

The Free Market For Hope

How a fabled capitalist would take on the root of terror: poverty

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Oct. 29 issue — President George W. Bush has warned that the U.S. strikes against Afghanistan are only the first stage in a long struggle. Although we need to fight a war on terrorism, we must also pursue a constructive agenda. Correcting the inequalities of globalization will not get rid of terrorism, but it will help to alleviate the grievances on which it feeds. Well before Sept. 11, I began drafting a series of proposals with this in mind. In the wake of the attacks, I believe these proposals become even more relevant.

WE NEED NEW ideas for fighting global poverty, ideas as sweeping as those that set the stage for global recovery after World War II. Today international institutions dedicated to sustaining financial markets are far from perfect. But they are more effective than those dedicated to public goods: preserving peace, alleviating poverty, protecting the environment, improving health, monitoring labor conditions. This disparity has distorted global development. Trade and financial markets generate wealth effectively but cannot take care of other social needs.

Worse, the globalization of financial markets makes it more difficult for individual states to provide public goods. National governments find it harder to impose taxes and regulations because capital can go elsewhere. Moreover, many countries lack good government. Oppressive or corrupt regimes are the leading causes of poverty and misery today. It is thus not enough to devise better means to provide public goods; we must also find ways to encourage (not compel) sovereign states to make economic and political reforms. It would be absurd to sanction poor countries for failing to fight poverty.

Current foreign-aid programs are rarely effective and often counterproductive. Generally speaking, they are designed to serve the interests of donor countries, which like to channel aid through their own nationals. International institutions prefer to send foreign experts rather than cultivate domestic expertise. Donor countries insist on retaining control, resulting in a lack of coordination. Recipient governments often divert resources for their own purposes. There must be a better way.

I propose the creation of an international foreign-aid “market.” An international board would be established, operating under the aegis of the IMF but composed of independent persons appointed on their merit. The board would decide on the eligibility of programs and would monitor them, but would have no authority over the disbursement of funds. Donor countries would choose which programs to support, creating a marketlike interaction between donors and applicants.

To make funds available for this market, I propose that the International Monetary Fund launch a new issue

of Special Drawing Rights. A \$27.5 billion SDR issue was authorized in 1997 and ratified by 71 percent of IMF members. This could be used for international assistance immediately if the United States Congress ratified it and developed countries pledged their SDRs to programs endorsed by the new international board.

Three types of programs would qualify:

Global campaigns to provide such public benefits as eliminating HIV/AIDs. These campaigns could bring together international agencies, such as the World Health Organization, national governments and private foundations. (My foundation has helped elaborate a \$9 billion Global Plan to Stop Tuberculosis, which brings together all the players. It will be launched in Washington this week.)

Government-sponsored programs to alleviate poverty. These would be proposed by the governments of developing countries and subscribed to by donor governments. If governments failed to live up to their promises, donors would withdraw support. International financial institutions would assist in program design, contribute personnel and provide funding.

Nongovernmental development programs. These would be particularly valuable in countries with repressive or corrupt regimes. Instead of reinforcing bad governments, international assistance would provide a countervailing source of support to civil society. Even in countries with government-sponsored programs, many activities are best conducted outside the government. For example, private microloans have been a big success in Bangladesh but must be scaled up significantly to become a factor in global economic progress.

It is important to realize that a “foreign-aid market” will always be less efficient than a private market. Public goods like peace, health and poverty are much more difficult to measure than profit. But if my scheme is successful, the initial SDR issue could be followed by annual issues of increasing size. Eventually it could make a significant impact.

The war on poverty has become even more pressing since Sept. 11. We must do everything possible to eradicate terrorism, but if this is all we do, we are letting terrorists set our agenda. It is worth noting that the Bretton Woods Conference, which paved the way for postwar prosperity, took place in July 1944, more than nine months before VE Day. Even in the heat of battle, the leaders of the Allied powers recognized that military victory would not be enough to secure lasting peace. I hope that the leaders of the war against terrorism today will have the same bold vision.

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