

America's Role in the Fight Against Global Poverty

A Project of the Richard C. Blum Roundtable
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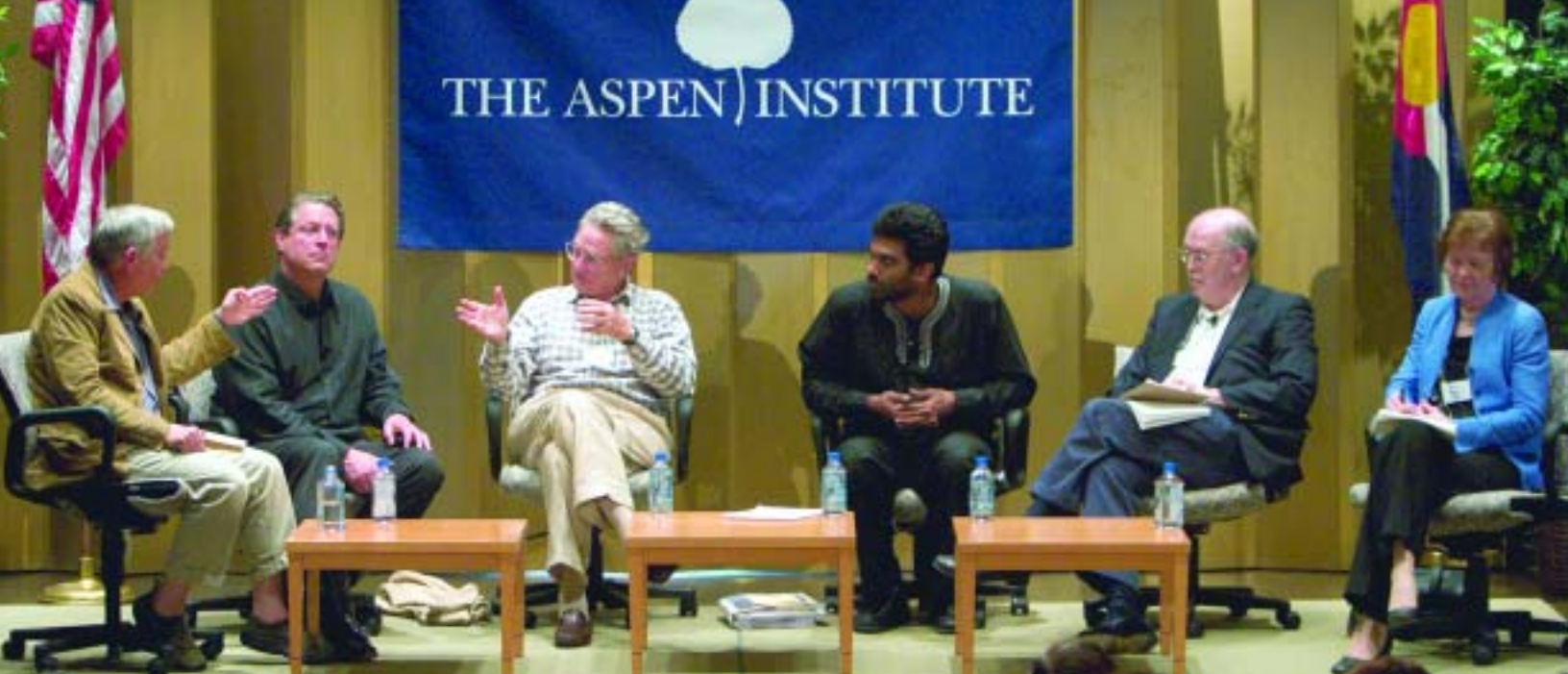
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The **Poverty and Global Economy Initiative (PGE) at the Brookings Institution** is an incubator for ideas that matter – with a focus on the risks and opportunities associated with the global economy and the profound challenge of global poverty. PGE's goal is to advance compelling recommendations that will materially shape the U.S. policy debate. Unique among research programs in this area, PGE includes scholars across the disciplines of law, international relations, governance, international economics, development, and environmental sciences to address some of the most complex and important challenges of our time.

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Realizing Rights: The Ethical Globalization Initiative is a new project led by former President of Ireland and United Nations High Commissioner for Human Rights Mary Robinson. The EGI brings key stakeholders together in new alliances to integrate concepts of human rights, gender sensitivity, and enhanced accountability into efforts to address global challenges and governance shortcomings.



THE POVERTY & GLOBAL
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Foreword

ON JULY 30–31, 2004, MORE THAN 40 PREEMINENT INTERNATIONAL leaders from the public, private, and non-profit sectors came together at the Aspen Institute to discuss “America’s Role in the Fight Against Global Poverty” and to set out a forward-looking strategy for the United States. Co-hosted by Richard C. Blum of Blum Capital Partners LP, the Brookings Institution’s Poverty and Global Economy Initiative, the Aspen Institute, and Realizing Rights: The Ethical Globalization Initiative, the group’s aim was to explore the dilemma of global poverty from different perspectives, to disaggregate the seemingly intractable problem into more manageable challenges, and to identify key elements of an effective U.S. policy agenda.

With roundtable participants hailing from around the world and representing diverse experiences and approaches, the dialogue was as multifaceted as the challenge of poverty itself. Rather than simply summarize conference proceedings, this essay attempts to weave together the thoughtful exchanges, impassioned calls to action, fresh insights, and innovative ideas that characterized the discussion, and to set the stage for ongoing collaboration in the struggle for human dignity.

Helping to define the issues, share and encourage what works, and build the intellectual framework for such an enterprise will be the guiding mission of the Richard C. Blum Roundtable in the years ahead.

ACKNOWLEDGEMENTS

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The success of the roundtable owes greatly to superb research and planning support from Kimberly Bernard, Nicholas Warren, and Zoe Konovalov.

To those peoples in the huts and villages across the globe struggling to break the bonds of mass misery, we pledge our best efforts to help them help themselves, for whatever period is required.... If a free society cannot help the many who are poor, it cannot save the few who are rich.

President John F. Kennedy, Inaugural Address, January 20, 1961



A Time of Challenge and Opportunity: Confronting Global Poverty

THE CHALLENGE OF GLOBAL POVERTY is not new, as President Kennedy's inaugural remarks remind us. Neither is the effort by America and others to address the problem. Over the past several decades, impressive improvements in some parts of the developing world have meant that today, more people than ever live free of hunger, fear, and want; in the 1990s, China alone lifted 150 million people out of extreme poverty. And yet, globally, human development is failing to keep pace in our high-speed, high-tech world.

Though we rightfully view the 21st century as an age of extraordinary progress, in fact, many countries have seen reversals in key indicators of survival. Tragically, in many of the poorest countries, these trends are getting worse, not better. And though the information age has brought important new opportunities for shared progress, it also has made more apparent the inequalities among "haves" and "have-nots."

As we've seen from the Middle East to Latin America, these frustrations can boil over in social unrest and political instability that further jeopardize the cause of human security.

At the same time, this is a moment of extraordinary promise for the world's poor. Never before has the world had better access to the kinds of resources and knowledge we need to combat deadly disease, sustain economic growth, develop clean energy, and ensure broad access to education, clean water, and basic health. As the 2003 Human Development Report argued, "The issue is

how best to apply these resources and know-how to benefit the poorest people."

Recent years have witnessed a flourishing of new actors, new tools, and new resources. Public activism, concentrated in coalitions of non-governmental organizations (NGOs), has helped set out clear, compelling poverty-reduction goals that transcend national borders and political divides. When rock star Bono joined forces with Pope John Paul II to urge the canceling of poor countries' crushing debt obligations, the world's media finally took notice of years of campaigning by activists, and soon world leaders began to as well.

Similarly, visionary business leaders have stepped forward to offer hope and save lives. George Soros was at the vanguard with his Open Society Institute and network of philanthropic organizations, now active in more than 50 countries worldwide. And since its creation in 2000, the Bill and Melinda Gates Foundation has committed more than \$3.6 billion in grants to improve global public health.

An international consensus is emerging around what works in poverty reduction, with a focus on economic growth, good governance, basic health, and universal education. This consensus is reflected in the path-breaking 1998 G7 agreement to forgive the debt of the Highly Indebted Poor Countries (HIPC); the 2000 UN Millennium Development Goals, which set clear targets for reducing poverty and ensuring universal access to primary education, among other goals, by 2015; the Global Fund to Combat



PHOTO BY BROOKINGS INSTITUTION PRESS

"Globalization, with its increased flow of information about the living standards of others, changes reference norms and increases frustration with income inequality, even among people whose own income is increasing."

Carol Graham

Co-Director, Center on Social and Economic Dynamics (CSED); Senior Fellow, Economic Studies, The Brookings Institution

"We need to move the discussion of gender issues into the mainstream development debate. The most pressing issues are ensuring post-primary education for women, [ensuring] reproductive rights and health, defending women's rights over economic assets such as land and housing, and protecting women from the fear of violence."

Geeta Rao Gupta

President, International Center for Research on Women



HIV/AIDS, Tuberculosis, and Malaria; and the new U.S. Millennium Challenge Corporation (MCC), which conditions new flows of U.S. development assistance on sound policies.

Moreover, even in areas where experts disagree on solutions, there is growing common ground around the problems. For example, while practitioners debate the incentives, inducements, and sanctions that can be used to spur better governance in poor countries, it is increasingly accepted that bad governance is a major obstacle to poverty alleviation – and that good governance must include not just property rights and contract enforcement, but also respect for social justice and human rights.

Similarly, while data on women's lives is incomplete at best, there is increasing recognition that the causes and consequences of poverty are different for women. Incorporating a gender perspective into development solutions can pay large dividends not just for women but society as a whole.

Though the roadmap for restructuring is still unclear, many experts agree that the international financial institutions (IFIs) are poorly suited to the modern age. For example, the IFIs are designed to lend to national governments, yet in many cases, corrupt or inept national government is itself the obstacle to poverty alleviation. IFIs are ill-equipped to deal with supranational challenges such as failed or post-conflict states, or to target support to crucial global public

goods such as education and health. And because they are beholden to member states, the IFIs are politically hamstrung in their ability to exercise the discretion and selectivity that might produce more success stories.

Finally, there is emerging recognition that current global spending and policy priorities are out of sync with the values at the core of our common humanity. Today, annual global military spending amounts to \$900 billion. Agricultural subsidies total \$300 billion. Yet global spending for development assistance is only \$50-60 billion. Increasingly, people around the world are wondering: Do we really rank causes like saving children from devastating diseases, sparing families from hunger, and helping communities help themselves so low on our common agenda?

Unfortunately, poverty is not a problem that time will help to solve. As World Bank president James Wolfensohn often points out, the planet's population will grow by 2 billion over the next 25 years. By 2030, there will be 8 billion people on Earth; 7 billion will live in developing countries. We cannot afford to wait and see what their future will hold. As the world's greatest power, the United States has a special obligation to lead. We must choose – today – to work for stability, opportunity, and hope and to confront the challenge of global poverty with the same vision, determination, and long-term commitment that characterized the proudest moments of our past.

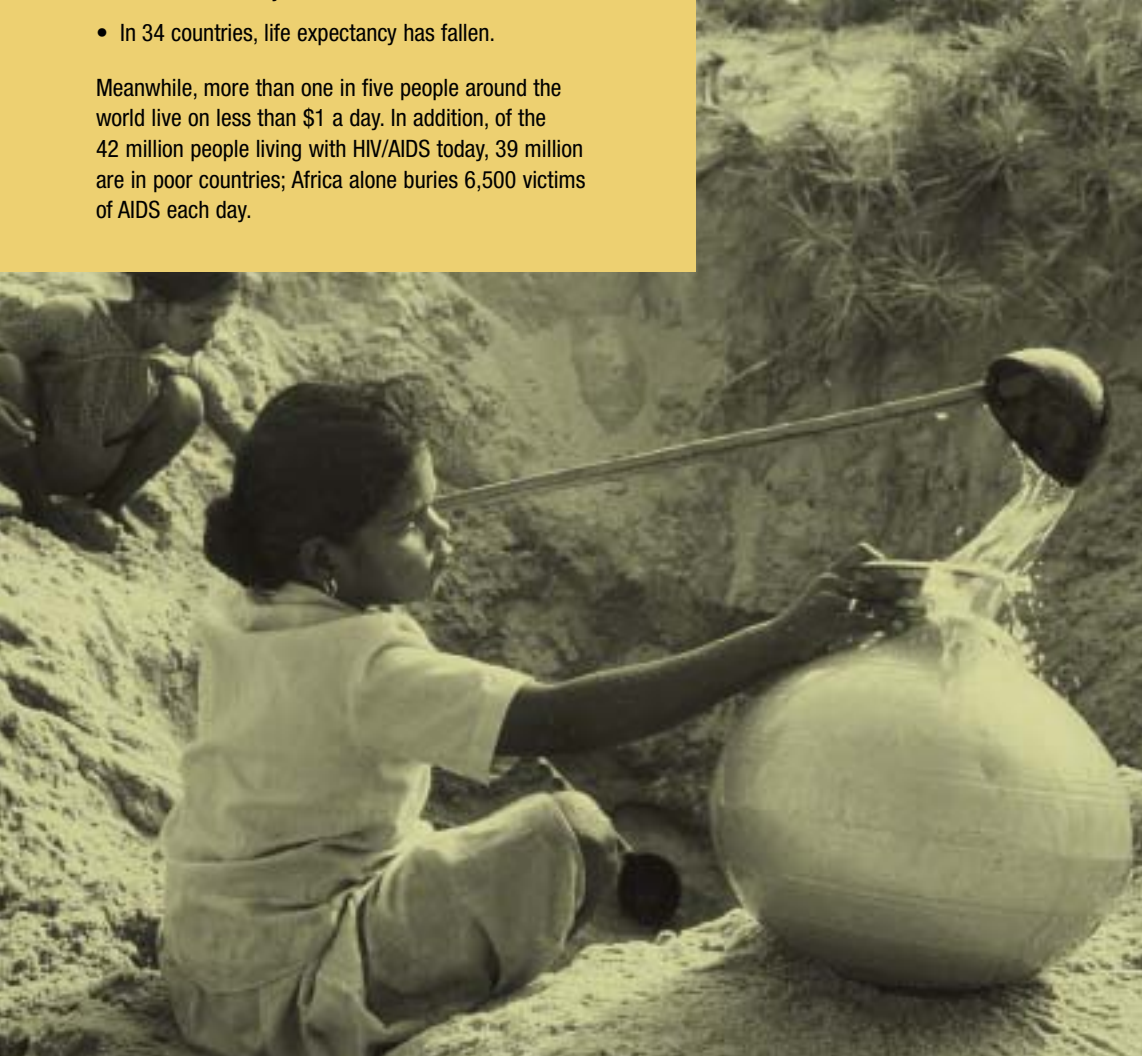


Poor Progress

According to the 2003 Human Development Report, 54 countries are poorer now than in 1990. In fact, since 1990, development indicators have shown that progress in parts of the developing world is actually declining:

- In 21 countries, more people go to bed hungry.
- In 14 countries, more children are dying before their fifth birthday.
- In 34 countries, life expectancy has fallen.

Meanwhile, more than one in five people around the world live on less than \$1 a day. In addition, of the 42 million people living with HIV/AIDS today, 39 million are in poor countries; Africa alone buries 6,500 victims of AIDS each day.



We fight against poverty because hope is an answer to terror. We fight against poverty because opportunity is a fundamental right to human dignity. We fight against poverty because faith requires it and conscience demands it. And we fight against poverty with a growing conviction that major progress is within our reach.

President George W. Bush, UN Conference on Financing for Development, Monterrey, Mexico, March 22, 2002



The Imperative of Political Will: Making the Case

MANY POVERTY REMEDIES ARE BOTH available and affordable. Many more innovative ideas are being developed each day. Yet political will – the key ingredient for success – is maddeningly elusive. And without it, even the most promising initiatives will fall short of their potential.

Polls reveal that Americans vastly overestimate the amount of money their government spends on foreign assistance, and claim in fact to be willing to support amounts as much as 14 times greater than actual aid levels. Despite this, it is difficult to generate momentum for lifting the lives of people abroad when official U.S. deficit projections have reached record levels, poverty levels at home are rising, and American taxpayers see schools failing, hospitals closing, and people going hungry and homeless right in their own neighborhoods.

As a result, despite President Bush's ambitious creation of the Millennium Challenge Corporation, the initiative has not been fully funded in its first few years. Despite the initial promise to allocate \$10 billion over three years, the program is likely to receive only \$2.25 billion in its first two years – less than half the promised amount. Considering that as of July 2004, the Iraq enterprise had received \$126 billion – roughly four times America's entire annual foreign assistance budget and more than twelve times the amount devoted to development – it seems clear that the low priority attached to development is driven not only by public attitudes but by America's leaders as well.

That is why a fundamental obligation for boosting development abroad is building a new consensus at home. Americans must understand the consequences of global poverty, what it means and why it matters. We need to care – not in an abstract way, but as a matter of personal and national priority.

There are three interrelated reasons America must lead in the fight against global poverty.

First, we are morally bound to address global poverty. It is intolerable that half of the world's population struggles to survive on \$2 a day. These citizens of our shared planet have been deprived of their basic rights to health, education, and employment. And in today's interconnected age, none of us can be secure in our own freedom unless all of us are. Indeed, it has been more than 55 years since the adoption of the Universal Declaration of Human Rights, which begins by recognizing the inherent dignity of all members of the human family as "the foundation of freedom, justice, and peace in the world."

Second, the problem of poverty abroad undermines our security here at home and around the world. As the September 11th attacks demonstrated so brutally, we ignore the suffering of distant peoples at our peril. Poverty does not lead directly to terrorism, nor does wealth prevent it. But when people feel they have no future, they become more susceptible to demagogues. And when states collapse, their territory can become a haven for terrorist and criminal organizations.



"[The challenge for developed countries] is how to deal with changing global perceptions about the commitment of developed nations to reducing global poverty, and the extent to which their citizens and representatives see their fates as being linked to the fates of the poorest people in the world. It's as stark as that. Do we really care enough to address global poverty? Because if we care enough, we can."

Mary Robinson

*Executive Director, Realizing Rights:
The Ethical Globalization Initiative*



"I strongly believe that poverty is a national security issue. The poorest places in the world are havens for terrorism. And the American people support foreign assistance; in fact, people guess that 10% of our money goes to foreign aid."

Senator Dianne Feinstein
United States Senate



Third, we have an economic interest in addressing global poverty. The United States invested heavily in the reconstruction of Europe and Japan following World War II, and the flourishing economic ties with these regions today are a testament to the foresight of that policy's architects. Put simply, helping other countries to grow and prosper is in America's interest too.

Our consciences, our hearts, and our faith demand that we tackle deprivation and social injustice because it is the right thing to do. But helping the poor gain access to the shelter, sustenance, education, and opportunity we demand for ourselves does more than make Americans feel good: it makes the world feel good about America. When the United States leads in helping lift others' lives, we enhance our own influence and authority in the world community – making it easier to obtain support for U.S. interests in other areas. Thus, the "hard" national security argument and the fundamental moral case for fighting global poverty converge.

Despite this compelling case for a renewed commitment to development assistance, the issue remains low on the political radar screen. How can we better communicate the urgency of this task with the public in America and abroad?

One way is to better use modern media to spread information and build coalitions for action. Television is a powerful tool; we have seen many times how the so-called "CNN-effect," in which images of devastation are beamed in real time directly into our living rooms, touches individual Americans' conscience and spurs their charitable impulses. As Al Gore said, "Mao Tse Tung's dictum has been mooted: power today comes not from the barrel of a gun but from a TV set." Public-private partnerships could help produce compelling, informative messages about the challenges and triumphs experienced by the poor around the globe and encourage the public to take a longer-term view than simply reacting to the tragedy of the day. At the same time, media can help make anti-poverty efforts more concrete to the average taxpayer





“The greatest strength the U.S. has is our moral authority; if not for that, we couldn’t lead. During the 1990s, I participated in a number of conferences for newly emerging democracies to address issues of governance, and the enthusiasm and respect for the U.S. was remarkable. Our ability to organize these kind of conferences has been undermined; our moral authority is at its lowest ebb.”

Al Gore

45th Vice President of the United States



“Ever since the Berlin Wall fell, the notion of a ‘peace dividend’ captured peoples’ imaginations and expanded the notion of democracy. Today civil society groups argue that democracy should not be reduced to the notion of casting a ballot every four years.”

Kumi Naidoo

Secretary General and Chief Executive Officer, CIVICUS: World Alliance for Citizen Participation

– casting issues in focused terms such as “cleaner water” or “better schools” that resonate with the U.S. public, rather than abstract, overwhelming goals like “global poverty reduction.”

Another approach is through the engagement of civil society, including NGOs, business, and the faith-based community. Indeed, direct participation by civil society is essential to effective democracy. For example, corporate leaders played an indispensable role in building public support for the Marshall Plan, and they can do the same for development aid today. Faith-based communities, with their own well-established traditions of philanthropy and social work, are a critical resource for mobilizing broad-based support, as in the Jubilee 2000 debt relief movement and in the fight for the HIV/AIDS initiative.

It is clear that those who care about global poverty must become more politically engaged. With no congressional constituency, no designated advocate in the White House, and a morass of competing strategic objectives, U.S. development assistance efforts are at an

inherent disadvantage in the budgeting process.

Some believe organizational or institutional change would help, such as consolidating disparate development programs into a single agency, creating a Congressional committee on development, or appointing a White House “development Czar.”

Others, such as Peter McPherson, the President of Michigan State University, argue that meaningful progress will require a “Big Idea” – a Global New Deal, Global War on Poverty, or Alliance for Africa along the lines of President Kennedy’s Alliance for Progress. These experts believe that only a bold, bipartisan vision will have the impact and generate the commitment that the global poverty challenge demands.

Nonetheless, the experience of recent years offers some cautionary lessons about bold U.S. ideas and action. At a time when America’s moral leadership is in question, even an excellent American initiative will fall short of its potential unless it is implemented cooperatively with others.



[M]any of the solutions to hunger, disease, poverty and lack of education are well known. What is needed is for efforts to be properly resourced, and for services to be distributed more fairly and efficiently. None of this will happen unless every country, rich and poor, assumes its responsibilities to the billions of poor people around the world.

UNDP Human Development Report, 2003



The Policy Agenda: Using Foreign Assistance, Trade, and Financing for Development

THE UNITED STATES SHOULD MOVE urgently to strengthen its leadership on aid, on trade, and on financing for development.

FOREIGN ASSISTANCE:

There is a threefold challenge on foreign aid: increasing financial commitments; ensuring aid is more effective; and devising a plan for dealing with failed states and poor performers.

The past few years have seen the creation of new U.S. development programs and an expansion of foreign aid resources unprecedented since the Cold War. Between Fiscal Year 2000 and Fiscal Year 2004, foreign affairs budget authority has grown by \$3 billion to \$26.6 billion, an increase of roughly one-eighth. These increases are driven in large part by new strategic demands for foreign aid associated with the war on terror, the interventions in Afghanistan and Iraq, and strong support for HIV/AIDS spending across the political spectrum.

Yet despite the increase in funding, the United States still spends far less relative to its income than any other wealthy nation. More than three decades ago, wealthy nations agreed to strive for assistance levels of 0.7 percent of GDP. At its Cold War peak, U.S. official development assistance was 0.44 percent of GDP; today, it is a mere 0.14 percent. Per capita, the U.S. taxpayer spends \$35 on development aid each year. This is far below the industrial country average of \$62. Judging by the mid-range of external estimates of the cost for achieving the UN Millennium

Development Goals (including combating HIV/AIDS), the world must increase current development expenditures by \$65.6 billion during the next decade. This would suggest an increase of more than \$20 billion for the United States, if the country assumes a burden in proportion to its share of income.

Making the case for increasing U.S. aid levels to even a fraction of this amount will demand the creative and energetic political participation of a wide development constituency and consensus at the highest levels that fighting global poverty is in the U.S. national interest. Fortunately, in certain areas of poverty reduction, a little goes a long way. If U.S. development aid was raised by \$4 per taxpaying household – the cost of a Starbucks frappuccino – it would pay for the full immunization against all major diseases of 33 million children, accounting for almost all of the children born each year without medical care.

Devoting more dollars to the problem, however, will not be enough. The United States also must make its assistance architecture more coherent and effective.

The recent expansion of resources has taken place through a proliferation of new programs and organizational arrangements, which are layered on top of an already complicated maze of U.S. programs directed at developing countries. While the new initiatives bring a greater sense of ownership on the part of the current administration, they ignore the critical work of reforming existing



"We want to help [the poorest countries] through sustainable growth. According to the Monterey Consensus, developing countries should take responsibility for their own growth; it's the only mechanism for long-term change."

Paul Applegarth
*Chief Executive Officer, Millennium
Challenge Corporation*



Unleashing the Private Sector

The Overseas Private Investment Corporation (OPIC) was founded thirty-five years ago when the flow of foreign direct investment (FDI) to the developing world was tiny. Today's environment is very different; many private-sector political risk insurers and emerging market investment funds are profitable without the need for government aid. Yet many economies in Africa, Central Asia and the Middle East still remain on the margins of global capital markets. OPIC sees its role as supporting public-private arrangements in these developing countries.

- An OPIC partnership in Uganda established a cooperative network of 19,000 farmers to grow chrysanthemums. The American investor, putting down only a small investment, provided free seedlings, set up buying stations close to the farms, and established a communal bank for the farmers.
- A partnership with investors in Kazakhstan helped finance a modern milk collection and distribution system in an area where farmers had previously relied on barter.



structures. However you look at it — relative to the Foreign Assistance Act, relative to the roles of the existing U.S. agencies, or relative to the size of the Foreign Operations Account — U.S. foreign assistance is undergoing a fundamental transformation by default rather than design.

A recent Brookings study counted more than fifty stated objectives for foreign assistance. The daunting multiplicity of foreign aid objectives is further complicated by a swarm of U.S. entities involved in the allocation of aid, often with overlapping jurisdictions. Recent Presidential initiatives and requests entail new structures outside of USAID for the Global HIV/AIDS initiative, the MCC, the Middle East Partnership, reconstruction in Iraq and Afghanistan, a new Famine Fund, and a proposed Emergency Fund for Complex Foreign Crises. Almost all are established outside of the 18 existing U.S. official entities already involved in administering foreign assistance. The foreign assistance structure does not even include a host of other U.S. programs affecting developing countries, such as trade preferences, investment agreements, debt relief, and financial stabilization policy.

The proliferation of programs and the confusion of agency roles and responsibilities are costly to American taxpayers, to the morale and effectiveness of those administering the programs, to America's effectiveness as a development partner, and most directly to the intended beneficiaries. Going forward, there is an urgent need to develop an overarching strategy and operational coherence for U.S. foreign assistance. And for each category of assistance, it is critical to be clear about objectives, hard-headed about results, and much better coordinated with the international community.

The goal should be a seamless continuum encompassing humanitarian relief, post-conflict reconstruction, strategic assistance, and development assistance for poor performers. This last point is especially important in the national security context. The emphasis the MCC places on democratic reformers is laudable. However, the most critical problem facing the global community comes from failed states such as Somalia and Sudan, which — as we learned on September 11th — can become ideal operating centers for terrorist groups like al Qaeda.

Some are even revisiting the concept of trusteeship for the most hopeless cases, with



U.S. leadership under UN or multilateral auspices, while others see the United States as particularly ill-suited to the challenge of taking over dysfunctional nations.

TRADE:

The challenges around trade are multifaceted: to get back on track with the multilateral agenda that promises the greatest benefits; to deal with difficult issues like labor, the environment, and especially agriculture; and to ensure that efforts to accelerate the long-term growth that comes with trade are accompanied by measures to support the short-term losers.

The issues are complicated by intense emotions on all sides. Unlike foreign assistance, which has no organized U.S. constituency and no Americans directly affected, international trade negotiations have distributive consequences at home as well as abroad and are thus inseparable from domestic politics – sometimes as victim, sometimes as beneficiary. Ultimately, however, U.S. policies should be guided by the basic recognition that the point of trade is to grow our standard of living at home and build strong, stable partners abroad.

The place to start is with a commitment to

revitalize the multilateral agenda. The recent shift in the U.S. posture in favor of bilateral deals has been justified as a mechanism for achieving progress on issues that have stalemated in multilateral arenas and as a spur to “competitive liberalization” at the regional and multilateral levels. But critics worry that the change in U.S. position has given the green light to a host of other countries, most notably China and Japan, to actively pursue their own discriminatory deals. And although there is ample evidence of competitive liberalization, so far the competition has been focused around getting into the queue for a bilateral agreement with the U.S., prompted by concerns about diversion of investment to countries with signed deals. Finally, due to the large number of interested parties and economic free rider problems, multilateral deals are the only way to address issues of most concern to developing countries, such as antidumping rules and agricultural subsidies.

Many Americans would like to see labor and environment addressed in the trade negotiating arena. Proponents argue, for example, that wage increases and improved working conditions in developing countries lead to the growth of the middle class, which quickly learns to exercise its political power. They



“Bilateral free trade agreements are damaging the global trading system. They are undermining the most favored nation rule [that] ensures equal treatment in the WTO. Bilateral deals have become a vehicle for introducing extraneous issues into the WTO for the benefit of narrow U.S. domestic interests.”

Jagdish Bhagwati
Senior Fellow, Council on Foreign Relations

“The most critical question when dealing with a failed state is, ‘How can intervention be reconciled with the principle of national sovereignty?’”

George Soros
Chairman, Open Society Institute



point out the dangers of a race to the bottom between developing countries if trade agreements are implemented without standards for consumer protection, working conditions, and the environment. But critics worry that such standards – if set at levels inappropriate to the level of development – could instead slow economic progress and at worst could be masquerading as barriers against trade itself.

No less controversial is the question of agricultural trade. On the one hand, there is widespread agreement that agricultural liberalization is the single most significant item on the pro-poor trade agenda. With agriculture subsidies roughly six times greater than aggregate aid flows, the large majority of developing country populations still dependent on rural livelihoods (compared with fewer than 3 percent in rich countries), and the glaring discrepancy between liberalization in manufacturing and agricultural trade, the status quo defies any notion of fairness or reason. On the other hand, a fair international solution is difficult to map out, since estimated gains depend not only on subsidy reductions on the part of rich countries but also on agriculture trade barrier reductions in developing countries, where there is stiff resistance. To further complicate matters, many poor countries rely on cheap agricultural imports of food staples to boost welfare. This is not an argument in favor of maintaining subsidies but simply illustrates the complexities involved.

On the one hand, there is a crying need to raise the public’s awareness of the important

role of trade in alleviating poverty around the world – which calls for a simple and compelling message. Against this is a critical caution against overpromising or oversimplifying, since the distributive consequences of any trade deal are likely to be complicated. If we suggest to U.S. or foreign publics that removing any given subsidy will dramatically help the poor, and in fact the effect is negligible or even negative, it could create a backlash against market opening abroad and a damaging sense of futility at home.

Reasserting U.S. leadership in the international trading system will require an enormous shift in the domestic political equation. Because current subsidies affect about 80 percent of U.S. agricultural production and are not for the most part directed to the poorest farmers, political support for the status quo is deeply entrenched, exacerbated by the 2002 Farm Act. U.S. agricultural producers are for the most part dubious about expanded market opportunities abroad, given long-standing grievances about the trade practices and hidden market barriers of countries such as France and Japan and disappointment with the opportunities afforded by the Uruguay Round.

Nonetheless, a confluence of forces is pressing for change: the WTO findings against U.S. cotton subsidies and EU sugar, growing budgetary pressures, and, to a lesser extent, the Doha negotiations.

The search is on for out-of-the-box, win-win solutions in areas such as biofuels and



Sending Capital Home

In 2003, according to a World Bank study, officially tracked remittances sent home to developing countries from overseas workers came to \$93 billion – an average of 1.3 percent of receiving countries' GDP. Despite the aggregate power of remittances, their low average size and the lack of coordination among those who depend on them translate into high transaction costs – sometimes as much as 20 percent of the total sum being sent home.

Recently, however, governments have begun to encourage this important source of capital. India and Colombia recently abolished taxes on remittances, and Mexico, Brazil, and Guatemala will introduce identification cards that illegal immigrants can use to open American bank accounts.

In the U.S., Kenneth Dam, former Treasury Deputy Secretary, has said: "We seek to reduce the cost of remittances in three ways: through competition and innovation among banks and credit unions, increased financial education, and improved financial systems. As we reduce the costs, we increase the amount of money that gets home, [thereby] increasing the amount of money available to finance the purchase of consumer durables, the construction and improvement of homes, and the expansion of small businesses."

“There is a trillion dollars in institutional investment funds that invest globally; if we could change the risk-reward equation, we could channel more of that money toward deserving developing countries.”

Richard C. Blum
*Chairman and President,
Blum Capital Partners, LP*



conservation programs, which might break through the current impasse and provide a lifeline to American farmers, even as they help facilitate sustainable development in poorer nations.

The domestic issues around agriculture point to one final, crucial challenge ahead: addressing the social consequences of trade. Domestically and internationally, the gains of trade are measured in the aggregate, yet the losses are felt individually – and acutely. For example, a poll released in August 2004 by The Pew Research Center for the People and the Press found that while a 47 percent plurality of Americans believe NAFTA and other free trade agreements have been a good thing for the country, only 34 percent say such agreements have helped them personally, while 41 percent say they’ve been hurt.

Our failure to deal with the distributional realities of trade has weakened support for trade liberalization – even though history teaches that open trade is a critical conduit for stability and growth, which in turn are the key drivers of poverty reduction. It is time to establish serious, forward-looking programs to help the inevitable “losers” regain their footing at home and abroad. Safety nets, wage insurance, portable health insurance and pensions, retraining, and lifelong education opportunities are just some of the elements to put in place – because without the mechanisms to aid the short-term victims of trade, we will never build the political support to attain the long-term gains.

FINANCING FOR DEVELOPMENT:

Although political will has intensified somewhat in America and other donor countries in the last few years, there is nonetheless a yawning gap between assessed needs and actual contributions. It is critical to increase official flows, even as we recognize that the sums required to finance development are too high to be mobilized from official sources alone. Priority must increasingly be given to deepening and broadening domestic capital markets in poor countries, creating strong environments for foreign direct investment, and creating innovative mechanisms to attract private sector investment in technologies oriented to poor country needs.

To mobilize additional official flows from rich countries, UK Prime Minister Tony Blair and Chancellor Gordon Brown have proposed creating a new capital markets vehicle. The so-called International Finance Facility (IFF) would finance current development investments through the issuance of bonds in the international financial markets, guaranteed against official donor commitments to repay starting in 2015. The IFF has garnered substantial international support and is sure to receive additional momentum from the UK’s leadership of the G8 in 2005.

Beyond the need for official finance at the aggregate level, it also is crucial to mobilize foreign direct investment (FDI) for business development. FDI is important not only as a form of committed capital but also as a



Furthering the Fight Against Disease

Malaria, tuberculosis, and strains of HIV specific to Africa kill 5 million people each year; diseases like schistosomiasis and diarrhea also impose a heavy burden. Yet because of the poverty of the relevant populations and market distortions (such as weak intellectual property rights), there is very little incentive for the private sector to invest in vaccinations and treatments for these diseases. In fact, of the 1,233 drugs licensed worldwide between 1975 and 1997, only 13 were for tropical disease, and less than 5 percent of privately funded global health research funds were spent on poor country diseases. And poor countries with limited health funds suffer from the “free rider” effect: Each might be willing to fund a certain amount of health research, but would prefer that its neighbors spent the money.

Brookings scholar Michael Kremer suggests that firm commitments to buy final-product vaccines or disease treatments are potentially more powerful than traditional research subsidies because they mimic the market by encouraging competition and large scale investments in bringing new pharmaceuticals to market. The Gates Foundation has put the full force of its funding behind catalyzing potential breakthroughs such as this one in the fight against infectious disease.

The idea has also been promoted by policy leaders (including former U.S. Treasury Secretary Larry Summers, the WHO, former UK Development Minister Clare Short, and UK Chancellor of the Exchequer Gordon Brown), as well as in legislation introduced under the Clinton administration. Going forward, pharmaceutical companies will only make the requisite up-front investment if a credible international institution underwrites a legally binding contract.





“It’s hard to disentangle correlation and causation when you’re trying to determine what works in development... Formal incentives [from government institutions] might not cause growth, but we’ve got to believe that if they encourage the rule of law and protection of property rights, that’s a good thing.”

Smita Singh

Special Advisor for Global Affairs, The William and Flora Hewlett Foundation

channel for transferring management skills, technology, corporate governance practices, and a host of other business practices into the local economy. These ripple effects are dramatically evident in China, which recently surpassed the United States as a destination for FDI.

In addition, remittances that individual emigrants send back to their families are a critically important source of funding for developing countries, which amount to tens of billions of dollars each year. Remittance payments are often less volatile in response to economic cycles than FDI – indeed, they may even rise in response to economic hard times.

Innovative approaches to private-public risk sharing are also a major focus for investments in products and technologies tailored to poor country challenges. Here, the reason for private sector “under” investment is the considerable gap between the potential social return and the much smaller appropriable market return. It is clear that in certain key areas, such as energy, water, and sanitation, public-private partnerships will be essential.

Finally, mobilizing domestic capital for small- and medium-sized businesses is a critical development priority in countries with poorly developed financial systems. As UNDP Director Mark Malloch Brown has said, “If we could move domestic savings into debt and equity capital to fund economic activity at home, it could unlock dramatic growth in the private sector of these countries, particularly among actors most underserved

by existing institutions – small and medium-sized enterprises and the poor.” The UN Commission on Private Sector and Development has highlighted the need for an integrated approach combining official support for business finance and financial sector development, local regulatory reform to facilitate business creation and contract enforcement, and access to skills and expertise through international partnerships and technical assistance.





"The U.S. ought to lead our G8 partners in a comprehensive, long-term commitment to foster global growth and freedom through substantially increasing aid, free trade, investment in micro- as well as global enterprises, and debt relief, while fighting corruption and strengthening democratic institutions."

Susan Rice
*Senior Fellow, Foreign Policy Studies,
The Brookings Institution (Leave of
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[W]e are remote from the scene of these troubles. It is virtually impossible at this distance merely by reading, or listening, or even seeing photographs or motion pictures, to grasp at all the real significance of the situation. And yet the whole world of the future hangs on a proper judgment. It hangs, I think, to a large extent on the realization of the American people.... What are the sufferings? What is needed? What can best be done? What must be done?

George Marshall, Speech announcing the Marshall Plan,
Harvard University, June 5, 1947



Realism and Idealism: Recognizing Complexity and Reinforcing Commitment

IN THE WAKE OF WORLD WAR II, THE United States faced seemingly insurmountable challenges of global turmoil, risk, and suffering. At war's end, much of Europe was in ruins; Britain faced a paralyzing power shortage; factories had ground to a halt across the continent; millions feared starvation. Even as Americans yearned to return to normalcy on the home front, a brutal, malevolent enemy was consolidating power and influence abroad.

Confronted with that desperate reality, an extraordinary generation of American leaders joined forces with like-minded leaders in Europe to build a durable lifeline of support – the now-legendary Marshall Plan. Driven both by self-interest and duty, by strategic calculation and heartfelt compassion, the United States rescued Europe and reshaped its own role in the world. As Walter Isaacson, President and CEO of the Aspen Institute, has said, “By this act, the U.S. would help save thousands of lives, indeed an entire society. It went without saying that a revitalized Europe would be an active trading partner for the U.S. and a bulwark against Soviet encroachment.” By the end of the program, the plan had pumped \$13 billion into Europe's ailing economies – the equivalent of about \$90 billion today. Dean Acheson described it as “one of the greatest and most honorable adventures in history.”

Now, as a new generation struggles to meet its own very different challenges, the spirit of General Marshall's words from 1947 still resonates. When Americans consider global

poverty, we are remote from the scene of the troubles. It is virtually impossible to appreciate the magnitude and real significance of the challenge. And yet, “the whole world of the future hangs on a proper judgment.” Our task today is to get that judgment right.

The imperative of action does not permit us to gloss over the complexity of addressing global poverty. Development is the work of generations. Solutions may entail trade-offs, and long-term gains may create short-term losers. In our efforts to rally resources and public support, governments, private actors, and the NGO community alike need to resist the urge to oversimplify either the problems or the fixes. Expectations must be managed among developed and developing nations, lest disappointments breed resentment or resignation.

Yet for all the complexity, for all the difficulty, one thing is crystal clear: If we do not work for common interests now, the gaps between rich and poor will grow, and the common ground among us will shrink.

Global poverty is not a problem we can count on time to solve. In the long run, inaction will cost us more than wisely investing money and brainpower now.

The United States has the capacity to do more. We have the knowledge. And we have the spirit. Our generous impulse is at the core of who we are, as a society and as a nation. With far-sighted leadership, it can be channeled into a great, noble, and effective enterprise to feed the hungry, heal the sick, educate the young, shelter the needy, and build a better, safer world.



“The new divide is between those who feel like winners in the process of globalization and modernization and those who feel like losers. When self-perceived losers outnumber self-perceived winners, it's lose-lose for everyone... That's why another phrase from America's political past needs to be dusted off, put back in service, and internationalized: the war on poverty. Only if the long struggle ahead is also fought on that front will it be winnable.”

Strobe Talbott
President, The Brookings Institution

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