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Could a Global Marshall Plan be Successful? An Investigation Using The WEEP Simulation Model

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Summary. — Using the WEEP simulation model ("World Economic Equalization Program"), this research examines the potential impact of a very large-scale foreign development assistance program (a "global Marshall Plan") on the future development of the world economy. The benchmark simulations of the model indicate a dramatic reduction in world economic inequality, at the cost of a very minor retardation in the economic growth of the rich countries. Sensitivity analysis demonstrates that with certain key exceptions, these optimistic results are reasonably robust against parametric variation.

Key words — international investment, long-term capital movements, foreign aid, international finance forecasting and simulation, planning models, planning policy

1. INTRODUCTION

The remarkable developments of the early 1990s in the ex-Soviet Union and the Eastern European countries have fundamentally transformed international relations. The monopoly on political power and social authority held by the various communist parties of these countries was broken, and democratic multiparty systems have been established, featuring contested elections for high state positions, and meaningful observance of rights of free speech and free press. The abolition of socialism and the restoration of capitalism, so much feared by the communist leadership during the Cold War, has in fact taken place—not through outside intervention—but through the voluntary choice of the citizens of these countries. While it is by no means completely inconceivable that the Russian Federation, along with other components of the old Soviet bloc, will at some point in the future revert to the aggressive communism of the Cold War decades, and/or that the People's Republic of China will do the same, the currently dominant consensus is that the Cold War is definitely finished and that ideological conflict between communism and noncommunism will never again become a major contributor to international tension.

In historical context, ideological conflict has been a relatively recent contributor to international tension. Several other contributors long predated ideology and promise to long postdate it as well. Among these are religious differences, cultural differences, racial differences, linguistic differences, and disparities in economic welfare. Now that the Cold War is finished, arguably economic welfare disparities have taken over as the single most important potentially rectifiable impediment to the peaceful and harmonious advance of global human civilization. The reason for this is the inherent attractiveness to the large majority of the world's population of a potential program of drastic income redistribution from the rich countries to the poor countries. The attractiveness of this potential program does not depend entirely on its direct material benefit to the huge number of poor people throughout the world. It also depends on the fact (as unpalatable as it may be to people in the rich countries) that a fairly strong case could be made for global redistribution in terms of moral philosophy.

A truly disinterested moral philosopher (brought in, say, from a hypothetical intelligent species resident on another planet) might find it

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not merely troubling but fully unacceptable that at the same time that much of the world's human population lives in desperate poverty, a relatively small minority enjoys living standards that would be regarded as extravagantly luxurious by the poor. An obvious solution to the problem would be a global minimum income standard, that would benefit mostly people in the poor countries, to be financed by a progressive income tax that would fall most heavily on people in the rich countries. [1] A moral philosopher from one of the rich countries could and would uncover a number of objections to global income redistribution—but, of course, a moral philosopher from a rich country is not a disinterested party. Not that the attitude of the poor people of the world would be any different, were they to magically change places with the rich people of the world. It is simply asking too much of human benevolence to propose that the rich people of the world subject themselves voluntarily to heavy taxation the purpose of which would be to benefit poor people in other countries. So long as the rich countries possess the military means to deter and forestall global income redistribution, they will do so. Of course, the maintenance of military forces of adequate strength to deter the poor countries from entertaining notions of forcible redistribution of world income is not a cost-free proposition to the rich countries, either financially or psychologically.

If the global economic gap were smaller, presumably less reliance would be needed on military power. Among visionaries, the notion of a massive, coordinated, worldwide effort to ameliorate the economic gap—along the lines of the post-WW II Marshall Plan but far more ambitious both financially and geographically—has a long history (see, for example: Barr, 1953; Church, 1978; Melman, 1961). By means of large-scale capital transfers from the rich countries to the poor countries, the living standards of the latter countries would (over a period of time probably in the order of several decades) be raised to levels comparable to those in the rich countries. Ideally the economic transfers would involve little or nothing in the way of consumption commodities—the idea is rather to endow the poorer countries with sufficient capital and other resources that they themselves could produce quantities of consumption goods comparable to those being produced in the rich countries. Were such a program of large-scale transfers to be successful, this would greatly reduce the importance of economic disparities among countries as a source of international tension, instability and conflict.

For as long as the basic idea of a global Marshall Plan has been advanced, however, the idea has been routinely disparaged and rejected as clearly impractical. For example, in his 1978 essay in *Time Magazine* entitled "The Case for a Global Marshall Plan," George J. Church quotes West German Economics Minister Count Otto Lambsdorff as follows: "I do not believe that a kind of Marshall Plan for the Third World—which today would have to be shouldered jointly by the US, Europe and Japan—is a feasible solution." It could be argued, in support of the infeasibility of a global Marshall Plan, that there has never been any significant economic evidence presented that suggests that even a very greatly expanded program of foreign development assistance could make significant inroads against the problem of world economic inequality within a reasonable period of historical time.

The purpose of this article is to present just such evidence. The evidence is derived from computer simulations of a model designed to examine the potential effect of very large investment capital transfers from the rich countries to the poor countries. Transfers of this magnitude would clearly amount to a global Marshall Plan: such a program is dubbed herein the World Economic Equalization Program (WEEP). Evidence from the WEEP model simulations is definitely optimistic—it suggests that a sufficiently ambitious program of transfers could be a spectacular success that within a 50-year planning period would reduce the world poverty problem to a small fraction of its present dimensions.

Conventional opinion among professional economists, especially those resident in the more prosperous countries, holds that a massive world economic development program would almost certainly result in massive waste. Although some minor progress might be made by some of the less developed countries (LDCs), a heavy price would be paid by the taxpayers of the wealthy countries, the principal beneficiaries of the effort would surely be an army of corrupt bureaucrats and dishonest businessmen, and the overall net impact of a tremendous resource flow on the world poverty problem would be minimal. Of course, the possibility exists that the conventional pessimistic judgment on this matter is merely a superficial rationalization of short-sighted self-