successful approval of the eight development goals were Kofi Annan, a native of Ghana and former secretary general of the United Nations, and Jeffrey Sachs, an American professor of economics at the Earth Institute of Columbia University.

The eight goals are ambitious and set a 2015 deadline for fulfillment. Generally speaking the goals were on their road to completion in most areas of the world prior to the 2008–2009 economic crisis, with the exception of sub-Saharan Africa, where not only were many countries not approaching fulfillment of the goals, but they were actually worsening it. The economic crisis slowed down the progress. The goals are financed by an increase in the allocation of foreign aid through innovative financial instruments such as debt relief to the Heavily Indebted Poor Countries (HIPC) or investment vehicles such as the Global Fund for AIDS, Malaria, and Tuberculosis.

According to the report *Millennium Development Goals at Midpoint*, global progress has been outstanding on income poverty thanks to the high performance of mostly Asian countries. The global income poverty target should, thus, be reached. Other regions in the world are either less concerned by the MDGs, possibly because they are made up of mostly middle-income countries, or performed poorly, most notably sub-Saharan Africa (Bourguignon, Benassy-Quere, et al., 2008).

The MDGs are arguably a result of the development conferences in the 1990s. For Karen A. Mingst and Margaret P. Karns, “Those conferences stimulated research, introduced new ideas and approaches, and energized Civil Society on human development issues.” The authors conclude, “Consensus on the need for new forms of cooperation and partnerships does not guarantee success of the effort” (Karns and Mingst 2007).

There are two question marks regarding the MDGs. First, they demand an increase in aid without increasing the monitoring of its spending, nor the accountability on behalf of both the donors and recipients. Second, they do not seek to eliminate the roots of extreme poverty, which often require reform in the industrialized countries. The roots of extreme poverty are explained in Part II of this book (The Axis of Feeble). However, the MDGs are only a first step in the right direction. They represent a noteworthy accomplishment that puts developed and developing countries on the same page and acknowledge the urgency of tackling the shortage of education and health-care coverage in a majority of extreme poor countries.

It is unlikely that the MDGs will be accomplished by 2015 in the current state of affairs. The development community is in need of new ideas that may contribute to the fulfillment of the goals and reach further faster.
THE MONTERREY CONSENSUS

On March 21 to 22, 2002, the heads of state met in Monterrey (Mexico) to move forward in the financing for development agenda. The original purpose of the summit is summarized by the second paragraph of the summit memorandum (United Nations 2002):

We the heads of State and Government, gathered in Monterrey, Mexico, on 21 and 22 March 2002, have resolved to address the challenges of financing for development around the world, particularly in developing countries. Our goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system.

In a subsequent joint summary paper, the World Bank and the IMF concluded, “Overall the results of the conference are quite positive, creating a powerful momentum to put development at the center of the global agenda and arguably reinvigorated an international partnership for development” (IMF 2002).

The Monterrey summit proposed leading actions that included the following (United Nations 2002): (a) mobilizing domestic financial resources for development; (b) mobilizing international resources for development (foreign direct investment and other private flows); (c) enhancing international trade as an engine for development; (d) increasing international financial and technical cooperation for development; and (e) reducing external debt.

A 2005 report by the World Economic Forum entitled “Building on the Monterrey Consensus” (WEF 2005) examines “how public-private partnerships can best be harnessed to extend the reach and effectiveness of aid to address international and national development challenges,” exploring the cooperation between the public and the private initiatives in the provision of basic services such as Water or Sanitation. A majority of poor countries are still largely underserved in the areas of water and sanitation, a gap that public-private partnerships have been incapable of filling effectively.

In October 2007, the United Nations Economic Commission for Africa released a report entitled Perspectives of African Countries on the Monterrey Consensus (UNECA 2007). The survey sent 106 questionnaires to African policy-makers, out of which 57 were returned from 32 countries in Africa’s five sub regions. According to the survey: “Respondents identified the mobilization of international resources and domestic resource mobilization as areas where progress has been very limited” (UNECA 2007).

Six years later, the participants in the Monterrey summit met in Doha (Qatar) between November 29 and December 2, 2008. The Doha Declaration on Funding for Development aimed at following up on the progress built up by the Monterrey Consensus (United Nations 2008a). The Doha summit took place only three weeks after G20 countries met in Washington, DC, on November 15, 2008, to discuss financial reform. The conclusions of the Doha summit reaffirm the Monterrey Consensus “in its entirety, in its integrity and holistic approach, and recognize that mobilizing financial resources for development and the effective use of all those resources are
central to the global partnership for sustainable development, including the support of the achievement of the internationally agreed development goals, including the Millennium Development Goals” (United Nations 2008a).

Susanne Soederberg, an associate professor of global political economy at Queens University, points out, “The basic assumption of the Monterrey consensus, substantial poverty reduction, is more about disciplining the poor to accept the dictates of neoliberal domination than creating a more just world” (Soederberg 2004). Failed agendas, lack of economic reform, and inability to engage the Civil Society, are all symptoms of a backward-looking perspective, which does not foster an environment that facilitates the adoption of new economic principles. The recent history of the development community is a concatenation of summits and conferences that issue the same diagnosis, emphasizing the same economic indicators, and that use the same economic jargon. All are indicative of a lack of willingness on behalf of the Lobbies and Elites, the better off. All are further indicative of a lack of imagination on behalf of the policy-makers of our time.

THE FAILED DOHA ROUND

The General Agreement on Tariffs and Trade (GATT) was signed in 1947 in the constructive environment that was started at the Bretton Woods conference. GATT’s main purpose was to foster international trade after the protectionism that emerged in the 1930s. In 1995, GATT became the World Trade Organization (WTO).

Subsequent trade rounds have embraced an agenda that pushes for the elimination of barriers to trade or tariffs. Trade theory shows that producers and consumers maximize their economic benefit if tariffs are eliminated. But tariffs are also used as a political and economic weapon in the developed and developing worlds with a variety of goals such as protecting national agriculture, farming, or the manufacturing industries.

Trade agreements can be bilateral or multilateral. The WTO has stressed the importance of negotiating multilateral trade agreements, in which all WTO members are subject to the same conditions. Bilateral trade agreements include the well-known notion of most favored nation, in which an importer country, for instance the United States, decides to lower tariffs on the products or services imported from an exporting country, such as Colombia.

Since the formation of GATT, the world has undergone nine trade negotiation rounds. In each trade round, WTO members meet to reach agreement on the elimination of tariffs aiming at increasing international trade. The first negotiation round took place in Geneva in 1947. The longest negotiation round, the Uruguay Round, lasted from 1986 to 1994. The last negotiation round, known as the Doha Round, collapsed in 2008.

The Doha Round failed to reach consensus in key areas related to the elimination of tariffs in agricultural and farming produce. Developing countries refused to continue discussing the reduction and elimination of tariffs on agricultural and farming produce if the European Union and the United States maintained their subsidies. Subsidies are a de facto trade barrier, acting as a deterrent to the produce originated in the developing world, whose price, in spite of being more competitive, cannot compete with the subsidized European or U.S.-based food staples.
Within the European Union, the ongoing battle to defend or attack agricultural subsidies has involved the French president Nicolas Sarkozy and the European Union’s former trade commissioner Peter Mandelson. Sarkozy is an advocate of subsidies, which he justifies based on the protection of the French countryside that, some argue, would literally disappear if subsidies were eliminated. Some policy-makers in Brussels talk about food security, increasing the priority of raising crops locally to avoid food shortages that could endanger the provision of food staples within the European Union’s borders. Peter Mandelson, along with the French WTO director general, Pascal Lamy, has strongly argued for trade liberalization based on the advantages claimed by trade economists.

The European Union spends 40 percent of its budget (about 1 percent of Europe’s gross domestic product) in subsidizing agriculture and farming. This amount is a multiple of the overall funding available for development in the developing world. In the meantime, the reality of international trade is turning sour. Developed and developing nations are more and more protecting their own markets, forsaking David Ricardo’s theories that discovered the wonders of specialization.

We forgot to grant an opportunity to the products that are competitive in many low-income countries. Eliminating agricultural subsidies would carry a huge political cost, which French politicians are not ready to assume. The rice lobbies in the United States are powerful and well connected and would put tremendous pressure on the Obama Administration and its trade representative if subsidies were reduced or eliminated.

Trade theory works on paper, but does not work in reality. The United States bailed out its auto sector to protect its uncompetitive car industry. For years, U.S. automakers forgot to focus on fuel efficiency and continued to manufacture popular SUVs that could continue to run on cheap oil. In 2009, thousands of workers in Michigan risked losing their jobs. Based on trade theory, the United States should focus on sectors in which it is more competitive, including biotechnology, communications, and education. But it will not because forsaking its autoworkers carries a collateral damage of incalculable cost, which economists forgot to incorporate with their models.

This book is about incorporating the collateral damage of Western policies and determining their impact. This book is about reforming in key areas that carry much collateral damage, originating and perpetuating an avoidable poverty trap.

International trade is important. But human dignity and the respect of the environment are more important. David Ricardo and Adam Smith were right three hundred years ago. Their constrained views1 ought to be left behind or complemented, in a globalized world that facilitates financial and trade flows, but forsakes migration flows of unskilled labor, which would flood Europe and the United States with millions of individuals, and harm the social fabric of many developed countries.

**THE COPENHAGEN CONSENSUS**

In March 2004, the British Magazine *The Economist* published an article that raised the following question: “What would be the best ways to spend additional resources on helping the developing countries?” (Economist, 2004a). The article reviewed the effort led by Danish economist Bjorn Lomborg, author of two best-selling books

Lomborg’s argumentation is known as Copenhagen Consensus. Williamson’s Washington Consensus focused on 10 key areas back in 1989. Lomborg’s key areas include air pollution, conflicts, diseases, education, global warming, malnutrition and hunger, sanitation and water, subsidies and trade barriers, terrorism, and women and development.

Every additional consensus departs from where the previous one left off. Lomborg’s Copenhagen Consensus includes déjà-vu areas such as education and health care. Jeffrey Sachs’ Millennium Development Goals already incorporate disease prevention and treatment, education, malnutrition and hunger, water and sanitation, and women and development. The diagnosis of the problem is more often shared by experts, who continue to fail to propose policies that can then translate into action and be implemented. The value chain of the idea is broken halfway because of a lack of innovation, a lack of persuasion, or the unwillingness of our political elites to embrace new and creative policy-making.

The punch line of *The Economist*’s article stresses the importance of smart spending. “How should a limited amount of new money for development initiatives, say an extra $50 billion, be spent?” the article asks (*Economist* 2004a). The Copenhagen Consensus’ panel of experts proposes new ideas in the aforementioned key areas that are then evaluated by a team of referees.

Pablo Rodríguez-Suanzes summarizes the conclusions of the second edition of the Copenhagen Consensus. Rodríguez-Suanzes interviews one of the referees of the ideas put forth by Lomborg’s panel of experts. Nobel Prize winner Thomas Schelling argues, “It would be a mistake that each of these challenges and its solution be considered separately.” Schelling adds, “A good nutrition does not only avoid deaths, but brings about a good health thanks to which children can attend school and avoid a fatal fate” (Rodríguez-Suanzes 2008).

According to Rodríguez-Suanzes, the Copenhagen Consensus proposes market-based policies in nutrition, health, and education. On the topic of nutrition, the panel of experts proposes to concentrate on the quality and not the quantity of food, emphasizing the use of iron or iodum micronutrients. In health, the panel of experts suggests that low-cost treatment in malaria and tuberculosis could help save millions of lives. The treatment should incorporate the use of inexpensive drugs that have proven effective and are widely available. In education, the panel of experts proposed to reward with an economic incentive the parents who decide to send their children to school.

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**REINVENTING BRETTON WOODS**

In February 2008, I traveled to Berkeley, California, where three years earlier I had graduated with a master’s in financial engineering from the University of California. During my visit I met with Barry Eichengreen, one of the world’s best economic historians. The 45-minute conversation with the Berkeley economist included a discussion on the Bretton Woods Institutions. Eichengreen suggested that I contact Marc Uzan, the executive director of Paris-based think-tank, The Reinventing Bretton Woods Committee.
In June 2008, I spent three days in Paris, where I had lived for two years in 1997 to 1998 and 2000 to 2001. In the morning of a beautiful June day, I met with Uzan. I waited at a French café for 45 minutes while putting my ideas together and drinking a French café au lait. The two-hour meeting with Uzan was productive. He is a forward-looking thinker whose late proposal is a change of governance of the international financial system. Uzan co-authored a book in 2007 entitled The International Monetary System, the IMF and the G20, along with Richard Samans and Augusto Lopez-Claros of the World Economic Forum.

The idea that the very institutions that have failed to anticipate the financial crisis and have actively participated in the economic fiasco are invited to the reform process along the G20 is absurd. It is similar to inviting Robert Mugabe and Mobuto Sese Seko to a round on how to improve public governance in Africa. Or to asking former Illinois Governor Rod Blagojevich to maintain his position and participate in a wave of reform to decrease the incidence of corruption in Chicago-politics.

The Wall Street investment banks Bear Stearns and Lehman Brothers defaulted and were not bailed out. When will the World Bank and the International Monetary Fund default? Are they too big to fail? Do the shareholders have veto power that continues and perpetuates the maintenance of a majority vote that grants an insignificant share of representative power to the BRIC countries (Brazil, Russia, India, and China)? According to the Financial Times, “Capitalism’s worst crisis in 70 years has not prompted a serious alternative vision of society. It has, however, laid bare that our current national framework for financial regulation is incapable of governing a global financial system” (Financial Times 2009).

Being provocative is only a first step to gaining the appeal and attention needed to shake the average citizen’s conscience in Western Europe and the United States and raise his or her awareness. I see a Window of Opportunity that will not last long. I sense times of change that could be forsaken if the visionaries of our time do not react. It is our generation’s duty and obligation to move forward with an agenda that embraces the poor and the environment, for we all are created equal, and human dignity should be valued above economic profit.

IN TRANSITION

Historians are well aware of the challenges of the first half of the twentieth century. Humankind underwent the most violent stage of modern times, with two almost consecutive World Wars that devastated Europe between 1914 to 1918 and 1939 to 1945.

The period in which we live today is a time of economic recession and potential depression, increasing protectionism and barriers to trade. In many respects, it resembles that of the 1930s and the Great Depression, which started in the United States. Ben Bernanke, chairman of the Federal Reserve Bank of the United States, is a reputed economist and one of the best experts on the Great Depression. His designation in 2005 to succeed former Chairman Alan Greenspan had to do with the then foreseeable crisis that some pessimistic economists such as Nouriel Roubini anticipated.

Nouriel Roubini is a professor of economics at New York University. I explained what the New Architecture of capitalism was all about to Roubini on May 14, 2009,
at the RGEmonitor headquarters in New York City. Roubini mentioned several times that the ideas presented in this book were overly ambitious. He may be right. But if we are not the dreamers of today, we will never reach Decemland, the land of 10 percent, which will be presented in its fullness in Part VI of this book.

I look back at the years that followed the carnage of World War II. I see forward-looking policy-makers who were able to set the basis of the economic principles that enabled thirty years of phenomenal economic growth and stability in Western Europe. I see forward-looking policy-makers who had the obligation to dare, who created the structures that enabled the emergence of the European Union and secured once and for all Europe’s peace.

Subsequent events accelerated the European recovery and construction. Quincy Wright (1961) comments that “the success of Mao Tse-tung in adding China to the Communist camp in 1949, followed by the Korean war, stimulated the integration of Western European states in the Steel and Coal Community, later developed by the Common Market and Euratom.” But the success of today’s Europe could not and would not have happened in the absence of a plan of action.

In his book Global Covenant, David Held presents “the Social Democratic Alternative to the Washington Consensus.” Held focuses on “the relation between globalization and social integration” and “seeks to unfold a programme which might help weave together the processes of globalization, the bonds of social integration, and the priorities of social solidarity and justice.” The author’s progressive economic agenda “needs to calibrate the freeing of markets with poverty reduction programmes and the immediate protection of the vulnerable.” Held’s concluding remarks point in the direction of a new development agenda that emphasizes the protection of the vulnerable (Held 2004).

We decided to forsake and forget the devastation many extreme poor countries suffer today. We decided, as a society, to ignore the underlying roots of poverty. We neglected to demand of our political elite the accountability needed to move forward with the reform agenda. It is time to raise our voices as citizens of a globalized world, to demand the kind of change and reform our ancestors once dared to put on the table.

It is the poor’s mandate. They demand change but have no representative power because many live in undemocratic societies. They demand change but cannot effect it because the World Bank, the International Monetary Fund, and the United Nations were designed to grant a majority vote to the economic powers of the time (World Bank and IMF), or to the victors of World War II (Security Council at the United Nations). The change must come from below and from within. The approach has to be bottom up. The Western world has to displace the political elite who are not ready to reform. On February 4, 2009, Martin Wolf of the Financial Times wrote the following statement (2009b):

Decisions taken in the next few months will shape the world for a generation.
If we get through this crisis without collapse, we will have the time and the chance to construct a better and more stable global order. If we do not, that opportunity may not recur for decades.

I replied to Wolf raising the following questions: What about reforming key policies in trade, agriculture, and financial architecture? What about cleaning the dirt out
of the system including tax havens, and fighting tax evasion and money laundering? What about dismantling agricultural subsidies and giving more representative power to the emerging economies in the international institutions? What about a currency for the poor? What is the role of microfinance in enhancing the lives of the poor?

The Financial Times published a report in May 2009 entitled “The Future of Capitalism,” which included the 50 leaders who would shape the debate. Surprisingly enough, Kofi Annan, Hernando De Soto, and Muhammad Yunus were not among the aforementioned leaders, the majority of whom are from developed nations.

The world economic and corporate elites meet in Davos, the land of the Pirates of Heartless Capitalism. These elites hang out with the pirates who hide in tax havens behind banking secrecy. The world economic and corporate elites are not pirates but they allow pirates to continue operating. Switzerland is a totalitarian monetary regime that ought to be embargoed.

It is time to look beyond the formulae anybody can find on academic papers from reputed journals. It is time to look at the details of our lack of ethics and our double standards in many key areas. The opportunity may arise if reform is followed by innovative policy-making that proposes alternative thinking, which the orthodox, mainstream thinkers of our time refused to believe in, pressured by lobbies, by the financial and economic elites, by the shareholders of multinationals, by the arms industry, and by the banking sector.

We are in transition from the old-fashioned economic principles of free-market economics. It must be a dynamic transition. I wish to contribute with a forward-looking rationale that aims at building up an alternative success story to today’s unhopeful dynamics.
Artwork by Richard Cole.
CHAPTER 2

Redefining Capitalism

The age of nations is past. It remains for us now, if we do not wish to perish, to set aside the ancient prejudices and build the Earth.

—Pierre Theilhard de Chardin, S.J.

Today’s world is a world of increasing differences. Anti-globalists like Susan George are pessimistic about the system as a whole. She criticizes the Washington Consensus and the Bretton Woods Institutions that Keynes suggested as a way to take off after World War II (George 2004). Economist and Nobel Prize winner Joseph E. Stiglitz, who during the Clinton administration headed as chief economist both the Council for Economic Advisors at the White House and the World Bank, argues that the IMF and its policies have not helped developing economies in the past 20 years (Stiglitz 2003).

The income gap between the rich and the poor is latent, whether or not one may argue that it is actually widening. Many would support the argument that there exists a gap, a gap that stops many emerging economies from departing in the appropriate direction once and for all. There is overconfidence and a lack of realism in the first world regarding how to tackle a situation that worsens day after day. Many individuals in the rich world who are not familiar with the difficulties that emerging economies face, do not realize the depth and severity of the problems they encounter, and how much the latter affect the daily lives of millions of people.

No easy solution seems feasible. There have been, and there are interesting initiatives including microfinance and Hernando De Soto’s work, which, provided their success, could bring rich and poor closer together in terms of income, growth opportunities, and share of the pie. As it has happened in the past, capitalism may need to be revisited. The trend of present capitalism will be that of increasing differences. Inequality tends to increase not only worldwide, but also within developed nations. The system is heading in the wrong direction.

TOWARD A NEW ECONOMIC PARADIGM

Capitalism has always been revisited after major crises or crashes. The Great Depression in the 1930s, the crash of the Stock Market in 1987, the major macroeconomic crisis in Asia and Latin America of the 1990s, or the collapse and subsequent
bankruptcy of giants like Enron or Worldcom in 2001 are all examples of situations in which the major players of the game have redefined their roles. Many in the first world may be optimistic, true believers in a process we label globalization, which brings about good for everyone.

As has happened in the past, capitalism may need to be revisited. The current trend does not serve the goals set by the United Nations, which given the current state of the world, are unlikely to be accomplished by the year 2015. This is, of course, contrary to Jeffrey Sachs’ remarks that “we can realistically envision a world without extreme poverty by the year 2025 because technological progress enables us to meet basic human needs on a global scale and to achieve a margin above basic needs unprecedented in history” (Sachs 2006).

Global poverty has a huge cost, because the potential contribution of the extreme poor is undermined and severely reduced. In his best-selling book Obamanomics, John Talbott, an economist at the University of California at Los Angeles (UCLA), estimates the total loss associated with extreme poverty at $100 trillion (Talbott 2008). When I asked Talbott how he determined this number he mentioned that the “two billion living on next to nothing, they have the human potential to contribute $50,000 per year to the world economy. That is $100 trillion just in the first year.”

Jeremy Rifkin has been writing about the future of capitalism since 2005. In his essay “Europe and the Future of Capitalism,” Rifkin stresses the importance of the European social model that relies on the welfare state as a cohesive instrument. Rifkin raises the question Can capitalism be saved? For Rifkin, capitalism is superior to any other economic system in areas such as technological innovation, entrepreneurship, productivity increases, and the assumption of individual risks. But capitalism does not distribute fairly the dividends of economic progress. Redistribution comes into play at this point (Rifkin 2005).

Kurt Eichenwald of New York University raises the question Will capitalists ruin capitalism? For Eichenwald, capitalists only measure their return in economic terms. Eichenwald points out that capitalism is able to correct itself when the abuses go far enough (Eichenwald 2002).

Can capitalists redefine capitalism?

**ALTERNATIVE THINKING IN FINANCIAL MARKETS**

There is already regulation in the financial markets that, through taxation, raises public funds for public spending. If corporations were asked whether to pay corporate or dividend tax, they would definitely choose not to do so, based on the maximization of the present value of their future cash flows, which equals the company’s equity value. Or equivalently, they would adopt the strategy that most benefits their shareholders. Similarly, corporations in today’s world tend to respect the current regulation, but are able to skip ethical codes of conduct, always aiming at maximizing their profits, since there is no such regulation set in place.

The concept of financial rating is crucial to a public corporation, because it determines the cost of capital it will incur on whatever funds are borrowed from investors or the markets. The rating agencies impose strong constraints to assign certain ratings that are indicative of a firm’s financial strength. In addition, financial auditors make sure a public corporation’s financial statements fulfill international standards and are trustworthy.
Consequently, there is a system in place with which the modern corporation has to comply. A corporation’s unique approach is to adapt to the regulation and the set of operating rules established by regulators and rating agencies. Top executives at large corporations work hard to be transparent, to not use confidential information in their own advantage. There is a growing trend in the corporate world to adopt a code of ethical conduct and develop sustainable policies accordingly. However a firm’s financial rating will not change whether or not the company is ethically responsible. Today’s financial markets only reward the financial manners of a corporation, with no repercussion on the ethical space.

We cannot live in a world governed by multinational corporations that do not have strong codes of conduct, that invest and divest as they wish, and that outsource a share of their operations to developing countries under deplorable working conditions. The rich world has succeeded at building up a system that works in the industrialized nations, but does not work globally.

Along with the financial rating, a company should have an ethical rating of a similar nature. The ethical rating would affect a company’s success in the consumer market, as much as its financial rating does in the financial markets. Rating agencies will determine the ethical actions of a corporation, whether or not it outsources, how it invests its money, the working conditions of its employees, whether its operating policies respect the environment, what part of their corporate tax is devoted to social action, and so on. There will be ethical auditors that confirm whether the corporation complies with the set of ethical criteria established. A globalized economy characterized by the immediate diffusion of information should not tolerate a firm’s unethical policies that oftentimes remain undisclosed.

Every potential investor looks at a corporation’s financial rating prior to purchasing stock or corporate debt. The financial rating has become a guarantee for an investor because it is a proxy for the firm’s probability of default. The ethical rating will play the same role for the consumer.

Products and services will be labeled with a company’s ethical rating. Consumers will at all times know whether a company is ethically responsible, and in the end, reward or penalize a firm for not complying with the rules of the system. Consumers will likely purchase products or services that align with their values, ethically speaking. In order to be successful in the marketplace, a firm will have to be ethically responsible. The better ethical rating, the better the consumer’s opinion on the corporation, and the more likely the consumer will be to purchase a certain product or service.

Multinational corporations will not determine a consumer’s choice through advertising techniques and marketing. Rather, consumers will determine a corporation’s set of operating policies. It is about reversing the rules of the game. It is about giving the individual consumer the power to believe that his or her actions have a direct impact on a firm’s well-being. It is about consumers pushing out of the market those corporations that are not ethically responsible.

**RAISING FUNDS THROUGH REGULATION**

Within a century, society will look back in anger and will not understand the extreme inequality of personal wealth and income that currently exists in the world. The wealthiest fortunes in our planet represent the net income of millions of people in poor countries. This extreme asymmetry only proves that the current system
A NEW PARADIGM

has produced enormous disparities. We are eyewitnesses of this phenomenon, yet convinced nothing can be done. The situation is taken as is; inequality has always existed, as it is an intrinsical attribute of the human race.

Personal wealth over a certain amount should be subject to taxation. The current regulation taxes income and gains on assets, but does not tax personal wealth. Somehow the more a person owns, the greater his or her social compromise is in the current state of the world. Nobody should be eligible to have above a certain amount of money and not contribute through taxation to redistribution. From a global sense of justice, it is simply not sustainable. And this can and should be accomplished through regulation with changes in the tax code.

Corporations will be entitled to invest 10 percent of their net earnings in a development fund over a certain time horizon. This contribution would not be lost, but would be an asset on the asset side of a firm’s balance sheet. Should the firm go bankrupt, the firm’s senior debt holders would also recover the part of a firm’s income invested in the development fund over the years. The fund will keep the profits linked to the investment strategies and allocate them to sustainable development strategies.

Rich economies will issue as much as the equivalent of 10 percent of their gross domestic product in public debt and devote this money to the investment fund. Again, only the profits from the investment strategies will be used as development aid. Surpluses of the rich economies of the world will also feed the development fund.

The money accumulated in the development fund will be managed by an independent entity, which will only invest in companies that are ethically responsible. Companies that are ethically sound, besides being financially driven, will see their financing opportunities increased. It is not unlikely to picture a world with strong multinational corporations that are ethically responsible. It is not utopic to imagine a development fund that only invests in companies with strong ethical codes of conduct, one that devotes the rates of return of its investment strategies to development aid, and in so doing, encourages ethical operating policies within corporations.

The fund will become a redistribution instrument, from the rich to the poor. With an annual budget equal to the profits of its investment strategies, the fund will contribute to funding the provision of Global Public Goods (as described in Chapter 5), which includes a free, basic, and Universal Welfare. The development fund will be able to influence, with its equity investment criteria, the corporate strategy of numerous multinational corporations, aiming at investing only in those that defend and effectively apply ethical management principles.

A development fund, conceived in the manner presented above, will substantially increase the amount of funding available for development in developing countries and therefore have a direct influence on the causes of poverty. A development fund, conceived in the manner presented above, will become the heart of a redefined capitalism. The world will then observe the rise of a redefined, stronger capitalism, which after all, as F.A. Hayek properly said, “is the only mechanism that has ever been discovered for achieving participatory democracy” (Hayek 1944).

A PARADIGM SHIFT

We live in times of uncertainty and volatility, not only in the financial markets, but also in the thought processes, in the ideologies, and in the structures that have
determined capitalism’s operating principles since the aftermath of World War II. There is no leadership because the complexity of the concatenation of crises reaches a level approaching the absolute unknown. There is no leadership because today’s powers, elites, and lobbies are shortsighted and work to defend their own interests. They continue to support an old-fashioned paradigm that should have been left behind in the 1990s.

We ought to propose new standards in times of crisis, a sentiment echoed by many international and institutional leaders. We ought to define new frames of understanding, and new architectures able to transition a globalized world, the world of the twenty-first century, into reform—into the convergence of income, human rights, respect of the environment, wealth, and equality.

In my travels, I meet with representatives from international institutions. They are representatives of an old paradigm that made sense in the second half of the twentieth century, of an old paradigm that today can only perpetuate the problems of our time. The handful of international institutions is unable to solve the severe challenges of today, mainly because of the intromission of the foreign policy agendas of the United States and the European Union.

I hear that donor countries impose operating conditions to the international institutions, and that the former dictate how the latter should allocate humanitarian aid. I read how for decades the World Bank and the International Monetary Fund have applied lending policies in a context of macroeconomic conditionality that forced the neediest countries to tighten their belts and shrink the budget devoted to health care and education. These countries will never leave the poverty trap behind without health care and education.

Looking for the ultimate causes of extreme poverty, I find the urgency of reform in the developed and developing worlds. I am surprised by the banking secrecy and the existence of tax havens that facilitate tax evasion and money laundering. I am startled by the maintenance of agricultural subsidies and the lowering of tariffs on products and services that are primarily manufactured in the industrialized world. I am fascinated by the lack of representation of the developing world in the voting bodies of the international institutions.

The current economic paradigm benefits the rich. I criticize constructively the complacency that shields our stealing of the most valuable resource of the developing world, a phenomenon we call brain drain. I am concerned by the migratory policies that import unskilled labor when it is convenient and gets rid of it when the economic slowdown knocks on the door. Extreme poverty feeds derived problems such as illegal immigration, international terrorism, and mafias. Global warming increases the impact of natural crises and smashes those who lack access to a social protection network.

A new consensus is necessary. A new economic paradigm is feasible. Perhaps we need more regulation in the international financial markets. Perhaps we need new standards that reassure the provision of food staples to the malnourished before they are available to trade in the international markets. Perhaps trade should be fair before it is free.

Buying the surplus of subsidized food staples in the United States to lessen the burden of the food crisis in sub-Saharan Africa is not a permanent solution. It is a shortsighted solution that benefits the producers of the developed nations. Let’s once and for all move food production to poor countries, enabling them to produce locally
A NEW PARADIGM

and sell their surplus. Let’s incentivize the farmer in Europe and the United States to become competitive, specializing in niche markets characterized by more quality produce. Let’s incentivize the uncompetitive European and North American farmers to learn other skills that would allow them to work in more competitive sectors.

Let’s take advantage of the times of crisis. Let’s suggest a New Paradigm able to contribute to the change in the structures that represent the skeleton of our institutions, a New Paradigm able to create the ideological and operational basis of a reformed capitalism. The new economic paradigm will materialize a new international consensus that dignifies the human being, maximizes social welfare along with global justice and equity, and embracing dialogue and diplomacy by utilizing the Weapons of Mass Persuasion.

Change must come. Progressive instead of radical change is appropriate. When I attended the London School of Economics (LSE) in 2006 to 2007, I had the privilege of listening to Michael Storper, a professor of economic geography at LSE and the University of California at Los Angeles (UCLA). In his paper “The Poverty of Radical Theory Today: from the false promises of Marxism to the mirage of the cultural turn,” Storper argues against the radical Marxist approaches in vogue in the United States and the United Kingdom twenty years earlier. Storper concludes, “A critical pragmatism, combined with a firm rejection of relativism, is necessary, as well as not shying away from openly embracing certain elements of philosophical liberalism and normative ethics” (Storper 2001).

Change has to be brought on board in today’s society through persuasion, and never through imposition. The severity of today’s global reality is so acute that policy-makers have plenty of evidence to construct a message of urgency able to impregnate the electorate of Western countries.

REDEFINED CAPITALISM

Major global threats endanger the existence of the human being and the planet we inhabit. The lack of leadership of our current political class coupled with the status quo of the current economic paradigm puts the world at an inflection point that faces the risk of free fall. The 2007 to 2008 crisis in the financial markets was a triple crisis (liquidity, credit, and real estate) that triggered a severe economic slowdown on both sides of the Atlantic. And it was all largely because of the greediness and moral hazard of financiers in the credit risk chain, and the determination of the Federal Reserve and the Bank of England to bail out banks that should have gone bankrupt under the principles of free markets, endorsed by Milton Friedman and his successors.

Keynes and The New Deal came back when many had forsaken public spending and government intervention for the sake of the welfare and well-being of a country’s citizens. A new economic paradigm has to put the extreme poor at the very center of reform, securing transnational consensus and agreements that protect those who lack a social protection network from the ups and downs of the economy—cycles that are magnified by the activity of financial speculators. Today’s institutions must be reinvented and redesigned. In an environment where the unwillingness to reinvent and redesign today’s institutions is manifest, new institutions may emerge as a strategy that represents the shortest path to Cornucopia and Eutopia.
Exciting times of convergence lie ahead of us. The bottom billion have to become the core of any new strategies that aim at reducing the widening income gap between the high incomes and the low incomes of our time. Convergence must prioritize the adoption of a world’s minimum wage in purchasing power parity (PPP) terms that guarantees a decent standard of living. Convergence must incorporate Global Redistribution from the better off to the worse off that enables the provision of a basic welfare state to the most vulnerable. It is our generation’s obligation. It is the poor’s mandate.

The lack of political leadership is supine. Our political leaders in Europe and the United States lack the ability and the vision, or are invaded by the fear and inundated by the dominance of the economic and corporate elites. I read the history of the 1930s. I read the history of the 1940s. I found individuals of extreme political caliber, policy-makers to whom we owe the peace and stability we enjoy in today’s Europe and the United States. Where are the Claytons, Monnets, Schumans, and Kennans of our time? Who is in charge of shouting the urgency of the moment?

Our sole priority is to fight extreme poverty. Our only goal is to depoliticize the policy-making of foreign aid. We left the World Wars behind. We left the Cold War behind. We started to leave nuclear proliferation behind. We flirted with preventive war and decided to forego the international consensus of the United Nations. We were no Knights of the Middle Ages; we were coward instruments of foreign policy, which perpetuates a world order that imposes our own rules of the game, defined by our elites without incorporating the Southern Hemisphere. Where are the Robin Hoods of our time? Who are the Robin Hoods of our time?

I dreamt of a better world. I dreamt of a society that brings more equity into the plethora of negotiation rounds, a society that grants more representative power to the worse off. I dreamt of consumers who are sensitive to human rights and do not tolerate the operation of multinational corporations that do not respect human beings or the environment. A new society will emerge from the vestiges of this old-fashioned capitalism that is unable to survive, and is unable to sustain its very own rules.
Globalization and Poverty

The critics of globalization accuse Western countries of hypocrisy, and the critics are right. The Western countries have pushed poor countries to eliminate trade barriers, but kept up their own barriers, preventing developing countries from exporting their agricultural products and so depriving them of desperately needed export income.

—Joseph E. Stiglitz, Globalization and Its Discontents

Globalization and poverty do not have to be interrelated, but they are. Globalization is a process whereby barriers to trade and to financial flows are reduced or eliminated, bringing about, on paper, an increase in economic activity conducive to economic growth and prosperity.

On September 26, 2008, I talked with Don Sillers. Sillers is an economist, who at the time worked for the Office of Poverty Reduction at the United States Agency for International Development (USAID). After our phone conversation, I sent Sillers a one-page summary of this chapter, which included the statement, “Globalization empowers the rich and undermines the poor,” without providing further evidence. The sentence was, after all, part of a one-page summary. On January 2, 2009, Sillers replied with comments to my one-page summary. He mentioned that the aforementioned statement was naïve and even laughable. Sillers was right. Without further commentary, a simple statement such as this, which draws such a generalization, could be inaccurate, misleading, and potentially wrong. I am now writing this chapter to provide Sillers and the readers of this book with further commentary.

I could have argued, “Globalization empowers the poor and undermines the rich,” or perhaps, “Globalization is a win-win situation for both rich and poor.” But the fact of the matter is that from the very core of my brain and bottom of my heart, I fundamentally disagree with these two sentences.

Generally speaking, economists can be classified according to the emphasis they give to the power of free-markets or to the need of regulation and intervention to arrive at the optimum outcome in the economy. For example, neoclassical or new classical economists believe in free markets more than Keynesian or new Keynesian economists. Milton Friedman and other Chicago school economists like Robert Lucas or Gary Becker are examples of market economists who have strong affinity with the power of the market mechanism. In development economics, William Easterly from New York University would have a more pro-market view while
Jeffrey Sachs from Columbia University would not. Depending on whether you are on one or the other side, your judgment will put the free-markets and the forces of supply and demand above state intervention and regulation, or vice versa.¹

Unlike Easterly or Sachs, I am not an economist. I never earned a doctorate and will not be an academic. Unlike Easterly or Sachs, I am an architect who designs solutions to lessen the burden of poverty. I use the theory of the social sciences developed by academia to engineer forward-looking solutions for a challenging, unequal world. Contrary to what orthodox thinkers believe, there is much to learn from both Easterly and Sachs. The future of policy-making is neither conservative nor progressive, and it is neither neoclassical nor Keynesian; it is a hybrid that combines the best of each approach to delineate instruments of social return. It is perhaps time to leave ideology behind and embrace pragmatism.

When assessing the statement, “Globalization empowers the rich and undermines the poor,” the direction of the causality tends to be: (1) What kind of economist am I? (2) Based on whether I am neoclassical or Keynesian, would I then find that globalization is good for the rich and bad for the poor, or vice versa?

Your answers to the above questions depend on whether you see the glass half empty or half full. Wealthy countries can only see the glass half full. I see the glass half empty and subsequently find reasons to support my view. This is the case in most arguments in today’s challenging environment. Most issues have reached such a level of complexity that depending on how you frame the evidence and argumentation, you can persuade policy-makers to be for or against it.

Many economists debate about whether the number of people living under the poverty line has decreased or increased. Depending on what methodology you believe or what school of thought you support, you can find optimistic or pessimistic scenarios. The academic debate feeds the brains of some of the world’s most talented academics, but does little to lessen the burden of poverty. Raymond Baker, a fellow at the Brookings Institution, concludes on globalization (Baker 2005):

The potentially beneficial forces of globalization and its corollaries, free trade and financial liberalization, work well in the presence of the rule of law, political integration, institutional stability and domestic accord. Absent these, the process can instead have a negative impact on growth and cohesion. What globalization must not be is a license to plunder, disrupt, and further weaken already fragile states.

As a European who frequently sees double standards everywhere in our policy-making, in this analysis I have decided to examine the issues from a developing country’s perspective. This is a difficult undertaking, many in the developing world would argue, if not impossible. But at least I have made the commitment to try.

Globalization works in Europe and the United States because we have strong currencies whose exchange rates can be defended if attacked by financial speculators. It works in Europe and the United States because we have independent Central Banks and Governors of Central Banks who are able to run appropriate monetary policy and control inflation. We have strong institutions and rule of law.
Globalization works in Europe and the United States because we maintain agricultural subsidies that protect our uncompetitive agriculture and farming sectors from being overtaken by the cheaper produce coming from the developing world. It works because we have social protection networks and public goods that are universally provided and financed through redistribution.

Globalization works in Europe and the United States because we have strong multinational corporations that are able to outsource the unfair working and environmental conditions to developing countries. Multinationals have muscle. Developing countries do not. Multinationals can negotiate their conditions under the threat that they will relocate to a more permissive environment. Poor countries cannot compete with each other and are subject to the free-rider problem in which corporations seek the location with cheaper labor costs and lesser environmental standards.

The European Union (EU) created the European Globalisation Adjustment Fund (EGF) in 2005. According to the European Commission, the EGF “aims to help workers made redundant as a result of changing global trade patterns to find another job as quickly as possible.” The fund was launched in 2007 with a yearly contribution of 500 million euros. On March 1, 2006, the International Herald Tribune published an article entitled “EU Fund to Ease Globalization Pain” (Kanter 2006). According to Kanter, “The Global Adjustment Fund would help retrain and relocate 35,000 to 50,000 workers a year when jobs are lost to the dynamics of global trade, rather than by mismanagement or loss of production to another EU member state.” Kanter concludes, “Governments would be able to use the EU money in cases where a company, its suppliers and its associated producers laid off at least 1,000 people in a region with a population of up to 800,000, and where the unemployment already is higher than the European or the national average.” As a result, the European Union has the financial muscle to hedge against the collateral damage of globalization. A majority of developing countries simply do not.

The fact of the matter is that today’s world should not be taken at face value. Poor countries may be to blame for their mismanagement, corruption, and lack of governance. However, Europe and the United States may also be to blame for other reasons. Europe’s colonization of Africa proved detrimental. Many mistakes were committed in the past, yet we are still working to exonerate ourselves of blame today. Blame is useless if it is not coupled with action. But sometimes blame is a necessary departure to acknowledge the necessity of moving forward.

What justice has been done regarding our pitfalls in the colonization period? It is time to move forward and understand our obligation to undertake a Second Marshall Plan for sub-Saharan Africa and the remainder of the extreme poor countries. It was the conviction of the United States after World War II that Europe’s reconstruction was vital for its economic recovery and the maintenance of democratic capitalism in the fight against the expansion of Soviet communism and influence in Eastern Europe.

I understand the corollary of our time. Globalization does not alleviate or reduce poverty in low-income countries because of the lack of international standards to guarantee minimum working conditions for the poor. Furthermore, globalization is ineffective at reducing poverty in low-income countries because their governments do not have the means to finance a social protection network that provides a Universal Welfare state including universal health care and education, financed through redistribution.
The market will not solve Africa’s tragedy, as it will not solve the French farmers’ survival, or the Detroit automakers’ revival. The market is not always the answer. Markets work under a set of assumptions that are not always fulfilled. Extreme poor countries may be ready to adopt the rules of our game called democratic capitalism in the future, but they are not ready to do so today so long as they remain poor.

Paul Krugman argues, “The influence of ideas that have not been expressed as models disappears soon” (Krugman 1995). In modern economic theory, Krugman, who won the Nobel Prize of Economics in 2008, may be right. That is why John Kenneth Galbraith, one of the most influential economists of the twentieth century, did not have the relevance of Keynes or Friedman. There are ideas that simply cannot be expressed as models, such as the myriad of plans that emerged in the late 1940s (Marshall, Schuman, and Monnet’s plans).

**PROS AND CONS OF GLOBALIZATION**

This section reviews reasons for and against globalization from eight different authors, which includes *Financial Times*’ Martin Wolf and Columbia University’s Joseph E. Stiglitz. The reader should bear in mind that the glass is never full or empty, but rather half full or half empty. The side you choose determines to a large extent the orientation of your arguments. I chose the thinkers, experts, and scholars who inspired me. As an architect of solutions, I choose the bricks of the building I design to construct a message able to impregnate the societies of Europe and North America.

**Why Globalization Works**

Martin Wolf runs a weekly column in the *Financial Times*. His book *Why Globalization Works* was written in 2004 at the top of the economic bonanza of that time. His arguments touch upon agricultural subsidies and low labor standards in developing countries. Wolf recalls, “Total assistance to rich country farmers was $311 billion in 2001, six times as much as all development assistance, indeed more than the GDP of Subsaharan Africans.” He then adds, “The United States and the European Union account for around half of all world wheat exports, with prices 46 and 34 percent respectively below costs of production” (Wolf 2004b).

Regarding labor standards, Wolf notes, “For a western visitor such jobs may seem unimaginably bad, but some of the alternatives—total dependency as housewife or despised daughter, prostitution, agricultural labor or begging—are worse.” Wolf may be right; it is better to have a 12-hours-a-day, low-paying job at a crowded and dirty textile factory in Bangladesh with no vacation days than it is to beg or to become a prostitute. But it is even better to have an 8-hours-a-day, well-paying job at a clean, un-crowded textile factory in Bangladesh with a fair allocation of vacation days. We seem to compare the worse with the second to worse, without realizing the second to worse could be much better if standards were agreed upon. The 64-hour workweek was banned by the European Parliament in December 2008 because Europeans felt they have fought too long the 40-hour workweek to let those benefits evaporate. We now have to fight for global working standards that improve the working conditions for the worse off.
Wolf comments, “International economic integration is undermining the capacity of sovereign states to choose their tax and regulatory structures. In particular it is destroying the high-tax, high-regulation European economic model. More specifically, it has made the redistributive policies of the welfare state impossible.” (Wolf 2004b). What if Europe were to export its welfare state model? What if instead of threatening to disappear, the welfare state model expanded to low-income countries? Then, the welfare state would no longer be in danger of extinction.

When I moved to Paris (France) in September 1997 to study for one academic year at Télécom Paris, the French Grande École for Telecommunications Engineering, I did not need to sign up for private medical insurance. When I moved to Berkeley, California in March 2004, to study at the Haas School of Business, not only did I have to pay a high tuition, but also a private medical insurance fee. Countries that offer social protection networks establish agreements with countries that offer equivalent protection levels, for the very benefit of their own citizens. As a Spaniard in Canada, I am covered by the Canadian public health-care system, but I am not covered in the United States. In terms of health care, it is more cost-effective for a European to spend one year in Canada than it is to spend one year in the United States.

If certain developing countries embraced the welfare-state paradigm, Europeans and Canadians would be able to travel to certain developing countries and be entitled to access their public health-care systems, and vice versa. Cooperation fosters the enlargement of protection networks. Globalization could bring about extended geographical coverage, instead of the opposite. A new welfare-state paradigm could be embraced. The Euro-Consensus would then become the substitute for the Washington Consensus. The old paradigm privatized education and health care and shrank the welfare state of developing countries. The New Paradigm exports Europe’s welfare-state to the extreme-poor, helping them finance it and run efficient organizations that hire local doctors and teachers and take advantage of economies of scale to minimize the cost of delivery and eliminate the middleman.

Wolf concludes, “Why, people quite reasonably ask, should innocent people have to repay debt incurred by the tyrants who persecuted them when in office?” (Wolf 2004b).

George Soros on Globalization

The Hungary-born philanthropist and billionaire³ George Soros, who studied at the London School of Economics, wrote an interesting piece on globalization in 2002. Soros defines globalization as “the free movement of capital and the increasing domination of national economies by global financial markets and multinational corporations” (Soros 2002). Soros’ goal is “to reform and strengthen our international institutions and create new ones where necessary to address the social concerns that have fueled the current discontent.”

For Soros, globalization has a negative side, particularly in less-developed countries, where “many people have been hurt without being supported by a social safety net.” Soros notes, “The Monterrey Conference on Financing for Development ought to focus on the provision of public goods on a global scale,” later adding, “We ought to provide the resources for universal primary education” (Soros 2002).
Soros further asserts, “To mobilize public opinion in favor of increased international assistance, the proposal must show not only how the money will be raised but also how it will be spent.” He concludes (Soros 2002):

The fight against terrorism cannot succeed unless we can also project the vision of a better world. The United States must lead the fight against poverty, ignorance, and repression with the same urgency, determination, and commitment of resources as the war against terrorism.

Making Globalization Work for the Least Developed Countries

The United Nations Ministerial Conference of the Least Developed Countries (LDCs) met in Istanbul in July 2007, to issue the Istanbul Declaration on Least Developed Countries. The conference focused on four themes: trade and investment, transfer of technology, agricultural productivity and food security, and finally, socially acceptable forms of energy. The conference report acknowledges that “while many posit that globalization has led to substantial gains in the well-being of millions of people around the globe, a darker side to globalization coexists, manifested in increasing, unprecedented inequalities both between and within the vast majority of countries.” The report adds, “LDCs as a group receive proportionately fewer benefits of globalization, but are exposed to proportionately more of the costs and risks” (United Nations 2008b).

Out of the policy responses suggested, the following are noteworthy. At the national level, “promoting greater transparency and measures for managing natural resource rents, including through the Extractive Industries Transparency Initiative” and “further investigating migration and development issues, including their impact on local capacities, and identifying the incentives necessary to attract return migrants.” At the international level, “reforming the governance of existing multilateral cooperation institutions so as not only to reflect the increasing power of southern emerging economies, but also the perspectives of least developed countries and low-income country aid recipients” and “ensuring that there is institutionalized asymmetry in trade agreements involving the least developed countries members, in their favour” (United Nations 2008b).

A New Paradigm needs a leading voice able to persuade the leaders of the Least Developed Countries (LDCs) that the New Architecture of capitalism proposed in this book prioritizes their interests. CHEICK DIARRA (CEO) is the United Nations under-secretary general and high representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States. I met Cheick at his office on the seventh floor of the United Nations Headquarters in New York City on September 8, 2008, and again on May 15, 2009. For Cheick, the ideas put forth in this book are controversial and will wake up the attention of a sleeping establishment unable to look beyond the orthodoxy of our time.

Debating Globalization

David Held is a professor of political science at the London School of Economics. In his book Debating Globalization (2005), Held exposes his views on globalization. Held argues, “Over the coming few years between now and 2010 choices
will be made that will determine the fate of the globe for decades to come.” He concludes, “Understanding that effective, transparent and accountable global governance requires reliable income streams, from aid to new financial facilities and, in due course, new tax revenues” (Held 2005).

Globalization and Poverty

Globalization and Its Discontents

Globalization under its current version emphasizes international trade and privatization. Columbia economist Joseph E. Stiglitz adds, “The United States supports free trade, but all too often, when a poor country does manage to find a commodity it can export to the United States, domestic protectionist interests are galvanized.” Stiglitz concludes, “U.S. unfair trade laws are not written on the basis of economic principles, they exist solely to protect American industries adversely affected by imports” (Stiglitz 2003).

Has Globalization Gone Too Far?

Harvard economist Dani Rodrik argues, “In Western Europe, where unions have remained stronger and the policy environment more supportive, the wages of the less skilled have not collapsed, but the price has been an increase in unemployment.” Rodrik believes, “The identity of the gainers and losers matters,” and “Rawlsian conceptions of justice, for example, imply that redistributions that enhance the well-being of the most disadvantaged groups should receive priority” (Rodrik 1997).

Regarding labor standards Rodrik points out, “In 1993, the European Commission took the view that competition within the Community on the basis of unacceptably low social standards, rather than the productivity of enterprises, will undermine the economic objectives of the Union.” Rodrik concludes, “Globalization reduces the ability of governments to spend resources on social programs, it makes it more difficult to tax capital, and labor now carries a growing share of the tax burden” (Rodrik 1997).

Another World is Possible If

Susan George is a leading thinker of the anti-globalization movement. George defines globalization as “the freedom for my group of companies to invest where it wants when it wants; to produce what it wants, to buy and sell where it wants and to support the fewest restrictions possible coming from labour laws or social conventions” (George 2004).

George’s The Lugano Report (2001) became the reference reading among anti-globalists. In the more recent Another World is Possible If (2004), she claims an evil view of capitalism represented by the myriad of multinational companies. She points out, “Achieving any improvement at all is difficult enough without telling people they must bring down, preferably tomorrow, the most powerful and pervasive economic system the world has ever known” (George 2004).

The Silent Takeover

Noorena Hertz is one of the leading thinkers of her generation. In her 2002 masterpiece The Silent Takeover she claims that multinational corporations are taking
over democratic societies. She explains it as follows: “We stand today at a critical juncture. If we do nothing, if we do not challenge the Silent Takeover, do not question our belief system, do not admit our own culpability in the creation of this ‘new world order,’ all is lost” (Hertz 2002).

In a world dominated by the private actors, the role of the state and of the society is diminishing. Hertz adds, “In the world of the Silent Takeover, in which the social contract between government and the people is increasingly meaningless, popular pressure is doing something that governments can’t or won’t: demanding that corporations be judged by non-economic criteria, holding them accountable in a way that we cannot hold our elected representatives” (Hertz 2002). In an environment where the political elite lack the reaction capacity to compensate for the imbalances of global capitalism, it is through pressure from Civil Society that the pitfalls of globalization may be overcome.

In the developing world where the absence of public provision of education and health care is noteworthy, corporations are stepping in to undo the market failure. Hertz argues, “In parts of the Third World, in countries in which the state is so moribund that it cannot deliver even the most fundamental of public goods such as education, basic health, roads and infrastructure, corporations are deciding to meet the shortfall themselves” (Hertz 2002). This is not how we decided to design the delivery of public services in the industrialized world. Consequently this is not the right approach for the developing world.

**AFRICA’S TRAGEDY**

In 1997, William Easterly and Ross Levine published *Africa’s Growth Tragedy*. Easterly and Levine note, “The borders of African nations were determined through a tragicomic series of negotiations between European powers in the nineteenth century that split up ethnic groups and exacerbated preexisting high levels of ethnic and linguistic diversity” (Easterly and Levine 1997). Africa’s growth tragedy can be explained by a variety of factors including short civil wars and failed policies based on ethnic division.

The white man’s burden in Africa has been detrimental since the beginning of times. First through colonization and then through failed foreign aid, Western countries have not found the magic recipe to pull sub-Saharan Africa out of poverty. Perhaps there is no magic recipe, but only incremental improvement. Perhaps foreign aid should be discontinued. But, most likely, we need smarter aid. Barack Obama argued during the 2008 presidential campaign that the debate was not whether the United States needed more or less government. The United States needed smarter government. The analogy can be extrapolated to foreign aid.

**Civil War and Ethnic Division**

According to Oxford economist Paul Collier, countries experience higher growth rates after long civil wars than after short civil wars. Because civil wars are used with much lower technology than international wars, they cause less damage. In particular, Collier concludes, “If a country immiserises itself through civil war it will have an enhanced post-war growth rate by virtue of its poverty. This effect would
predict that the post-war growth rate would be faster the longer the duration of the previous war” (Collier 1999). Wars in general and civil wars in particular ruin the structural features that make an economy work, deteriorating infrastructure and undermining the enforcement of property rights. GDP growth does not only increase after the war the longer the war lasts, but it also shrinks by an average 2.2 percent per year during the years of war.

William Easterly and Ross Levine study the relation between a country’s ethnic diversity and how it indirectly impacts economic growth. They use the variable ETHNIC as a proxy for a country’s ethnic diversity. ETHNIC is an abbreviation for *Ethnolinguistic Fractionalization Index*, which represents a proxy of the number of competing groups in a society, and as a result its potential degree of conflict. Easterly and Levine examine “the direct effect of ethnic diversity on economic growth and evaluate the indirect effect of ethnic diversity on public-policy choices that in turn influence long-run growth rates.” They determine that ethnic diversity and division may create polarization and favor the ruling group in expense of other ethnic groups. The authors conclude, “The data indicate that high levels of ethnic diversity are strongly linked to high black market premiums, poor financial development, low provision of infrastructure, and low levels of education” (Easterly and Levine 1997).

The combination of Collier’s and Easterly and Levine’s conclusions is counter-productive for Africa. A combination of short civil wars and a high ethnic diversity is likely to sink a country in a poverty trap that will be difficult to overcome. This combination is common across Africa and undermines the ability of many sub-Saharan African countries to leave the poverty trap behind.

Africans are not only to blame for their repetitive episodes of civil war. So are Americans and Russians for having financed right-wing and Marxist guerrillas during the Cold War. So are Europeans for having conducted a disastrous decolonization process that ignored Africa’s rich ethnic heritage. So are Western governments that supported dictatorial regimes that guaranteed and unfortunately still guarantee the operations of Western oil and mining companies on African soil. So are Western governments for allowing the operations of arms manufacturers that export weaponry and ammunition to extreme poor countries without enforcing disclosure and transparency clauses. We need to reform the small arms industry and determine in what direction reform should be undertaken, which will be discussed further in Chapter 9.

**Colonization**

David Welsh writes in *Ethnicity in Subsaharan Africa* (1996), “Colonial Africa’s boundaries had been the product of an imperial carve-up that cut through territories inhabited by indigenous societies and arbitrarily jumbled together a diversity of ethnic communities inside unitary administrative structures.” The arbitrary division of Africa’s borders in the Berlin Conference of 1884 anticipated the abundance of armed conflicts that has devastated Africa since the time of independence. Thomas H. Johnson (1984) writes in this direction:

>African independence was achieved in two waves, the first from 1956 (Sudan) through 1968 (Equatorial Guinea, Mauritius, and Swaziland) when 36 states became independent, and a second wave from 1974 (Guinea-Bissau) through 1980 (Zimbabwe), when nine more states were decolonized.
From 1960 through 1982, of the 45 majority-ruled states of Sub-Saharan Africa 25 (55 percent) have experienced 52 successful military coups d’etat. There were also 56 attempted coups and 102 reported coup plots. In sum, 38 of the 45 countries (84 percent) saw some form of military intervention between the beginning of 1960 and the end of 1982.

Throughout centuries, European colonization was a sign of exploitation of human labor to secure natural resources. The pride that today characterizes Europeans, who advocate human rights, good governance, and transparency abroad, was not a common feature in the societies of prior decades and centuries that colonized and imposed their views on the local populations. Apartheid in South Africa and segregation in the United States were the last piece of evidence of an exploitation that lasted centuries for which we do not feel accountable, as a society, today. In 1957, the highest-paid African at the mines earned less than a third of the lowest paid Europeans, whereas the average white-black wage ratio was almost 20 to 1. Europeans were given educational preference to monopolize the small number of elite jobs (Franck 1961). In broader terms, colonization benefited the wealth and welfare of the rulers at the expense of the colonized.

The Cold War

The Cold War between the United States and the Soviet Union along with nuclear proliferation exacerbated the politicization of foreign aid that oftentimes supported Marxist or right-wing guerrillas with the goal of winning the battle that would perpetuate one economic system over its rival (capitalism versus socialism). Sam C. Nolutshungu, a former professor of political science and African politics at the University of Rochester, writes, “The USSR remained in Guinea under Sekou Toure despite provocative policies on its host’s part, and it persevered in Somalia long after perceiving that progress could not be achieved in any direction.” He then concludes: “The Soviet Union encouraged the creation of vanguard parties based on Marxism-Leninism, but it clearly did not favor a break in economic relations with the West or even a sudden change in economic specializations during the long preliminary phase before socialism could be constructed” (Nolutshungu 1985).

In 2005, Janice Love, dean of the School of Theology at Emory University, published *Southern Africa in World Politics* (Love 2005). Love raises the following questions: Why did regional and global powers take such an interest in these countries and their internal disputes? Would these wars have lasted so long and caused such devastation if they had remained local? In addition, the Emory scholar points out (Love, 2005):

On the day of Angola’s formal independence, November 11, 1975, the impact of fairly extensive and intensive military globalization was clearly evident. The three guerrilla groups vying for power fought one another on many fronts across the country, each backed by potent allies from outside. Although the South African military had provided supplies to UNITA for some time, troops from the South African Defense Forces (SADF) launched a massive invasion from bases in Namibia (then South-West Africa) in mid-October. Previously, in August, the U.S. Central Intelligence Agency (CIA)
had shipped large quantities of arms to the ENLA. Cuban troops arrived in early October, and Soviet military supplies continued to flow into the country to bolster the MLPA.

We should perhaps ask ourselves why we make explicit the credit that our past ruling elites may deserve while we minimize their pitfalls. Only if we acknowledge their wrongdoing will we be able to trigger a new era of understanding that puts North and South on the same page, Page One of the History of Tomorrow.

Solutions for an Abandoned Continent

The Africa Progress Panel (APP) concluded in the aftermath of the 2008 economic crisis that two of the priorities for Africa going forward would be the immediate assistance and access to resources, that the main responsibility to act rests with African leaders, and that Africa needs a stronger voice in the international institutional architecture (APP, 2009). APP noted that “we call on the IMF, World Bank, and the African Development Bank to ease access to credit and provide urgently-needed funds, preferably grants rather than loans, to compensate for the loss of domestic revenues, remittances and foreign direct investment and to address urgent social needs” (APP, 2009). APP concluded, “we call on Africa’s leaders to press for substantial reforms on the world’s governance structures to make them more representative, supportive and ultimately effective” (APP, 2009).

For Tidjane Tall, author of Fixing Africa Once and for All (2009), “Africa needs leaders who’ll work collaboratively to combat its widespread instabilities.” Tall concludes that International Organizations (IOs) “have stopped believing that real change is possible in Africa,” and that as IO employees move forward in their careers, “their mortgages and university fees for their children gain in prominence, and they have less appetite for rocking the boat” (Tall 2009).

SUCCESS STORIES

For years the four Asian tigers (Hong Kong, Singapore, South Korea, and Taiwan) have been mentioned as success stories in development and economic growth. China did not enter the WTO until 2001 and has ruled its capitalism from a centrally driven communist regime. Korea’s economic growth was based on the chaebols, or industrial conglomerates owned by the state and later divided and privatized such as Daewoo or Samsung. According to Stiglitz (2003):

For three decades Korea enjoyed remarkable economic growth without significant international investment. Growth had come based on the nation’s own savings and on its own firms managed by its own people. It did not need Western funds and had demonstrated an alternative route for the importation of modern technology and market access.

India is a good example of a democracy that has entered the path of economic growth and prosperity embracing the principles of the free markets. But a comparison with its Northern neighbor China leads to the conclusion that China’s thriving,
 infrastructure-abundant economy has been better directed from Beijing by its ruling elite, than India by its widespread and buoyant entrepreneurial class spread out throughout the country.

Dani Rodrik, a Harvard professor of development economics, argues, “The Chinese experience represents not the exception, but the rule: transitions to high growth are typically sparked by a relatively narrow range of reforms that mix orthodoxy with domestic institutional innovations, and not by comprehensive transformations that mimic best practice institutions from the West” (Rodrik 2002).

Three success stories have emerged in Africa over the course of the last fifty years, since the independence from the former colonial powers started to occur in the 1960s. Tunisia in Northern Africa, and Botswana and Mauritius in sub-Saharan Africa are countries that in spite of facing most of the problems of their neighbors, managed to reach steady growth leading to prosperity. Botswana is further reviewed in Chapter 28; Mauritius and Tunisia are reviewed in the remaining sections of this chapter.

**Mauritius**

James Meade, a former Nobel Prize winner in economics, wrote in two seminal papers in the 1960s that Mauritius would suffer a demographic explosion and predicted population growth from roughly one million in the early 1960s to three million in 2000, which would lead to Malthusian, widespread starvation episodes. The small, remote island of the Indian Ocean, with an area of just above 2,000 square kilometers, has controlled its population growth, a population that stands at 1.3 million. The small island-state topped the ranking on good governance in Africa in 2005 and also earns outstanding marks in transparency and economic freedom. In 2005, it ranked 65 in the Human Development Index of the United Nations out of a total of 177 countries.

Mauritius is composed of four ethnic groups that profess different religions. It is a well-balanced environment with a well-educated workforce that has allowed the country to diversify from an export-based mono-crop agricultural economy, which mostly produced and exported sugar cane to the European Union in the 1960s and 1970s, to a multi-sector economy that has become a technological, financial, and tourism center.

Paul Collier writes about Mauritius, “When Mauritius escaped the traps in the 1980s it rocketed to middle-income levels; when neighboring Madagascar finally escaped the traps two decades later, there was no rocket” (Collier 2007). In a paper entitled “Ethnicity in Subsaharan Africa,” David Welsh (1996) reviews why Mauritius, in spite of its ethnic diversity, has been able to become one of the few success stories in the area. Welsh comments, “Out of the few African states that have coped with ethnicity in ways that have proved compatible with democracy, Botswana and Mauritius have had the enormous advantage of high economic growth rates for sustained periods of time” (Welsh 1996).

**Tunisia**

Tunisia’s success story in Northern Africa has catapulted the country to having the area’s second highest per capita income and the second highest Human Development
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Index behind Libya. Tunisian President Ben Ali devised the National Solidarity Fund (NSF) in 1992 as a redistribution instrument able to improve the living of inhabitants of poor areas and to help them establish microenterprises through the provision of funding. The philosophy of the NSF is based on the provision of basic rights to the individual, which include the right to health, education, and culture, and the right to economic integration. The number of donors has increased from 180,000 in 1994 to more than two million in 2002.5

During the Millennium Summit in September of 2007, Tunisia’s president Zine El Abidine Ben Ali suggested the creation of a World Solidarity Fund (WSF). In 2002, the then United Nations Secretary General Kofi Annan submitted to the General Assembly specific proposals regarding the implementation of a WSF. Later in 2004, president Ben Ali announced that Tunisia’s NSF would allocate 10 percent of the donations to the WSF.6 The WSF becomes the Decemfund, which is presented in more detail in Chapter 24.
"PLEASE SIR, CAN I HAVE SOME MORE?"

after *Oliver Twist* by Dickens.

Artwork by Richard Cole.
CHAPTER 4

The Reality of Aid

The only way to avoid deceiving yourself like this is to work to the limits. If your reports never get an outraged reaction, you are lying. If they are never rejected, you are lying. If you are never fired from a contract, you are lying. You are lying to your clients and you are lying to yourself. You are killing people.

—Peter Griffiths, The Economist’s Tale

Is 0.7 percent of a country’s GDP the right amount of aid? How was this number assessed and what is its significance today? In their paper *Ghost of 0.7 percent: Origins and Relevance of the International Aid Target*, Michael A. Clemens and Todd J. Moss of the Center for Global Development review the rationale behind the determination of the percentage and its significance in today’s environment. Clemens and Moss provide evidence that “no government ever agreed in a UN forum to actually reach 0.7 percent.” They also point out, “The eventual 0.7 percent target was mostly arbitrary, based on a series of assumptions that are no longer true, and justified by a model that is no longer considered credible” (Clemens and Moss 2007).

WHAT IS THE RIGHT NUMBER?

The Pearson Commission is credited with having set the 0.7 percent target. Lester B. Pearson was the Canadian prime minister when the then president of the World Bank Robert McNamara asked him to form a Commission on International Development. It is in the Commission’s report where the 0.7 percentage first appears. McNamara was president of the World Bank between 1968 and 1981. The final report entitled “Partners in Development” concluded that “we therefore recommend that each aid-giver increase commitments of official development assistance for net disbursements to reach 0.70 percent of its gross national product by 1975 or shortly thereafter, but in no case later than 1980” (Oxfam 2005). How did the Pearson Commission come up with the 0.7 percent number? According to Clemens and Moss (2007), former Pearson Commission staffer Sartaj Aziz recalls:

*By the time the Pearson Commission met, there was a virtual consensus on the 1 percent target. From there, the rationale for reaching the 0.70 percent*
target for Overseas Development Aid (ODA) was straightforward. ODA had already reached 0.54 percent in 1961. An increase to 0.60 percent would have been considered too modest since countries like France had reached 0.72 percent by 1968. I remember one staff discussion in which we debated whether the ODA target should be 0.70 percent or 0.75 percent. Consensus reached was in favor of 0.70 percent, as a ‘simple, attainable and adequate’ target.

The 1-percent consensus was built up during the 1950s and the 1960s and was confirmed by a group of influential economists in the 1960s. According to Clemens and Moss (2007), Paul Rosenstein-Rodan and Hollis Chenery, both of who were chief economist of the World Bank at different times, conducted separate calculations on “how much foreign capital would be needed by low income-countries in the early 1960s.”

Is more aid necessary? Does the amount of additional funding make the commitment to reach the 0.7 percent a priority? A variety of reports have pointed out the necessity of increasing foreign aid. Reaching the 0.7 percent threshold is only an intermediate step. The 0.7 percent has lost its significance in today’s environment, very different from that of the 1960s. More emphasis has to be put on how additional funding is spent. We need more aid, but above all we need smarter aid. As a result, it is important that countries increase their contribution. It is yet more important that any additional contribution be spent in new schemes that show the recipient country’s explicit desire to receive the funding based on an improvement on the country’s social and economic fabric. In other words, donors and recipients have to be accountable for the aid dispensed. Aid must have a social return. Its impact must be tracked down and appropriate changes should be incorporated to its allocation in the absence of any social improvement. Aid’s time horizon must be a compromise between the short and the long runs.

Aid Commitments

Today only a handful of countries have reached the magic number. Percentage-wise, the United States is the country in the OECD that devotes the least amount of public money to development aid. As Robert Calderisi points out, “The United States has never spent more than one quarter of one percent of its national income on foreign aid, and two thirds of that has been devoted to just two countries: Israel and Egypt” (Calderisi 2006).

Some would argue that the contribution from corporate donors in the United States well exceeds that of other European countries. As a result, the aggregate contribution, both public and private, could approach the 0.7 percent. The reality is different. According to the Committee Encouraging Corporate Philanthropy (CECP), the 155 companies (including 69 of Fortune Magazine’s Top 100) that participated in the 2007 Corporate Giving Standard (CGS) Survey of Philanthropy donated a total of $11.6 billion in both cash and non-cash contributions to communities around the globe, which represents a median contribution of 0.92 percent of pre-tax profit for all companies and of 0.83 percent for the 69 Fortune 100 Companies that participated in the survey (CECP 2008), down from a median of 1.3 percent of pre-tax profit in 2004. Out of this percentage, Fortune 100 companies provide an average of 14 percent of their aid to international end-recipients, whereas all other companies
give an average of 10 percent to international end-recipients. Consequently, these
companies give 0.12 percent of their pre-tax profit to international end-recipients,
whereas all other companies give 0.09 percent of their pre-tax profit to international
end-recipients.

According to Fortune Magazine, the top 1,000 companies in terms of revenue in
the United States had an aggregate profit of $724 billion in 2007. If we assume that
each of them devoted on average 0.12 percent of their pre-tax profit to international
end-recipients, the total dollar amount devoted to international end-recipients was
$869 million, or roughly 0.0063 percent of the United States’ GDP.¹ This is a
miniscule amount compared to the target 0.7 percent and its contribution is quasi-
negligible. The United States is far from reaching the 0.7 percent target.

Forbes ranks the top 200 charities in the United States. According to the U.S.
magazine the total volume of private contributions for the 200 largest charities for
2008 amounted to $40.75 billion, up 5 percent from a year before (Barrett 2008). Of
this amount, $9.44 billion or 23 percent of the total was spent in international needs.

The Foundation Center features the endowments and the annual giving of the
top 100 U.S. Foundations.² The aggregate endowment of the top 100 U.S. Foundations
amounted to $263.4 billion in 2008. Total giving for the 2007 to 2008 fiscal
year amounted to $15.6 billion, of which $2.0 billion corresponded to the Bill and
Melinda Gates Foundation and $526 million corresponded to the Ford Foundation.
The Foundation Center does not disclose what share of the total giving ($15.6 billion
in 2007 to 2008) was spent in the United States and what share was spent internation-
ally. According to The Economist, in 2008 American Foundations spent $5.4 billioninternationally (Economist 2009a). Joel L. Fleishman, author of The Foundation,
summarizes the foundation sector in the United States as follows (2007):

In 2005, about 68,000 foundations of all kinds existed in the United States,
controlling estimated assets of half a trillion dollars and making annual
grants totaling $33.6 billion. As of December 31, 2003, forty-six founda-
tions had assets of over one billion dollars, while another sixty-four had
assets between five hundred million and one billion dollars. Fully 70 percent
of all foundation assets were controlled by just 2 percent of foundations.

According to Oxfam, “Meeting the UN target of allocating just 0.7 percent of
national income to aid would generate $120 billion, enough to meet the MDGs and
other vital poverty-reduction goals”. Oxfam adds, “By 2003, spending on aid and
debt relief to all developing countries, measured per person in rich countries, was just
$80 per year, or $1.53 from each person per week” (Oxfam 2005). As a percentage
of Gross National Income (GNI), governments spend less today than ever before on
aid. As pointed out by Figure 4.1, the percentage has decreased from 0.5 percent in
1961 to just above 0.2 percent in 2002. In aggregate total, development assistance of
the 22 OECD member countries of the OECD Development Assistance Committee
(the world’s major donors) went down from $104 billion or (0.31 percent of GNI)
in 2006 (0.31 percent) to $103 billion in 2007 (0.28 percent of GNI) (OECD 2008).

As of 2007, only five OECD countries reached the 0.7 percent target (Norway,
Sweden, Luxembourg, the Netherlands, and Denmark), with the United States and
Greece in the last position at 0.14 percent. In 2007 the United States’ ODA amounted
to $21.75 billion or 0.16 percent of the country’s GDP. If corporate giving in the
amount of $869 million, charities expenditure in the amount of $9.44 billion, and
foundations expenditure in the amount of $5.4 billion were added to the United States ODA, the sum of public and private development assistance would amount to 0.25 percent, which would put the United States ahead of Portugal, Italy, and Japan but still behind many other European countries and Canada.

Oxfam also illustrates how a large percentage of aid from G7 countries is still tied to serving their own domestic interests. In the case of Italy and the United States, their percentages of tied aid, as of 2002, were 92 percent and 70 percent, respectively (Oxfam 2005). Many of Oxfam’s concluding recommendations have not been satisfied since they were proposed in 2005, including “providing at least $50 billion in aid immediately,” and “providing long-term, predictable aid for investment in the provision of universal, free, and high-quality public services” (Oxfam 2005).

**Blair’s Commission**

The Blair Commission for Africa was established by former British Premier Tony Blair in February 2004. The purpose of the Commission was to delve into Africa’s complexity and determine what major undertakings should be accomplished to help the continent combat poverty. The Commission consisted of 17 renowned experts, nine of which were African. The Commission identified the following five goals (GRIPS 2005):

1. Generate new ideas and action.
2. Support the best of existing African initiated effort.
3. Encourage the realization of existing international commitments.
4. Present a fresh and positive view of Africa.
5. Learn from Africans what their aspirations are and help them in satisfying them.

The Commission's 450-page concluding report points out that a big push is necessary to help the continent join the global community and become competitive. According to the Tokyo-based National Graduate Institute for Policy Studies (GRIPS), “the big push would aim to generate an annual growth rate of 7 percent by the end of the decade, compared with 3.8 percent in 2004” (GRIPS 2005). This big push would be translated into additional foreign aid of $75 billion per year that would effectively double 2004’s foreign aid standing at $78.5 billion. The proposed $75 billion increase in foreign aid would be allocated as follows (GRIPS 2005): governance (4 percent), peace and security (2 percent), HIV/AIDS (13 percent), education (10 percent), health (26 percent), social inclusion (5 percent), growth, infrastructure and trade (27 percent), mitigation of shocks (5 percent), and contingencies (7 percent).

Tidjane Thiam (FMN) is the chief executive officer of Prudential, an insurance company, and the former minister of planning and development of Cote d'Ivoire. I talked to Tidjane on November 13, 2008. Tidjane was one of the nine African members of The Blair Commission for Africa, which also included Trevor Manuel (former South African Finance Minister), Graça Machel (Nelson Mandela’s wife), Benjamin W. Mkapa (former president of Tanzania), and Meles Zenawi (prime minister of Ethiopia). According to Tidjane, the Commission for Africa culminated with the Gleneagles Summit of 2005.

In The False Promise of Gleneagles, Marian L. Tupy (2008) of the CATO Institute analyzes the mid-term results of the summit that in 2005 gathered representatives from the world’s seven most industrialized nations and Russia (G8) in Gleneagles (Scotland) to tackle extreme poverty in Africa. For the CATO scholar, “The Gleneagles Summit, for all its good intentions, gave rise to unrealistic expectations. The heavy emphasis on aid and debt relief made Western actions appear to be chiefly responsible for poverty alleviation in Africa” (Tuly 2009).

Arnab Banerji was appointed Tony Blair’s financial advisor in 2002. Banerji is the man Blair chose to patch up Downing Street’s failing relations with the markets (Morgan 2002). I met Banerji at Brooks’s gentlemen’s club in London on July 6, 2009. Banerji acknowledges the need to invest in agriculture to transition from a world of food scarcity to a world of food abundance, otherwise called Cornucopia.

AID EFFECTIVENESS

In the context of the role played by development institutes and international economic institutions, New York University economist William Easterly argues in favor of adopting a market-driven approach to foreign aid or development aid, where supply naturally meets demand. The current approach to foreign-aid, Easterly argues, is more of an oligopoly based on a central planning system that puts together a variety of development institutions, which are not pressured to accomplish a good job based on the demand of their clients, in this case the extreme poor. Easterly calls the international development aid structure a cartel, whose purpose is to “thrive when customers have little opportunity to complain or find alternative suppliers.”
Easterly concludes by saying if foreign aid is to make an impact and be efficient, it has to adopt the structure of a private enterprise that fulfills their customers’ needs through means that maximize their economic return (Easterly 2002). In his book The Elusive Quest for Growth, Easterly adds a conclusion that captures well his thoughts on foreign aid allocation (2001):

> We can envision a world in which governments do not devote themselves to theft, but one in which governments do provide national infrastructure—health clinics, primary schools, well maintained-schools, widespread phone and electricity services—and they do provide assistance to the poor within each society. The act of making loans will be rewarded rather than the act of helping the poor in each country. The solution is to have public visible “aid contests” in which each government vies for loans from a common pool on the basis of its track record and its credibly and publicly stated intentions.

Easterly’s aid allocation paradigm is exemplified by GlobalGiving, a nonprofit organization based in Washington DC. I first read about GlobalGiving in Easterly’s book The White Man’s Burden (2006). I then decided to contact the Washington-based group. GlobalGiving is one of the leading innovators in the field of development aid. The organization has collected over $14 million since 2002 and has invested in over 1,300 projects throughout the world.

**MARI KURAISHI** (CON) is the president of GlobalGiving. I phoned Mari on February 17, 2009. Mari points out that “GlobalGiving was founded on a key premise about innovation in international development, that in the first 50 years of development there was far less innovation than there might have been because the field was limited to larger scale (and fewer) top-down projects.” Mari concludes, “the ultimate goal of GlobalGiving is to create an environment where many more experiments can be undertaken so that the rate of innovation can pick up.”

How does GlobalGiving measure investment success? For GlobalGiving’s president, “The more ultimate measure of course is whether 50 years from now we might have played a role in getting future Muhammad Yunuses off the ground.”

Aid has been an instrument of foreign policy that has or has not proven effective at different times and locations. The history of aid in Africa is well summarized by the Zambian economist Dambisa Moyo (2009):

> Post-war aid can be broken down into seven broad categories: its birth at Bretton Woods in the 1940s; the era of the Marshall Plan in the 1950s; the decade of industrialization of the 1960s; the shift towards aid as an answer to poverty in the 1970s; aid as the tool for stabilization and structural adjustment in the 1980s; aid as a buttress of democracy in the 1990s; culminating in the present-day obsession with aid as the only solution to Africa’s myriad of problems.

World Bank economist Charles Kenny points out that “the assumption has been that effective aid is that which increases recipient country GDP per capita growth rates.” He concludes, “Given reconstruction has a better record than development efforts in general,” and then suggests that the Marshall Plan should be compared to
The Reality of Aid

Aid agencies face a peculiar incentive problem: they spend one group of people’s money on a different group of people. The intended beneficiaries have almost no voice in how the money is spent. There has been surprisingly little research thinking about how to design proper incentives for aid agencies to achieve results in this situation, as well as how the aid agencies can design contracts to create good incentives for recipients.

Santayanan Devarajan, William Easterly, and Howard Pack (2002) point out, “Low investment is not the constraint on African Development... one of the most famous predictions in development economics is that increases in investment ratios lead to growth accelerations, which fails to hold in Africa” (Devarajan, Easterly, et al., 2002).

In his paper “Why did the poorest countries fail to catch up?” Branko Milanovic explains some of the reasons why the poorest countries did not manage to reach sustainable growth (2005). The World Bank economist argues, “The poorest countries have lost, on average, some 40 percent of their output through much greater frequency of war compared with the rest of the world.” The second reason involves the delay in reforms among Least Developed Countries (LDCs). The Serbian economist concludes, “While the middle-income countries’ reformed from the mid-1980s onwards, comprehensive reforms among the poorest countries started only some ten years later” (Milanovic 2005).

Smart Aid

James A. Yunker is a professor of economics at Western Illinois University. In his 2005 book Rethinking World Government (Yunker 2005), the American scholar proposes a World Economic Equalization Program (WEEP). Yunker’s WEEP is a Global Redistribution program that would shift income from high-income to low-income countries. This income would be spent in what he calls generalized capital, a category that includes, in addition to business physical capital (plant and equipment), social overhead capital (roads) and human capital (education). Yunker makes the explicit distinction between generalized capital and capital spent in consumption goods and services. His plan would shift from the rich to the poor percentages that go well beyond the 0.7 percent of a country’s GDP.

A New Paradigm needs a chief executive officer. The Millennium Challenge Corporation (MCC) is a United States Agency created in 2005 by President George W. Bush. Between 2005 and 2009, the MCC was headed by Ambassador JOHN DANILOVICH (CEO), a businessman, diplomat, and former ambassador of the United States to Costa Rica and Brazil. I had the opportunity to meet the charming ambassador at his beautiful corner office in Washington, DC, on September 18, 2008, and on December 3, 2008, and again at his residence in London on March 8, 2009.

In its first fours years of operation since 2005, the MCC allocated $6.1 billion to 18 countries (10 of which are in sub-Saharan Africa) on a basis of conditionality. Participant countries have to show their explicit interest in obtaining aid from the MCC and demonstrate their improving performance across a number of indicators.
A NEW PARADIGM

that emphasize economic growth. Easterly (2003) points out that “the White House
said on its website that the new aid was motivated by the idea that ‘economic
development assistance can be successful only if it is linked to sound policies in
developing countries.’”

The MCC has been praised as an innovative instrument of foreign aid. Easterly
mentions that “the Millennium Challenge Account of the Bush administration is one
interesting experiment in trying to keep money out of the hands of gangsters” (East-
erly 2006). Roy Cullen (FIN) is a former member of parliament in Canada and the
head of anti-money laundering at the Group of Parliamentarians Against Corrup-
tion (GOPAC). I talked to Roy on September 19, 2008. The Canadian comments,
“I believe the Millennium Challenge Corporation is a good idea, we need more of
them” (Cullen 2008). Paul Collier notes, “President Bush launched his new Millen-
nium Challenge Account, wisely choosing not to allocate the additional American
aid money through the established American aid agency” (Collier 2007).

The difference between conventional and conditional aid does not have to be
significant if the conditionality is well designed and satisfies both ends of the aid
spectrum, namely the donor and the recipient. Aid with conditionality can prove
the right approach, if the conditionality is defined and agreed upon by both ends.
New forms of development assistance should be considered going forward. Any new
designs should find inspiration in structures that worked in the past (Marshall Plan)
and seem to be working today (MCC and Tunisia’s National Solidarity Fund).

Allocation Redefined

Two remarks draw from the history of foreign aid and its allocation—from both its
successes and failures throughout the last 60 years. The first deals with who demands
what. During the Marshall Plan years, it was crucial that Europe requested the aid and
made the demand explicit (The Marshall Plan is described in detail in Chapter 16).
A second conclusion deals with the purpose of the development aid and the topic of
macroeconomic conditionality. Western countries should not pursue their own polit-
ical agendas in a world where a Cold War no longer exists, in which once upon a time
two rival superpowers spread out propaganda on their respective economic systems.

The new approach must remove intermediaries and involve a final delivery based
on infrastructure building along with the provision of basic health care, education,
clean water supply, and sanitation. The provision of basic infrastructure should
guarantee a minimum level of welfare that dignifies the human being. A basic welfare
state may bring about stability with the potential of helping the extreme poor to build
up assets through savings in order to become economically self-reliant.

Market-Driven vs. Centrally Planned Allocation

Foreign aid allocated to finance the provision of basic services that should not be privatized can be compared to the
public funding of the welfare state in developed nations. In a majority of Western
countries, public goods such as the postal service, the army, the police, health care,
and education are not market-driven and are publicly managed to make certain the
social returns are maximized.

The allocation of foreign aid must not seek the economic efficiency of profit-
maximizing businesses. It has to look at the maximization of social return, of the level
of comfort and welfare of the needy and extreme poor. Foreign aid must concentrate
in the construction of basic infrastructure, thereby allowing the poor to become economically self-reliant.

**Formal vs. Informal Sectors** Informal sectors represent a larger part of a developing country’s economy and might jeopardize a development institution’s efforts to bring part of the economic activity to the formal sector. A policy that favors the formal over the informal sector might prove wrong because it leaves a majority of the poor beyond the reach of aid.

Microfinance is a perfect example of the effectiveness of foreign aid policies that favor the consolidation of the informal sector, granting the poor financial tools that bring them to the mainstream sector of the economy, where they can contribute to a country’s revenues through appropriate taxation schemes. Supporting the consolidation of the informal sector through the establishment of Microfinance Institutions, which will on the mid-term become financially sustainable, could prove the right strategy.

**NEW INSTRUMENTS OF FOREIGN AID**

New instruments of foreign aid are suggested in this section. The premise that developed countries will continue increasing their development aid until it reaches 0.7 percent of their GDP is plausible. The incremental aid should be channeled through new schemes that explore ideas that have not been tried before.

**Literature Review**

In his best-selling book *The Bottom Billion* (2007), Oxford economist Paul Collier writes about the spillover effects that countries experience if a neighboring country is successful and undergoes strong economic growth:

*In Africa, if the neighbors grow an extra 1 percent, how much does this spill over into the growth of a landlocked country? [...] The world average for all countries, landlocked or not, is 0.4 percent; for the non-African landlocked it is 0.7 percent, and for the African landlocked it is 0.2 percent.*

The lesson from Collier’s argument is that if a low-income country were to become successful and concatenate a series of periods of strong economic growth, the neighboring countries could benefit by an extra increase in their GDP growth of between 0.2 and 0.7 percent. Collier identifies the failing states that are most likely to undergo a sustained turnaround. He points out that “starting from being a failing state, a country was more likely to achieve a sustained turnaround the larger its population, the greater the proportion of its population that had secondary education, and—perhaps more surprisingly—if it had recently emerged from civil war”. One of Collier’s new proposals is what he calls Independent Service Authorities (2007):

*The idea is that in countries where basic public services such as primary education and health clinics are utterly failing, the government, civil society, and donors combined could try to build an alternative system for spending*
public money. It would finance not just the building of schools and clinics but also their day-to-day operation. As it demonstrated that it was spending money well, donors would increase the flow of money. If performance deteriorated, the donor money would dry up.

According to Collier, Independent Service Authorities have a downside. “It is that you start afresh rather than trying to reform the government ministries step by step from within the system, and so it is appropriate means” he writes. Collier adds, “global public goods are grossly undersupplied because nobody has much interest in providing them” (Collier 2007).

Robert Calderisi’s *The Trouble with Africa: Why Foreign Aid isn’t Working* is another major piece of literature worth exploring. Calderisi proposes to cut development aid to all countries by half and reward the performance of countries that have reformed in the direction of prosperity. Calderisi points out that he would focus at first on five countries whose governments “deserve much more than they are receiving at the moment” (Calderisi 2006). The five countries are Uganda, Tanzania, Mozambique, Ghana, and Mali. Calderisi’s last section summarizes *Ten Ways of Changing Africa*, and concludes as follows (2006):

Is it reasonable to insist on international supervision of primary school and HIV/AIDS services? Would this not be even more humiliating than traditional aid? Perhaps, but no government that is unwilling to look after the basic needs of its citizens should want to hold its head very high.

The international supervision of primary school and HIV/AIDS services that Calderisi points out is very similar to Collier’s Independent Service Authorities. Calderisi would, however, focus on a handful of five successful countries, contrary to Collier’s preference for failed states.

In the book *Beyond Humanitarianism* (Lyman and Dorff 2007), a handful of experts write about foreign aid to Africa on a historical basis, along the successes and failures experienced over time. The authors remark, “Many on the African continent have come to see foreign aid as nothing more than a cow to be milked.” The authors propose a new approach to foreign aid as follows (Lyman and Dorff 2007):

The West should adopt a new, enlightened form of self-interest and be open to engaging in new sorts of involvement in Africa. Sick states there cannot be restored with the medicines and surgical techniques of a bygone era. What is required instead are international joint ventures. These arrangements would avoid the evils of colonialism and the errors of more recent peace-keeping and state-building efforts.

The aforementioned joint ventures resemble again Collier’s Independent Service Authorities or Calderisi’s international supervision of primary school and HIV/AIDS services. The authors include a quote by former President Bill Clinton that reinforces the arguments (Lyman and Dorff 2007):

If you first develop the health infrastructure throughout the whole country, particularly in Africa, to deal with AIDS, you will increase the infrastructure of dealing with maternal and child health, malaria, and tuberculosis. Then I
The Reality of Aid

think you have to look at nutrition, water, and sanitation. All these things, when you build it up, you’ll be helping to promote economic development and alleviate poverty.

Improving health care and education is only a first step to changing the reality of aid. Inhabitants of poor countries deserve a better outcome. Inhabitants of rich countries deserve more accountability of their tax dollars. New approaches to foreign aid ought to be considered. “What lessons can we draw from the experience of the past twenty years that would help Least Developed Countries’ future growth?” asks Branko Milanovic (2005). He mentions the following three lessons:

1. Less war and less civil strife are key.
2. The reliance on multilateral lenders is unlikely to help the poorest countries.
3. Democratization and better education in poor countries are worthy goals, but neither seems to be an instrument for economic development, particularly so if other enabling conditions, like peace, are not present.

In her best-selling and controversial book Dead Aid, the Zambian economist Dambisa Moyo proposes to discontinue the flow of foreign aid within five years (2009):

What if, one by one, African countries each received a phone call (agreed upon by all their major aid donors—the World Bank, Western countries, etc.), telling them that in exactly five years the aid taps would be shut off—permanently? Although exceptions would be made for isolated emergency relief such as famine and natural disasters, aid would no longer attempt to address Africa’s generic economic plight.

What if Moyo’s suggestion was reformulated? We could propose to shut off the current approach to foreign aid and embrace a new approach to development that would channel funds through new schemes able to secure the provision of Global Public Goods through Collier’s independent service authorities in Calderisi’s best-performing countries subject to an ex-ante conditionality inspired in the Millennium Challenge Corporation.

EXPLORING NEW TERRITORY

The provision of basic infrastructure is at the very core of any new approach of foreign aid. Education and health care are crucial in securing the extreme poor’s turnaround. No society will move forward unless their youth is healthy and educated. This is the reality of poverty. The vicious cycle that many developing countries are trapped in limits their ability to take off. Countries lack the ability to generate growth opportunities because their population is sick and uneducated. Many countries have had to reimburse the external debt awarded to a plethora of corrupt leaders. Many countries have had to reimburse the loans of the World Bank and the International Monetary Fund that were oftentimes awarded to bail out Western investors.

I remain convinced that incremental improvement will never close the gap between the top and the bottom billions. I am confident that the traditional approach
to poverty eradication based on project-based lending and macroeconomic conditionality will never trigger significant improvement among a majority of the extreme poor. The poor need what we need to move forward. They need publicly managed health care and education, subsidized water, and sanitation.

There is a Window of Opportunity. Academics are turning to new ideas that point in the direction of providing a Universal Welfare for the extreme poor. I am not sure the reality of aid could have accomplished a task of this caliber in the past, but it is our obligation today. I remain convinced a global effort can be designed and implemented. I hear Sachs’ hope. I am determined to apply Collier and Easterly’s conservative approaches that demand accountability for each dollar of foreign aid spent, independent from the source.

It is time. It is time to move one step forward. The provision of Global Public Goods must start. Welcome to the era of Global Redistribution. Global inequality must be monitored. We cannot continue to maintain the course on the wrong path. Let’s slow the pace and redefine the structures under which democratic capitalism operates. It is time. It is time to reform our policies in the West. You can do it. I can help. It is time to define international standards that are enforced on nations and multinational corporations.

I dreamt of a New International Territory that could host the New Institutions of a redefined capitalism. I dreamt of a New International Territory that would be established away from the political and financial centers of our time, from Washington, DC, and New York City, from Brussels and Geneva. I dreamt of a New Consensus, the Euro-Consensus that would export the welfare state to the neediest countries. I dreamt of depoliticized institutions whose sole goal would be to fight extreme poverty. It is our generation’s challenge. My heart breathes the hopeful wind that comes from ahead. I feel a harmony coming from the society of 2050. Let’s start building the society of tomorrow. We need world institutions once and for all. A globalized world cannot only benefit the better off; a globalized world must benefit all.

This book describes a path towards the establishment of a New International Territory that could host the New Organizations of a redefined capitalism, including The New Institution. The New Institution will provide the extreme poor with a Universal Welfare consisting of universal, free, and basic education and health care, and a subsidized clean water supply and sanitation. The delivery will be based on the ideas shared by Collier and Calderisi, and will start in a group of six willing sub-Saharan countries that have expressed a common, explicit desire to move ahead and leave the poverty trap behind.

This book presents how to raise the financing needed to fund the provision of the Universal Welfare. It presents the individuals that will be part of the team in charge of implementing a New Paradigm, a New Consensus. Read carefully, and you will encounter the Hundred Individuals that in the years ahead will bring excitement to the policy-making process, a process that is forward-looking and shall never stop. A World Solidarity Fund will be established. The Fund will become the Poor’s Endowment, able to finance a Universal Welfare State for the next 40 years and beyond. The next 40 years become the Glorious Forty.

Read the histories of the Marshall Plan and the formation of the European Union, including the European Coal and Steel Community and its six founding members. Substitute Coal and Steel with Health Care and Education. Substitute the core of Europe with the core of sub-Saharan Africa. Imagine an African Community
of Healthcare and Education. Imagine the elimination of intermediaries, and the hiring of local teachers and doctors. Imagine an environment in which NGOs no longer need to operate. Imagine similar structures arising in Asia and Latin America.

I believe those that first embrace the New Paradigm will become the pioneers of a New Capitalism. The current proposal is sophisticated and involves intuition, thinking, creativity, persuasion, and a necessary degree of strategy and luck. This is The Monfort Plan. It is Collier’s rocket, an accelerator of trends, a well-needed catalyst, the big push of the Blair’s Commission for Africa.

William Greider writes in his book One World Ready or Not, “Perhaps, in the next age of capitalism, an original thinker will arise somewhere in the world with a new theory that reconciles the market’s imperatives with unfilled human needs, without having to destroy the marketplace to do so” (Greider 2003). We are in desperate need of new ideas that fulfill Greider’s premise.
"THE SEEDS OF GLOBAL REDISTRIBUTION"

Artwork by Richard Cole.
Does economic inequality breed political conflict? In other words, are nations with a more unequal distribution of income and wealth more subject to phenomena like revolution, rebellion, terrorism, demonstrations, and coups than those with a more equal distribution? Most students of conflict would answer yes. All major theorists of conflict believe that economic inequality is, at least, a potentially important cause of dissent.

—Mark I. Lichbach, *An Evaluation of ‘Does Economic Inequality Breed Political Conflict?’* Studies

The world’s income distribution has continued to widen over the last one hundred years. According to Angus Maddison (1995), the ratio between the income of the richest countries and the income of the poorest countries has gone up from 3:1 in 1820 to 72:1 in 1992. The richest countries have continued to grow while the poorest countries have sunk in their poverty trap.

Many have attempted to explain this paradox with relative success. Macroeconomists have elaborated growth models that explain what inputs (savings, technology, education) matter so that a country can reach a stage of sustainable economic growth. Political scientists have focused on the importance of institutions and the rule of law when assessing the conditions that foster economic growth. Development economists look at geography and ethnicity as indicators that can anticipate economic stagnation. Historians take into account the pitfalls of slavery and colonization to explain some of today’s differences in income.

A New Architecture whose goal is to boost the incomes of the extreme poor and reduce inequality needs a leading expert in inequality. **BRANKO MILANOVIC** (INI) is a lead economist at the development research department of the World Bank. I met Branko at the London School of Economics on January 17, 2007. Branko, an authority on inequality, explains the plethora of academic interpretations to the prevalence of poverty in his outstanding book *Worlds Apart* (Milanovic 2005):

> These empirical facts that are difficult to square with economic theory have led to two reactions. First was endogenous growth theory, which holds that in addition to the “usual suspects” (improved education, increasing labor force, and capital accumulation) there are many other important factors
that affect growth. They are either political (democracy, rule of law, social stability) or economic (inflation, fiscal deficit, openness). Allowing for these variables permits a number of authors to claim that conditional convergence holds—namely that after controlling for these variables, poor countries still grow faster than the rich. But while “controlling” for other factors may make sense in a regression, it can hardly make sense in real life.

The last fifty years have only widened the difference between the richest and the poorest. A majority of the African countries that obtained independence failed to catch up. As Branko points out “the most extraordinary thing, therefore, is that out of the twenty-two countries that, in 1960, were within the striking distance of joining the club of the rich, only two—Singapore and Hong Kong—succeeded, while all the others not merely failed but slipped into the lower categories” (Milanovic 2005). For Branko, the years 1979 to 1980 were crucial in explaining some of the disparities we see today. He points out, “the changes that occurred around 1978-1980, namely the increase in world interest rates, the increased debt burden of developing countries, the growth slowdown in the industrial world, and the skill-biased technological change may have contributed to the developing countries’ stagnation and to the bifurcation of the developing world” (Milanovic 2005).

In his paper “Where in the World Are You?” Branko stresses how “the richest people in India (as a group—admittedly a large one since it contains more than 50 million people) have lower per capita income than the poorest people (as a group) in Germany” (Milanovic 2007). There is, as a result, no overlap in income between India and Germany. An individual would, on average, be better off in the poorest 5 percent in Germany and in the richest 5 percent in India.

A 2004 article published in The Economist raised the question “Is the familiar claim that capitalism makes global inequality worse actually true?” The magazine remarks, “it so happens that average incomes in India and China are going up extremely rapidly. Without knowing anything else, one should therefore be sceptical [sic] about all the claims that are so confidently made about rising global inequality” (Economist, 2004b). China and India are typically presented as the success stories of global capitalism and globalization.

Xavier Sala-i-Martin is a Columbia University economist well-known for his research on income inequality and income distribution. The aforementioned article says “work by Surjit Bhalla and Xavier Sala-i-Martin shows rapid—indeed historically unprecedented—falls in poverty during the 1980s and 1990s, the new golden age of global capitalism.” Branko refers to Sala-i-Martin’s research and points out, “this is due to the very strong assumptions made by both authors” (Milanovic 2005). Sala-i-Martin’s research outcome diverges from that of the World Bank.

Is worldwide inequality increasing or decreasing? Professor Francisco Rivera-Batiz, a well-known economist who teaches at Columbia University, offers one of the best answers to this question. He argues that in actuality Sala-i-Martin’s and the World Bank’s methodologies yield the same results. Sala-i-Martin uses national account data from each of the countries for which he measures income inequality to come up with his income distribution curves. The World Bank uses household data. If a country’s gross domestic product is divided by its population, the result is the average per-capita-income for the country, which is total income.
Household data is based on individual household surveys conducted on a case-by-case basis. Household data is reflective of a person’s disposable income. Total income is, generally speaking, greater than disposable income. Disposable income is total income minus tax payments and interest payments on any outstanding debt such as microcredits or consumption loans. The rule of thumb is that disposable income is about half of total income. As a result according to Sala-i-Martin’s methodology an individual’s income is twice as large as the income in the World Bank’s methodology.

The above results are then used to determine the number of people in the world who live in extreme poverty. Extreme poverty is defined by the World Bank as having less than $1 per day or less than $2 per day (in purchasing power parity of 1993 U.S. dollars). Because Sala-i-Martin’s incomes are about twice those of the World Bank’s, the former is more optimistic than the latter in the evolution of extreme poverty. For the World Bank, the number of extreme poor living under $1 or $2 a day is twice as large as for Sala-i-Martin.

The case of China and India deserves further commentary. Sala-i-Martin’s methodology is based on national account data that relies on a country’s self-reported GDP. In January 2008, the World Bank revised China and India’s GDP downwards by 40 percent, “highlighting the need for better data” (Birdsall 2008). The impact on total income is severe. Average total income (a country’s gross domestic product divided by its population) should be revised downwards by 40 percent in the case of China and India. This means that the number of people originally estimated to live under the extreme poverty line in China and India would go up significantly. The Economist’s statement that “it so happens that average incomes in India and China are going up extremely rapidly” should be revised downwards. As a result, the second part of statement, “without knowing anything else, one should therefore be sceptical [sic] about all the claims that are so confidently made about rising global inequality,” no longer holds.

SANJAY REDDY (IN) is an economist at Barnard College in New York City. I had a productive conversation with Sanjay at his office of Barnard College on September 8, 2008. Sanjay works very closely with Yale philosopher Thomas Pogge. The tandem has criticized the World Bank’s methodology on measuring poverty. In their paper “How not to count the poor,” they challenge the World Bank’s poverty line as arbitrary, remarking, “the international poverty line is not adequately anchored in any specification of the real requirements of human beings.” They add, “the World Bank extrapolates incorrectly from limited data and thereby creates an appearance of precision that masks the high probable error of its estimates.” As a result, they propose “a new methodology of global poverty assessment, focused directly on what is needed to achieve elementary human requirements.” What do they propose exactly? In the concluding section of their paper, an alternative is provided (Pogge and Reddy 2005):

This alternative procedure would construct poverty lines in each country that possess a common achievement interpretation. Each poverty line would refer to the local cost requirements of achieving a specific set of ends. [. . . ] The proposed procedure focuses not on whether the incomes of poor people are sufficient in relation to an abstract International Poverty Line (IPL).
but rather on whether they are sufficient to achieve a set of elementary requirements. In effect, it does away with the need for an IPL, by focusing instead on a common poverty concept to be applied in all countries.

Their methodology has not been implemented and for the time being remains only on paper. It could prove challenging to adopt different standards for different countries and ethnic groups based on the local needs to achieve the basic requirements they talk about. In a way the Grameen Bank of Bangladesh proposes a measure of poverty that is similar to that of Sanjay’s. Muhammad Yunus, founder of Grameen Bank and Nobel Peace Prize winner in 2006, explains how Grameen measures poverty as follows: “We developed a ten-point system that describes specific living conditions. Once a family has succeeded in clearing all ten of these hurdles, then we at Grameen Bank consider them to have escaped from poverty” (Yunus 2007).

POVERTY AND INEQUALITY

When I was 16 years old, I decided to spend a year abroad as an exchange student. I contacted Intercultura, the Spanish Chapter of American Field Service (AFS), and signed up for the year-abroad program. In early August 1992, I landed in San Antonio, Texas. I now return every year to spend two weeks in San Antonio with my Texan host parents Bill and Barbara Sano. Every year I talk with Bill while he drives to the City Police Department in downtown San Antonio. Bill agrees with me that it is important to fight poverty globally. But he is more concerned about the poverty he sees, the poverty that surrounds him, which is the homeless in the San Antonio area.

Bill and Barbara flew to California to attend my graduation from the master’s in financial engineering program at the University of California at Berkeley in March 2005. They were impressed by the number of homeless in San Francisco compared to San Antonio. It is a natural reaction to blame those who have not worked hard. But most often, it can only help to have a network of social protection that offers support to those in the bottom of the income distribution. This provides the worse off with a means to climb up and have a decent living.

It is also natural to try to take care of one’s problems before taking care of a neighbor’s problem. The neighborhood is also a relative concept. For those who do not travel, the neighborhood may be their city or their country. For international travelers their neighborhood may be the world. Consequently, poverty is a relative concept with geographical bounds. In the European Union poverty is defined as earning 60 percent or less of the average income. Poverty is again a relative concept. Extreme poverty is a different beast. Inequality is also a relative concept. In a capitalist democracy, there will always be inequality if there is difference in income. Extreme inequality is a different beast.

I am concerned with poverty and inequality in Europe and the United States, which I often travel between. Therefore I am a supporter of redistribution within Europe and the United States. The European Union has implemented continental redistribution through its Structural Funds, which “allow the European Union to grant financial assistance to resolve structural economic and social problems”. Spain surpassed Italy in per capita income in 2008, which would have seemed unthinkable
when Spain joined the European Union in 1986. Since 1986, Spain has been receiving Structural Funds from the European Union in an amount close to 1 percent of its GDP. Many economists acknowledge that between 1994 and 2007, the Structural Funds helped Spain concatenate fourteen years of average economic growth above the 3 percent mark.

The next stop is Global Redistribution. It is knocking on our door, finally. But this time Global Redistribution is coming to stay. The world cannot continue to base its international cooperation on the charity of the better off. Contributions must turn systematic and foreseeable. Charity must turn long-term investment.

Pedro Pablo Kuczynski (FMN) was Perú’s Finance Minister from 2001 to 2002 and 2004 to 2005, and Perú’s Prime Minister from 2005 to 2006. I met the Peruvian politician at his office in the District of Miraflores on June 22, 2009, in Lima (Peru). For Pedro Pablo redistribution is a key element of a country’s economic agenda, and there must be cross-subsidies that help finance basic public goods to the most vulnerable.

Jeremy Rifkin wrote his book The European Dream in 2004. Rifkin’s punch line is “how Europe’s vision is quietly eclipsing the American Dream.” Rifkin points out that “the fledging European Dream represents humanity’s best aspirations for a better tomorrow.” I have lived two years in France, one in Germany, one in the United Kingdom, and five in the United States. I know the realities on both sides of the Atlantic very well. I have identified the strengths and weaknesses of both societies. I hear Rifkin’s words. I believe it is time for Europe to step forward and universalize its welfare-state paradigm. I am confident Americans will follow with the Obama Administration and the Health Care Bill. Rifkin writes (Rifkin 2004):

There are more people living in poverty in America than in the sixteen European nations for which data is available. Seventeen percent of all Americans are in poverty, or one out of every six people. By contrast 5.1 percent of the people in Finland are in poverty, 6.6 percent in Sweden, 7.5 percent in Germany, 8 percent in France, 8.1 percent in the Netherlands, 8.2 percent in Belgium, 10.1 percent in Spain, 11.1 percent in Ireland, and 14.2 percent in Italy.

Rifkin concludes, “According to the OECD, while the U.S. devotes only 11 percent of its GDP to redistributing income by way of transfers and other social benefits, the EU countries contribute more than 26 percent of their GDP to social benefits.”

THE KUZNETS CURVE

Simon Kuznets was an American economist who won the Nobel Prize in Economics in 1971. Kuznets was born in Russia, where he began his university studies that he would later complete at Columbia University. In the lecture to the memory of Alfred Nobel that Kuznets gave upon receiving the Nobel Prize, he observed, “Modern economic growth, with the rapid succession of innovations and shortening period of their mass diffusion, must be accompanied by a relatively high incidence of negative effects.” This is precisely what the Kuznets Curve is all about. A developing
country, as it grows, will increase the incidence of negative effects. As a result, its income inequality will tend to rise.

James A. Robinson and Daron Acemoglu, economists of Harvard and the Massachusetts Institute of Technology (MIT) respectively, developed “The Political Economy of the Kuznets Curve” (Acemoglu and Robinson 2002). They conclude that when development occurs and income inequality increases, social unrest may lead to political democratization. Democratization embraces redistribution, which leads to a reduction of income inequality. This is the logical sequence of steps that should naturally develop. However, this pattern does not always take place. Robinson and Acemoglu state, “Development does not necessarily induce a Kuznets curve, and it is shown that development may be associated with two types of nondemocratic paths: an authocratic disaster, and an East Asian Miracle” (Acemoglu and Robinson 2002). An example of the former would be North Korea. An example of the latter would be any of the four Asian tigers (Hong Kong, Singapore, South Korea, and Taiwan).

What levels of inequality are bearable? Branko Milanovic points out that there should be an explicit difference between developed and developing countries. According to the Kuznets curve, countries that are more developed will tend to have a lower level of inequality in the long run. It is based on this premise that when establishing operating bounds, there has to be an explicit distinction between developed and developing countries.

Branko proposes two operating bands for inequality purposes. The goal is to avoid situations in which extreme inequality occurs within a specific country. The bands would monitor the main indicator for income inequality, the Gini coefficient. Gini coefficients should, therefore, stay within the band of 0.25 to 0.35 for developed countries and 0.30 to 0.45 for developing countries. What are the priorities for the next 40 years in the development arena regarding income levels and inequality? First, we must make sure average incomes shift upwards for low-income countries. Second, we must make sure Gini coefficients stay within the proposed bands.

Why does the second condition listed above need to hold? Consider the case of Namibia, the world’s most unequal country. Namibia’s per capita income stands at $7,586 (PPP U.S. $ as of 2007), the fourth highest in sub-Saharan Africa after that of Mauritius ($12,715), Botswana ($12,387), and South Africa ($11,110). However, wealth is extremely badly allocated in Namibia. 35 percent of Namibia’s population lives under $1 a day and 56 percent lives under $2 a day. These numbers compare with Botswana’s 28 percent and 55 percent, or South Africa’s 10 percent and 34 percent respectively (World Bank 2007c).

What do we do if the Gini coefficient for a specific country goes beyond the upper threshold? Consider the case of Great Britain. As of year-end 2007, Britain’s Gini coefficient was 0.36 (World Bank 2007c) when it should be between 0.25 and 0.35 according to Branko, our authority on inequality. Two straightforward policies can be implemented: either raise income taxes and make them more progressive, or increase minimum wage levels so that those in the bottom of the income distribution earn more.

One of the conclusions for policy-makers would be to establish a worldwide minimum wage in PPP terms. This would help reduce national inequality. Global Redistribution schemes able to sustain a basic welfare state would help reduce international inequality. Average worldwide income has to continue increasing. Economic
growth is important. But global inequality has to drop. It follows that worldwide minimum wage standards and Global Redistribution are simply the next step in the development agenda.

GLOBAL PUBLIC GOODS

Public goods are generally defined in terms of their excludability and rivalry. In an article published on *Le Monde Diplomatique* Inge Kaul explains “What is a public good?”. Kaul describes private goods as follows (2000):

> Private goods are typically traded in markets. Buyers and sellers meet through the price mechanism. If they agree on a price, the ownership or use of the good (or service) can be transferred. Thus private goods tend to be excludable. They have clearly identified owners; and they tend to be rival. For example, others cannot enjoy a piece of cake, once consumed.

A public good is non-tradable and non-excludable. The result is that consumers cannot buy or sell a public good, and cannot stop other consumers from utilizing it. Public goods are also non-rival: others can enjoy their use, in spite of one individual's consumption. Global Public Goods are public goods that can be enjoyed on a global scale, and therefore on a worldwide scale. If we associate the concept of national public goods with universal access to health care and education, we are implicitly referring to a national welfare. Global Public Goods that incorporate health care and education are implicitly referring to a global welfare or world welfare, otherwise called Universal Welfare.

Global Public Goods have been part of the Bretton Woods architecture even if their delivery has not yet been accomplished. For instance, the United Nations (UN) was established “to solve problems of international coordination and to enhance regional and international cooperation.” The 81 organizations of the UN system are “core providers of regional and international public goods” (Kaul, Grunberg, et al., 1999).

For Nancy Birdsall and Devesh Kapur of the Center for Global Development, the presidency of the World Bank is *The Hardest Job in the World*. Birdsall and Kapur give five recommendations to the then appointed President Paul Wolfowitz, one of which is to “obtain an explicit mandate, an adequate grant instrument, and a special governance structure for the Bank’s work on Global Public Goods.” For the authors, “past investments in global public goods have had impressive rates of return: as high as 40 percent for agricultural research” (Birdsall and Kapur 2005).

Branko notes, regarding a world welfare, that “as Gunnar Myrdal observed more than thirty years ago, the very idea that rich countries should help the poor countries is both novel—since it dates from the end of World War II—and implies the conception of World welfare” (Milanovic 2005). The transition from national public goods to Global Public Goods is well described by David Held (2004):

> The provision of public goods can no longer be equated with state-provided goods alone. Some core public goods have to be provided regionally and globally if they are to be provided at all. From the establishment of fair trade
rules and financial stability to the fight against hunger and environmental
degradation, the emphasis is on finding durable modes of international and
transnational cooperation and collaboration.

Although a majority of OECD countries have publicly managed and run health
care and education systems, many at the World Bank and the International Monetary
Fund have for decades advocated for a privatized delivery in low-income countries.

In 2008 Lawrence D. Brown and Lawrence R. Jacobs wrote a book entitled
The Private Abuse of the Public Interest. Brown and Jacobs cannot be more explicit
about the beginning of new times for the interaction between the market and the
public interest. The authors note, “conservative aspirations to expand markets and
shrink government have often disappointed citizens and resulted in more extensive
government rules and routines” (Brown and Jacobs 2008). Perhaps we need smarter
regulation and smarter government, as opposed to entering the debate or more vs.
less regulation, or more vs. less government.

According to the authors, Nixon’s victory in 1968 and not Reagan’s, was a clear
indication that market doctrine had to be embraced. Nixon campaigned against
Lyndon B. Johnson’s Great Society and War on Poverty. Are we back to Johnson’s
policies along Roosevelt’s New Deal? The authors conclude, “When faced with
concrete, most Americans expect government to intervene even if they remain uneasy
in the abstract about the effectiveness and trustworthiness of government” (Brown
and Jacobs 2008). I cannot help thinking that this was the case in the financial
collapse, in the mortgage crisis, or in the automobile bailout. When the market
is not able to correct its own excesses, regulators need to enforce regulation and
governments have to step in to guarantee that the public interest is above the market.

For decades our emphasis on privately run health care and education providers
for the extreme poor was misleading. The macroeconomic conditionality imposed
by the Bretton Woods institutions in the 1980s and early 1990s targeted the minimal
state, forcing developing countries to run fiscal austerity, thereby shrinking budget
allocations to health care and education. There is perhaps a new opportunity to
insist on what has yielded positive outcomes in Western Europe and other developed
countries. The provision of Global Public Goods is now only possible if a welfare
state is designed for the extreme poor.

GLOBAL REDISTRIBUTION OF WEALTH

Global Redistribution implies a worldwide shift of income from high-income coun-
tries to low-income countries. Redistribution has been part of democratic capitalism
in the Bretton Woods era and incorporates progressivity into the tax system. As a
result, those who earn more pay a larger share of their income in taxes. Redistrib-
ution is executed through the delivery of public services in developed countries.
Public services represent the skeleton of the welfare state, are universally provided,
and typically consist of education and health care.

A different type of redistribution is advocated by the supporters of the basic
income, a theoretical concept that has not been implemented in Western countries
with the exception of the state of Alaska in the United States. Daniel Raventós is the
president of the Spain-based Basic Income Network and a professor of economics at
Universitat de Barcelona. I met Raventós at Plaza Catalunya in Barcelona (Spain) on March 26, 2009.

In his piece *Beyond the Welfare State: the Proposal of the Basic Income*, Raventós explains the benefits of the basic income as an improved version of the traditional welfare state (Raventós 2006). He argues that the basic income would add flexibility to the labor market and protection to the worker. It grants the individual more freedom to undertake whatever occupation to which he or she is more eager to devote his or her time, including those that are nonprofit or household-based. Raventós notes that the state of Alaska implemented the basic income in 1982. This basic income is the dividend from Alaska’s oil fund. Similarly, a basic income could be appropriate in any resource-rich nation-state that is able to accumulate wealth in a fund. Norway is a good example. For Raventós, “criticising basic income because it will not put an end to the injustices of the capitalist system is a bit like sneering at a malaria vaccine because it does not put an end to infant mortality” (Raventós 2007).

Paul Segal is an Oxford economist who has written extensively on the basic income for the extreme poor. I met Segal on July 31, 2008, at Oxford University. Segal proposes that each resource-rich country “distribute its resource rents directly to citizens as a universal and unconditional cash transfer,” which he calls resource dividend (Segal 2009). For the Oxford economist, this policy would halve the World Bank’s $1 global poverty line. Resource-rich countries are oftentimes trapped in the resource curse, which is studied in detail in Chapter 9.

Dambisa Moyo suggests that “instead of writing out a single $250 million check to a country’s government, why not distribute the money equally among its population?” (Moyo 2009).

There is a dilemma around the idea of Global Redistribution and global transfers from high-income to low-income countries. Should Global Redistribution be provided through public services universally available to the extreme poor, or through a basic income? If the poor had a basic income to spare, they would decide how and when to spend it, eventually choosing private providers of education and health care.

I think that any Global Redistribution proposal has to be based on the provision of the welfare state that has worked in a majority of developed countries. A basic income inspired in the Alaskan example could complement the provision of a basic welfare state for the extreme poor in those countries that are resource-rich and have accumulated wealth by piling up the revenues from the exploitation of natural resources such as oil, gas, or minerals.

Branko warns against the likelihood that global transfers are regressive. He points out that in order to design transfers that can reduce world poverty “we may want to avoid the likelihood of a regressive transfer, that is, the possibility that the transfer is generated by taxing somebody in a rich country who may turn out to be poorer than the recipient in a poor country” (Milanovic 2005). Branko further remarks:

*That some systemic redistribution, in contrast to the current system of bilateral and voluntary contributions from rich countries, will eventually take place is a view that is now being shared by the World Bank. Its chief economist François Bourguignon noted that there was convergence with the alter-globalists on a certain topics including the creation of international*
taxes—whether it be a Tobin tax on financial flows, or a tax on plane tickets, on CO\textsubscript{2} emission, or on weapon exports. This convergence, if indeed real, represents a major step forward.

François Bourguignon is the former chief economist of the World Bank and director of the Paris School of Economics. I talked to Bourguignon on August 27, 2008. In 2006 the French economist co-authored a paper entitled “Global Redistribution of Income” (Bourguignon, Levin, et al., 2006), in which notes that global inequality is extremely high with a Gini coefficient estimated at between 0.64 and 0.66. The former chief economist concludes, “If this level of inequality were to exist within a single country, that country would probably experience substantial social strife.” The world has been suffering from substantial social strife and Western countries have barely noticed.

**Global Taxes**

In 2009 Ecuador’s President Rafael Correa suggested the taxation on oil production to establish a global tax aimed at the compensation for environmental damage. Correa holds a Ph.D. in economics from the University of Illinois at Urbana Champaign. This taxation would represent a tool to fight poverty and inequality in the developing world. The fact of the matter is that this proposal, along with many others, such as the historically demanded Tobin-tax or the Chirac-led air transportation levy, are either rejected by the financial or corporate elites or not subscribed to by the international community.

In a world of increasing differences, the words global justice and equity become inevitable in the daily conversation of wannabe technocrats. Redistribution schemes were established in Europe and the United States after World War II as a way to provide safety nets for a population severely impacted by 31 years of destruction, instability, and economic depression. Intra-nation redistribution schemes are schemes of the past, whose implementation was deemed appropriate 60 years ago. Intra-nation redistribution schemes are a must-have in today’s unequal world. The lack of an international authority that implements Global Redistribution stops supporters from claiming that such a measure would be feasible and enforceable.

Global taxes will become common and widespread in the society of the twenty-second century. In the meantime, we have to consensuate international taxation schemes that will become precursors of future global taxes. The international community needs to set common ground for the establishment of an agenda leading to the adoption of international standards towards Global Redistribution, in which the better off in developed and developing nations are required to contribute to a global welfare state with the potential to guarantee the extreme poor with universal access to basic health care, education, water, and sanitation.

Western countries believe in the welfare state because healthy and educated citizens are in better shape to cope with the challenges of globalization, because a healthy and educated population can better contribute to a country’s aggregate output and can become economically self-reliant. The industrialized world has secured the provision of public goods. A part of the developing world has begun to acknowledge access to these public goods as a right. The new constitution in Bolivia, approved in
2009, included an explicit mention to the consideration as a human right of access to water, energy, and telecommunications.

I hear many arguing that we should not raise the amount of funding available for development in the developing world. I hear many stating we should better allocate the existing resources, so that the errors of the past are no longer repeated. I believe our generation has to work on two fronts: accomplishing a considerable increase in current funding for development and maximizing its output by designing better allocation schemes. Moreover, I cannot think of a better way to allocate resources than by establishing a basic global welfare scheme that delivers the provision of health care, education, water, and sanitation to the extreme poor.

Fernando Villalonga (CON) was Spain’s Deputy Minister for International Cooperation from 1996 to 2000. I met Fernando at his office of the Spanish Consulate in New York City on June 26, 2009. Fernando welcomes new venues of innovation and creativity in the development space. It is time we realize our scope goes beyond our borders. It is time we become aware that human beings deserve dignity independent from their nationality. It is possible in today’s world to grant minimum standards of dignity to make sure that no matter where one is born, the hope to live a better life will be attainable. The extreme levels of income and despair we observe today should not coexist in a world where globalization is utilized at our own convenience and for our own benefit. We cannot ignore the crude reality of a large percentage of a population in desperate need of basic infrastructure, without which no one can move forward.
CHAPTER 1 Bretton Woods and the Washington Consensus

1. Richard Woodward is a Lecturer in political economy at the University of Hull. For Woodward, “Adam Smith was very sensitive to the non-economic effects of economic activity, and had a much more complicated perspective on human nature than many modern economists and economic models.”

2. I would like to thank the directors of the master’s programs that I have attended for having supported my applications: Linda Kreitzman of the University of California at Berkeley, Andrés Rodríguez Pose of the London School of Economics and Political Science, Guillermo Calvo of Columbia University in the City of New York, Anthony Clark Arend of Georgetown University, and Ros Plowman of the London School of Hygiene and Tropical Medicine.

   I would also like to thank Jesús Galvache Pina of Barclays Bank, which facilitated a credit line to finance the master’s program at Berkeley, and to Adolfo Aznar Gil of the Spanish savings bank CajaDuero which provided a student loan to finance the master’s program at Georgetown.

CHAPTER 2 Redefining Capitalism

1. This section is the translation of an article published on El Mundo Mercados on August 3, 2008 entitled “El Cambio de Paradigma.”
   See http://www.elmundo.es/2008/08/03/mercados.

CHAPTER 3 Globalization and Poverty

1. Héctor Pérez Saiz contributed to improving this section. Héctor was part of the 5spaniards team, which also included Silvia Montero-Ramos and Pablo Swedberg-González. For more information about 5spaniards see http://5spaniards.org

2. European Commission Employment, Social Affairs and Equal Opportunities.

3. Sometimes also known as speculator.

4. In order to qualify as a Least Developed Country, a country needs to have a three-year average of the gross national income under $750; severe problems in the areas of nutrition, health, education, and adult literacy; and be considered economically vulnerable in agriculture and exports.

5. Tunisia’s National Solidarity Fund.

6. Tunisia’s National Solidarity Fund.
CHAPTER 4 The Reality of Aid

1. The United States GDP for 2007 GDP was $13.80 trillion, according to the Bureau of Economic Analysis at the U.S. Department of Commerce.
2. Foundacion Center.

CHAPTER 5 The World’s Income Distribution

1. Extreme poverty was subsequently redefined by the World Bank as having a disposable income of under $1.25 a day (U.S.) in 2005 purchasing power terms.
2. The history of AFS is worth mentioning. In 1947, a group of thirteen American volunteers who had driven ambulance units in war-torn Europe during World War II decided to create a nonprofit organization that would foster international understanding by exchanging students between any pair of countries. I owe much of who I am to the wonderful American volunteers who decided to give up their time and open their hearts and homes to a handful of European teenagers who arrived from overseas, willing to discover their particular American dream.

   The visionaries of AFS challenged their time with a forward-looking approach that helped secure European peace in the long run. In particular, I owe much of who I have become to AFS volunteers John and Ellen Evans and John and Barbara Thabet, and to AFSers Elisabeth Linhart from Austria, Francesco Cilloni from Italy, and Özgür Akdemir from Turkey.
3. Structural Funds.
5. The Gini coefficient measures income inequality and ranges between a value of 0 and 1. A Gini coefficient of 0 indicates perfect equality (everybody earns the same income), whereas a Gini coefficient of 1 indicates perfect inequality (one person holds all the wealth and the rest earn nothing). Denmark’s Gini coefficient is the lowest in the world at 0.23. Namibia’s Gini coefficient is the highest in the world at 0.74.

CHAPTER 6 Agriculture

1. Thomas Malthus (1766-1834).
   See http://www.ucmp.berkeley.edu.
2. Thomas Robert Malthus, 1766-1834.
3. IRRI is located in Los Baños, a town two hours south of Manila. IRRI’s welcoming staff including the charming Bita Avendaño, Ria Anna Dimapilis and Duncan Macintosh.
4. The WFP’s chief librarian, the charming Andreas Psoroulas, arranged the one-day visit to the headquarters of the Rome-based institution.
5. The great Pozuelo-Monfort family is a treasure that resides in Southeastern Spain, in the land of Francisco Salzillo and Juan de la Cierva. The family includes parents Antonio and Rita, siblings Ana, Jaime, Antonio, Maita, Carmela, Emilio, Miguel, Amalia, cousin Rodrigo Hernández Pozuelo and brother-in-law Ricardo Navarro Ropero.
6. The welcoming IRRI team in Dar es Salaam (Tanzania) included the welcoming Anna Nyacho and Ezekiel Shilili.
CHAPTER 7 Trade Liberalization and Labor Rights

2. As of July 23, 2008. The last two members to join were Ukraine on May 16, 2008, and Cape Verde on July 23, 2008.
3. Idea proposed by Muhammad Yunus, who intends to open a poverty museum in Bangladesh once extreme poverty is eradicated from the Asian country.

CHAPTER 8 Small Arms Trade

3. Data for 1990 to 1993 includes the mandatory arms embargo on South Africa. The Figure only shows mandatory UN embargoes. Voluntary embargoes were established by UN Security Council resolutions on Afghanistan in October 1996 and on Eritrea and Ethiopia in 1999.

CHAPTER 9 The Extractive Industries

1. An agency problem arises when the goals of two different stakeholders with overlapping interests differ.
2. This has been the case between two Peruvian regions that have been fighting to claim the right to the revenues paid by the company Southern Copper (IB Times 2008). Southern Copper exploits two mining sites in the Peruvian regions of Moquegua and Tacna. The residents of Moquegua are requesting that the revenues be allocated on the amount of metal produced, instead of on the amount of earth removed from the mining site. This scheme would benefit them over the neighboring region of Tacna.

CHAPTER 10 Financial Architecture

1. Between May 2005 and May 2008, I worked for CIFG, a family of financial guaranty companies, in the offices of New York City and London. I would like to thank CIFG’s chief executive officer Jacques Rolfo and recruiter Pamela Brown for their unconditional support that allowed me to study at the London School of Economics and at Columbia
University while working part-time. It was a pleasure to work for my two supervisors, Victor Mahoney and Joe Keepers.


3. Offshore Group of Banking Supervisors Conclude 25th Annual Meeting in the Cayman Islands.
   See http://www.ogbs.net.

4. Conditions of Membership.
   See http://www.ogbs.net.

5. The 40 Recommendations.

6. Our People.

7. Robert is one of the four co-authors of Managing Credit Risk (Wiley), along with John B. Caouette, Edward I. Altman, and Paul Narayanan. I worked as research assistant for the four co-authors from July 2006 to December 2007. The part-time work helped finance graduate studies at the London School of Economics.

CHAPTER 12 Lobbies and Elites

1. Bill Falloon, executive editor at Wiley, purchased a copy of Slim’s Table for me at a University of Chicago bookstore on October 3, 2008. Without Bill’s openmindedness and dreamer attitude, this book would have never been published. I thank Bill for being a dreamer who asks why not instead of why. Meg Freeborn, development editor with Wiley, gave fantastic feedback that helped improve the final manuscript and showed tremendous patience necessary to bear the persistence and infatigable attitude of this energetic Spaniard. Melissa Lopez, production editor with Wiley, completed the revision of The Monfort Plan.

2. The BAR examination is a qualification that enables law graduates to work in a particular jurisdiction.

3. American League of Lobbyists.

4. These comments were originally posted on http://corporateresponsibility.blogs.ie.edu.

5. These are the final words in Andy Dufresne’s letter to Red in The Shawshank Redemption.


CHAPTER 13 Institutional Reform

1. About the United Nations.

CHAPTER 14 The Sleeping Beauty

1. Ambassador Jorge Pinto Mazal will be the Spanish-speaking anchor of Monfort Television.

2. Also known as the Treaty of Lisbon or Reform Treaty.

3. I have been Erasmus student twice at Télécom Paris in the academic year 1997-1998 and at Universität Stuttgart in the academic year 1999-2000.
4. European Commission Education & Training.  
5. Chairman's Message.  

CHAPTER 15 The Third Sector

1. Members of the Grameen Danone team in Bogra included the dynamic Brice Lewillie and Rémi Carpentier.
2. Association for the Taxation of Financial Transactions fo the Aid of Citizens.

CHAPTER 16 Marshall Revisited

1. The Glorious Thirty were the thirty years that followed World War II. The term was originally French (Les Trente Glorieuses) and related to France's resurgence after World War II.
2. Formally known as Marshall's Harvard address.
3. History.  
4. Packard Motors.  
5. Paul G. Hoffman.  
   See http://www.hbs.edu/leadership/database/leaders.
6. Cominterm was the international communist organization in charge of spreading communist propaganda. Cominterm was officially dismantled by the Soviet Union in 1943.

CHAPTER 17 The Annan Plan

1. Members of the Paris Club include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russian Federation, Spain, Sweden, Switzerland, the United Kingdom, and the United States.
2. The lease precipitated the fall of former president Marc Ravalomanana in March in a coup d'état that raised former mayor of Antananarivo Andry Rajoelina into power.
3. Board & Staff.  

CHAPTER 18 A Eutopia of Universal Welfare

1. Years of economic growth in Europe in the aftermath of World War II.
2. The World Health Organization (WHO) is the health policy-making unit of the United Nations. It works with governments and Health Ministries to establish national strategies to prevent and treat diseases.
3. Between 1997 and 2007, IFC approved 54 investment projects in the health sector amounting to $580 million, a majority of which was invested in middle-income countries (IEG 2009).
4. A paraprofessional is an aide physician who has the knowledge but not the license to perform medical duties.
5. In particular, the text specifies two additional requirements, namely: (1) achieving a fifty percent improvement in levels of adult literacy by 2015, especially for women, and...
equitable access to basic and continuing education; and (2) improving all aspects of the quality of education and ensuring excellence of all so that recognized and measurable learning outcomes are achieved by all, especially in literacy, numeracy, and essential life skills.

6. Sanitation is related to excreta management and liquid and solid waste management.

CHAPTER 19  The New Institution


2. One goal of this chapter is to explain in what circumstances the Welfare Charter could be enforced, contrary to the United Nations Charter.


4. (1) Goal 2: achieve universal primary education;
   (2) Goal 4: reduce child mortality; and
   (3) Goal 6: combat HIV/AIDS, malaria and other diseases.


8. Botswana has the lowest political risk in sub-Saharan Africa and a political risk score of 0.79 whereas Zimbabwe has the highest political risk and a political risk score of 0.02. Ghana is the most peaceful country in sub-Saharan Africa and has a peace index of 1.72, whereas Somalia is the most violent country in sub-Saharan Africa and has a peace index of 3.82. The peace index was not available for Benin, Cape Verde, and Lesotho.

9. At the BRAC Centre Inn in Dhaka (Bangladesh) I felt at home thanks to the welcoming Sales Manager Abul Hossain and his team of energetic gentlemen.

10. Christopher Dunford.


11. Integration of Microfinance and Other Services.


12. Chief Executive’s Message.

    See http://nctcollege.ac.tz.

13. Institutions under the Ministry.

    See http://www.mst.go.tz.

CHAPTER 20  Conditionality

1. Eurodad is a network of 55 non-governmental organizations from eighteen European countries working in three areas: debt, development finance, and poverty reduction.

2. Poverty Reduction and Growth Facility, described in Chapter 13.

3. As of year-end 2008.

4. The combination of health, education, and community services received only 7 percent of all the MCC grants between 2005 and 2007.

5. Marc Ravalomanana was the democratically elected president of the Republic of Madagascar until former mayor of Antananarivo Andry Rajoelina took over through a coup d’etat in March 2009.
CHAPTER 21  Collateral

1. A microcredit is a small loan granted to a low income, entrepreneurial individual; it has no collateral attached and is typically used to set up a small business activity, otherwise called microbusiness.
2. The availability of collateral reduces the losses of a bank if the borrower goes bankrupt.
3. In this scenario, a borrower knows more than the financial institution about his or her repayment ability and does not disclose all the facts.
4. Moral hazard takes place when an individual takes greater risks because he or she is insured.
5. Adverse selection occurs when the individual to be insured knows more about the risk to be covered than the insurance company. The individual, by not facilitating some of the information, may lower the cost of the insurance coverage.
6. According to the ILO, a majority of countries exclude agriculture from their measurement of the informal sector and sometimes only the urban informal sector is considered.
7. Small and medium enterprises are defined as enterprises having less than 250 employees.

CHAPTER 22  The Yunus: A New Currency for the Poor

1. ECOWAS (Economic Community of West African States) is a group of 15 countries in West Africa whose mission is the promotion of economic integration.
2. COMESA (Common Market for Eastern and Southern Africa) is a supranational institution in Southeast Africa that includes the following countries: Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe. The area has a population of over 400 million and a GDP of over $360 billion.
5. As has been the case in Zimbabwe.

CHAPTER 23  Microsavings Insurance

1. Coincidentally, the same analysis would apply to microfinance in Bangladesh, another success story.
2. FDIC Statistics.

CHAPTER 24  Decemland

1. The Decemfund’s principal will be invested according to a set of sustainable and responsible criteria. The return on the investment will be spent as development funds and will typically amount to 0.7% of a country’s GDP if the return on the invested principal is on average 7% and the fund’s principal is equivalent to a country’s 10% of GDP. The Decemfund shifts today’s 0.7% pay-as-you-go contribution to a more predictable return on an endowment that becomes the Poor’s endowment.
2. The Alcabala is a precursor of the Decem Tax and was a ten-percent-tax on sales adopted in 1342 under Alfonso XI in the Crown of Castile.
CHAPTER 25 Innovative Financing

2. In 1836, Texas became independent from Mexico, and in 1945, it joined the United States.
3. Southern California was arguably part of Mexico between 1821 and 1846.
4. Alaska was purchased by the United States from the Russian Empire in 1867.
5. The Gadsden Purchase took place in 1853 to 1854 between the United States and Mexico.
6. Cuba and the Philippines were lost by Spain to the United States in the Spanish-American war of 1898, better known as Desastre in Spanish contemporary history.
8. Total wealth shrank during the financial crisis of 2008.
9. Provided that each lot of one hectare in NIT is sold for €1 million.
10. According to a survey conducted by Institutional Real Estate, Inc. and Kingsley Associates.

CHAPTER 26 The New International Territory

1. With the exception of Lesotho, which is not ranked by the Economist Intelligence Unit.

CHAPTER 27 Islands of Peace

1. The 10 Islands of Peace will receive the following names in the order in which they are leased from developing countries: Unos, Duo, Tres, Quattuor, Quinque, Sex, Septep, Octo, Novem, and Decem.
2. The equivalent of the Supreme Court of the United States.
4. Status-of-Forces Agreement.

CHAPTER 28 The Race of the Century

1. Mervyn Brown, former U.K. Ambassador to Madagascar and author of The History of Madagascar (Brown 1993) contributed to improving the section on the world’s fourth largest island.

CHAPTER 29 The Monfort Team

1. “We live in financial times” is the logo of the Financial Times, a leading international newspaper.
2. Monfortcity is the headquarters where The Monfort Team will be established during the Window of Opportunity presented in Chapter 30. Monfortcity will also be home of Decem University and Monfort Television (Monfort.TV).
3. Decem University will become the leading university of a Redefined Capitalism. The Expert Dreamers will teach the variety of disciplines involved in the implementation of The Monfort Plan and will educate the loving capitalists in the art of sustainable development.
4. Monfort Television will broadcast the work of The Monfort Team throughout the world. Monfort Television will entertain and educate viewers. Using the Weapons of Mass Persuasion, the Expert Dreamers, with their vision and work will raise the level of
awareness that will facilitate a necessary reform in Western countries in order to defeat the Axis of Feeble and start the Journey of our Lifetime on the Decem Date. Jenny Alonzo will be the chief executive officer of Monfort Television.

More can be found at http://Monfort.TV.

The Monfort Team will travel the world in The Monfort Plane that will become the world’s most popular plane. Pablo Estrada will be the pilot of The Monfort Plane. The Monfort News is a blog aggregator that will feature the thoughts about a New Economic Paradigm of the Expert Dreamers. The Monfort News can become the equivalent of The Huffington Post in the development space. The Monfort News could subsequently be published as a newspaper in North America and Europe. Only native citizens from Povertimmune countries would be eligible to sell The Monfort News and the business would work as a Social Business, as explained in Chapter 15; that is, any profits would be reinvested in extreme poor countries through the delivery of global public goods.

More can be found at http://TheMonfortNews.net

5. The Africans are the Chief Dreamer’s six African advisors. I met these fine ladies and gentlemen in 2009 during my trips to the Southern African cone. They are Micus Chimbombi (Botswana), Mabasia Mohobane (Lesotho), Fidele Rabenamanjara (Madagascar), Mohamed Harun (Mozambique), Charlotte Keyter (Namibia) and Richard Kasesela (Tanzania).

For more information about The Africans see http://TheAfricans.org.

6. Marketing strategist Daniel Pérez-Vidal and technology strategist Fernando Fernandes De Aquino will help the aspiring candidate to Chief Dreamer campaign to reach a thin consensus leading to the beginning of The Glorious Forty. I am proud of the men and women of my generation that will contribute to a changing world.

CHAPTER 30 The New Economic Architecture

1. There is a Next Generation that will be waiting our arrival in 2050 if we begin the Journey of our lifetime during the Window of Opportunity. Otherwise we risk missing a golden opportunity to explore new venues of understanding that will catalyze an acceleration of trends capable of bringing about peace and harmony to the society of 2050. It is a travel in time that will spare Humankind two hundred years of turmoil and uncertainty.
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—Branko Milanovic, Lead Economist, Development Research, The World Bank

“The Monfort Plan is a brilliant approach to the needed rethinking of global institutions in order to address the major problems facing the world today. It is a challenge to our political leaders to reconceptualize the global economy so as to address the current economic crisis, the dangers of environmental degradation, the lack of economic development, and the problems of economic inequality.”

—Michael Intriligator, Professor of Economics, Political Science, and Public Policy, UCLA

“Jaime Pozuelo-Monfort’s thinking is very fundamental in the development of mankind. His pragmatic way of thinking in restructuring the global economy touches people not only in microfinance but also people in general. It helps to alleviate poverty and to empower the unprivileged, unheard, marginalized, and deprived people of the globe in a sustainable way. His thinking throws a big challenge in the conventional way of solving problems. The present global economic system needs to be changed in order to bring global peace.”

—Shabbir A. Chowdhury, Director of Microfinance, BRAC