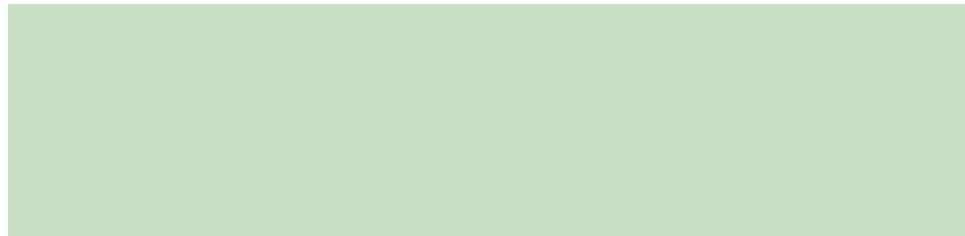
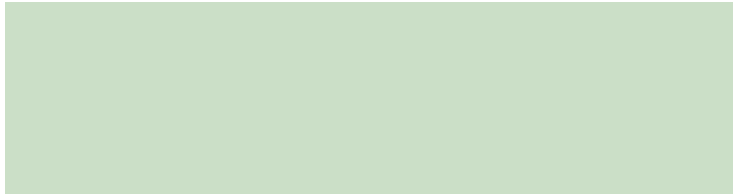


would remain a powerful humanitarian concern but would probably not be a strategic priority of the United States. Alas, poor economic performance abroad has the potential to translate into state failure that, in turn, jeopardizes significant U.S. interests. If the United States wants to spend less time responding to failed states, as the Bush administration has stated, it will have to spend more time helping them achieve economic success to avert state failure. The United States has certain (albeit limited) economic policy instruments at its disposal to help prevent state failure abroad. Foreign assistance can play an important role in certain contexts, but the United States has not used it well for decades.



on the edge of subsistence, temporary economic setbacks (measured as a decline in gross domestic product per capita) were significant predictors of state failure. The task force also found that “partial” democracies—usually in transition from authoritarian to fully democratic institutions—were particularly



regime change and internal violence. These crises were difficult to predict in part because they did not have obvious roots in state-sector weakness, although they contributed to state instability after the fact.

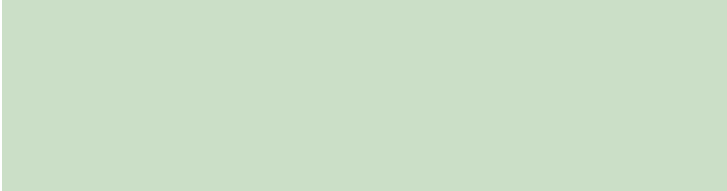
*Transition Crisis*

The fourth major cause of economic failure that can lead to state failure is a crisis

of transition, when political and economic regimes are making a fundamental institutional change. Examples include the transition from communism in Eastern Europe and the former Soviet Union; recovery from war (especially from defeat); transition from

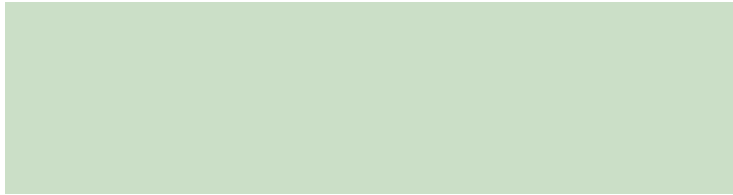


One would hope that economic, security, and foreign policy considerations would also be well integrated in national foreign



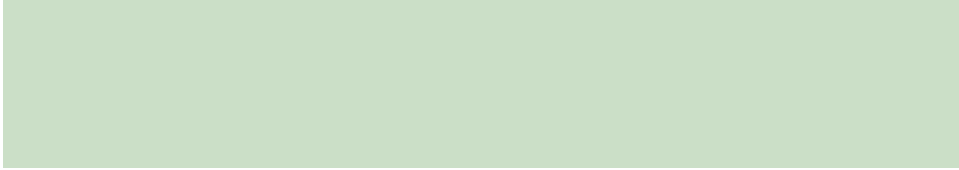
Both the reality and expectations of continued weakness in a failed state make it impossible for its government to achieve political stability when overwhelmed by debt. The outright cancellation of debt becomes imperative. Of course, the United States might resist debt relief in the case of a hostile debtor state, but if the United States is truly attempting to foster economic recovery abroad, it should regard debt cancellation as a necessary part of its foreign policy arsenal, similar to the situation of a bankrupt municipality under the U.S. bankruptcy code. The poorest countries need debt relief, but debt cancellation could also help middle-income countries facing fiscal insolvency (e.g., Argentina as it moves to resolve its current banking and fiscal crises).

In the case of illiquidity, the key step is not debt cancellation but a postponement or “timeout” on debt servicing. The continued hemorrhaging of debt service payments during a liquidity crisis can cause an extremely sharp collapse of economic output. For example, the East Asian emerging markets experienced GNP declines of 6 percent or greater during 1998 not because their economies had suffered a collapse of fundamentals, but because these economies were subject to a brutal squeeze on access to short-term working capital. The IMF did little to relieve the short-term credit squeeze because it was reluctant to insist on a time-out on debt servicing. When that happened as a



Barro, Robert. (1999, December). "Determinants of democracy" (Symposium on the Economic Analysis of Social Behavior in Honor of Gary S. Becker). *Journal of Political Economy* 107





well as new challenges such as HIV/AIDS.  
Such health institutions could also provide a

and the channels of distribution and storage flow through conflict countries. And while terrorists are usually not impoverished, conflict does provide an environment (such as Afghanistan) in which terrorists can operate. Illegal trade in raw material and drugs—notably, diamonds in West Africa and opium in Afghanistan—have sprung up in conflict areas, profiting both terrorist and criminal groups.

Finally, there is an important relationship between poverty and the sustainability of the earth's environment. Both economic growth and affluence and persistent poverty are pushing against the earth's limited carrying capacity. Energy is a central issue. Currently, most of the energy used by poor people is produced in ways that are highly inefficient, generate enormous amounts of pollution, and are generally unhealthy. Most people living in poverty use wood and other plant matter for cooking, and kerosene for lighting. Both sources of energy consume more energy than other fuels and produce smoke and particulates that worsen human and environmental health (UNFPA, 2001).

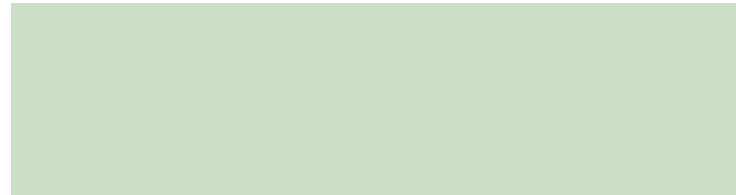
The challenge—which is again in the interests of the United States—lies in finding some way for the rich countries to lessen their consumption of energy without reducing well-being, and for poor countries and poor people to escape poverty without stifling needed economic growth or destroying the environment on which they too depend. For poor people in rural areas, solar power already is cost-effective when compared with extending electric grids, and subsidies and low cost credit could help poor people obtain more efficient stoves.

### ***Can It Be Done?***

*Relative* poverty probably never will be eliminated: the current gap between rich and poor countries is just too wide to close in the foreseeable future. But it is possible—and well before 2050—to cut dramatically and even eliminate the number of people living in *absolute* poverty. Achieving such a goal, however, will take more than rhetoric from both developing and developed countries.

In fact, the percentage of people living in absolute poverty has already been reduced, and all social and economic indicators show

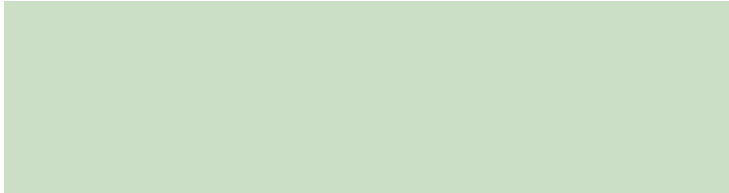
major improvements since the 1960s. Per capita developing-country GDP nearly tripled between 1960 and the late 1990s; life expectancy has jumped from 46 years to 65 years; birth rates have dropped dramatically in almost every country (from over six births per woman in the 1950s to 3.6 births, and still declining), with the prospect that, by the



middle of this century, the world's population could be stabilized at lower levels than

development decisions that affect their lives is critical to the success of programs.

- Similarly, good governance and democracy are important for growth and also goals in their own right.
- Investment in poor people—increasing their access to education and health, redistributing productive assets (credit and land),



supporting small-scale rural and urban enterprises—is critical.

An international consensus—codified in the Millennium Development Goals—has emerged around the necessity of eliminating poverty.<sup>2</sup> Commitments by *developing* countries are critical in the effort to meet the Goals. Governments and their constituents are going to have to make tough choices in balancing economic efficiency, political openness, social progress, and equity—all while protecting the environment. This will mean commitments to adopt growth-oriented economic policies, to cut wasteful military expenditures,y

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be complex and little understood. It is possible that the bulge of working-age younger people in the developing world could provide a huge stimulus to global economic growth. On the other hand, if jobs are not created, the potential for instability and even conflict will