



# **Tackling Poverty: A Global New Deal**

**A MODERN MARSHALL PLAN FOR  
THE DEVELOPING WORLD**

HM TREASURY

*"Let it be our generation that takes up the challenge and discharges our duty to remove the scar of poverty and hopelessness from the world's soul.*

*Let it be our generation that shows those who suffer in the bleakest places of the world that we can light a candle of hope which, radiating outwards, can cut through the darkness and shame of injustice and emblazen across the world a message of confidence and faith in the future."*

**The Rt Hon Gordon Brown MP  
Chancellor of the Exchequer**

A pamphlet based on the speeches by the  
**Rt Hon Gordon Brown MP, Chancellor of the Exchequer**  
to the New York Federal Reserve on 16 November 2001  
and the Press Club, Washington D.C. on 17 December 2001

**HM Treasury, February 2002**

## **I. INTRODUCTION**

Since the tragedy of September 11<sup>th</sup> the international community has had to confront new challenges.

The alliance we have forged against terrorism – an alliance across thousands of miles, across boundaries of nationality, faith and race, across all conditions and stages of economic development – confirms a profound and pervasive truth: that in the new global economy we are, all of us – the richest countries and the poorest countries – inextricably bound to one another by common interests, shared needs and linked destinies. What happens to the poorest citizen in the poorest country can directly affect the richest citizen in the richest country.

And there is now growing agreement that as we work together to fight terrorism we must also work together to address the causes of poverty – not just because to do so is central to long term national security and peace, but because to do so is right – a moral imperative, an economic necessity and a social duty.

Some critics of globalisation say the issue is whether we should have globalisation or not. In fact, the issue is whether we manage globalisation well or badly, fairly or unfairly. And we have a choice.

Globalisation can be for the people or against the people. Just as in any national economy economic integration can bring stability or instability, prosperity or stagnation, the inclusion of people or their exclusion, so too can integration in the global economy.

Managed badly, globalisation could leave whole economies and millions of people in the developing world marginalised. Managed wisely, globalisation can, and will, lift millions out of poverty and become the high road to a just and inclusive global economy. So the real issue is not whether we are against globalisation: it is whether we are for social justice.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

---

Many benefits have already been secured from globalisation. Since 1970, life expectancy in developing countries has increased by nearly ten years. Child mortality has almost halved. And the proportion of illiterate people has reduced by a quarter. In the last ten years, the numbers of extreme poor has declined by nearly 20 million. And developing countries which have participated in the global economy have enjoyed an increase in growth per head from less than 3 per cent a year in the 1970s, to 5 per cent a year in the 1990s.

But millions have been excluded from the benefits of globalisation. Half the world's people live on less than two dollars a day and around one billion do not have access to safe drinking water. One in five children never go to school and almost one billion adults cannot read or write. Preventable diseases like malaria and tuberculosis kill seven million children every year and in South Africa, Botswana and Zimbabwe half of all 15 years olds are expected to die of AIDs. In some sub-Saharan African countries it is estimated that HIV/AIDs could cut their national incomes by over 20 per cent. The problems in Africa are of particular concern – as Tony Blair has emphasised – and the recent joint initiatives by the G8 and African leaders under the New Partnership for Africa's Development will be crucial.

But whatever our concerns about the sheer scale of the challenge of globalisation, we must resist two opposite temptations: the first is to retreat into the outdated protectionism and isolationism that would deprive developing countries of what they need most – development itself; the second is to recycle the old *laissez-faire* that says there is nothing that can be done. To succumb to either temptation would hurt both the powerless and the prosperous.

Neither isolationism nor the old *laissez-faire* will work. In the last 50 years no country has lifted itself out of poverty without participating in the global economy. It is not so much inclusion in the global economy that hurts the poorest countries as their exclusion. And we will best help the poor not by opting out or by cutting cooperation across the world but by strengthening

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

---

that cooperation, modernising our international rules and reforming the institutions of economic cooperation to meet the new challenges.

So the question is not whether we move forward with globalisation but how, and to whose benefit. And while there are extreme views that cannot – and never should be – accommodated, the last few years has seen increasing agreement about the next steps forward.

Thirty years ago, twenty years ago, perhaps even ten years ago, the divisions between pro- and anti-globalisation campaigners would have been so fundamental that no meeting of minds would have been possible. But today many people who are wrongly labelled “anti-globalisation campaigners” – and who rightly campaign for trade on fair terms for developing countries – would also acknowledge:

- the importance of markets;
- the pivotal role of private capital; and
- that while the unfettered power of any vested interest anywhere is unacceptable, private companies and private – not just public – investments are crucial to making global economic development work in the interests of the excluded.

But just as isolationism is discredited, so too is the old laissez-faire approach of doing nothing. Experience from the 1980s onwards has also moved us on from the assumption that just by liberalising, deregulating, privatising and simply getting prices right, growth and employment would inevitably follow – a set of assumptions about “absentee government” that has proved inadequate to meet the emerging challenges of globalisation in, for example, South East Asia where public investment has played a catalytic role in securing growth.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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We know that stability is the precondition for global prosperity and growth. And because there is no long term trade off between inflation and growth or unemployment, it was of course right in the wake of the oil price rises of the 1970s that in the 1980s the control of inflation was the overriding priority – and today, country by country, the importance of monetary regimes that ensure low inflation is well understood.

As different understandings of the world economy converge, we are moving towards a new paradigm in which low inflation and fiscal stability are the necessary but not sufficient conditions for securing prosperity for all. The new paradigm seeks to restore to the heart of economic policy the high ideals and public purpose of 1945 which made governments and countries seek for every country the highest sustainable levels of growth and employment as the means to prosperity for all.

From the foundation of stability, a modern strategy for prosperity involves a concentration on what brings not just low inflation but sustainable development. And we must now recognise as important:

- the pursuit of competition and not just privatisation;
- the importance of public as well as private investment; and
- the need for proper financial supervision as well as liberalisation, including a route map sequencing the liberalisation of capital markets.

And progress on the trade round at Doha has shown that there is an understanding that extending trade is not a threat to the poorest countries but can be a benefit to all, including them.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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The UK Government's White Paper on Globalisation<sup>1</sup> published by Clare Short, UK Secretary of State for International Development, in December 2000 set out the principles behind our approach to the challenges of globalisation:

- more effective governments and markets are essential if developing countries are to reap the benefits of globalisation;
- investing in people, and wider sharing of skills and knowledge are vital if poor people and nations are to rise out of poverty;
- a central feature of globalisation has been the substantial increase in the movement of private capital around the world;
- trade has an important role in helping developing countries boost their economic growth and to generate the resources necessary for reducing poverty. Globalisation has reduced trade barriers and created real development opportunities;
- globalisation is creating new challenges for the management of the global environment; and
- development assistance must be used more effectively. Globalisation has led to a huge growth in financial flows, but many of the poorest countries are failing to attract these flows.

<sup>1</sup>*Eliminating World Poverty: Making Globalisation Work for the Poor*, Cm 5006 White Paper on International Development presented to Parliament by the Secretary of State for International Development, December 2000

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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A strategy for prosperity for all requires us to combine policies for economic success and social justice and to tackle the causes of poverty. And this has led countries, international organisations and non-governmental organisations to sign up to the historic shared task of setting and meeting eight Millennium Development Goals.

The United Nations (UN), International Monetary Fund (IMF), World Bank, OECD, G7, G20 and all major developed and developing countries have signed up to the goals of:

- eradicating extreme poverty and hunger by halving, between 1990 and 2015, the proportion of people whose income is less than one dollar a day and the proportion of people who suffer from hunger;
- achieving universal primary education, by ensuring that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling;
- promoting gender equality and empower women by eliminating gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015;
- reducing by two thirds, between 1990 and 2015, the under-five mortality rate;
- improving maternal health by reducing by three quarters, between 1990 and 2015, the maternal mortality ratio;
- combating HIV/AIDS, malaria and other diseases;
- ensuring environmental sustainability, including halving by 2015 the proportion of people without sustainable access to safe drinking water and by 2020 to have achieved a significant improvement in the lives of at least 100 million slum dwellers; and

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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- developing a global partnership for development.

To will these historic and shared ends we must now will the means.

The proposal in this pamphlet involves not just a new approach to poverty and development that refocuses development aid – treating it as investment for the future – but also a new deal for the global economy.

This new deal is grounded in both new opportunities for, and new responsibilities accepted by, developed and developing countries alike. It seeks to build the economic foundations for a virtuous circle of debt relief, poverty reduction and sustainable development and to ensure that the world's poor can earn a fair share in the benefits of global prosperity. And it does so in a new, more global, economy.

There are four building blocks of this global new deal.

The first building block is an improvement in the terms on which the poorest countries participate in the global economy and actively increasing their capacity to do so: new rules of the game in codes and standards that all countries – rich and poor – can sign up to.

The second building block is the adoption by business internationally of high corporate standards for engagement as reliable and consistent partners in the development process. My main proposal is to back up a code of corporate standards with support for the creation, in developing countries, of investment forums between public and private sectors.

The third building block is moving forward the great progress made at Doha by the swift adoption of an improved trade regime essential for developing countries participation on fair terms in the world economy.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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Stability, investment and trade are the main long term drivers of global prosperity but not all will benefit without a fourth building block: a substantial transfer of additional resources from the richest to the poorest countries in the form of investment for development. Here the focus must not be on aid to compensate the poor for their poverty, but investment that builds new capacity to compete and addresses the long term causes of poverty.

And there is an urgency for action.

America's post-Second World War achievement in what we now call the Marshall Plan should be our inspiration in this post-Cold War world – not just for the reconstruction of Afghanistan but for the entire developing world.

The plan proposed by the US Secretary of State George Marshall transferred one per cent of national income every year, for four years, from America to Europe – in total the equivalent in today's money of \$75 billion – not as an act of charity but as a frank recognition that like peace, prosperity was indivisible; that to be sustained it had to be shared; and that to achieve this goal would require a new public purpose and international cooperation on a massive scale.

But although today's global new deal is being constructed in new times, it is based on the Marshall Plan's enduring values. Like our predecessors we understand that national safety and global reconstruction are inextricably linked. Like them we see the need for a new economic leadership – a comprehensive plan that goes beyond temporary relief to wholesale economic and social development. Like them we see the need for a new, global social and economic order grounded in both rights and responsibilities accepted by all. Like theirs, our proposals call on the poorest countries themselves to rise to the challenge.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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Our argument is that by each meeting our obligations to each other, all countries, rich and poor, can share in the benefits of this new global economy:

- for the richest countries: new responsibilities – to open up markets, reform international institutions and transfer resources to developing countries to help reduce poverty – but also new opportunities – from increased trade and a globalisation that works in the public interest; and
- for the poorest countries: new responsibilities – to pursue transparent, corruption free policies for stability and the attraction of private investment – and yet new opportunities too – with access to increased trade and investment, supported by a transfer of resources from rich to poor.

*"The issue is not how to stop globalisation. The issue is how we use the power of community to combine it with justice. If globalisation works only for the benefit of the few, then it will fail and deserve to fail. But if we follow the principle...that power, wealth and opportunity should be in the hands of the many not the few – if we make that our guiding light for the global economy – then it will be a force for good".*

The Rt Hon Tony Blair MP, UK Prime Minister, October 2001

## II. RULES OF THE GAME

The first building block is improving the terms on which the poorest countries participate in the global economy and actively increasing their capacity to do so.

In a world of ever more rapid financial flows, developing countries who need finance most are, at the same time, the most vulnerable to the judgements and instabilities of global markets. We know that capital is more likely to move to environments which are stable, and least likely to stay in environments which are, or become, unstable. And we know that in unstable economies, poverty rises.

So for every country, rich or poor, macroeconomic stability is not an option but an essential pre-condition of economic success and the fight against poverty. It is in the interests of stability, and of preventing crises in developing and emerging market countries, that we seek a new rules-based system. And such a rules-based system depends on there being clear rules, proper transparent procedures for decision-making and well understood systems of accountability.

*"Most of all, globalisation requires cooperation, along with institutions to organise many of its forms. And to engage the true commitment and support of the world's people, that cooperation needs to be based on shared principles and rules"*

Horst Köhler, Managing Director, International Monetary Fund, January 2002

*(a) Codes and standards for transparency*

The adoption of clear and transparent procedures in economic decisions – for example, presenting a full factual picture of the country's debt position and the health of the financial sectors – and a willingness to be monitored for them would improve stability, deter corruption, provide to markets a flow of specific country-by-country information that would engender greater investor confidence and reduce the problem of contagion. And these standards can also support countries along the way to liberalisation of their capital markets, helping to avoid destabilising and speculative inflows. This approach is a better guarantee of both an investment friendly environment and long-term stability.

Meeting these international codes and standards is an important signal that countries are seriously committed to building good governance. Transparent, responsible and professional institutions and processes, along with the rule of law, are essential preconditions for sustained development.

Corruption is wrong in itself. It also diverts resources away from activities that are vital for poverty reduction, deters private investors and may even erode public support for development assistance. As Clare Short, UK Secretary of State for International Development, has argued, fighting corruption at all levels is therefore a key priority for development and the international institutions are already taking positive action in this area, including working with developing countries to diagnose the causes of weak governance and implement programmes to address them. And as they work with countries to diagnose the roots of poor governance, they are providing assistance to help countries implement reforms necessary to meet internationally accepted codes and standards.

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

---

*"Poor people suffer most from corruption. They are excluded from schools, health care and drugs because they cannot afford to make extra payments demanded by corrupt officials. They are denied justice when the legal system is twisted by bribery. And they suffer when corruption diverts scarce resources away from development or deters essential domestics and international investment"*

The Rt Hon Clare Short MP, UK Secretary of State for International Development, December 2000

And the adoption of codes and standards is not, as some have argued, a modern version of imperialism. They are a route to fairness – a means by which the public interest triumphs over a crude laissez-faire which would penalise all countries for the mistakes of some. They are thus a means by which we reduce the likelihood of crises and secure growth and prosperity. At the heart of recent proposals by African leaders under the New Partnership for Africa's Development is a desire to address economic governance, partly through improved codes and standards – a recognition from African leaders that these should form the basis of new measures to address development in Africa.

However, we recognise that implementing these codes will mean radical changes in the way governments and financial markets operate. So we propose that to make possible these changes the international community should offer direct assistance and transitional help to support the early implementation of such codes. And to provide help for the poorest countries who may lack the necessary expertise, the UK Department for International Development is working with the IMF and World Bank to support technical assistance in this area.

In addition, the IMF's Contingent Credit Line facility should play a stronger role in helping member countries to strengthen their financial position and guard against contagion. The UK has therefore called upon the IMF to take a

more proactive approach to promoting the Contingent Credit Line, as another key part of their policy on crisis prevention.

*(b) Surveillance*

Crisis prevention is enhanced not just by the operation of codes and standards and the offer of proportionate help to countries who adopt them, but also by rigorous surveillance, effective early warning procedures and a more consistent engagement by the private sector.

The IMF's Article IV consultation process – central to its bilateral surveillance and featuring reviews of economic and monetary developments in each of its 183 member countries on a broadly annual basis – is an invaluable tool in crisis prevention. To be fully effective, the surveillance process must be transparent, authoritative and independent. Over recent years we have seen greater openness in publishing Article IV assessments and their press notices, and have established the Article IV process at the centre of the monitoring of codes and standards. An independent evaluation office has also been established to provide independent evaluation of the IMF's work. The evaluation office is committed to consulting extensively with internal and external stakeholders on their work programme and publishing completed reports.

But there is a case for going further. Enhancing the IMF's role in surveillance of the world economy – making it more transparent, more independent and, therefore, more authoritative – would contribute to greater stability and ensure it is seen to be providing impartial advice independent of the inter-governmental decision-making process.

Whilst governance of the IMF and decisions about financial support for countries are matters for the IMF Board, we believe that there is now a case for enhancing the IMF's surveillance and monitoring functions so that surveillance is – and is seen to be – independent of decisions on medium-term lending and crisis intervention. One option is to separate these

functions, and to adapt the internal structure of the IMF. This would enhance the integrity and robustness of the surveillance process, contributing towards more effective and timely decisions in times of crisis.

Financial crises can set back development for years. There have been over 50 banking crises since 1970. Yet many could have been foreseen, and some avoided, by proper national regulation and international cooperation. Domestic financial supervision matters in a way not previously understood in models of development which concentrated on raw materials and capital. And to tackle financial sector problems which have international repercussions, we have proposed that the Financial Stability Forum – which brings together the combined expertise of the IMF and key regulatory authorities – should evolve effective early warning systems to tackle national financial sector problems which have international repercussions.

*(c) Improving crisis resolution mechanisms*

So our new approach places new responsibilities on governments to improve transparency and to subject themselves to surveillance. With this in place we should demand commensurately increased responsibilities by the private sector, in particular clearer presumptions established about the role of the official and private sectors at times of crisis resolution. These include encouraging creditors and debtors to find voluntary, market-oriented solutions to their payments problems through, for example, the more widespread adoption of collective action clauses, and the establishment of well-run investor relations programmes; and a clearer presumption against supporting unsustainable policy frameworks, identified as such through IMF surveillance.

*"Private sector involvement in the resolution of financial crises must become the rule, not the exception. It is necessary that the international community convey this message to market participants"*

Hans Eichel, German Minister of Finance, April 2000

We also need to resolve the legal obstacles that stand in the way of effective debt rescheduling – including the steps that would create an effective international bankruptcy procedure. And we should be prepared – where other reasonable options have been exhausted – to support a country that must impose temporary capital controls, or a standstill on its debts, as part of an orderly process of crisis resolution.

*(d) Effective international institutions*

In recent years, under the leadership of Jim Wolfensohn and Michel Camdessus and now Hans Köhler, the IMF and the World Bank have reformed to become more effective, transparent and accountable. In these years we have seen them take a decisive step away from an emphasis on the old structural adjustment policies towards a new approach in which sustainable development and anti-poverty policies are implemented at a national level through poverty reduction strategies.

*"Effective, accountable and strong international financial institutions remain a very important part of the international financial architecture and a strong national interest"*

Paul O'Neill, US Treasury Secretary, April 2001

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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A major step forward has been the establishment of the poverty reduction strategy process, with developing countries now leading national processes to develop poverty reduction strategies. This includes consulting widely with civil society and producing a Poverty Reduction Strategy Paper (PRSP) as a framework for IMF, World Bank and other donor support.

The poverty reduction strategies set out an individual government's approach and its key priorities in the fight against poverty. And they provide a budgetary framework to allocate government revenue, aid and debt relief so that the impact on poverty reduction is maximised. They must be clearly linked to the Millennium Development Goals, with measurable indicators to monitor progress, and civil society in the poorest countries must engage in, and own, their own poverty strategies. The experience of many countries has shown that economic growth is best sustained if anti-poverty strategies are not just country-driven but community-driven – developed transparently with the broad participation of civil society, key donors and regional institutions.

Clare Short, UK Secretary of State for International Development, has committed our Government to encouraging not only the early implementation of poverty reduction plans but to provide technical and other back-up to help the implementation of these strategies.

*"Country-owned poverty reduction strategies – based on broad citizen participation and assent, comprehensive in scope, long term in perspective, results-orientated in approach, and support by external partners – are a critical weapon in attacking the scourge of world poverty and enhancing national and global security and peace"*

James Wolfensohn, President of the World Bank, January 2002

Developing countries are thus more able to design pro-poor budgets and policies which direct government spending towards their social sectors, basic

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

---

infrastructure and other activities that contribute to reducing poverty effectively. Alongside the implementation of the Heavily Indebted Poor Countries (HIPC) initiative, co-operation between the institutions on financial sector reform and the establishment of the financial sector assessment programme, this is yet another good example of the World Bank and the IMF collaborating effectively to achieve their shared goals.

But we are not complacent and are continuing to persuade the Bank and the Fund to go further to increase transparency, streamline conditionality, and improve the effectiveness of their collaboration. If we can do this, we can maximise the impact of their policies to reduce poverty, increase growth, and strengthen the stability of the international financial system.

### III. INVESTMENT

Open, transparent and accountable national policies, internationally monitored, are the foundation for macroeconomic stability. But we must also do far more to ensure growth and development by taking steps to promote and raise domestic and foreign investment – and by finding better ways for public and private sectors to work together in raising investment levels.

*“The fight against world poverty...requires investment, not least in human capital and infrastructure, as well as economic policies and institutions that encourage private finance and healthy integration into the global marketplace”*

Horst Köhler, Managing Director of the IMF, January 2002

In the last decade, foreign direct investment flows across national boundaries – including to, and between, developing countries – have increased four-fold. And evidence shows that such investment is an important driver for growth and development generating higher productivity, employment and wealth, and transferring knowledge, skills and technology.

But the poorest and least developed suffer a double handicap. Foreign direct investment is too low, with investment per head in developing countries just \$35 compared with \$805 in the higher income countries. In sub-Saharan Africa foreign direct investment is even lower at \$12 per person. In addition domestically generated savings and investment are low, with savings that do exist often leaving the country.

*(a) Building a more favourable business environment*

To encourage greater investment developing countries must work to establish a more favourable business environment. Already the country-

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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owned poverty reduction strategies which replaced the old structural adjustment policies have correctly focused on creating the right domestic conditions for investment and highlighted the importance of investment in infrastructure, sound legal processes that deter corruption and the creation of an educated and healthy workforce. Not only will such reforms help encourage foreign direct investment, but they will also support greater domestic investment, including by small and medium sized firms which are key for job creation. In Mozambique, for example, a country which has undertaken such reform, there has been a six-fold increase in foreign direct investment since 1994.

*“Developing countries have to be fully accountable for the implementation of development strategies. It is up to them to make the necessary reforms and define policies to promote their economic development: to attract private investment, make their government spending efficient, manage social spending and public investment and make their management transparent”.*

Laurent Fabius, French Minister of Economy, Finance and Industry,  
November 2001

As good practice emerges, the lessons learned from country-by-country experiences of development can, region-by-region, be applied. I recently proposed new investment forums which bring public and private sectors together, share best practice, examine the current barriers to investment and seek to build a consensus, in the light of regional conditions, on how to secure higher levels of investment.

As part of this approach, and building on the New Partnership for Africa’s Development we must also do more within the world’s poorest regions to facilitate cross-border trade, creating domestic markets large enough to encourage the private sector to invest.

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

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The New Partnership for Africa's Development (NEPAD) proposes a new relationship between Africa and the rest of the world, centred around African ownership and management of policies to eradicate poverty and promote sustainable growth and development. Industrialised countries, particularly the G8, are asked to play their part by supporting improved trade access, increased investment, further debt relief, greater aid flows and support to education and health.

NEPAD proposals, endorsed by the whole of Africa at the Lusaka Organisation of African Unity Summit in July 2001, cover the following areas:

- strengthening mechanisms for conflict prevention, management and resolution;
- promoting democracy, human rights and public accountability;
- building the capacity of Africa states to set and enforce the legal framework, including maintaining law and order;
- restoring and maintaining macroeconomic stability, developing appropriate standards and targets for fiscal and monetary policies;
- instituting transparent legal and regulatory frameworks for financial markets and the private sector;
- promoting the development of infrastructure, agriculture and diversification into agro-industries and manufacturing;
- extending education, technical training and health services; with a high priority given to HIV/AIDS, malaria and other communicable diseases; and
- promoting the role of women in all spheres, including reinforcing their participation in political and economic areas.

*(b) Multi-national companies and cross-border corporate accountability*

One concern of those who campaign against globalisation is that in developing countries lax regulation results in a downward spiral of poor labour, environmental and regulatory standards.

Companies and governments must recognise the distinction between a strong market achieved by competition and a distorted market achieved by anti-competitive behaviour. And where multi-nationals are unaccountable across borders – and sometimes appear more powerful than the developing countries in which they operate – companies and governments must do more to restore the right balance, increase stakeholder awareness and achieve cross-border corporate accountability.

There are already agreed international standards of best practice for multi-national companies drawn up by the OECD – to which 33 countries have already signed up to improve their domestic regimes for company law, enhancing requirements of transparency and increasing stakeholder rights. And we must continue to examine how these are being implemented. In the UK we are now legislating to give UK courts jurisdiction over UK nationals who commit offences of corruption abroad.

At the same time, the demand from consumers and shareholders for the best socially responsible business practice is growing. Building on these corporate standards, on the Global Compact – introduced by Kofi Annan in 1999 - and on the Global Reporting Initiative – through which 60 major companies already report their activities – we believe that multi-national companies should assess and make public to all communities in which they operate information on their economic and social impact in developing countries.

The challenges are formidable; the suspicions remain considerable. But the debate can move forward. And the real prize from all the difficult and necessary work to create the right conditions for long-term investment is

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

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economic stability country-by-country, diminished inequality across the globe and a world that is not only richer but safer.

#### **IV. WIDENING AND DEEPENING TRADE**

In the last forty years those developing countries which have managed to be more open and trade more in the world economy have seen faster growth rates than those which have remained closed. From the early 1970s to the early 1990s, developing countries that were able to pursue growth through trade grew at least twice as fast as those who kept their tariffs high and their doors closed to imports and competition. We must ensure that all countries have the opportunity to reap these benefits.

Full trade liberalisation could lift at least 300 million people out of poverty by 2015. Even diminishing protection by 50 per cent in agriculture and in industrial goods and services would increase the world's yearly income by nearly \$400 billion: a boost to growth of 1.4 per cent. All countries and regions stand to benefit, with developing countries gaining an estimated \$150 billion a year and higher than average increases in GDP growth.

*(a) Doha and a new 'Development Round'*

And this is why we strongly welcome the World Trade Organisation (WTO) agreement in Doha to launch a new trade round with a development agenda – a package of commitments to progress in areas that will lead to major gains for developing countries and the poorest people in these countries. WTO member countries are committed to take development needs into account both in the policies they pursue and in offering technical assistance.

One important outcome for developing countries has been clearer trade rules to deal with public health crises afflicting many developing countries such as HIV/AIDS, tuberculosis and malaria. The aim is to ensure that poor countries have access to medicines and the right to protect public health. It was also agreed to review the rules concerning the use of anti-dumping measures so that they are improved and clarified and take into account the needs of developing and least developed countries.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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In addition there was agreement at Doha on steps to address developing countries' concerns over their ability to implement existing WTO agreements. The WTO's dispute settlement procedure has been criticised as punitive and unfair to poorer countries who do not have resources to prosecute cases. Although the system is intended as a last resort, it was agreed that it should be improved and clarified in the course of the new trade round. The UK also provides financial support to the Advisory Centre on WTO Law which offers developing country members subsidised legal support in dispute settlement cases.

Progress in improving the transparency and accountability of decision making at the WTO has also been slow. But improvements will be made. There has already been a positive influence in the way informal consultations are conducted. The next steps are to create more effective links between informal consultations and general council meetings and to de-classify WTO documents.

#### *(b) Taking the agenda forward*

*"Our...goal is to ignite a new era of global economic growth through a world trading system that is dramatically more open and more free...We must reject a protectionism that block the path of prosperity for developing countries...We must reject policies that would condemn them to permanent poverty"*

President George W Bush, July 2001

Since our goal is growth and prosperity we must do everything we can to discourage the diversion of resources into military expenditure and to diminish the subsidies for the arms trade with developing countries. That is why the UK has already banned export credit guarantees for unproductive

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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expenditure to 63 of the poorest countries, making clear our desire to support only productive enterprise that assists social and economic development, and we call on other countries to follow.

And it is why the UK strongly supports the European Union's lead in offering free access to all but military products from the least developed countries. And we call on others to follow, as agreed at Doha. If the US, Canada and Japan alone carried out this undertaking it would raise the exports of the 49 poorest countries by 11 per cent.

With three-quarters of the world's poor living in rural areas, opening up agricultural markets offers the best and quickest route for reducing poverty. Subsidies to agriculture which run at one billion dollars a day – six times the amount spent on development assistance – are in urgent need of reform. So we welcome the agreement at Doha to open up trade in agriculture and, in particular, to negotiate reductions in export subsidies with a view to phasing them out.

Services such as telecommunications are one of the fastest growing sectors in developing countries. A 50 per cent cut in barriers to services trade would produce an annual global gain of \$250 billion, most of it to the developing world.

*"The EU has recently taken an unprecedented step. We decided to open our agricultural markets, unilaterally and completely, to imports from the poorest countries...We want to go further in ensuring that the developing countries benefit from special and differential treatment in agricultural trade from all developing countries"*

Franz Fischler, EU Farm Commissioner, November 2001

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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There was also a recognition at Doha of the importance of building countries' capacity to participate effectively in the global trading system and the need for this to be an integral part of the new negotiations. Between 1998 and 2000 the UK Government invested £15 million in trade related capacity building in developing countries and we have undertaken to put in twice that over the following three years giving a total of £45 million. And we have also asked the IMF and the World Bank to give further help.

There are great gains to be made from increasing openness to trade and we recognise that trade liberalisation must be managed carefully, like globalisation, to secure the most benefits for the poorest. That is why we will be carefully following up the agreements made at Doha in the key areas of interest to developing countries and the commitments to provide enhanced technical assistance and build the capacity of developing countries to participate fully in trade negotiations and implement the results.

## **V. FINANCING FOR DEVELOPMENT**

Progress on trade could be worth \$150 billion a year to the poorest countries, three times the development aid they receive today. So in addition to policies for stability and investment, new policies for open trade are fundamental building blocks of the new alliance for progress.

But there cannot be a solution to the urgent problems of the poverty these countries face – and to the need for public investment as a partner with private investment – without a fourth reform: a substantial increase in development aid to nations most in need and willing to focus on the fight against poverty.

### *(a) Debt relief*

Debt relief will play a part and the UK has been at the forefront of the international debate on this issue. The HIPC process has now lifted the burden of unpayable debt from 24 of the most highly indebted countries, canceling \$56 billion in debt and helping to build a new virtuous circle of debt relief, poverty reduction and sustainable development. If all countries eligible – including countries in conflict – became part of HIPC, \$100 billion of debt could be cancelled.

The HIPC initiative, releasing finance directly into government budgets, has helped increase social expenditures in countries receiving HIPC debt relief by \$1.7 billion in 2001-2002, equivalent to 1.2 per cent of GDP. On average, health and education spending account for 65 per cent of the use of HIPC debt relief. Uganda, for example, used HIPC debt relief to help provide free primary education, making possible a doubling of enrolment to around six million children.

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

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*"The significance of the HIPC initiative is that it puts increased resources into the hands of some of the poorest countries in the world to expand the delivery of health and education and other social services"*

Paul Martin, Canadian Minister of Finance, April 2001

But what drives us forward are not the achievements we can point to, important as they are, but the gains still to be made. Speedy, effective and full implementation of the enhanced HIPC initiative is critical and HIPC countries should take the policy measures necessary to become eligible for the initiative. And we are making provision for a special route to debt relief for post-conflict countries coping with the double burden of debt and reconstructing their ravaged economies.

We continue to work to ensure a sustainable exit from debt for HIPC countries, with agreement reached at the meeting of the IMFC this November that the IMF will take account of the current worsening global growth prospects, declines in terms of trade and conflict when updating debt sustainability analyses at HIPC completion point. We will argue that future reviews of debt sustainability should also bear in mind the impact of debt on progress towards the achievement of the Millennium Development Goals.

For those HIPC countries that have yet to benefit from HIPC debt relief we encourage them to continue working towards conditions that will secure access to debt relief and ensure its effective use for poverty reduction. Towards this end the UK is holding debt service payments from those countries that have yet to benefit from debt relief which will be returned when they are able to use resources to tackle poverty. The UK will continue to work to persuade other creditors to follow our lead.

But debt relief will not be enough.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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Indeed the challenge is to create a virtuous circle in which debt relief is followed by poverty reduction and sustainable development.

#### *(b) Zedillo Report*

The international community is committed to meeting the Millennium Development Goals by 2015 – including halving the proportion of those living on less than a dollar a day, reducing child mortality by two-thirds and building a better future for children all over the world by ensuring that every child has the chance to start and complete a primary education.

A report prepared by Mexico's former president Ernesto Zedillo<sup>2</sup> and submitted to the UN Secretary General in the lead up to the UN Financing for Development Conference to be held in Monterrey, Mexico, in March 2002, concludes that if we are to succeed in achieving these goals it will require each year until 2015 an extra \$50 billion a year in aid.

*"We simply cannot allow the decline in ODA to continue if we want our commitment to the millennium development goals to be taken seriously at all. The Zedillo Panel calculated that, to reach these goals by 2015, we need another \$50 billion of official development assistance per year – and the World Bank has come up with very similar figures"*

Kofi Annan, Secretary General of the United Nations, January 2002

According to Zedillo, \$20 billion is required for poverty reduction, \$10 billion for education and over \$10 billion for health.

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<sup>2</sup> 2001, June, *Report of the High Level Panel on Financing for Development* A full copy of the report can be found at <http://www.un.org/reports/financing/summary.htm> along with further details of the Financing for Development process

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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The Commission headed by Zedillo included as members Robert Rubin, former US Secretary of the Treasury, David Bryer, Director of Oxfam, Jacques Delors, former President of the European Commission and Monmohan Singh, former Indian Minister of Finance.

And others have endorsed this figure including Jim Wolfensohn, the President of the World Bank, and Kofi Annan, Secretary General of the United Nations.

The question is how we raise an additional \$50 billion a year for the poorest countries and there is already, I believe, more widespread agreement than appears on the surface about the priority reforms that will help to meet this challenge.

#### *(c) Effectiveness of targeting aid*

First, donor aid effectiveness must be improved, and international institutions strengthened to ensure better management of international funds.

Financial assistance must be targeted more effectively to low-income countries with sound economic management and where there are large numbers of poor people. Current patterns of aid provide \$10 per poor person in South Asia but \$950 per poor person in the Middle East and North Africa.

Aid needs to focus on creating and transmitting knowledge and capacity – supporting institutional and policy changes that stimulate growth, ensure poverty reduction, promote private sector activity and improve public service delivery. That is why, where possible, aid should be:

- disassociated from procurement tied to suppliers in the donor countries, increasing its effectiveness in value for money terms by up to 20 per cent;

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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- pooled to achieve economies of scale and therefore greater effectiveness, as well as avoiding wasteful duplication, inconsistency and ineffectiveness;
- ultimately distributed directly to budgets, reducing bureaucracy and allowing governments to implement long-term programmes of poverty reduction; and
- concentrated on those countries with large numbers in extreme poverty but where policies are sound and effectively implemented.

Overall, better allocation, co-ordination and untying by bilateral donors and international institutions could make aid twice as effective.

The European Union needs to take forward the positive steps it has already made in adopting a clear development policy focused strongly on poverty reduction. This needs to be followed up by applying the lessons we have learned about targeting aid and improving its effectiveness. In middle-income countries, the EU should focus on loans backed-up by technical assistance to support policy reform, trade access and improved governance delivering sound administration and protecting human rights. In poorer countries the EU should invest the significant grant resources needed to build the social and physical infrastructure essential for growth. Here too the EU should promote trade access and better governance that are so often lacking. The EU is working to improve the disbursement rates of its development aid but much remains to be done to ensure that aid is delivered as speedily as possible. Administrative reforms, closer cooperation with other donors and untying aid are key elements in achieving this greater efficiency.

**And at the heart of all we propose it is crucial that development aid must be seen as investment to tackle the causes of under-development. The focus must move from providing short-term aid just to compensate for the effects of poverty to an approach where aid is a long-term investment in tackling the causes of poverty by promoting growth, prosperity and participation in the world economy.**

*(d) Better use of funds received*

Countries themselves must be able to show that the funds they receive are properly and effectively used. They must end corruption, meet their obligations to pursue stability and create the conditions for new investment, realise their commitment to community ownership of their poverty reduction strategies and ensure that resources go effectively and efficiently to fighting poverty including education and health.

Many countries, including our own under the inspirational leadership of Clare Short, have made great steps forward in improving the effectiveness of aid. Experience shows that development assistance works best when it supports a strategy designed and led by the national government in consultation with its civil society. That is why the poverty reduction strategy approach - supported by the World Bank and the IMF through its Poverty Reduction Growth Facility - with priorities country-owned and driven, and with civil society and others participating, is such an important development.

**And in return for treating aid as investment, making it more cost effective, managing it better and focusing on priorities we must be prepared to make a special effort to match our commitment to the 2015 Millennium Development Goals with the resources necessary to achieve them. Increased development assistance is essential to match gains from liberalising trade, raising private investment and entrenching stability.**

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

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Since 1997, under Clare Short's leadership, the UK has taken a new approach to international development:

- raising the level of UK overseas aid to £3.6 billion, a 45 per cent increase in real terms. The UK is committed to the target of raising development assistance to 0.7 per cent of national income and will significantly raise the amount of our development aid, and also raise its share in national income, in our next spending round covering the years up to 2005-2006;
- untying all UK aid allocated after April 2001 and targeting 80 per cent of bilateral country aid on low income countries;
- introducing a more joined-up approach to conflict prevention, bringing together diplomatic, military and development assistance, and a ban on export credits for unproductive expenditure including arms;
- committing £1 billion to strengthening health systems in developing countries and – later this year – implementing tax incentives to encourage pharmaceutical companies to increase their investment in medical research so that new treatments can be found for the diseases which kill and debilitate people living in developing countries;
- playing a leading role in establishing the Global Health Fund to fight HIV/AIDs, tuberculosis and malaria by providing resources for bulk purchase of medicines by developing countries. Total financial commitments to the Global Health Fund already exceed \$1.8 billion, of which the UK has pledged \$200 million over a five year period; and
- committing over £600 million to support universal primary education in developing countries. This year, the Queen's Jubilee year, the UK is launching a new Fund which will support the achievement of universal primary education in the Commonwealth.

*(e) New sources of finance*

There have been a series of proposals for new and innovative ways to meet this funding need – through a Tobin Tax, Arms Tax or by issuing Special Drawing Rights (SDRs). It is right that we examine the practicalities of these proposals – as, in the case of the Tobin tax in particular, EU Finance Ministers have asked the European Commission to do.

The IMF board has discussed greater use of SDRs, and a proposal has been made that developed countries could use their share of the allocation of SDRs agreed in 1997, as well as future allocations, for international development.

We in Britain approach further evaluation of all these proposals with an open mind.

But in the end, it all comes back to the duties national governments – especially the richest national governments – recognise and are prepared to discharge. If the international community is to move with the urgency that the scale of today's suffering demands, we must each, as national governments, be bold and acknowledge the obligations of the richest parts of the developed world to poorest and least developed parts of the same world.

One proposal for additional resources involves the richest countries making a substantial additional commitment of resources to 2015 and beyond. And there is a case for adding to these resources by examining a further option. Through richer countries making a long-term commitment of increased resources for development for, say, 30 years and with national governments offering a guarantee – either through callable reserves or appropriate collateral as security – then additional aid contributions could be levered up in the years to 2015 to meet our target for extra funds.

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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In this way \$50 billion more could be available each year to the poorest countries in their fight against poverty. In future no country genuinely committed to economic development, poverty reduction, and transparency and proper standards should be denied the chance to make progress because of a lack of investment.

There should, of course, be a full discussion on how the extra resources could be most effectively employed.

Creating new channels for distributing aid would impose unnecessary costs and burden on developing countries. We therefore believe that the additional \$50 billion per annum should be distributed in a balanced way through existing bilateral, multilateral and civil society mechanisms used in supporting poverty reduction strategies.

One possible way forward – as I advocated in recent speeches on globalisation – is creating an International Development Trust Fund, overseen by a new joint implementation committee of the IMF, World Bank and possibly individual countries.

Access to the Trust Fund's resources should mean access to new investment that, in the truest sense of the word, increases the capacity and long-term potential growth rate of the poorest countries. And for their part, countries must be required to demonstrate clearly that resources are being properly and effectively used, with the option of the some of the additional aid supporting their efforts to strengthen national accountability processes and institutions such as national audit offices.

And at the heart of our proposals must be the commitment never again to return to a situation where countries build up unsustainable burdens of debt. So the very poorest and most vulnerable countries should receive investment help primarily in the form of grants to partner their soft IDA loans and all other low-income countries should be offered interest free loans. Some beneficiaries will be countries with millions of poor but today classified as

## TACKLING POVERTY: A GLOBAL NEW DEAL

### A Modern Marshall Plan for the Developing World

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middle-income countries. Here assistance should be given via interest-reduced loans conditional upon implementing the agreed poverty reduction strategies and engaging civil society.

In order to meet the challenges of raising an additional \$50 billion a year, the UK believes that we need to look at a broad package of measures and we are open to investigating other proposals in addition to our suggested International Development Trust Fund. But we believe that it is right that there is now a full debate in the IMF, World Bank and United Nations as we prepare for the Financing for Development Conference at Monterrey in the spring.

Whatever options there are, we must build a coherent response from the entire international community. This response must engage confidence and support from developing country governments themselves and from their citizens.

## **VI. AN ACTION PLAN FOR THE GLOBAL NEW DEAL**

2002 is a momentous year for moving forward the international development agenda. Doha has already shown that progress can be made and we must build on this at the Financing for Development Conference in March and the reconvened UN General Assembly Special Session on Children in May. And we must show that we can follow up the commitments made at Kyoto at the World Summit on Sustainable Development in Johannesburg later in the year.

It has never been so important to get globalisation right. In the coming year we will be tested to see whether we can match the commitment to military action against terrorism with an equal commitment to social and economic action against poverty. Too often the world has set targets like the Millennium Development Goals and failed to meet them. Too often we have set targets, reset them and reset them again so that our ambitions in the end outdistance our achievements.

So it is not enough to make a pledge. As Mr. Mandela and Ms. Machel have written "please hold us to our pledge". Theirs is a simple and powerful appeal for the accountability we all must demand of ourselves and demand of one another.

For if we are to achieve a global new deal for the developing world we must agree a shared responsibility for the task – setting out the practical steps each partner must take. So developed and developing countries, international institutions, the private sector and non-governmental organisations and faith groups all need to work within their powers and responsibilities to ensure a greater effort is made to guarantee a new global deal. Our joint responsibility must reinforce not diminish accountability for the outcome. And each of us have to discharge specific responsibilities.

*"We are living in a time of profound historical change. Great wealth and great squalor exist side by side. We could move forward to a period of massive progress and the removal of abject poverty...Or we could see growing poverty, marginalisation, conflict and environmental degradation. Neither prospect is inevitable. The future is a matter of political will and choice"*

The Rt Hon Clare Short MP, UK Secretary of State for International Development, December 2000

**(a) *Developed countries***

We first call upon all the developed countries to work together to:

- move forward on debt relief, in particular to renounce the right to any benefit from the historic debt owed by the HIPC countries;
- ensure the successful resolution of the new "development" trade round, including by negotiating reductions in agriculture export subsidies with a view to phasing them out, by all countries granting duty and quota-free access to developing countries for all exports except arms and by financing capacity building in developing countries so they can participate fully and effectively in the forthcoming negotiations;
- improve aid effectiveness through untying; better coordination and a greater focus on poorest and best performing countries; and
- significantly increase the overall aid effort, considering a broad package of measures to achieve this including the support for the \$50 billion increase in investment aid.

***(b) Developing Countries***

A sound domestic environment is the foundation of poverty reduction and sustained economic growth enabling countries to make effective use of aid and harness the private sector finance in development. We therefore call upon the developing countries to:

- adopt new codes and standards for transparent management of fiscal and monetary systems;
- strengthen the accountability of their public financial management systems so as to eliminate corruption;
- develop, strengthen and implement fully comprehensive and costed national poverty reduction strategies; and
- establish business environments to facilitate growth in private investment, including the creation of investment forums.

***(c) International institutions***

The United Nations and other international institutions have a central role to play in bringing our efforts together and supporting developing countries. We therefore call upon the international institutions, including the UN, the IMF, World Bank and the World Trade Organisation, to play their role and in particular to:

- offer coordinated support for the implementation of codes and standards and draw up of national route maps for capital liberalisation in stable conditions;
- strengthen surveillance by providing an early warning system for crises through the Financial Stability Forum and by exploring

TACKLING POVERTY: A GLOBAL NEW DEAL  
A Modern Marshall Plan for the Developing World

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options for providing impartial advice independent of inter-governmental decision making processes;

- explore options for better procedures for crisis resolution, in particular to resolve the legal obstacles that stand in the way of effective debt rescheduling;
- focus support on the achievement of the Millennium Development Goals, assist developing countries to measure progress against them and publish a report annually; fully implement the agreed new key features of the IMF's Poverty Reduction and Growth Facility;
- continue to enhance the participation of all developing countries in decision-making processes thereby strengthening the international dialogue and the work of the international institutions as they address the development needs and concerns of these countries; and
- strengthen cooperation between the UN and other multilateral financial, trade and development institutions to support economic growth, poverty eradication and sustainable development worldwide.

***(d) The private sector***

Long-term investment is critical for growth and development. There needs to be a new engagement by business as reliable and long-term partners in economic development. We therefore call upon the private sector to:

- work with developing countries to increase investment, in particular through participation in national and regional investment forums to share best practice, examine current barriers and seek to build consensus for necessary actions; and

- increase stakeholder awareness to achieve cross-border accountability, in particular by applying agreed international standards of best practice for multinational companies and by assessing and reporting on their economic and social impact through such initiatives as the Global Compact and the Global Reporting Initiative.

***(e) Non-governmental organisations and faith groups***

NGOs and faith groups around the world campaign to end poverty and injustice and their support for the Millennium Development Goals is vital. We therefore call upon the NGOS and churches to:

- ensure developed and developing countries, businesses and international organisations are held accountable for progress towards the Millennium Development Goals;
- raise public awareness and campaign regarding the outrage of child poverty and the need for urgent action on the Millennium Development Goals, including progress on poverty, debt, trade and social justice; and
- assist developing countries in developing and implementing community-driven national poverty reduction strategies.

## **VI. CONCLUSION**

After 1945, George Marshall's plan for the reconstruction of Europe played a vital part in winning the peace. As a result, both Europe and America flourished, with increased prosperity and employment helping to create a more stable peace.

And just as, with extra resources, Marshall affirmed a unifying vision in the fight against "hunger, poverty, desperation and chaos", so again today we must transfer the resources necessary to secure for our time "a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist"<sup>3</sup>. In this way, we will not only win the peace but secure prosperity.

The challenge is immense but – in the spirit of Marshall – the answer is not to retreat from globalisation. Instead we must advance social justice on a global scale, to the benefit of all – and do so with more global cooperation not less, and with stronger, not weaker, international institutions. If the worldwide debt campaign has taught us anything it is that we advance only if we advance as one.

Our vision of the way forward is that in an increasingly interdependent world, all can benefit if each meets agreed obligations for change. This global new deal can ensure that the world's poor can share fairly in the benefits of prosperity throughout the world and is grounded in the belief that not only do we have inescapable obligations beyond our front doors and garden gates, responsibilities beyond the city wall and duties beyond our national boundaries, but that this generation has it in its power – if it so chooses – to finally free the world from want.

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<sup>3</sup> Commencement Address by Secretary of State George C. Marshall at Harvard University, Cambridge, Massachusetts, United States on June 5, 1947