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Los Angeles

Decentralized Globalization:

Free Markets, U.S. Foundations,

And The Rise of Civil *and* Civic Society From

Rockefeller's Latin America To Soros' Eastern Europe

A Dissertation submitted in partial satisfaction of the requirements

for the degree Doctor of Philosophy in History

by

Olga Magdalena Lazin

2001

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2001

This dissertation is dedicated to

my loving mother, Iosefciuc Magdalena

and

my cousin Rodica Maris

The Dissertation of Olga M. Lazin is approved

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2001

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ACKNOWLEDGMENTS

I am grateful to a number of persons for helping to make this work possible. First and foremost, I thank James W. Wilkie whose mentorship in Romania as well as the United States has been invaluable in helping me conceive, organize, and complete this study. From Professor Wilkie I gained experience and insight in statistics and in dissecting the lore of elites around the world. I could never conceive of what the world is about if it were not for his deep understanding of comparative history. His interest in the Cold War and its aftermath in dismantling of the State, especially in Latin America and Eastern Europe coincided with my own interests. He helped me learn the tools of scholarly analysis and provided the opportunity to conduct research on globalization and the rise of civil society in formerly statist societies such Romania and Mexico, the latter being fortunate to have avoided living under dictatorship.

I wish to express appreciation to two scholars in Romania who helped gain my start in academic studies. Within the confines of the intellectual world governed so repressively by the brutal dictator

Nicolae Ceausescu, at the University of Cluj Napoca Professor Dragatoiu Ioan was able to circumvent the socialist cant to awaken my interest in the history of the world. Also important at Cluj was Professor Ana Olos, who, in spite of the communist ideological prism in which she himself was trapped, introduced me to American literature and culture in a positive way.

In post-Cold War Cluj, I was aided by discussions with Andrei Marga, Rector of the Bolyai University, and by Director of International Relations Vicki Bleoca.

Since 1995 I have worked to develop new research on Post-Cold War issues in Mexico and Romania. As Globalization Studies director at UCLA Program on Mexico, this work concentrated in particular on comparative analysis of the two countries with regard to development of the trade, informational infrastructure of the non-governmental sector, and the global network of educational institutions. Among my yearly research trips to Romania, I was fortunate in 1997 to travel for a lengthy time under a Fieldwork Fellowship from the UCLA International and Overseas Studies Program.

In Romania I visited community and private foundations in seven cities: Bucharest, Cluj-Napoca, Constanta, Iasi, Baia-Mare and Sighet. In examining local statistics, I soon realized the actual reach of the economic globalization phenomena and its impact on civil society. For example, in Bucharest I met with leaders of civil society including the presidential counselor on NGOs, Luminita Petrescu, and other prominent figures and leaders such as Ana Blandiana, Andrei Plesu, Gabriel Liiceanu, Gabriela Adamesteanu, and Dorin Tudoran.

The most acute problem faced by the Romanian autonomous foundations (including NGOs, hospitals, universities, professional associations, religious groups etc.) is the shortage of funds, as a direct result of the lack of incentives for donations, very much as in Mexico in the early 1990s. Overall I met more than 17 leaders of the civil society. While in Romania, I was able to identify 3,050 NGOs and foundations.

In Mexico, where I have been traveling once each month since 1993, I have organized and participated in numerous panels on civil

society (twice in Morelia, state of Michoacán) and consulted with Sergio Aguayo, the leader of Asociación Civica, Mexico.
Problems I have identified in both Mexico and Romania are three: (1) the need for non-governmental law to be adjusted to global standards; (2) the need for "trust," which still needs to be incorporated in the tax legislation; (3) the need to provide the tax framework so that NGOs can begin to cope with the shortfall in social funding as the state continues to shrink in size.

At UCLA, I have been fortunate to work with three outstanding scholars: Iván T. Berend encouraged me to examine the history of Eastern Europe and the tragic economic impact of communism on civic society. Richard Weiss helped me to fathom U.S. history in the twentieth century; Carlos Alberto Torres gave me excellent suggestions and urged that I examine the importance of educational issues in the post-Cold War Era, when all ideological barriers have broken down.

I thank George Soros for discussions in 1996 about the role of philanthropy and civic society. These interviews also stimulated my thinking about worldwide flow of "for profit" and "not-for-profit" purposes.

During my year in France (1991-1992), my work was greatly advanced by Professor Gérard Chaliand. His generosity brought about my promotion as Director of European Integration in PROFMEX (Worldwide Consortium for Research on Mexico) that took me from research on Mexico and the future European Union to Mexico where I began my research on the North American Free Trade Agreement (NAFTA).

For facilitating my residence in Mexico, I am grateful to Eduardo Ibarrola, Director General of Consular Affairs at the Secretariat of Foreign Relations, in Mexico.

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To the countless persons who granted oral interviews about the rise of new civic society in Latin American and Eastern Europe, I express gratitude, including especially: Ana Blandiana, President of the Romanian Civic Alliance; Zóltan Kárpáti of the Hungarian

Academy of Social Sciences; and Vice Rector Nicole Coman of the University Babes Bolyai of Cluj. Kárpáti and Coman came to Mexico at my invitation in 1994 to participate in the "Conference on Comparative Statism," which I had the pleasure to organize for PROFMEX (Consortium for Research on Mexico.)

At the 1997 PROFMEX Morelia Conference, for which I served on the Organizing Committee, I benefited from conversations with Albert Bildner, who was an early director of Nelson Rockefeller's major business operations in South America (IBEC, discussed in Chapter 2.)

For assistance during my many trips to New York City and for intellectual support in general, I thank Ronald G. Hellman, Professor, Graduate School, City University of New York, and PROFMEX Director of Strategic Policy.

At the UCLA Program on Mexico, I am indebted to the following persons: for gratifying intellectual stimulation during many discussions in Morelia, Washington, D.C, and Los Angeles, I am pleased to acknowledge the contributions to my thinking made by Margaret Carroll-Boardman, especially during her stay at UCLA as

Visiting Professor. Thanks are due to Barbara Bernstein and Shela Patel, Graduate Counselor in the UCLA Department of History.

For general funding of my many research trips to Mexico and Romania, I am deeply indebted to the UCLA Latin American Center as well as its Program on Mexico.

Finally, I express here my gratefulness to my mother, Magdalena Iosefciuc (1931–2000), who by stressing the importance of education, always supported me emotionally and financially, under harsh conditions in Romania.

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Sinaia, Romania, July 2000
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1994 Chief of Project, Establishment of PROFMEX Office at the Institute of Latin American Studies, Russian Academy of Science, Moscow

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Guest Lectureships

1990 Development of Oral History, UCLA History 169

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Academic Positions

1993 Research Assistant, UCLA Latin American Center

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Publications

1985 "Originality and Stereotypes," *Nord*, Baia Mare, Romania, January 1, p. 3

1994 "Emerging World Trade Blocs: The North American Free Trade Area and the European Union Compared," Statistical *Abstract of Latin America,* Los Angeles: *UCLA Latin* American Center Publications, Vol. 30:1 pp. 1205-1219

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1995 "Elitelore Issues," Editor, UCLA Class Reader, History 169

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1997 "Fitzcarraldo and Other Analyses," Editor, UCLA Class Reader, History 169

1997 Managing Editor of the on-line Journal "Mexico and the World", <http://www.profmex.com>

1998 "Civil Society Versus the Negative heritage of World Statism Since 1989: Mexico and Romania in the Era of Globalization," *México y el Mundo, Memoria de la IX Reunión ANUIES-PROFMEX, Proceedings at the ANUIES-PROFMEX Conference*, México, D.F.: Asociación de Universidades e Institutos de Enseñanza Superior, pp. 206-280

1999 "Globalización *Fast-Track* y el surgimiento de áreas de libre comercio (ALC) y corporaciones transglobales (CTG) virtuales", Co-authored with James W. Wilkie, *México frente a la modernización de China,*

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2000 "Romanian Precursors of Globalization Theory and Its Impact In Latin America - The Neopopulist Discourse," *UCLA Historical Journal*, Issue 19, Winter 2000

2000 "History and Components of Globalization," *Statistical Abstract of Latin America*, Vol. 36:1, pp. xxiv

Conferences and Seminars

1994 Romanian Internet Learning Workshop. Paper presented: "Ironies And Complexities of Transition: Redefining Civil Society In East-Central Europe," Miercurea Ciuc, Romania, April 29 <http://oc1.itim-cj.ro/rilw/Papers/Olga.html>

1994 Policy seminar for Managing the Greater El Paso-Ciudad Metro Area, El Paso, 14-15 March, (paper): "Simplifying Visas"

1994 International Observer of the Mexican Presidential Election, invited by the Federal Electoral Institute, Mexico City, August 16-22

1994 Conference on "Experiences of De-statification:

Mexico," Mexico City, September (paper): "NAFTA and EU Compared"

1995 The American-Romanian Academy of Science (ARA), Reno, Nevada, University of Reno (paper): "Orwell's '1984' and Life Under the 'Big Brothers' Stalin and Ceausescu"

1995 Third Student Colloquium on Romania, UCLA, May 18 (paper) Paper "The Emerging Romanian Informational Infrastructure"

1996 Sighet, Romania Conference, June 22 (paper) "The Deliberate Destruction of Civil Society by the Soviets After 1947 in Romania," Organized by the Civic Academy, Maramures

1996 Colloquium in European History and Culture, October 16, lecture on "Globalization of Civil Society: (paper): "Civil Society and the Transfer of the Mexican-American Model to Romania"

1998 ANUIES- PROFMEX Conference On "Mexico And The World" Organizer, Morelia (State of Michoacán,) December 8-15

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2000 Seminar Organizer, paper presentation on "Globalization And Romania's Transylvanian Region," UCLA, July 7

Morelia Conference organizer and paper "Mexico and Public Policy," 14 - 23 of September. Interview granted to Noticiero, TV Channel 13

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1997 UCLA Fellowship from the International Studies Overseas

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ABSTRACT OF THE DISSERTATION

Decentralized Globalization: Free Markets, U.S. Foundations, And The Rise of Civil and Civic Society From Rockefeller's Latin America To Soros' Eastern Europe

By

Olga Magdalena Lazin

Doctor in History

University of California, Los Angeles, 2001

Professor James W. Wilkie

This work has shown how U.S. Tax Exempt Organization (TEO) Law has evolved to become the most important in the world owing to its flexibility. Where the laws of most countries require prior legal authorization to launch in a new direction, U.S. TEO law recognizes no such limit. Thus, U.S. TEO law, unlike most other countries, is never trying to make legal what is already underway in the world. The USA and now Mexico, which together have signed the first

effective accord for mutual recognition of foundation and NGO sectors, offers the first world standard for philanthropy.

To explain the U.S. Model in language that is easier to fathom than the legal code, I "simplify" it by translating figuratively. Thus "Non-Profit" is here "Not-For-Private Profit," avoiding therefore problems faced by Mexico and Romania as they have attempted to to facilitate the flow of foundation funds to their countries.

In developing a way to translate the U.S. legal framework in a standard way for this era of Globalization, I hope that this work offers a basis for others to advance their own analysis of the issues presented here.

The work is organized to examine the traditional U.S. Centralized Model as developed for world philanthropy by the Rockefeller foundation early this century. The most important variation is the Decentralized Model established under U.S. Tax Lax by the Hungarian-born George Soros, who has set up National Boards to direct their own destiny in 31 countries. Recently three new models have surfaced, and they are examined briefly as needing separate study in the future. Two are positive models and one is an anti-model.

This work also distinguishes between civil society of which the activist Civic Society is a part. The rise of these sectors, I argue here has been made possible by Globalization of telecommunications and Free Trade.

PREFACE

This volume, (entitled "Decentralized Globalization: Free Markets, U.S. Foundations, and The Rise of Civil *and* Civic Society from Rockefeller's Latin America to Soros' Eastern Europe") could well have been sub-titled:

1) "American Experiments In Using U.S. Philanthropic Tax Law to Decentralize Development Decisions from the Government to the Non-Governmental Sphere,"
2) "Civil *and* Civic Society Versus the Negative Heritage of World Statism: Case Studies of Mexico and Romania," or
3) "Free Markets and the Shift from 'Gradual Globalization' to 'Fast-Track Globalization.'"

These possible sub-titles reflect this work goals of, which are at least ten:

First, to distinguish between "Gradual Globalization" and "Fast-Track Globalization"—the latter offering a new conceptual basis that allows us to compare competing definitions for what the term means as well as to develop the bibliography for studying the issues surrounding it, especially in free markets and philanthropy.

Second, to go beyond the existing conceptualizations about how to define "Civic Society (which I capitalize because of its importance)," "civil society," and the role of U.S. philanthropy. These three concepts have not been clearly analyzed in relation to each other, especially confusing Civic Society with civil society, thus misleading countries that seek to emulate the U.S system of decentralized government.[1]

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[1] For examples of works that are either so grounded in theory that they lack specificity or so grounded in the U.S. experience that they fail to understand the global context, see, respectively: Jean Cohen and Andrew Arato, *Civil Society and Political Theory,* Cambridge: MIT Press, 1992; and Putnam Barber, "Coming to Terms with 'Civil Society,'"<www,nonprofit-info.org/tess/civil/html> March 6, 1997.

Third, to articulate for the developing world how U.S. philanthropy is defined to be the tax-deductible basis for a healthy Civic Society based on funds that are ceded by the government through tax deductions ceded to hundreds of thousands of civic-minded Non-Governmental Organizations (NGOs).

Fourth, to how the negative heritage of statism persists, government bureaucracies resisting loss of power. The concept of "statism" is examined in the Introduction, below.

Fifth, it examines the role of free markets in making possible Fast-Track Globalization. Free markets include international trade communications (such as phones, free press, radio, TV, news, fax, e-mail, and the web) and jet travel.

Sixth, to show that globalization and the role of "free trade" is often misunderstood by critics who fail to see how the new worldwide networking system of communications makes dictatorships difficult or impossible and laying the basis for almost instant exposure of human rights violations.

Seventh, to compare and contrast in case studies two countries as they strive to modernize their governmental systems and economies.

Eighth, to show how two aspects of free trade profits have been diverted to philanthropy to stimulate the growth of civil and Civic Society in the world based on the U.S. model. The Rockefeller Foundation has been based on investments in world regions; the Soros Foundations have been based on both freely flowing world investments and free trade in currency values.

Ninth, to clarify to policymakers in the developing world that the term "Not Profit Organization" is misleading, as we will see in the case of Mexico and Romania where it is was officially mis-translated as meaning "no profit." If the term had been translated from its correct name in English, that is

"Not-For-*Private* Profit Organization (NPPO),"

it would not have been mis-translated in Mexico and Romania. Let us be clear here that profits are desirable in order that the tax-exempt non-governmental organization (NGO) can make productive investments and use the interest as a basis of continued existence and expansion, as we will see.

Tenth, the concept NGO and its role in society is here defined in a new way in order to clarify its breadth. It is a term that covers grant-making foundations (such as Rockefeller and Soros), operating foundations (such as universities and hospitals), and innumerable types of decentralized organizations authorized in a *pro forma* manner by the U.S. government to encourage the myriad activities old and new which are beyond the government to imagine, let alone administer.

"Globalization" is defined here in terms of the drive to standardize international laws and regulations in order to facilitate worldwide long-run development of free markets—intellectual as well as economic.[2] This process led by the United States, with some important exceptions such as cellular phone service where the European Union (EU) standard will have to prevail, requires that countries everywhere understand how the USA "works."

Especially important is learning how the U.S. permits non-governmental, tax-exempt funding of citizen-based political activity through a society that is organized to almost instantly mobilize and transfer ideas, capital, and information worldwide. Without such understanding this process, developing countries will be unable to

[2] The term "globalization" is defined more extensively in the Introduction and in Chapter 1, below.

catch up to the U.S. standards, let along to compete economically in process of globalization

In the process of globalization, the European Union has been created since the 1950s to provide its own alternative standard for globalization, as well as to negotiate with the U.S. on equal footing. In many cases, however, the EU has not developed consistent standards, as in the case of philanthropy where 15 separate sets of rules exist to govern Civic Society, which is often confused with the broader term "civil society."

The distinction developed here between "Civic Society" and "civil society" is as follows: Civic Society, the activist sector of *civil society,* seeks democratically to initiate change for the "public good."[3] Civic Society has in part been identified as "Civic Culture

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[3] By making the distinction here between "civil" and "Civic," I differ with authors such as Adam Seligman and Ernest Gellner who, because they use the two terms interchangeably, see civil society as no more than a separate sphere "between" public government and private activities. I see Civil society as providing a counterweight to statist dictatorship and/or political cronyism of leaders who appoint their followers as part of a "spoils" system; and I view Civic

by Gabriel A. Almond and Sidney Verba, with whom I see as having appropriately laid the basis for distinguishing between civic society and Civic Society. They identified in 1963 the idea of "Civic *Culture*"—which they alternatively define as "political culture." [+] Although they did not themselves make a distinction between Civic Culture and "civil society" (and did not even include "civil society" in their index to their work in 1963 and their revisiting of the idea in 1980), their work implicitly leads in the direction that I develop here.

Society as providing a counterweight to both statism and the mistaken policies of civil government. Further Civic Society attempts to solve problems of which the civil government may not even by fully aware. Cf. Adam B. Seligman, *The Idea of Civil Society,* New York: Free Press, 1992; and Ernest Gellner, "Civil Society in Historical Context", *International Social Science Review,* No. 129, 1991, pp. 495-410.

[+] Gabriel A. Almond and Sidney Verba, *eds., The Civic Culture Revisited,* Newberry Park, CA: Sage Publications, 1989.

That Almond and Verba did not see the connection that I see here is due perhaps to the fact that as political scientists seeking to compare political views in England, America, Germany, France, and Mexico, they were more concerned with their survey research to compare attitudes than with examining the role of persons in Civic Society as actively trying to change the civil society (including professional government) in which they lived.

My own view is that Civic Culture encompasses

1. that part of government which falls under civil law and is administered by civil service employees. Indeed civil government ideally is based upon a professional corps of civil servants protected under "civil service" laws that permit qualified people to administer government affairs regardless of change of elected leaders;
2. the broad private sector of citizens who participate in society as citizens. The concept of civil society its origins in ancient Greece where citizens invented the idea of participatory democracy to organize the city-state. Since then, the notion of civil society has been

used in different ways by different groups and defined in a tremendous variety of ways.

The first to explicitly use the concept were the thinkers of the Scottish Enlightenment of the 18th century. They created an important body of thought, which planted the idea of establishing a market economy with moral values.

Subsequently, the French tradition begun by Montesquieu and de Toqueville posed the idea that civil society has multiple dimensions. They emphasized the role of non-political autonomous associations among citizens. De Toqueville's travels led him to conclude that the new United States of America was the epitome of civil society, the USA having built upon and gone beyond the English civil law tradition.

Eventually England, too, saw its own civil society flourish by limiting the power of the monarchy under which it continued to live.

The concept Civic Society presented here involves non-governmental organizations (such as foundations and voluntary associations) as well as civic-minded citizens who donate their time and money for causes of their choice.

In my view, the concepts civil society and Civic Society both exclude the military, Church hierarchies (but not socially active lay groups), and one-party systems (such as the Communist Party[5]), if they seek to create "group-think" by preventing and/or discouraging citizens from thinking for themselves. Civic Society involves individuals and groups who seek to expand civil-rights (such as voting and access to independent courts) and human rights (such as the right to live with ethnic expression and the right not to be tortured and/or exterminated).

Both civil society and Civic Society have been stunted in much of the world by "statism," or the situation that occurs when a nation-state comes to own more than half of the country's gross domestic product (GDP). Statism also involves governmental development of extensive laws and rules which stultify and discourage the role of citizens.

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[5] For a differing view that sees Communist Associations and Communist youth groups (such as the infamous "Pioneers" who excelled at "group-think") as having constituted a non-western form of civil society, see Chris Hahn and Elizabeth Dunn, *Civil Society: Challenging Western Models,* Routlege: New York, 1996.

To explain the rise of statism in Romania and Brazil, Professor Joseph Love, in his book entitled *Crafting the Third World: Theorizing Underdevelopment in Romania and Brazil*[6], focuses on showing how the rise of state power was justified by "nationalists," who sought to explain the poverty of their countries by blaming the "capitalist" model and especially the "gradual globalization" of markets led by the USA. Such statism not only caused economic stagnation but set back seriously the role of civil society in Latin America and Eastern Europe, subjecting the regions to dictatorships of political as well as social poverty.

In my view, it is only since their return to globalization, this time at fast-track speed. that regions such as Latin America and Eastern Europe have begun to fight wasteful centralism, especially through the rise of new civil society. In this process of recovery, Mexico and Romania have "capitalized" on U.S. funds (both from the U.S. governmental and philanthropic sectors) as well as ideas

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[6] Joseph Love, *Crafting the Third World: Theorizing Underdevelopment in Romania and Brazil,* Stanford University Press, 1996.

(such as basing citizen-led activism in tax-exempt organizations such as NGOs).

As part of my analysis of globalization, I argue that the concept includes not only the flow of Profit-Making Funds (needed to finance and conduct business affairs), but also includes the flow of Non-Profit Funds (needed to build Civic Society and human capital as well as to protect human rights and the world's physical environment.)

America operates with the advantage of being able to enact one standard law for Non Profit Organizations (NPOs) whereas the EU is only beginning to do so in such areas as taxation and pensions, and has been unable to do so at all for NPOs, where 15 national legal standards prevail.

My field research has revealed that countries such as Mexico and Romania have had difficulty in understanding and adopting U.S. tax law, which is the basis for standardization because of problems in analysis of how U.S. economic sectors interrelate. U.S. analysts themselves have failed to articulate the relations among economic sectors, thus confusing the way in which policy analysts interpret U.S. law to the world. Thus, the concept "Non

Profit" has been mistranslated as "No Profit," as we will see in this study.

Hence, I encourage here use of the term Not-For-Private Profit (NPPO) to specify that profits can be made but not diverted for private use. Such profits can be used only for the tax-exempt purposes for which any organization is founded, including the expenses of running the organization (salaries, travel, rent, etc.) as well as invested to increase the size of the NPPO and ensure its continued existence.

As part of my contribution to globalization studies, I here redefine U.S. societal spheres as being four:[7]

1. Government (State) Sphere (centralized and Decentralized)
2. Private Sphere
3. Mixed State/Private Sphere
4. Philanthropic Sphere (often erroneously called the "Third Sector")

Confusion about definition of societal sectors comes when analysts fail to take into account the role of the Mixed

[7] Discussed at length and shown in chapters, below.

state/private sector, which for so many years has come to provide a “theoretical bridge” between government and the private business, especially in England and the USA, as well as to keep inefficient and corrupt statism in power, especially in Latin America and Eastern Europe. Given the “third-way” ideology espoused by diverse leaders in different times (for example, Juan Domingo Perón in Argentina in the 1940s) and England’s Tony Blair (1990s), such a concept is not helpful because it is by now empty of meaning.

I seek to show in a new light the relation of the profit and not for-private-profit sectors, the latter funded by the former. Further, I develop new analysis here to help citizens everywhere to understand the roles of government, which must include the study of GONGOs (governmentally organized NGOs), QUANGOs (quasi-autonomous NGOs) as well as to understand that "non-profit organization" does not preclude such organizations from earning profits but rather require that the profits must be used for the purposes chartered and not for private gain.

With regard to meaning of words, one final statement is in order. I do not use the word “public” per se because it has two distinct meanings. For formerly statist societies, "public" means government or government-owned. For non-statist societies such as the USA, the word's meaning depends on context: "broad general public," in the context of philanthropic analysis; "public utility" owned or regulated by the government, in the context of economic analysis. Hence in discussion here I discuss foundations as "broadly supported by the general public"; and I do not use "public foundation" which could give the idea of government-owned foundation.

This approach provides the overarching framework for analyzing the full impact of:

4) the findings of Margaret Carroll's UCLA doctoral dissertation in history entitled: "The Rockefeller Corollary—The Impact of Philanthropy and Globalization in Latin America (1999);
5) the findings of James W. Wilkie in notes and oral history interviews with (a) Norman E. Borlaug, the father of the Green Revolution; and (b) with the staff of the "El Paso Community Foundation" about its operations, upon which he drew to develop the

framework for the U.S.-Mexican international philanthropic standard that emerged from his policy research as President of PROFMEX (Consortium for Research on Mexico).

6) my findings based on field research in Mexico, Russia,

and Eastern Europe on the problems especially facing Romania as it attempts to establish Civic Society; and my interviews with George Soros in New York City.

In this work, I argue that the challenge is for formerly statist countries such as Mexico and Romania is to establish Civic Society and free markets as the countervailing forces needed to reform centralized legal systems. Both Mexico and Romania, which once "benefited" from Roman Law and the Napoleonic Code, find that they now suffer from the legal limits that preclude action not expressly permitted by the state. Indeed this legal situation is the problem hampering the development of philanthropy in both countries. Until they adopt a legal system that allows companies and persons to innovate without obtaining prior authorization from the government, innovation will be stifled by fear of bureaucratic retaliation.

In my view, where Rockefeller's model of tax-exempt organization has been centrally based in New York City, George Soros offers a fascinatingly different model of decentralization. Soros has used globalization of profit-making funds to finance his Not-For-Private Profit branches of the Soros Foundations around the world. Soros, Hungarian-born and London-educated, lives in New York City where he oversees his worldwide economic operations. His profits from currency speculation[8] in all areas of the world, however, go into his Curaçao-based Quantum Fund, which pays his salary and fees to him in New York City. From his own personal profits (Quantum Fund being one source), Soros donated and tries to donate at least half to his New York-based Soros Foundation, which is organized to take advantage of the fact that the USA has the most flexible Tax Exempt Organization law in

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[8] Critics usually consider "speculation" in a derogatory way, but all investment is based on speculation, some with more risk than other types. Investment in any stock market involves speculation and is not guaranteed to be profitable, as we will see in this work.

the world while at the same time limiting political action and requiring rigorous accounting.

The Soros Foundation does not make its decisions through a New York-based board, as do most of the world's other major foundations such as Rockefeller and Ford, but transfers most of its tax exempt funds to more than 30 nation-based boards. These boards are made of leading citizens who are attempting to construct Civic Society in their own country. Local Non-Governmental Agencies (NGOs) determine their own priorities providing their input, local boards of prestigious citizens representing various professions are in charge of identifying where grants should go.

The Fundación Soros-Guatemala serves as a good example. Board members have been chosen as to reflect different sectors of the society and ethnic groups: a Jesuit sociologist, a Mayan economist, ex-government officials, and a local businessman. Local NGOs detain the highest legitimate information and knowledge and can provide the local links from the outset in efforts of reconstruction following the 36 years of civil war in Guatemala.

Romania is especially interesting. (as also is all of Eastern Europe) for comparison to Mexico. As I argue here, Romania is following the same path of moving from statism to de-statification; and thus it seeks to understand how Mexicans have faced with varying degrees of success the process of nationalizing (1917-1982) and then de-nationalizing (since 1982):

- industry, banking, ports, airports, toll roads, and railroads (in which nationalization meant loss of accountability and in which de-nationalization has meant establishing open accounting);
- agricultural land (in which nationalization meant creation of communal holdings and in which de-nationalization has involved disincentives to (but not prohibition of) the right of peasants to hold land communally;
- trade (in which nationalization meant integration asymmetrically into large trade blocs turning inward and in which de-nationalization has meant integrating outward into free trade markets);

- philanthropy (in which nationalization left little or no role for civil society and in which de-nationalization has required foreign philanthropy to fund Civic Society).

To portray how in the 1990s Mexico officially sought to enhance the role of Civic Society, I analyze its adoption of the U.S. model where government builds a compact with its citizens to exempt from taxation money and property that are devoted to philanthropic purposes. The Mexican government realized that by establishing the basis for instituting the U.S. philanthropic model it would be compensated for the loss of revenue because

(1) It is relieved of the burden of financing all activities that otherwise the state must fund; and

(2) Government does not have the "mental space" capable of identifying and attempting to resolve problems or develop new plans in thousands of places at once, as statists once believed to be possible through the use of central planning, even later including the use of computers.

Thus I offer a new historical view of globalization to explain how the U.S. model of philanthropy has come to serve as basis for

Civic Society in many countries of the world. This process is not clear to much of the world, nor has it been well articulated by the U.S. Council on Foundations, which has sought to lead such change.

Funding of the Green Revolution by the Rockefeller Foundation serves as one excellent point of departure to examine the philanthropic basis of Civic Society's importance in the globalization process. Although such countries as Mexico and Romania have been attempting to follow the U.S. legal model to achieve de-statification, this has not been easy because even in the USA their is little clear understanding of how the U.S. model of philanthropy has come to fit into the overall economic structure of society. Hence it has been difficult for other countries such as Mexico and Romania to emulate the U.S. model.

I see U.S. philanthropy as the most important historical model for all countries because it holds the world's largest pool of foundation funds for expenditure on world development. Its importance is that it flexibly sets one standard under U.S. law to permit private persons and corporations, be they U.S. or foreign, to incorporate in America and to give outside the USA as well as inside. Although Enrique Barón, noted member of the European

Parliament, claims that the EU is the world's largest funder of NGOs,[9] and therefore impliedly more important than America, his argument does not take into account the fact that the EU's huge pool of funds about which he writes is more plan than reality; and in any case it operates under 15 separate standards, one for each country, thus dissipating EU's effect on the world.

To arrive at my goal in this work, I define in this work Civic Society in a way that can well be understood outside as well as inside the United States; and develop the argument that civil society (regardless of its limitations) has provided the basis for the health of Civic Society by both leaving it free and also cooperating with it to assure financial freedom to organize Civic Culture without government interference.

The U.S. law on Tax Exempt Organizations (TEOs) has created tax deductible incentives to help NPPOs (including NGOs) carry out their plans to establish voluntary-action programs and donations of money and time. The scope of the U.S. NPPO Law on Philanthropy

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[9] José María Atienzar, , "[Entrevista con Enrique Barón Crespo, Presidente del Parlamento Europeo:] Europa Unida y Abierta", *La Opinión*, Nov. 8, 2000.

(which is my name for the body of U.S. law that does not explicitly use the term "philanthropy") does not set any limits on the types of activities that can be funded. Although the law includes some key concepts, they do not constitute a limit because the fast-changing world cannot foresee what should or should not be funded. I summarize U.S. tax law to define non-exclusively these guiding categories as involving the "HEW-SEER-PUC" factors:

1. Health,
2. Education,
3. Welfare (and human rights),
4. Science
5. Economy,
6. Environment (and ecology),
7. Religion
8. Publication (and literary societies,
9. Charity (including the facet of poverty relief).

While not limiting what can be funded, U.S. NPPO law does limit how such activities can be funded, but flexibly so.

This work is organized into six chapters:

Chapter 1 argues that the Fast-Track Globalization process is based on the rise of rapidly expanding free markets. Here I argue that free trade of goods, communications, and services provides the context for the rise of Civic Society. I do not see a direct, measurable correlation between the two, but rather that the context of free trade opens international communication and makes possible and more effective the role of Civic Society. In this chapter I present my view that Globalization is accelerating from a "Gradual" process for many centuries prior to the 1980s to a "Fast-Track" process. Beginning in the 1980s, U.S. President Ronald Reagan and United Kingdom Prime Minister Margaret Thatcher joined forces to foster the many factors involved in Fast-Track Globalization based upon open communications that have facilitated the flow of funds among For-Private-Profit Organizations (FPPOs), many of which donate a significant share of their profits to NPPOs seeking to foster change in the developing world.

Chapter 2 deals with developing a clear definition of the U.S. model for Tax Exempt Organizations (TEOs) such as foundations, NGOs, and a wide range of NPPOs). It is because a definition does not exist that there is so much confusion in the world as well as in America about how U.S. NPPOs function.

Chapter 3 takes up the Rockefeller Foundation, which I portray here as representing the Centralized Model of Philanthropy wherein decisions are made in the USA and not in the country receiving the benefit of U.S. philanthropy.

Chapter 4 analyses the rush of world countries into Free Trade Blocs which are not only opening the world to the free flow of ideas for developing civil society and Civic Society but also expanding the base of profits from which funds are donated for philanthropic purposes. Civic Society is the main beneficiary of such donations. Chapter 5 defines the Decentralized Model for Philanthropy developed by George Soros and illustrated by analyzing the rise and
role of the Open Society Foundations around the world.

Chapter 6 treats globalization of Civic Society and compares the experiences of Mexico, and Eastern
Europe's Romania, which constitute my two case studies.

The Epilogue examines two new model of U.S. philanthropy for the world: The El Paso Community Foundation with its decentralization to the local level and its cross-border Board of Directors also representing Ciudad Juárez—the part of Greater El Paso Metropolitan Area that has the largest share of population.

The Epilogue also examines the recentralization of philanthropy in the Bill and Melinda Gates Foundation, over which Bill Gates' father presides. This new type of personal philanthropy eschews the development of a bureaucratically oriented foundation run by a professional staff; rather the foundation leaders use their huge new "dot.com" fortunes to personally choose huge projects that will have worldwide impact.

The purpose of this study, then, is to show how the four models of U.S. philanthropy all encourage open societies and the new role of Civic Society to combat both the negative heritage of statism as well as the Ultra-Liberal reaction to it.

Although non-governmental funding is the key to successfully developing Civic Society, each of the foundations discussed here is shown to take a different approach to the problem of using grants to "prime the pump," thereafter finding their own continued funding and not becoming dependent upon their benefactor. At the same time, theoretically foundations thus can use their funds to "prime new pumps." Unfortunately, theory and practice rarely coincide, as will see.

Finally, let me note that this work is written under the auspices of the UCLA Program in Policy History and Globalization. Where area studies used to limit their focus to one geographic part of the world, that approach makes little sense in light of the interactions of regions around the globe. And although country-specific histories remain vital, they only make sense in the ebb and flow of international influences that require a globalized policy framework, which invites the policy recommendations of historians who are familiar with long-term change and its meaning.

INTRODUCTION:
CIVIL SOCIETY, CIVIC SOCIETY AND FREE TRADE VERSUS THE NEGATIVE HERITAGE OF STATISM

Socialism, communism, fascism, and Nazism
are all but dead now. They have failed miserably.
But they have been replaced by what is merely
another more watered down form of
collectivism
that may be called "interventionism." Indeed,
interventionism is the predominant economic
system in the world today.
Richard M. Ebeling, "The Free Market and
the Interventionist State,"
Imprimis, January, 1997

Contrary to the doctrine of laissez-faire
capitalism, in the real world there are prolonged
periods when market forces cannot self-correct in
time to best serve the common good. Resulting
social instability can only be corrected by
government action.
- George Soros, "The Capitalist
Threat,"
Atlantic Monthly, January 1997

Although the crisis of statism,[1] which came about with the 1989 fall of the Berlin Wall and the subsequent rise of "Ultra-Liberalism" that opposes all intervention in the free market (as suggested in the quote by Ebeling, above). Ultra-Liberalism has been countered recently by the call for a new type of government action (as suggested in the quote by Soros, above). If the concept of "Ultra-Liberalism" has been most clearly defined by Vivianne Forrester,[2]

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1 "Statism" occurs when the state becomes so powerful that it owns and/or controls 50 per cent or more of a country's gross domestic product (GDP). Further, statism involves excessive bureaucracy that seeks to regulate, tax, and control as many social and economic aspects of a country as possible. For a case study of statism, see James W. Wilkie, Chapter 1 in "Six Ideological Periods in the Mexican Revolution," in *Society and Economy in Mexico,* edited by James W. Wilkie, Los Angeles: UCLA Latin American Center Publications, 1990.

2 See the interview with Forrester (who coined the term) in Anne Marie Mergier, "El Ultraliberalismo Secuestró la Globalización, e Impuse sus Falcias: Viviane Forrester,"

it is financier Soros who has most clearly suggested how to revive the role of the government by incorporating civic values in the decision-making process of enhancing "civil society", but neither his foundation nor the Rockefeller Foundation clarify the distinction between civil society and Civic Society, the latter term

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Proceso, March 12, 2000, p. 12.

[3] I see civil society as providing the non-political basis of social norms and governmental administration that permits societal organization (in which citizens exercise their human rights and right of appeal) to function with relative smoothness. Watching to see that societal organizations (such as government) function, and to improve it, is the role of Civic Society, in which citizens actively organize to change the generally passive civil society. In my view Gabriel A. Almond and Sidney Verba should have titled their book "The Civil Culture," but it is *The Civic Culture: Political Attitudes and Democracy in Five Nations,* Princeton: Princeton University Press, 1963; and *Civic Culture Revisited,* Boston: Little Brown, 1980. They developed their concept from studying civil associatedness in Mexico, Italy, Germany, United Kingdom, and USA.

being capitalized here in order to assure that it is not confused with the former. [3]

In my view developed, I argue that "civic society" (including government and the private spheres) should be stimulated by as well as held in check by "Civic Society," as we will see.

My work seeks to show how the rise and globalization of civil and Civic Society has been fostered by the U.S. model of philanthropy, especially stimulated by the opening of economies and by the globalization of telecommunications. Indeed it is the triad of telecommunications, free trade and philanthropy that has energized Civic Society, one that seeks to ameliorate the blows of globalization by adapting local situations to international developments.

I argue here that Civic Society has provided the basis for what I call the gradual emergence of "Decentralized Liberalism" and "Decentralized Globalization." Ironically, decentralization has become possible only if centralized world standards provide the general framework for adapting to local needs. Indeed Globalization can be defined as the creation of standards,

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ironically this usually happens only in the profit making side (like banking, accounting, transfer pricing, cellular phone services, etc.)

Even if the European Union is funding Civic Society through PHARE programs in the individual fifteen countries, cross-border professional networks are spreading know-how from the United States.[4]

To make my argument, I draw upon two major attempts to export the U.S. idea Decentralized Globalization to the world. The first involves the Rockefeller Model for Latin America that arose to directly establish civil society beginning in the mid-1940s and then its shift in the 1960s and 1970s to the support of research-oriented Civic Society. The second concerns the role of role Civic Society as developed by George Soros for Eastern Europe since the 1980s.

The Rockefeller aspect is complex here because it covers Rockefeller Foundation activity in Mexico, as well as the individual attempt by Nelson Rockefeller to implant, as an offshoot of his investments, the U.S. model of civil society in South America. The

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4 Werner Weindenfield ed., "Strengthening Civil Society," *A New Ostpolitik - Strategies for a United Europe*, Gutersloh: Bertelsmann Foundation Publishers, 1997, p. 112.

overall impact of Rockefeller Foundation activity has been tremendous on the quality of health care in Mexico and Brazil, moreover on the quality of life, through the first and second Green Revolutions has prevented famine in such countries as Pakistan and India, as well as improving nourishment in Mexico.[5]

Also George Soros' activities, especially in Eastern Europe, to create Civic Society worldwide are a philanthropic offshoot of his investments. Both Rockefeller and Soros have used their profits to foster the rise of Civic Society.

Although the rise of Civic Society has been widely studied, it has too often been confused with the idea of "civil society." Even though some analysts have understood the role of Civic Society as being closely related to philanthropy and NGOs, serious analysis about the legal framework for it as part of Tax Exempt Organization Law has been ignored, as has its origins.

Regrettably, the literature has neither well defined how NGOs fit into the structure of societies in any country nor how the U.S. legal framework for making tax-deductible donations can support

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5 Gordon, Conway, *The Doubly Green Revolution; Food for All in the 21st Century,* New York: Rockefeller Foundation, 1999.

Civic Society. This problem of financing Civic Society arose during the Cold War when statist-oriented "intellectuals" were unable to see beyond their conspiracy theory that U.S. foundations were engaged in plots to further U.S. imperialism. Thus, most of the existing literature does not see the role of philanthropy as having been a major factor in the establishment and rise of Civic Society. Although the ideological paradigm "governing" research changed with the fall of the Berlin Wall in 1989 and the implosion of the Soviet "Union" in 1991, scholars have had neither the time nor interest to rethink the role of philanthropy and its different models.

Fortunately, some of the pre-1989 literature about NGOs has much to offer in detail, if not overall picture and conclusions. Such works include those authored by Ben Whitaker (1974),[6] Margaret E. Keck and Kathryn Sikkink (1998),[7] and Edward H. Berman (1983).[8]

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6 Ben Whitaker, Whitaker, Ben, *The Foundations. An Anatomy of Philanthropy And Society*, London: Eyre Methuen, 1974.

7 Margaret E. Keck, and Kathryn Sikkink, *Activists Beyond Borders: Advocacy Networks in International Politics*, New York: Cornell University Press, 1998.

To remedy this failure of analysis, I examine the Mexican and Romanian case studies in an era of trans-global philanthropy; and I refer to the Brazilian case. Much of the literature on Civic Society has recognized that the NGO can serve as an antidote to the state power, but has failed to realize that without funding, NGOs are toothless. The "grace" of philanthropy is that it stimulates decentralized decision-making about development in two ways. Tax-deductible funds are taken out of the hands of government; and decisions themselves are made under different organizational models.

One of the aims of this work is to identify and articulate the five main types of trans-global philanthropic grant-making organizations in the flexible U.S. model. First, the traditional philanthropy, such as that of the Rockefeller Family, has decentralized tax money away from centralized government expenditure, but ironically it has done so from its *centralized*

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[8] Berman, H. Edward, *The Influence of Carnegie, Ford, and Rockefeller Foundations on American Policy: The Ideology of Philanthropy*, Albany: State University of New York, 1983.

headquarters in New York City. Because New York City is the financial center of the world and because U.S. tax law facilitates the remittance of profits from outside the USA (as well as inside), the most important trans-global corporations such as Rockefeller and Ford use New York City as the base of their foundations to which they donate a share of their worldwide profits for distribution in seemingly every corner of the earth.

Second, the new type of trans-global grant-making philanthropy, created by George Soros, involves decentralizing decisions from the Soros Foundation Headquarters (New York City) to National Boards of Directors. Rather than having his New York Board of Directors make the decisions about what is to be funded around the world (as does the traditional type represented by the Rockefeller Foundation), Soros has decentralized decisions by transferring control over expenditures to boards of directors made up of distinguished leaders of Civic Society in the countries where he has set up independent Soros National Foundations. Consistent with his decentralizing scheme, Soros profits from investments and currency trading around the world to into his Curaçao offices, from where he donates half of the profits to his U.S. Foundation in New

York City. From New York, he disburses grants under U.S. tax law governing philanthropy.

Third, there is the type of grant-making philanthropy, which I also take up here only briefly, that is exemplified by the El Paso Community Foundation (EPCF). EPCF makes its decisions at the local level through its cross-national board of directors. EPCF's joint U.S.-Mexican board of directors addressed cross-border community problems, El Paso and Ciudad Juárez being treated as part of greater community that happens to be divided by an international border. As a "model" community Foundation funded by the Ford Foundation, it has also participated in helping to change international laws governing the flow of NPPO funds.

Fourth, there is the new personal philanthropy in which since the early mid-1990s decisions about funding are not placed in the hands of a foundation bureaucracy operating at "arms-length" from remain under the direct control of the donor. In effect, this model recentralizes power in the donor and is represented by Bill Gates and Ted Turner, who have chosen to use their globally-won wealth (Gates from his "monopoly" computer manufacturing and sales; Turner from his TV and world news "empire") to make, respective, massive funding to defeat world diseases and massive funding of the United Nations.

Fifth, there is the new "anti-model" of philanthropy represented since the mid-1990s by the Fidelity Investments Gift Charity, to which wealthy persons make donations that are held in their private name for the main purpose of accumulating profits to directly benefit them rather than benefit the broad general public.

Of these three types of grant-making foundations, impliedly each, except the last, has taken a different approach as to whether it funds civil society or Civic Society. The Rockefellers goals seem to have confused the concepts until perhaps the 1970s. On the one hand, the Rockefeller's underlying philosophy of "priming the pump" seemed to promise help for local people in many countries to build and assume control and responsibility of Civic Society,[9] especially under the banner of the "Good Neighbor Diplomacy." On the other hand, it is my view that the Rockefeller's greatest effort was dedicated not to funding Civic Society but working with

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9 See Margaret, M. Carrol [-Boardman], "The Rockefeller Corollary. The Impact of Philanthropy and Globalization in Latin America," UCLA Ph.D. Dissertation, 1999, p. 338.

governments for the laudable goal of establishing the reliable *civil society needed* by Latin American Countries. Without a strong civil society, especially including reliable civil government and civil service, to fairly administer a country's laws as well as to meaningfully conduct programs such as agricultural research and field demonstrations, the citizenry can neither prosper nor seek effective recourse against injustices.

Soros has theorized much but not distinguished between the two concepts even as his foundations have devoted most of their grants to fund Civic Society. Nevertheless, his foundations have funded change in civic society by donating the means of communication such as fax machines and computers to universities and blank newsprint to newspapers in such places as Eastern Europe.

EPCF has funded cross-border civil society, such as university scholarship programs, study of pollution issues, and change in bi-national laws needed to enhance the greater El Paso-Ciudad Juárez spirit of community. EPCF was instrumental in developing the U.S.-Mexico mutual recognition of philanthropic sectors, which has become the only international standard in the world.

It is interesting to note that since 1994 all three of these examples of grant-making foundations (Rockefeller and Soros, however, only implicitly) operate within the international standard for philanthropy developed by EPCF. When the government of Mexico agreed to adopt U.S. Tax Exempt Law, the U.S.-Mexico standard emerged for worldwide philanthropy—a standard that provides flexible organization and activity with a high standard of public accountability. This is the only such standard in the world—the European Union has 15 separate standards and no two other countries have mutually recognized their NPPOs.

U.S. philanthropy has played a significant role in the broad process of Fast-Track Globalization, which is defined here as the instant ability of private individuals, companies, and national leaders to communicate and to move information around the world, and it is the near instant ability to move people, jobs, money, and goods, worldwide (including into and out of hitherto remote areas). Not only can bankers move millions of dollars instantaneously (redefining "liquidity" and making the 30-day certificate of deposit an obsolete attempt to limit pressure on currency values and interest rates) but the migrant poor can wire their pay check home instantly and inexpensively without regard to national borders and problems of the regular mails. Cab drivers worldwide are noted for converting their earnings into dollars on a daily basis if their country's currency seems unstable.

Thanks to improved communications infrastructure (railroads, airplanes, and the ability of the motor vehicle and motorcycle, telephones, television, and internet communication) penetration of remote areas and of global consumer brands so thoroughly, there has been a change in mass psychology, as noted by Rosebeth Moss Kantor.[10]

I here equate Fast-Track Globalization with private-led capitalism, as differentiated from the state capitalism of China (1949--), Russia (1917-1991), and Mexico (from 1934 to 1982) that protected its internal market even while seeking to trade with the world as part of Gradual Globalization.

Fast-Track Globalization got underway in the 1980s under the aegis of Ronald Reagan and Margaret Thatcher. The Reagan-Thatcher move against statism at home and abroad was aided by the fortuitous

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10 According to economist Rosabeth Moss Kanter, "Today, more and more backwaters are included that were excluded in history." (*Thriving Locally in the Global Economy*, New York: Simon & Schuster, 1995).

conjuncture of four major figures: Mikhail Gorbachev, Deng XiaPing, François Mitterrand, Pope John Paul II, without whom the Cold War and international openings could not have occurred.

Fast-track Globalization triumph since the fall of the Berlin War in 1989 is the major fact in world political and economic affairs as the twentieth century comes to close.[11] The rush of nations to join the Fast-Track Globalization process has not been hampered even by rising criticism, on the one hand, from labor union leaders everywhere,[12] and

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[11] Jeffrey Sachs sees the major fact of twentieth century's end as being the triumph worldwide of capitalism. (Sachs, "The Limits of Convergence: Nature, Nurture, and Growth," *Economist*, June 14, 1997, pp. 21-24). In an otherwise splendid piece, Sachs does not define capitalism in relation to the context of historical time as I do here. I see capitalism as having changed at an accelerated pace under Fast-Track Globalization compared to the previous era of Gradual Globalization.

[12] Many U.S. union leaders for decades have tried to sell to the general public the idea that "trans-national" companies were evil. They failed, however, and these words are now generally considered in positive terms. Now labor leaders many anti-free

on the other hand, from international capitalist leaders such as the U.S.-based Hungarian George Soros,[13] both of whom argue that if unfettered world free-trade market continues to undermine the social-safety net of the developed nations, societal breakdowns may result.

Two Hungarian-born thinkers have warned about free trade without rules. Soros, who "broke" the Bank of England in 1992 when he successfully bet that it had overvalued the British pound sterling, holds that unless the self-interest of capitalism is tempered by a recognition of

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trade friends seek to cast New Globalization as evil "Neo-Liberalism," evil because it exports good jobs from rich countries and exploits workers with poor salaries in developing countries. (Never mind that the salaries are higher than paid locally.) Indeed in Mexico they have temporarily succeeded in establishing the concepts as "dirty words". See Gastón García Cantú, "El Ocaso Neoliberal: En el Espejo de Europa," *Excélsior* (Mexico City), May 30, 1997.

13 George Soros, "The Capitalist Threat," *Atlantic Monthly*, January 1997, cover article.

common interest, the resulting social collapses will take free markets down with them, opening the way to dictatorial governments.[14]

The Hungarian-born Karl Polanyi made much the same argument fifty years earlier than Soros when he wrote in *The Great Transformation that* communism and fascism arose out of the excesses of capitalism, excesses that had destroyed the security of traditional society. But warnings about the excesses of free-trade capitalism may not now describe the situation faced by the world. In my view the era of Anti-State Capitalism and Fast-Track Globalization (1981--) that was inaugurated by Ronald Reagan and Margaret Thatcher have learned much from and go far beyond the mercantilistic capitalism that existed from the year 1571 (which marks the completion of

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14 Soros warns, correctly in my view, that contrary to the doctrine of laissez-faire capitalism, in the real world there are prolonged periods when market forces cannot self-correct in time to best serve the common good. Resulting social instability can only be corrected by government action. See Soros' *The Crisis of Global Capitalism;* Open *Society Endangered,* New York: Public Affairs, 1998.

the global trade link via the Spanish Manila Galleon) to 1991 (which marks the collapse of the Soviet Union).

This 420-period saw countries seek to divide the world and avoid competition during an era of mercantilist free trade that had at least five often overlapping sub-periods:

to 1830, imperial colonialism;

1830-1930, anti-state free trade;

1875-1930, rise of "active state";[15]

1881-1945, land-grab colonialism and trusteeships in Africa, Asia, India;

1930-1989, era of statism, with resistance led by USA;[16]

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15 For the case of Mexico after 1910, see the case study by James W. Wilkie, *La Revolución Mexicana (1910-1976): Gasto Federal y Cambio Social* (México, D.F.: Fondo de Cultura Económica, 1978 y 1987.

16 The period of the rise (1917) and fall of the USSR (1991) provided the Soviet model of state capitalism that appealed to Third World dictators (who wanted to own countries) and intellectuals everywhere who wanted to believe in the idea that

1960-1991, closed Free Trade Blocs, e.g., MERCOSUR.

1981-- rise of Fast-Track Global Capitalism under Thatcher and Reagan[17]; rise of EU (1992) and NAFTA (1994) models for free trade.

Let me turn now to a more full analysis of the shift from Gradual to Fast-Track Globalization, both of which have been favored by U.S. grant-making foundations such as the Rockefeller Foundation, the Soros Foundation, and El Paso Community Foundation.

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they could impose their simple-minded utopian and increasingly bureaucratic-authoritarian schemes on complex societies and economies. This period ended in failed state capitalism (1917-1991.)

17 The year 1981 marks the beginning of the Thatcher-Reagan Anti-State Revolution, the concepts of which have continued. Thatcher was Prime Minister of England from 1979 to 1990; Reagan was President of the USA from 1981 to 1989.

CHAPTER ONE

FROM GRADUAL TO "FAST-TRACK" GLOBALIZATION: RISE OF FREE TRADE BLOCS AND OPEN COMMUNICATIONS

World history is essentially the history of increased connectivity. Since the 1980s the processes of creating what I call "Fast-Track-Globalization" has gathered force through establishment of free trade blocs. This Fast-Track process is based upon the new, "instant" worldwide free flow of information, communication, and transfer of capital. These factors not only have successfully brought pressure to bear on statism but made clear to the world that the failures of excessive central power could no longer be hidden behind the rhetoric that state ownership was being carried out in the name of the masses.[1]

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[1] Two major exceptions in the world today are Fidel Castro's Cuba and Hugo Chávez's Venezuela. Since his election in 1998, Chávez has used Fidel's techniques to eliminate civil society and Civic

The opening of world free trade and its concomitant free communication of ideas and news has broken down old barriers and boosted development of global civic society to prevent or limit dictatorships. Although many critics of globalization have argued that it left "the people" in poverty, they have failed to realize that this positive side to Fast-Track Globalization. The fall of trade barriers and the rise of telecommunications have enabled the rise of civic society in countries where it did not previously exist or was relegated to passive civil functions of weak local government.

Further, civic society around the world is able to reinforce itself through communication with other countries as well as through funding from internationally-oriented philanthropy. Ironically, the majority of philanthropic funds have been often

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Society by mobilizing the masses to support military and bureaucratic "dictatorship." Chávez has eliminated the role of an "independent" legislature and judiciary and is now attempting to eliminate organized labor as a force—a process that has popular appeal given the infamous corruption of these sectors in Venezuela. In the meantime, however, Chávez, like Castro, seeks to prevent the rise of meaningful civic society.

rooted in the diversion of international profits into foundations that seek to develop civic society which may, in turn, be free to criticize the original profits and the foundations themselves.

In its expansive phases, the state rises to quash civic society in order to prevent associations that can attempt to limit the amorphous system of state domination and voluntary servitude to the New Class, so well described by Milovan Djilas.[2] Statism cannot permit to create alternative cultures, independent public spheres, or attempts to change and confront official structures.

The processes of economic globalization, which have included pressures on countries to end protectionism and to adapt to the information revolution, had highlighted the increasing crisis in community life as the world's systems of state ownership proved to be inefficient, corrupt and bankrupt. Ironically, many observers wrongly see the decline of statism as being the cause of crisis in community life, not the result, as I will show here.

One Romanian politician, Teodor Melescanu is rightfully arguing that the globalization process benefits small,

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[2] See Milovan Djilas, *The New Class: An Analysis of the Communist System,* New York: Praeger, 1957.

underdeveloped countries, if these countries know how to tune into the globalism's benefits and profit from the recent possibilities and developments in telecommunications and networking.[3]

Initially the weapon of Cold War rivalry, technology in its nascent computer networking form, has actually propelled the digital industry age and therefore one of the main forces of globalization--information technology. The process of Fast-Track Globalization has not taken place without controversy.

Beginning in 1999, protests against globalization that began under the aegis the "Seattle Man" have attacked with notable propaganda the process of globalization and its so-called "instrumental enforcers" (World Bank, International Monetary Fund, and World Trade Organization) in order to give the process a bad name.[4]

The impact of globalization, however, actually has enabled the rise of world communication that not only fosters economic growth,

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3 Teodor Melescanu, "Noua era a tarilor mici, "Lumea Magazin, 28 Jan, 2000, http://www.lumeam.ro/nr4_2000/noua_era.html.

4 Joseph, Kahn, "Globalization: Unspeakable, Yes, but Is It Really Evil?" *New York Times,* May 9, 2000.

but also has made possible the rise of civic society around the world.

Such society is able to promote local change within countries as well as to monitor international companies who try to exploit workers under sweatshop conditions. The "Seattle Man" and his and her cousins around the world have been able to mobilize successfully via the Internet, globalization's newest method linking all parts of the world. The Seattle Man, then, is using the web, against corporate power that made the web so important everywhere in the world—one of the "costs" of open society.

One can ask which came first: free trade and communication? Or Fast-Track Globalization? Or did both occur at more or less the same time? In my view the answer is that all three answers are valid, depending on the historical time. Free Trade Blocs and communication were emerging simultaneously at first, and, once Fast-Track Globalization capitalized on them to expand rapidly, Free Trade Areas (FTAs) and communications have had to catch up with history with countries such as China quick to open to the fax and slow to open to the internet. The processes have been interactive and mutually reinforcing.

Let us turn to the components of the Globalization Process, some of them at time impeding change and at others fostering it.

Twenty-One Components of Globalization Explicitly and/or Implicitly Aiding the Rise of Civil and Civic Society

Globalization of trade goes back to the 1492 when Columbus discovered that the world was not flat and to 1519-1522 when Fernando Magellan and Juan Sebastián del Cano became the first to navigate around the world. Soon sailing ships regularly left Europe to find exotic items such as sugar, spice, and silk. The monsoon trade routes united East Africa, Arabia, India, Indonesia Latin America, and Asia as the first silver laden galleon's headed toward Manila in the Philippines.[5] Such trading led to mercantilist "unfree trade" between mother country and colony, the latter being

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[5]See Charles, Perry, "Indian Ocean Rim," *Los Angeles Times*, May 3, 2000. On the 1433 dismantling in China of the world's largest by the fiat of an isolationst Emporer, see Jared Diamond, "The Ideal Form of Government," *Wall Street Journal*, December 12, 2000.

prevented from industrialization so that it could supply raw materials to be processed in the motherland. Such restrictions eventually led to the Liberal idea of free trade, which had already used smuggling to largely defeat free trade by the 1830s.

The 100-year Gradual Globalization of free trade was halted in 1929 by the fall of Wall Street as the stock-trading model of capitalism. The result was extreme nationalism that attempted to seal off national borders from the vagaries of capitalism's booms and busts. Tariffs were erected to promote national industry, which soon joined with the government and some foreign investment in an unholy alliance to split the high profits that resulted from not having to face foreign imports, let alone worry about instituting expensive product improvement and quality controls. Too, the industrial model was based in huge plants and heavy output such as tractors, tanks, and cement.

The rise of Neo-Liberalism and the newest era of free trade came early 1980s when smuggling could no longer obviate the ire held by national consumers. With the possibility of consumers being able to buy inexpensive and more modern goods that really worked, they refused to believe any longer that they were "disloyal to their nation" if they managed to purchase foreign goods.

In order to understand how Gradual Globalization shifted to Fast-Track Globalization, let us look at how the process has developed over the centuries. What I offer here is the following analysis seen though a schematic history and definition of globalization that covers 21 components and numerous elements. Although in many ways I can (and will in the future) expand this scheme in the future, it covers most essential points in my argument.

My schematic view is presented in Table 1-1.

TABLE 1-1

GLOBALIZATION'S 21 HISTORICAL COMPONENTS

[Revises and expands from my earlier versions published in the *Statistical Abstract of Latin America (SALA)*, Vol. 34 (1998), p. xxiii, Vol. 35 (1999), p xxiv, Vol. 36 (2000), pp. xxiv-xxvi]

I. Gradual Globalization Under Mercantilism, Free Trade, and Neo-Mercantilism, 1565-1991:

i. 1565: Modern global mercantilism (wherein each empire develops a colonial system to export more than it imports) "begins" with Spain's establishment of the first worldwide regular trade route between Mexico and the Philippines, to which Chinese and Japanese traders are attracted to sell spices, porcelains, silks, calicoes, and muslin to the Spanish colony for shipment to New Spain and Spain in return for Mexico's silver and pesos. The "China Ships" (called "Manila Galleons" after Manila was founded in 1571) plied the route yearly to Acapulco until 1815--250 years later.[6]

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6 "No other line of ships has ever endured so long," writes William Lylte Schurz in his book *The Manila Galleon* (New York: Dutton, 1939). Portugal competed with Spain to forge trade links between Europe and Asia, establishing in 1557 its base in Macau (Macao), but the link was seasonal and often tenuous. In any case Macao fell under Spanish rule when Portugal was conquered and held by Spain from 1580 to 1640. Meanwhile Spain colonized the Philippines, which became the major emporium for access to China until mid-nineteenth century when the British established Hong Kong as the major access point to the Chinese economy. Manila was lost by Spain in the Spanish-American War of 1898, Hong Kong reverted from British to Chinese rule in 1997, and Macao reverted from Portuguese to Chinese rule in 1999. See also Jonathan Spence, *In Search of Modern China*, New York: W.W. Norton, 1990, pp. 18-19; "Making Memories [in Macau]" in *The Economist* , August 14, 1999, <britannica.com/bcom/magazine/article/0,5744,95052,00.html>, and the *Encyclopaedia Britannica* article on Portuguese expansion. <britannica.com/bcom/eb/article/3/0,5716,108423+10,00.html>

ii. The Iberian colonization of Latin America and the Philippines could not take advantage of the Printing Press Revolution (made possible after 1455 by Gutenberg's launch of the invention that could "rapidly" produce multiple copies of books, the first being the Gutenberg Bible) because the Roman Catholic Church and its Iberian royal allies reacted by officially controlling use of the printing press. Under Iberian rule, no publication could legally be printed or circulate without the Church's Imprimatur. This official policy (which for centuries officially banned the export of the press to Iberian colonies) stunted the growth of civic society (and economic development) in Latin America. Thus the development advantage based upon civic society automatically fell to British North America where the press came into widespread use and laid one of the major bases for emergence of the USA and its articulate model of decentralized political democracy and economic freedom.

iii. 18th Century: Industrial free trade and smugglers versus Mercantilism:

1850: England abolishes slavery;

1794: Eli Whitney patents the cotton gin in the USA to permit one slave to produce 50 lbs. of cotton per day rather than 1 lb. Patents not only pave the way for the American Industrial Revolution but help reduce costs so that the masses could finally gain consolidate colonies in Africa, India, and Asia.

1820s: the U.S. road-building revolution shows its gains as transport costs from Philadelphia to Pittsburgh fall from US$125 per ton to US$10 per ton;[8]

1829: U.S. launches Age of the Steam Locomotive and the railway revolution;

1835: Alexis de Tocqueville publishes part one of his Democracy in America (part two in 1840) about the gradual development of equality, which he traces in theory and practice, and finds that such an optimistic situation does not exist in France;

1844: Samuel Morse inaugurates the telegraph as what Tom Standage calls *The Victorian Internet*.[9] The telegraph uses Morse-coded-electrical signals to end the long communication delays of circulating worldwide news that had been dependent on the ship and the rail;

1845: John L. O'Sullivan calls for U.S. "Manifest

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8 Ibid., p. 366.

9 *The Remarkable Story of the Telegraph and the Nineteenth Century's On-Line Pioneers* (New York: Walker & Co., 1998).

Destiny" to liberate what would become the Great American West from Mexico. Indeed, Mexico comes to be seen as a country prevented from developing a free market by three factors: the Roman Catholic Church and its huge land ownings (estimated at over 50 percent of Mexico); the major Indian communal land holdings throughout Mexico; and the centralized government in Mexico City--which forbids any economic contact with its northern provinces such as California, except impossibly through its port at Veracruz and its tax-collecting control at Mexico City. In my view, the Mexican-American War of 1846-1848 can be called the "First War of National Liberation;"[10]

1859: S.S. Great Britain becomes first screw steamer to cross the Atlantic;

1861: Western Union (chartered in 1856) completes

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10 The first skirmish comes from 1836 to 1845 with the coming into being of the Independent Republic of Texas. See its "official" web page: <http://texasrepublic.com/story.html>.

Transcontinental Telegraph through to California;

1869: First Transcontinental Railroad is completed in USA and the freedom of interstate commerce, guaranteed by the U.S. Constitution, makes America by the 1860s the largest free-trade area in the world. At the same time, America builds high tariffs against imports after 1861;[11]

1869: Suez Canal is opened (101 miles long)

1870s: typewriter (invented 1868) shifts to the "qwerty keyboard" (frequently typed keys being separated to prevent jamming), still in use today, even on computers;

1879: John D. Rockefeller' Standard Oil controls up to 95% of U.S. oil refining, having cutting by 70% kerosene prices used by every U.S. household; his methods linking production, refining, transportation, and distribution will prove the worth of temporary monopoly by cutting gas prices in half. His success sets off

11 Johnson, *A History of the American People,* pp. 532-535.

worldwide oil exploration, especially in Romania, Russia, the Middle East, and Latin America.[12]

1884: Greenwich Mean Time (GMT), established with the prime meridian based at Greenwich, England, to standardize time in 24 time zones,[13] at once laying the basis for worldwide publishing of railway schedules and providing basis for coordinated world communication as well as legal and commercial interaction; France does not adopt GMT until1911, preferring to maintain Paris as its prime meridian.

1898: Andrew Carnegie articulates the theory of "economy of scale," and through his breakthroughs in high-quality mass production, he cuts the cost steel rails to $17 per ton (down from 1875's $160);[14]

1898: U.S. victory in the Spanish-American "War"

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12 Ibid, pp. 602-603.

13 In 1999 there are only 10 exceptions where in nine areas, e.g., 3 P. M. equals 3:30; and in one area it equals 3:45 P.M.

14 Johnson, *A History of the American People*, pp. 552.

makes it a world power with holdings from the Philippines to the Caribbean.

v. 20th Century:

a. Automobile Revolution is launched in 1908 by Henry Ford's who manufactures and sells 5,986 of his Model T at $850 each; by 1916 he sells 577,036, economy of scale reducing the cost to $360 each. 1912: electric battery and engine self-starter eliminates the crank and headlights make travel possible at night; [15]

a. Electrification remakes California by 1909 and by 1924 California's cost of electricity is 35% less than the average price in the rest of the USA; Lenin says in 1919: "Communism is Soviet Power plus electrification
[of what would become in 1922 the USSR];"[16]

b. Rise of Worldwide Philanthropy:
1913 Rockefeller Foundation chartered by the State of New York "to promote the well-being of

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15 Johnson, *A History of the American People,* pp. 688-689. He increased sales by paying his workers $5 per day (well above the $11 per week U.S. industrial average pay.)

16 Ibid., p. 606.

mankind throughout the world";

c. 1914 Opening of Panama Canal (51 miles long);

d. "First World War" is really "Greater European Mechanized War" (1914-1918, U.S. enters in 1917)

e. 1920's rise of Wall Street Stock Market as world source of capital;

f. First worldwide depression (1930s), during which two Hollywood films swept the world: In the first, "Modern Times" (1936) Charlie Chaplin mocking of the machine is misunderstood by Stalin, who builds Soviet industry in Chaplin's ugly images. In the second, "Gone with the Wind" (1939) dramatizes the human tribulations of the U.S. Civil War, ironically just as World War II is getting under way—epic of nearly 4 hours is considered even in the next century thusly: "If not the greatest movie ever made, certainly one of the greatest examples of storytelling on film."[17] Seen by more viewers in the world than any other film in history;

g. Rise and fall of Statism (really Neo-Statism, now including Welfare capitalism and State Capitalism);

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17 Leonard Maltin, *2001 Movie and Video Guide*, New York: Plume Books, 2000, p. 522.

h. World War II (really the first worldwide war, 1939-1945, U.S. enters in 1941); Hitler and Stalin "exterminate" more than 20 millions civilians;

i. Eleanor Roosevelt leads in 1948 the U.N. to sign the Universal Declaration of Human Rights—about her personal achievement, Eleanor's says, "the destiny of human rights is in the hands of all our citizens." This Declaration is the basis for "Globalution"(Global Revolution) in Human Rights, the concept under which in 1998 Spain will seek in 1998 the arrest in England of Chile's Augusto Pinochet on the charge of having violated human rights during his period as dictator (1973-1990); [18]

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18 "Globulation" is the term coined by Thomas L. Friedman, "The Globalution Game," *New York Times,* April 20, 1999) and defined as follows: Globalution happens when reformers in a country understand that "revolution from below may be too explosive, and revolution from above is not going to happen, so they chose revolution from abroad. Their strategy is to plug their country into every possible global rules-based organization they can find (from the WTO to the PriceWaterHouseCoopers accounting firm to Conservation International), hoping thus to import right-of-law systems from beyond." Indeed, I add that in the Mexico of 1999,

j. Cold War, during which the USA deployed 12K atom arms in up to 23 countries worldwide from 1950 to at least 1977, including the U.S. base at Guantanamo, Cuba, from 1961 to 1963 http://Www.Bullatomsci.Org;
k. Rise and fall of Closed Trade Blocs (Latin American Common Market, Central American Common Market, Warsaw Pact, etc.);

vi. First Phase of the Green Revolution (1950s-1980s) that, with its constant prongs in Agriculure and Nutritious Food Processing has led to the Second Phase of the Green Revolution (see Component #10, below);

From Mexico (where corn production doubles between 1940 and 1960; and where wheat quadruples between 1950 and 1970) the 1st Green Revolution radiates outward to avert famine in India and Pakistan, earning the 1970 Nobel Prize for U.S. plant breeder Norman E. Borlaug. India's wheat production triples

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e.g., many newspapers still reported their country's corruption scandals by quoting foreign reportage as "news," thus evading subtle repression by the government against investigative journalism that would be not be possible if it did not come from foreign-based reporters.

between 1967 and 1992; Philippine rice production doubles between 1960 and 1980; extra rice produced by high-yield varieties feeds 700 million people worldwide.

vii. Rise by 1960 of critical mass of TV sets in USA (44 million, compared to 4 million in 1950) so that 70 million viewers watch in 1960 JFK defeat Nixon in first televised presidential debate, campaign, and press conferences that put politicians in the spotlight; the politically aware public can get its news "unfiltered" by news reporters. In 1963 the first 30 min-TV news program is launched and 93 percent of all TV sets watch the funeral on TV of the assassinated JFK. In 1963 LBJ airs the most infamous TV political ad ever made (then and now) to label Senator Goldwater a warmonger who would use the atom bomb against enemies of the USA. In 1968 LBJ "loses" Vietnam War when his statement that "the enemy has been defeated" is belied by Tet Offensive. Nixon learns to use TV effectively and showcase his visits to the USSR (1969) and China (1972) on prime-time viewing.

viii. Rise in 1970s and 1980s of "Hi-Tech, Light Industry Model that replaces Low-Tech Heavy Industry Model, upon which e.g. the Russian "Empire" was based beginning in 1930s; world economic recession of 1970s caused by two oil embargoes (1973 and 1979) against

USA by Arab States (oil prices increase 5x); U.S. industrial restructuring begins;

ix. 1981-- Reagan/Thatcher Neo-Liberal Revolution versus Statism and Closed Trade Blocs:

   a. Soros Foundation funds distribution behind the Iron Curtain of copying machines and blank newsprint, both of which help break the Communist monopoly on news and aid the rise of civic society;

   b. Fax machine makes possible the Chinese Student Revolution vs. Communism in 1989;

   c. Internet communication in the mid-1990s provides the basis for modern guerrilla movements:

      - Subcomandante Marcos captures the attention of the world as he launches his violent uprising in Chiapas, January 1, 1994;
      - Free-speech guerrillas have temporary success in the mid-1990s to attack the censorship imposed by Serbian dictator Slobodan Milosovic (who does not fall until 2000);

x. 1981-1991: Rise of Neo-Liberalism in the West, 1989 fall of the Berlin Wall, and 1991 implosion of USSR wherein Russian President Boris Yeltsin leads the

breakup of the Soviet Union in the greatest bloodless revolution of the 20th century;
In 1991 President Bush recalls "all" (or at least many) U.S. tactical weapons based in foreign countries in all parts of the world; U.S. industrial restructuring is accelerated by end of U.S. defense-oriented economy.

II. Fast-Track Globalization with Interpenetration of 21 Global Components, with Neo-Liberalism capitalizing on instant or near-instant worldwide links compacting time and space, legally or illegally,[19] speeded by new forms of communication:

1. Air planes and super tankers (since 1970s), worldwide TV and fax transmissions (since 1980s),
   E-mail (since 1990), global cellular phone permits one number to send and receive anywhere in the world via satellite (by 1998)-- in 1999 a call is made from the top of Mount Everest to a village in rural Mexico.

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19 Spread of viruses worldwide (health and computer), international smuggling, laundering of money, and cyber-attacks to steal or destroy the computer records of individuals, companies, and/or nations. Threat of chemical terrorism.

2. Personal Computer Revolution: [20]

a. Going beyond the "Main Frame Computer" (which was created by a University of Pennsylvania team in 1945, gained force after Russia launched Sputnik in 1957, and dominated the defense- and big-business markets by the 1960s), the rise of personal computers (PC) after 1975 saw the Commodore 64 dominate the PC market by 1983, and Apple Macintosh be established by 1984 as the user-friendly alternative to PCs;

b. Analysis and information flow via INTERNET (the broad classification that includes e-mail, the World Wide Web, newsgroups, telnet, and ftp),[21] mainly using the English Language and reinforcing it as the "global language":[22]

1969 first "Internet message" (UCLA to Stanford Research Institute);

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20 See Stephen Segaller, *Nerds: A Brief History of the Internet,* New York: TV Books, 1998).

21 The World Wide Web (www) is a subset of the Internet, according to <http://www.headcount.com/help.htm#12>, December 11, 1999

22 <http://www.nua.ie/surveys/how_many_online/index.html>. December 11, 1999.

1971 Internet established,

1972 first e-mail messages flow in USA;

1973 first e-mail international message;

1990s rise of the "Worldwide Web" (www address system of domain names invented by Tim Berners-Lee beginning in 1980) is unveiled in 1991 and equals first competition with the printing press; worldwide Internet users (mainly e-mail and the Web)[23] rise from 1995's 26 million adults and children to 1999's 201 million Internet users,[24] of which 120 millon use Yahoo.com as their

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23 "An Internet User" represents a person with access to the Internet and is not specific to Internet Account holders. When the figure for Internet Account holders is the only information available, this figure is multiplied by a factor of 3 to give the number of Internet users," according to Nua Internet Surveys (2-11-99): http://www.nua.ie/surveys/how_many_online/methodology.html.

24 Of the estimated 201 million worldwide users in 1999, 56% are in the USA and Canada; 4% in France (which complains bitterly about the Internet's English-based-supremacy in sophisticated

Internet portal. The Yahoo figure doubled between 1998 and 1999) and Yahoo pages viewed rises from 60 million in 1998 to 465 million in 1999;[25] Yahoo.com reaches 33 million inquiries monthly by 1999; world domain names (.com, .net, .org, .gov, .edu) rise from a few in1985 to 25 million in 2000 when 7 new domain names are added (.biz, .info, .name, .pro, .museum, .aero, .coop);[26]

c. Chinese who log on to Internet reaches 4 million, up from 1 million in 1996, and expected to reach

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resource bases) and 19% in other Europe; 2% in China and 15% in other Asia-Pacific; .5% in Mexico and 2.1% in other Latin America; 1% in Africa, and .4% in the Middle East. For statistics on worldwide use, see data for Dec. 1995 and Sept. 1999 , Nua Internet Surveys (12-11-99): <http://www.nua.ie/surveys/how_many_online/index.html>.

25 Alex Bernenson, "Yahoo Says It Remains to Stay Independent," *New York Times*, January 12, 2000.

26 Karen Kaplan, "Agency OKs 7 New Net Address Suffixes," Los Angeles Times, November 17, 2000.

rise in 2003 to 16 million;[27] Greater China (based in Beijing) announces <http://www.china.com> to encompass China's interests and sympathizers in Taiwan, Hong Kong, Japan, Korea, Thailand, Malaysia, Australia (seen as involving 15 million internet users in

27 Anthony Kuhn, "Staking Claims in China's Uncertain Cyberspace," *Los Angeles Times,* October 18, 1999.

1998 and rising to 64 million in 2003).[28]

d. Open Directory <http://demoz.org/> begins in mid 1998 to build a list of *useful* web addresses developed by humans to end sole reliance on automatic computer searches that lead users to thousands of irrelevant sites:[29] 4,700 contributors build the list to 84K useful sites by the end of 1998; 20K contributors build the list to1.3 million web sites with 195K categories by Otober1999;

e. Late 1990s rise of e-commerce, today's equivalent of the Industrial Revolution:

f. Amazon.Com, e.g., defeats ban on the sale of Hitler's *Mein Kampf* in Germany by taking orders via the

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28 See China's full-page ad announcing <www.china.com> in *Wall Street Journal,* December 10, 1999. This web page has section entitled "About Us," but no information--appears to be clumsy attempt to disguise Chinese Government role.

29 Ashley Dunn, "Open Directory in Search of the Best of the Web," *Los Angeles Times,* October 18, 1999.

internet and shipping them from the USA,[30] making the book a 1999 best-seller in Germany; e-trading of stocks: by 1999 half of U.S. households invest in stock markets (up from 19% in 1983); relatively small trades via internet push NASDAQ Stock Market (dominated by e-technology listings) to reach 2.23 million shares treaded on November 17, 1999 (the November average up 35% since October),[31] opening the way to "democratize" capitalist ownership of stocks;

g. Decade of 1990s ends with dramatic growth of stock markets worldwide: U.S. leads with Dow Jones

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30 Amazon.Com halted sales in Germany only after it has made the book a best-seller there in 1999, according to the *Wall Street Journal,* November 19, 1999.

31 Thomas S. Mulligan, "Trading by Small Investors Hits Unprecedented Levels," *Los Angeles Times,* November 25, 1999. Pessimists who predict the rise cannot last are year-after-year proven wrong, leading them (and the U.S. Federal Reserve Chair A. Greenspan) to argue that a "bubble" may exist, the puncturing of which would cause a world recession, or even an economic depression.

Industrials gaining 318% for the decade,[32] surpassing 11,000 on the index, which doubled since 1996;[33] technology-based NASDAQ gains 86% in 1999.[34] U.S. "Moran Stanley U.S. Multi-National Stock Index" gains 19% for U.S. companies in foreign markets during 1999, up 55% since mid-1988.[35] Morgan Stanley Capital Index of Emerging Market Economies gains over 60% in 1999 compared to a 23% loss in 1998;[36]

h. Singapore in 1999 begins to register the world's first "E-Citizens", with e addresses even for children;[37]

l. Rise of self-spreading electronic viruses transmitted via the Internet to infect computers and destroy files. The number of viruses in 1989 stood at 250, by 2000 it rises to 50,000,[38] spawning the new Internet

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32 *New York Times*, January 3, 2000.

33 *New York Times*, January 5, 2000.

34 *New York Times*, January 1, 2000.

35 *Los Angeles Times*, January 9, 2000.

36 *New York Times*, January 3, 2000.

37 Michelle Levander, "Singapore Seeks to Create E-Citizens," *Wall Street Journal*, October 27, 1999.

38 Ashley Dunn, "Computer World Battles Faster-Moving Viruses,"

business of providing news about viruses and free software to download for scanning of computers;[39]

j. 1998: Ken Starr's "Pornographically-Written Report" on President Clinton is published on the Internet, for the first time "officially" making pornography available worldwide;

k. University of California establishes in 1998 the "California Digital Library" to reshape world academic publishing <http://www.cdlib.org>;

l. 1999: Distance learning sees the first U.S. accreditation of an Internet University (Colorado-based Jones International University, by the North Central Association of Colleges and Schools;[40] via the Internet, Stanford offers M.S. in electrical engineering and Duke the MBA;

m. *Encyclopaedia Britannica* in 1999 puts on-line at no charge its 21- volume set, which in hard-cover sells in Mexico for US$2.5K and its CD-Rom for US$700 <www.britannica.com>;

Los Angeles Times, October 4, 1999.

39 See http:// sites: www.mcafee.com/centers/anti-virus, <www.symantec.com/avcenter>, <www.cert.org/nav/alerts.html>.

40 Editorial, "Net Ed," *Los Angeles Times,* November 20, 1999.

n. Project Gutenberg Electronic Public Library (est. 1971) is scheduled to complete its first phase by 2001 when it will have placed online 10,000 books (light literature, heavy literature, and reference works for which the copyright has expired), giving access and downloading at no cost <http://www,gutenberg.net>

o. Late 1990s rise of telephony (real time transmission of voice using Internet protocol) from 310 million minutes in 1998 to 2.7 billion minutes in 1999, with 135 billion minutes projected for 2004;

p. Digital Video cameras (little bigger than a paperback book) are easily smuggled, past NATO and Serb censors, into Kosovo War Zone to film battles for worldwide broadcast. DVs (costing only US$2.4K) increase magnification 100x and capture events even in near total darkness. (By 2000, the shirt-pocket DV will be available for US$500, down from US$1.5K in 1998.)

q. UC Berkeley engineers create in 1999 a new type of semi-conductor transistor so small that a single computer chip can hold 400 times more transistors than previously had been the case.[41]

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41 *UCLA Daily Bruin News,* November 24, 1999.

3. Electronic communication and digitized analysis/design see dramatic parallel growth in services such as financial investment, currency trading, insurance underwriting; and development of Commodity Chains for manufacturing and marketing Standardized products (e.g., "World Car," "Barbie Doll") are designed and administered in cyberspace, assembled in several countries using parts manufactured in dozens of countries.

a. Where England dominated world submarine cable communication in 1900, [42] by the late1990s the Beverly Hills based Global Crossing Company (legally constituted in Bermuda) dominated the new undersea fiber-optic network in the Atlantic and Pacific for high-speed internet, voice, and video communications.[43]

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42 Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict, 1500-2000* (New York; Vintage Books, 1989), p. 225).

43 Elizabeth Douglass, "Global crossing Seals Asian Network Pact," *Los Angeles Times,* November 24, 1999.

b. USA dominates space-satellite launches, contracting some out to China to reduce costs.

c. U.S. companies compensate for shortage of U.S. engineers by contracting engineers, e.g., in Romania. Cambric Consulting of Utah and Harza Engineering of Illinois pay US$5K vs. US$60K had U.S. engineers been available.[44]

4. Rise of NAFTA Open-Trade Model and Virtual Trade Blocs after 1989. The emergence of the Trans-Global Corporation (TGC) that is based in cyberspace equals shift away from the "National Production Model" of the Trans-National Corporation (TNC) and Multi-National Corporation (MNC); [45]

   a. 1993 signing of NAFTA (dollar 's strength grows against all currencies worldwide, especially after yens decline in the last half of the 1990s);

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44 Donald G. McNeil Jr., "Opportunities in a Rusting Romania: U.S. Companies Tap Engineering Talen to Work for Low Wages, " *New York Times,* December 25. 1995.

45 This concept is developed in Wilkie and Lazin, "Globalización *Fast-Track*," in Source, below.

b. Mexico, using NAFTA model, signs agreements by 2000 to expand free trade when U.S. Congress blocks President Clinton's fast-track negotiating authority; Mexico signs with Bolivia, Colombia, Venezuela, Chile, Guatemala, El Salvador, Honduras, Costa Rica; it expands its pre-MERCOSUR agreement with Argentina and Uruguay to threaten Brazil-dominated MERCOSUR, which Chile cannot join without increasing its tariffs; Mexico signs an FTA with Israel; Mexico's exports as share of GDP rise from 37% in 1993 to 57% in 1999 and total Latin America from 3o% to 38%; and Mexico is in negotiation of FTAs with Panama, Singapore and Japan.

c. 1999: Mexico signs Free Trade Agreement (FTA) with European Union (EU) to gradually open EU by 2003 and Mexico by 2007; this action change EU from a modified "closed-bloc" to an "opening-trade bloc";

d. European Union (1992) launches Euro currency Jan. 1, 1999, at US$1.17, declining in value to less than US$0.85 by late 2000)—world investors fear EU "German Model" has not yet restructured to reign-in "excessive social benefits".

e. World trade (exports and imports) increases 62% to US$10 trillion between 1989 and 1995.

f. Seattle Meeting of WTO in 1999 is disrupted by coalition of U.S. labor unionists and environmentalists seeking to "protect" the Third World poor from exploitation. They attempt to limit expansion of free trade, implicitly arguing, e.g., that Hondurans, who make only 1/70th of the wage level of Los Angeles,[46] should not be "enslaved" by international companies.

5. Worldwide flow of economic investment signals:

a. 1997-1998 Asian Economic Crisis reverberates in Russia, Argentina, Brazil, and briefly in Mexico;

b. Mere rumors that, seeking to curb inflationary pressures, the U.S. Federal Reserve Bank will raise short-term inter-bank interest rates causes U.S. economy to slow and causes worldwide stock market declines. For example, rumors of April 27, 1998, trigger the following composite one-day percentage declines in market indexes: [47]

AMERICAS: New York (-2.0), Buenos Aires (-3.5),
São Paulo (-5.7), Mexico City (-3.5),
Toronto (-1.8);

46 World Bank President James Wolfensohn, quoted in James Flanigan, "Debacle [at WTO Development Round] in Seattle Was a Defeat for the World's Poor," *Los Angeles Times,* December 8, 1999.

47 Temporary--most markets recovering in several days.

ASIA: Hong Kong (-2.6), Tokyo (-2.3), Seoul (-1.3), Singapore (-1.3), Sidney (-1.3), Taipei (-1.9), China World (-2.2);

EUROPE: Frankfurt (-1.1), London (-2.4), Paris (-2.6), Stockholm (-2.2);

6. Migration flows: Stock of world immigrant resettlements grows from 50 million in 1989 to 100 million by 1992 Ethnic restaurants spread globally even as hybrid cultures develop in destandardized food and clothing sales.
7. International tourist flows: Yearly international tourism travelers more than doubled between 1980 and 1995, then increased 87% by 1998 to 635 million; international tourist expenditures nearly doubled between 1989 and 1998 to reach US$439 billion. American tourists traveling outside the NAFTA region increase from 12 million in 1986 to 20 million by 1996.
8. Educational standardization: All countries develop common goal of achieving universal high school education and developing their own universities research (EU ERASMUS Educational Exchange Program matches U.S. Fulbright and Japanese Exchange Programs, international student exchanges, spread of distance learning).
9. Health standardization: Western Medicine (immunization/antibiotics/surgery) merge with Eastern Medicine (acupuncture/herbs/meditation) to yield Holistic Medical Treatment.

10. Second Phase of Green Revolution (1990s) is based upon 16 Coordinating Group for International Agricultural Research (CGIAR) Centers (headquartered in Mexico) undertaking long-term breeding of plants[48] to engineer highly productive, disease resistant, drought-tolerant seeds and plants and ecologically balanced production.

A. Rise of modern food processing as illustrated by Mexico's GRUMA's international tortilla industry that provides to Mexico, Central America, Venezuela, the USA, and EU a food that is:

a. controlled for hygiene and quality;
b. fortified with vitamins, minerals, protein and balanced amino acids to provide healthy nutrition for the poor;
c. shipped and stored without refrigeration and with frozen shelf-life of at least two years;
d. inexpensive because water and electrical use dramatically reduced;
e. ecologically sound as non-polluting compared to the traditional process;

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48 Because plant breeding involves the long-term field transplant and testing of whole gene pools, it is not seen as "genetic engineering," which has been much criticized in Europe especially since 1997 and in the USA since 1999.

B. 1999 Norman Borlaug and Mexican Government announce that the Mexican-based "Quality Protein Maize"[49] (perfected in Ghana and tested in China and Brazil) will be made available to all Mexican farmers during the first decade of Century XXI.

11. Genetic Engineering Revolution:[50] For humans it has raised less protest than for biotech plants which protesters call "Frankenstein Foods."
12. USA leads globalization process:
    a. American college students studying abroad for credit rise 171 percent from 48,000 in 1985/86 to 130,000 in 1998-1999 (but only 6 percent to Mexico,[51]
    b. U. S. phone calls abroad more than double from 411 million in 1985 to 984 million in 1990 and then nearly triple to reach 2.8 billion by 1994,

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49 Quality Protein Maiz content is double that of any previous corn seeds and is more easily digested.

50 Genetic Engineering is seen as involving immediate lab transplant and manipulation of one gene, without long-term field testing before being marketed.

51 Kenneth R. Weiss and Marjorie Miller, "Tide of U.S. Collegians Studying Abroad Swells," *Los Angeles Times,* November 14, 2000.

b. Americans living abroad rises from about 1 million in 1965 to perhaps 5 million by 1998,

d. U.S. direct foreign investment abroad rises from $640 billion in 1994 to $796 billion in 1996,

e. One in ten Americans born abroad (half of them in Latin America). But, ironically, the amount of time U.S. network TV devotes to foreign news fell from 45 percent in the 1970s to 13.5 percent in 1995.

13. For-Private Profit Funds flow worldwide: Investment in plants, stocks, currency, credit services. (E.g., foreign direct and portfolio investment in developing countries rises 468% between 1990 and 1997, reaching 153 billion U.S. dollars. View of "Trans-National Corporation" shifts from negative to positive.

14. 1997-1999: USA enjoys low inflation (less than 3%) with labor unemployment falling to 4.1% (well below the 5% "iron-law" which economic theory had posited sets off inflation), thus calling into question predictions since the 1980s that millions of American workers are doomed to menial jobs at low pay owing to Globalization. Rather, the five so-called interacting "negative" factors of Globalization (industrial restructuring, export of U.S. capital, export of U.S. jobs, U.S. computer automation, and rising U.S. imports) are seen by 1999 as leading to efficiency of production, more jobs, a labor

shortage, and higher average wages. Average real wages (adjusted for inflation in 1999 dollars) which were stagnant from 1972 to 1996, rise by 3% per year since 1997 to US$13.70 in 1999, up from US$2.50 in 900 and US$12.50 in 1970.[52]

15. Not-for-Private-Profit Organization (NPPO) funds flow worldwide to NPPOS (including NGOs[53]) under 3 models:
    (a) Rockefeller Foundation model--New York City-based board of directors makes centralized decisions,
    (b) Soros Foundations model--Soros creates boards of

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52 Drawn from James Flanigan, "Efficiency and More Jobs--So Much for Predictions," *Los Angeles Times,* November 21, 1999; and Liz Pulliam, "A Century of Stunning Progress for the American Worker," *Los Angeles Times,* November 21, 1999. Pulliam also examines non-monetary gains such as social security, job safety, overtime- and sick-benefits.

53 Non-Governmental Organizations are often called, wrongly, "Non-Profit Organizations"—they are NPPOs (Not-for-Private-Profit Organizations) and can accumulate profits for investment and expenditure that does not benefit its donors or managers, except for "reasonable" salaries and expenses.

directors for each country and they decide how Soros' donations are to be spent there,

(c) Two new Grant-Making Models (El Paso Community Foundation; Turner and Gates Personal Foundations) and one Anti-Model (Fidelity Gift).

16. Democratic, human rights, and environmental values gain status as worldwide goals to be achieved, especially by the use of cell phones and video recordings that expose abuses; Internet mobilization worldwide of NGOs vs. WTO in November 1999.[53]

17. Post-1945 National Models Restructure to Compete with "Post-1980s U.S. Model."

    a. World: Jacques Attali (founding President of the European Bank for Reconstruction and Development) writes in 1999 that the Millennium Round Seattle negotiations of 1999 to expand the WTO (now with China) to liberalize trade in services means that it is

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53 Nike gives-in to pressure from NPPOs and identifies its plants around the world making goods for universities; and it pledges to improve working conditions, opening its plants to inspection. (See *Wall Street Journal,* October 8, 1999. Also in Lamb, David, "In Southeast Asia, Activist Groups Become Major Force for Social Change," *Los Angeles Times*, November 5, 2000

necessary to reinterpret the Cold War's end. Rather than the joint victory of democracy and the marketplace, Attali sees "the beginning of the relentless struggle of the marketplace against democracy." For Attali, the triumph of world-trade standards means the triumph of U.S. standards as the new communications technology "will enable the Americans to export and sell their cultural and information services, put European universities in competition with those of the United States, and promote the big tele-medicine networks." For Europe, then, the end is in sight for the "European Model," (led by Germany), which includes wide-based social security, the uniform book price, government subsidies for TV and films--and also everything else that characterizes the specificity of Europe's unique development strategy.[55]

b. Sweden, Inc. in 1990s restructures to free entrepreneurial investments (especially in telecommunications, airlines, and banking), while

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55 Quoted in *Los Angeles Times*, November 16, 1999. Cf. Thomas Kamm, "Europe Marks a Year of Serious Flirtation with the Free Market," *Wall Street Journal,* December 30, 1999.

maintaining social welfare benefits and narrow gap between white- and blue-collar workers.[56]

c. Germany, Inc. in 1999 implicitly begins industrial and financial restructuring, thus challenging the famous post-1945 "German Model" which assumed that "corporations would avoid conflict with labor; wages would be set through nation-wide negotiations between industry and labor; unions would have a direct hand in corporate "co-determination"—with representation on corporate supervisory boards and union-controlled "work councils" that approve many day-to-day decisions."[57] Further, it was assumed that banks would finance industry and come to the rescue with "bailouts" in time of need; and that corporations would not raid each other or invade another's territory, partly because of an interlocking directorate in which the big banks are share holders in the biggest industrial companies.

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56 Edmund L. Andrews, "A New Swedish Prosperity Even With a Welfare State," *New York Times,* October 8, 1999.

57 Edmund L. Andrews, "Germany's Consensus Economy at Risk of Unraveling," *New York Times,* November 26, 1999.

d. Asian Model ("Crony Capitalism") reinvents itself:

i. China, Inc., tries to emulate Taiwan economically but not politically, the Communists retaining much control under "Crony State Capitalism"; For China, many world economists see its entry (and its 1.2 billion persons) into the WTO as resulting in the end of the rigidly autocratic Chinese government. Rigidity is seen as being unable to survive the experience of living with an increasingly free market. Free markets are seen to mean free movement of people and ideas as well as the rise of a class of educated citizens needed to modernize society and politics in China, which are indeed underway.

China's official dictionary of record defines the greeting "comrade" in the:

1979 edition as " universal salutation";
1989 edition as: "general form of address among citizens of socialist countries";
1999 edition: "no longer the only form of address among ordinary people; Chinese words for Mr., Ma'am, Master, and Miss" have returned as terms of respect and cordiality."[58]

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58 Elisabeth Rosenthal, "Hey, Mister! You're No Comrade,"

ii. South Korea, Inc., in 1998 breaks up huge, interlocking companies protected by state policy and state funding; by 1999 new financial standards and transparency of decisions begins economic recovery from Asian financial crisis of 1997-1998;

iii. Japan, Inc. in 1998 explicitly begins industrial and financial restructuring to break the country's recession since1990; restructuring marks the beginning of the end of the famous "Japan Model" of the 1980s that had promised its workers lifetime employment based upon encouraging excessive trade surpluses with the world and discouraging foreign imports and investment; 1999 sees government spend US$1 trillion in public works and encourage reduction in the high, counter-productive personal savings rate.

iv. Communist Model is reduced to four countries by 1990s: Cuba; Vietnam; North Korea; and politically (but not economically) China.

v. "Long-Lasting Dictators' Model": January 1, 2000, Fidel Castro (the "Dean of Living Dictators) completes 41 years in power since 1959, surpassed only this century by the deceased Kim Il Sung, who ruled North Korea for

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New York Times, November 28, 1999.

47 years (1945-1992). Castro and Kim IL Sung easily surpass their competitors for "Length in Number of Years Having Successfully Suppressed Human Rights, Arbitrarily Jailed and Killed Dissidents, and Engaged in Torture for Political Purposes." The nearest competitors with at least 20 years in power are: [59]

Fascist Spain's Francisco Franco (36 years, 1939-1975),
Fascist Portugal's Antonio de Oliveira Salazar (36 years, 1932-1968),

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[59] Developed from Kenneth Ruddle and Philip Gillette, eds. *Latin American Political Statistics* (SALA Supplement 2, 1972); *Columbia Encyclopedia* (Fifth Edition, 1993): *New York Times,* June 22, 1999 (for Togo); <http://www.infoplease.com/encyclopdict.html> (Jan. 16, 2000); <http://www.contactomagazine.com/index.htm> (Jan. 1-2, 2000), http://www.megastories.com/iraq/family/saddam.htm > (Dec. 9, 2000); Los Angeles Times, Dec. 9, 2000 (for Libya); <http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+ly0037)> (Dec. 9, 2000 for Libya.) Cf. U.S. Library of Congress, *Area Studies Handbooks* by country: <http://lcweb2.loc.gov/frd/cs/cshome.html#toc>.

Paraguay's Alfredo Stroessner (35 years, 1954-1989),
Bulgaria's Todor Yivkov (35 years, 1954-1989),
Mexico's Porfirio Díaz (34 years, 1876-1911),
Vietnam's Ho Chi Minh (34 years, 1945-1979),
Hungary's Janos Kadar (33 years, 1956-1989),
Togo's Gnassingbé Eyadéma (33 years, since 1967),
Indonesia's Suharto (32 years, 1966-1998),
Dominican Republic's Rafael Leonidas Trujillo (31 years, 1930-1961),
Libya's Muhammad El Khadafi (31 years since Sept. 8, 1969),
USSR's Josef Stalin (29 years, 1924-1953),
Iraq's Sadam Hussein (27 years since July1973 when he became the virtual leader);
China's Mao Tse Tung (27 years, 1949-1976),
Romania's Nicolae Ceausescu (24 years, 1965-1989)
Italy's Benito Mussolini (22 years, 1923-1945).

18. Dictators lose the "right" to presidential immunity that had formerly been granted, tacitly, by the international community to all chiefs of states, human rights violations being declared to be unpardonable by any dictator and his followers: In 1998 Spain accepts jurisdiction to try Chiles' Augusto Pinochet for having violated human rights (specifically having authorized

having violated human rights (specifically having authorized the murder of Spanish citizens)[60] during his dictatorship (1973-1990); in 1999 Spain accepts jurisdiction to bring to trial:

(a) 98 Argentine military officers,[61] and

(b) 3 Guatemala's dictators:

Fernando Romero Lucas García (1978-1982),
Efraín Ríos Montt (1992-1993),
Oscar Mejía (1983-1985);

(c) International Terrorism Marks Shift from Cold War (Communism Versus Western "Capitalism" to Cultural War (Islamic extremists Versus Western Capitalism).

19. Breakthroughs in medicine increase in speed, e.g.:

a. Penicillin discovered in 1928 is not made useful until 1943;

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60 Britain's House of Lords limited the extradition of Pinochet (where he was arrested on a Spanish warrant) to having violated international law after December 8, 1988, the date when Chile's signed the International Convention Against Torture. Although not turned over to Spain owing to his ill health, upon return to Chile in 2000 he faced trials in Chile as well as extradition proceedings to Argentina—in both cases for murder.

61 *La Opinión* (Los Angeles), December 4, 1999.

b. Polio conquered: 1950s;

c. First Human Heart transplant: 1967;

d. 1999: Expensive AIDS medications make survival possible for the well-insured, even as 23 million poor in Sub-Saharan Africa have no hope; 6 million live with AIDS in South and Southeast Asia; Latin America 1.5 million.

e. 1999: With less than 7K cases, U.S. plans to eliminate syphilis by 2005;[62]

f. 1999: Gates Foundation grants US$750 million to immunize children against disease in underdeveloped countries and US$26 million to combat tetanus.[63]

g. 1999: UN and major drug companies join with Rockefeller and other foundation funds to develop "unprofitable" medications, e.g. to fight malaria which fells 300 to 500 million persons yearly, mostly in Africa.[64]

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62 *New York Times,* October 8, 1999.

63 *Los Angeles Times,* November 24, 1999, and *New York Times,* November 22, 1999, respectively. To provide undergraduate and doctoral scholarships for U.S. minority students, in 1999 the Gates Foundations grants US$1 billion over 20 years.

h. 1999-2000: Roche Holding Co. (Switzerland) and Decode Genentics (Iceland) find Alzheimer's gene link and develop gene mapping in breakthroughs in osteoarthritis and stroke.[65]

i. 2000: RU-486 introduced to U.S. market 20 years after this early-abortion pill developed by the French pharmaceutical company Roussel Uclaf and 12 years after it went on the market in France.[66] Soros Foundation donates US$1 million to Planned Parenthood Federation of America to buy 300 ultrasound machines for a campaign to conduct fetal examinations, undertakes funding to fight the 14 percent decline in abortion doctors between 1992 and 1996, and seek to overcome the problem that 87 percent of U.S. counties lack an abortion provider. [67]

j. 2000: U.S. faces civil legal crisis over the ownership

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64 Elizabeth Olson, "Drug Groups and UN Offices Join to Develop Malaria Cures," *Los Angeles Times,* November 16, 1999.

65 *Wall Street Journal,* August 21, 2000.

66 Sharon Bernstein, "Persistence Brought Abortion Pill to U.S., *Los Angeles Times,* November 5, 2000.

67 Ibid., November 14, 2000.

and control of more than 100,000 frozen human embryos that have accumulated in U.S. fertility clinics.[68]

21. Breakthroughs come in science and communications to develop hypotheses that shake the ability of analysts to understand the scope of our rapidly changing views of societies around the world and their place in the universe:

    a. Ray Kurtzweil publishes *The Age of Spiritual Machines: When Computers Exceed Human Intelligence* <http://www.penguinputnam.com/kurzweil/start.htm> predicting that microscopic, self-replicating, and communication robots called "nanobots" will be introduced into the human bloodstream to scan and interact with individual neurons, build a huge data base, which will be maintained wirelessly on enormous computer data bases outside the brain. Kurtweil gives a time line for the development of the machine through history and carries it to 2099 (ibid., <kurzweil/excerpts/timeline/tlbotframe.htm>);

    b. "Artificial intelligence" is advanced by UCLA's James

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68 Aaron Zitner, "Cold War in Fertility Technology," *Los Angeles Times,* October 16, 2000.

Heath, who develops "molecular logic gates" that use organic chemicals to substitute for computer chips as the basic blocks of a computer. The molecules are configured to perform basic human logic functions and lays the bases for linking of the gates to potentially increase computer speed billions of times faster than the most advanced existing machines; Caltech's Chris Adami seeks to embed human attributes such as judgment, change, and adaptability into computer logic. Some scientists enjoy success with the "cochlear implant" of electronic neurons that allow specific types of the deaf to hear; and other scientists seek to inject neurons as implants the size of a grain of rice to stimulate muscles of paralyzed persons.[69]

c. Universe is re-postulated as involving not four dimensions (space, time, energy, and matter) but rather as 11 dimensions seen in the "String Theory"; "the history of physics," writes Harvard physicist

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69 Ashley Dunn, "UCLA, Hewlett-Packard Scientists' Finding Could Speed Up Computing," *Los Angeles Times,* January 3, 2000; see also:

< http://www.ocms.ox.ac.uk/~mgross/molintr.html> March 4, 2000.

Andrew Stromberger, "is the history of giving up cherished ideas."[70]

d. Ironically, where the great navigators in the early 16th century who proved the earth to be round, the great astronomers mapping the cosmology at the end of the 20th century state that:

> "Inflation, the theory of what provided the fuel for the Big Bang [of ever-expanding space], predicts a universe that is almost exactly flat."[71]

SOURCES: Banco Mundial, *Global Development Finances*, 1998; UN, *Yearbook of International Trade Statistics*, 1995 and *Statistical Yearbook*, 1995; *Los Angeles Times*, Dec, 22 1997 and April 28, 1998; *International Herald Tribune* (Frankfurt Edition), June 19, 1998; James W. Wilkie, ed., *Statistical Abstract of Latin America*, 1977--.

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70 Quoted in K.C. Cole, "Time, Space Obsolete in New View of Universe," *Los Angeles Times*, November 16, 1999.

71 James Glanz, "Radiation Ripples from Big Bang Illuminate Geometry of Universe", *New York Times*, November 26, 1999.

The purpose of presenting Chart 1 has been to illustrate how the pace of history has quickened with the computer revolution and its Internet links around the world. Worldwide coverage of events is illustrated by the coverage of the millennium's arrival on January 1, 2000. Indeed, on December 31, 1999, 5 A.M (PST) globalized television presented the first coverage of the 24 time zones around the world that successively celebrated the millennium in more than 155 countries. By the time we had witnessed on ABC, CNN, and PAX TV so many New Year celebrations hour-by-hour worldwide, the "New Year's" arrival 22 hours later in Los Angeles was anticlimactic.

The year 2000 brought with it the modernization of the U.S. Global Positioning System (GPS) which allows users with GPS receivers worldwide to read data from up to 24 earth-orbiting satellites (with usually at least 8 "visible" to any receiver, depending upon the 24-hour clock) to triangulate longitude, latitude, and time for purposes such as mapping, navigation (including airplanes, trucks and hikers) as well as administering internet connectivity links around the world. The U.S. Department of Defense originally put into operation in 1973 the Global GPS as a satellite-based navigation system for U.S. military applications. Beginning in 1980, an U.S. federal radio-navigation planning task force forever transformed this system into a worldwide public utility that enables all to establish their own uses of positioning, navigation, and timing (PNT). Because of military needs and security concerns, however, GPS accuracy for civil use was limited by "Selective Availability" to about 50 feet. With the Cold War in the past, President Clinton won on May 1, 2000, the discontinuance of Selective Availability that prevented complete accuracy, and subsequently GPS users have routinely observed horizontal accuracy values of less than 33 feet and 200 nanoseconds in time.[72] In this first decade of the twenty-first century the U.S. government will add additional civilian signals to replacement satellites as they are launched, thus further enhancing accuracy.

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72 See <www.gpsworld.com/1000/1000shaw.html> November 15, 2000. More conservative accuracy estimates would be 22 meters horizontal (95 percent of the time), 33 meters vertical (95 percent), and 200 nanoseconds (95 percent) relative to Coordinated Universal Time (UTC), the international standard for timekeeping. See also *Los Angeles Times,* October 26, 2000.

With technology converging in 2000 to merge computers with other equipment, we find the ability for individuals and organizations to manage data and maximize time in new ways. The chip embedded in the "Wrist Camera" permits taking and showing up to 100 photos with computers;[71] and the handheld, color Palm/Visor "Personal Digital Assistant," with eight-megabyte-data bank with modules for back-up and data transfer not only can add modules (digital camera, GPS receiver, music player) but also permits users to flash data files to each other and to make wireless telephone and internet connections. Such breakthroughs (the visor units being assembled in Mexico or Malaysia, with parts and packaging from Austria, Belgium, China, India, Ireland, Netherlands, Singapore, Taiwan, and/or USA) create a growing gap between those countries which have mass access to the tools of globalization and those that do not or who merely assemble such tools.

In this fast-track process, ironies abound. Where the small country of Finland is the leader in cellular communications, the huge USA leads in computer technology. Where Romania and the Philippines have little ability to compete with industrial exports;

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[71] Macy's Advertisement, *Los Angeles Times,* November 9, 2000.

they are showing great ability to export computer engineers and programmers—at the expense of their own country's development.

In this new process, English speaking countries such as the Philippines, Jamaica, and India have the advantage of being able to supply at inexpensive cost computer data entry for Trans-Global Corporations. Thus, American Airlines flashes its on its ticket sales, routings, and costs data via the Internet to Jamaica where programmers and keypunchers enter it into computer formats for analysis as well as record-keeping. The University of California Press flashes its manuscripts to India to be edited and/or electronically "typeset", printed, and bound. The U.S. medical textbook industry send its manuscripts via courier to the Philippines where they are scanned and/or input into complicated formats that are flashed via the internet back to the USA.

Fast-Track Globalization has outpaced any one person's ability to keep up with its manifold breakthroughs in productivity that come during the new 24-hour workday that keeps the same project undergoing development, world time zones having become part of the solution to change rather than part of the problem.

In Chapter 3, we will see how the countries of the world are rushing to join Fast-Track Globalization by joining FTAs—real and virtual.

Meanwhile, the shift from Gradual to Fast-Track Globalization has been aided by the rise of American Philanthropy, which itself has grown importantly from American investments and ideals developed in the international sphere, as we see in the following chapter.

CHAPTER 2

RISE OF THE U.S. PHILANTHROPIC MODEL AND REDEFINING ITS MEANING AND VARIANTS

> The principle of this one [America] seems to be to make private interests harmonize with the general interests. A sort of refined and intelligent selfishness seems to be the point on which the whole machine turns. . . .
>
> Americans of all ages, all stations of life, and all types of disposition are forever forming associations. . . .
>
> In democratic countries knowledge of how to combine is the mother of all other forms of knowledge; on its progress depends that of all the others.
>
> Alexis de Toqueville,
> *Democracy in America (1835)*

The Importance of American Philanthropy

America's spirit of civic cooperation, articulated so well by Alexis de Toqueville, has laid the basis for the creation of the U.S. foundation sphere as the most well endowed and effective in the world. This sphere is built on a compact between government and citizenry. Thus, in 1938 the U.S. Congress explicitly recognized that:

> the exemption from taxation of money or property devoted to charitable . . . purposes is based on a theory that government is compensated for the loss of the revenue by its relief from financial burden . . . and by the benefits of promoting the general welfare.[1]

The strength of America's foundation sphere lies in the freedom of donors to choose the cause they want to support as well as to support programs which have not been supported or inefficiently supported by government. In return for helping to develop the general welfare (defined in an unlimited way, as we will see), individual and company donors can deduct their contributions (monetary and/or fair value of property donations, expenses on behalf of a foundation, etc.) from their U.S. income taxes to the extent permitted by law—up to 50% of "adjusted gross income" for persons and 10% from companies.[2]

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[1] Quoted in Dorothy Riding, *The Economist,* April 18, 1997, p. 2.

[2] Excess percentages, however, may at times be carried forward to the following tax year.

Thus, the U.S foundation sphere, which is in essence being supported by the government through diversion of tax dollars into a wide variety of Tax Exempt Organizations (TEOS), includes a tremendous diversification of group interests as expressed in NGOs and civic associations as well as in foundations.

This chapter analyzes the history of U.S. NPPOs in international as well as national context. Here I seek to redefine the U.S. laws on philanthropy so that they make sense lay readers (including most U.S. citizens who do not understand TEO issues), and especially to foreigners who seek to emulate U.S. law to build their own civil society.

The problem of understanding U.S. philanthropic law is that there is no such thing as a U.S. "Law on Philanthropy," "Non-Profit Law," or "Foundation Law." Indeed, U.S. TEO law is known to experts by its place in the Internal Revenue Code (IRC) of the United States: "Section 501(c)," which has 21 different sub-sections, and in shorthand as "501(c)(3)"—the main sub-section, but hardly the only one of interest to us here. The most important U.S. philanthropy, however, seeks to be a "501(c)(3) organization," the concept of philanthropy not really being defined in the U.S. legislation.

One of the most important historians of U.S. philanthropy, Robert H. Bremner, distinguishes between (a) "foundations of the past" that prior to the twentieth century tended to serve "designated classes in particular locations" and (b) "modern philanthropy [that] has created general purpose foundations whose function is to encourage research, discovery of causes and cures, and prevention of ills rather than relief of need, and that operate on a nationwide or worldwide basis."[3]

Unfortunately for history, analysts have tended to treat foundations in negative terms. Why? According to Bremner:

> One reason for writers' indifference or hostility is belief that foundations reflect business values and represent the business spirit at its most cautious and conservative. John D. Rockefeller, who set the pace and tone for much of the modern philanthropy, advocated establishment of foundations as a way of managing "this business of benevolence" properly and effectively.[4]

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[3] Robert, H. Bremner, *Giving: Charity and Philanthropy in History*, London: Transaction Publishers, 1994, p. 169.

[4] Ibid., p. 170.

History of U.S. Philanthropy

Competition among U.S. persons to set up foundations and projects is part of the same ethic that goes back far in time. Indeed, it has its roots in England's 1601 Statute of Charitable Uses, the "cornerstone of Anglo-American law of philanthropy," as well as in the Elizabethan Poor Law, the "basis for English and American public poor relief enacted by Parliament," as Bremner points out.[5]

Foundations that have risen in America and come to dominate world philanthropy came into being to

- honor the name of rich families (hence overcoming any negative propaganda about any "tainted profits" won in the world of competition), and to
- carry out the family's philanthropic goals.

Only since the U.S. income tax was amended in 1917 to permit philanthropic deductions have wealthy persons added the goal to

- redirect to their own specific foundations and projects the money that they would have paid as taxes for general government funding.

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[5] Ibid., p. 187.

American foundations had never been taxed and specifically became Tax Exempt Organizations (TEOs) only in 1894 when Congress established the first tax on all corporations. This exemption for foundations has continued, being seen by American legislators not only as part of U.S. tradition but also as an important "heritage" of mankind.[6]

Tax deductibility of donations and bequests to foundations as well as memberships in Associations such as the Red Cross did not become an issue until Congress imposed the Personal Income Tax in 1917.

That the motive of tax deductibility was not the cause for establishing the historical basis of foundations is evidenced by the role of philanthropy well established prior to 1917. In 1889 Andrew Carnegie had named philanthropy the "Gospel of Wealth,"[7] which he distinguished from the Gospel of Christianity practiced by John D. Rockefeller. However different, for many observers both

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[6] See Bruce R. Hopkins, The Law of Tax-Exempt Organizations, fifth edition; New York: John Wiley & Sons, 1987), pp. 3-5.

[7] Andrew Carnegie, "Wealth," *North American Review,* June, 1989.

Gospels, had similar intent—to defeat radical proposals to redistribute wealth.

The Gospel of Giving is impressive and may be seen in the foundations established prior to the American tax law of 1917 that permitted tax deductiblity of donations.[8]

For example, we see:

1867 Peabody Fund established by George Peabody to fund southern education—first of the Modern Foundations

1881 American Association of the Red Cross organized by Clara Barton to seek funds from the broad general public,

1885 Stanford University chartered with donations by Leland Stanford

1895 Jewish Charities in Boston adopt "federated fund raising" though many chapters

1905 Carnegie Foundation for the Advancement of Teaching

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[8] Bremner, *American Philanthropy,* Chicago: University of Chicago Press, 1960 (reprinted in 1982), pp. 187-197. p. 192ff.

1905 Milbank Memorial Fund

1907 Russel Sage Foundation

1911 Carnegie Corporation of New York

1913 Rockefeller Foundation chartered by the State of New York "to promote the well-being of mankind throughout the world"

These foundations came to be organized as "trusts" literally and/or figuratively that followed Rockefeller's dictum of 1909 stated at the tenth anniversary of his founding of the University of Chicago. According to this dictum, the "business of benevolence" should be organized by establishing foundations as trusts directed by boards of directors who make it their life work to manage those foundations with the cooperation of their donors.[9]

Although John D. Rockefeller did not gain tax deductibility against income for the foundations that he set up early in the century--income taxes were not legislated in America until 1917--, he was resented by many. Such resentment had arisen because many citizens felt that Rockefeller was establishing his own philanthropy based on donating his "ill-gotten profits" or "tainted

[9] On this theme, see Bremner, *American Philanthopy,* p. 116-117.

money." Further, Rockefeller seemed to be supporting "Elitism" when, in 1889, he provided the funds to establish the private University of Chicago. Nevertheless, John did define the concept of "giving" as well as his motives when he said: "The best philanthropy is not what is usually called charity. "[10] He saw philanthropy as investing in education, research, and cultural institutions deemed as likely to, in Andrew Carnegie's words, "stimulate the best and most aspiring of the poor to further efforts for their own improvement." Like John D. Rockefeller, Carnegie distinguished between philanthropy and charity when he stated that the worst thing that a millionaire could do would be give money to the "unreclaimably poor."[11]

With tax deductibility granted to donors in the America of 1917, the cry against the role of foundations would rise against the "draining away" of the U.S. tax base, just as it had when the first such tax exemption was granted to foundations in England by William Pitt in 1799. When Pitt had introduced his Income Tax Law, he specifically included a clause to exempt charitable

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[10] Bremner, *Giving,* p. 159.

[11] Carnegie, quoted in Ibid.

organizations. The result of that law generated the establishment of charities designed to protect private funds from taxation; and by 1837 an English Royal Commission of Inquiry found that there were already 28,840 foundations. By 1885 the charities of London had greater income than did such countries as Denmark, Portugal, Sweden, or Switzerland.[12]

By the 1970s, the United Kingdom had 111,500 charitable trusts; and the number was growing on the European continent: 32,000 in the Netherlands; 19,500 in Switzerland; 15,000 in Sweden; 4,000 in West Germany, 4,000 in Spain; and about 800 in Latin America, according to Ben Whitaker.

But the wealth and power of the Old World has paled in comparison to that of America. To understand the importance of the U.S. foundation sphere, Ben Whitaker, writing in 1974 found that of the world's largest 315 foundations which each had assets of over $10 million, 95% were situated in the United States.

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[12] Ben, Whitaker, *The Foundations An Anatomy Of Philanthropy and Society,* London: Eyre Methuen, 1974, pp. 39, 14, 12,

TABLE 2-1

TOTAL DONATIONS TO NPPOs,[1]

NOMINAL AND REAL TERMS,

1924-2000

(In Dollars of 2000)

Year	Billion Nominal	Price Index[2]	Billion Real
1924	2	15.2	13
1985	80	81.5	98
2000	200	100.0	200

1. Includes bequests and memberships.

2. U.S. Export Price Index in James W. Wilkie et al., *Statistical Abstract of Latin America* 37, Los Angeles: UCLA Latin American Center Publications, 2001.

SOURCES;

1924: Robert Bremner, *American Philanthropy*, p. 194.

1985: Bruce Hopkins, *Law of Tax Exempt Organizations,* 1987, p. 22;

2000: Albert R. Hunt, "Charitable Giving: Good but We Can Do Better," *Wall Street Journal,* December 21, 2000.

Total donations to American NPPOs (including bequests and memberships) have grown dramatically over time, as we see in Table 2-1, which gives the data in nominal and real terms. In 1924 the amount stood at $2 billion, which is equivalent to $15 billion in today's dollars. By 1985 the $80 billion in donations to NPPOs reached $80 billion, equal to $98 billion after taking into account inflation. And in 2000 the nominal and real amount reached $200 billion.

The total number of U.S. "foundations" is open to debate because of the broadness of the U.S. law on NPPOs and because certain ones such as churches are not necessarily required to register with the IRS. Further, the concept includes, for example, "grant-making foundations" (including community foundations) that fund "operating foundations" (such as think-tanks, clinics, research centers) and NGOs. To sum up this wide variety of activities that they undertake, I introduce here an acronym:

"HEW-SEER-PUC" stands for Health-Education-Welfare, Science-Economy-Environment-Religion, and Publication-Charity. In NPPO law, "charity" is implicitly defined narrowly as well as broadly to include all of the above factors. The Internal Revenue

TABLE 2-2
THE RISE OF U.S. NOT-FOR-PRIVATE ORGANIZATIONS (NPPOs), 1990-1997

"NPPOs" are in general called (wrongly) "Non-Profit Organizations"; NPPOs include privately and non-privately directed Charitable Trusts, Associations, Foundations (Grant-Making, Operating, Community, Other); and include non-privately directed Non-Governmental Organizations (NGOs)

	1990	1997	% Change
Estimated[1] No. of NPPOs in IRS Publication 78	415,000	690,000	66%

1. My estimate is made by sampling the number of NPPOs listed per page in the U.S. Internal Revenue Service (IRS) Publication 78 in order to calculate an average number per page which is then multiplied times the number of pages in the volume.

The published lists of approved NPPOs are not all inclusive because:

a. some NPPOs are dropped from the published list if they do not report two years in a row at least $10,000, and this may lead to erroneous totals because some NPPOs are active with small amounts of funding or only operate in sporadic years. Some NPPOs cease operations owing to lack of funds but do not seek official termination.

b. some NPPOs are not included in the published list because their approval was granted by a regional IRS office which has not forwarded the data to Washington, D.C., the reporting not being deemed useful because the cost of overseeing hundred of thousands of small organizations, which in any case do not pay taxes; certain other organizations such as churches are not required to register;

c. some NPPOs are added to the list up to 10 or more years after approval, Because Publication 78 is not necessarily complete, however, NPPOs and their donors legally rely in the IRS "Letter of Determination" (which is valid until revoked by the IRS) that an organization is tax exempt and that donations are deductible under Section170(c)(1) of the U.S. Internal Revenue Code and its sub-sections such as 501(c)(3).

Code specifically also mentions as examples of "charitable purposes" the need to foster literary societies, prevention of cruelty to children and animals as well as testing for public safety. See Internal Revenue Code (IRC) of 1986 §1.501(c)(3)-1(d)(1) and (2), in, for example,

My estimates given in Table 2-2, however, suggest that NPPOs in 1997 reached about 690,000, up 66% from 1990. Within this total number we find grant-making foundations, operating foundations, community foundations, and NGOs which receive funding from personal donors as well as from other grant-making foundation and trusts. Grant Making Foundations (GMFs) usually themselves also operate their own programs, just as operating foundations usually make some grants some—the terms "operating" and "grant-making" referring to the majority of their activity.

The historical series in Table 2-3 reveals that grant-making foundations grew 46% between 1990 and 1997 to reach 44,146, with assets nearly tripling to $330 billion.

TABLE 2-3
COMPARATIVE VIEWS OF THE NUMBER OF NPPOs
IN THE UNITED STATES. 1939-1997

Year	$25K+ in Grants or $500K Assets	NPPOs Peterson Commission	IRS Total NPPOs	$100K+ Income	Grant-Making Foundations
	Sources				
	A	A	B	C	D
1939	525				
1949	1,659				
1959	4,205				
1969	5,436	45,000			
1975					21,877
1985			366,071		
1990			415,000		32,401
1997			690,000	187,306	44,146

SOURCES:

A: Calculated from data in Thomas Parish, "The Foundation: A Special American Institution," in Fritz Heimann, *The Future of Foundations*, Englewood Cliffs, N.J.: Prentice-Hall, 1973, p. 19ff.

B: Hopkins, *Law of Tax Exempt Organizations*, 1987, p. 22; Table 2-2 and<www.irs.ustreas.gov/prod/search/eosearch.html>

C: *National Directory of Nonprofit Organizations*, ed., Ned Burels (New York: Taft Group, 1998), p. vii.

D. Foundation Center <http//:fdncenter.org/fa_stats/growth> *Chronicle of Philanthropy*, March 11, 1999, p. 42.

Where in 1975 U.S. grant-making foundations gave away $2 billion, that figure reached $9 billion in 1990, $16 billion in 1997, and almost $20 billion a year later. And, also, according to the Foundation Center,[13] the ratio of grants to assets, which stood at nearly 7% in 1975, declined to about 5% by the late 1990s because most foundations seek to maintain their existence by reinvesting interest earned on their assets, thus reducing grants.

U.S. Philanthropic Grants Sent to Other Countries

The amount of U.S. grant funds that have been to other countries is not possible to calculate. The Foundation Center makes only 1% samples each year, but the result of about 9% of giving for international philanthropy is preposterously low.

Beginning in 1938 the question was raised in America as to whether or not U.S. philanthropic funds could be legally sent abroad. The heart of the complaint as hypothetically framed by U.S. critics of international philanthropy can be thusly:

> Because the goal under U.S. Tax Exempt Law is to encourage NPPOs to benefit the U.S. population by relieving the government from carrying out Hundreds of thousands of programs, inconsistent

[13] Foundation Center Web Site, <http://fdncenter.org/fa_stats>.

> legal provisions should not justify the sending of philanthropic grants to other countries at the expense of U.S. communities.

Indeed, under the 1938 TEO Law, the question arose as to whether or not donations made to U.S. NPPOs could be redirected by the recipient NPPO to fund foreign NPPOs outside the USA. During the next three decades the ideas of rebuilding war-torn Europe and strengthening U.S. allies so that they could join the fight alongside the USA in the Cold War largely silenced critics, most of whom came to realize that domestic U.S. interests were tied to international development and stability. Hence, by the 1960s NPPOs were seen to be helping to relieve the U.S. government of its heavy burden in spreading U.S. HEW-SEER-PUC goals around the world.

In order to facilitate the U.S. philanthropic activity needed during the 1970s and 1980s to help speed world development, the U.S. Secretary of Treasury and the IRS formulated provisions that resulted in changing and/or interpreting the Internal Revenue Code (IRC) to freely permit U.S. foundations to grant funds abroad, if they meet the following special proviso:

> U.S. NPPOs can themselves make a legal "determination" that the foreign organization receiving the U.S. grant be "determined" to be "equivalent" to an NPPO described in IRC Section 501(c)(3).[14]

While this proviso has worked well for big U.S. grant-making foundations that place costly offices and staff around the world (such as Rockefeller and Ford Foundations), it has worked less well for foundations that have had to send their lawyers to meet with their legal counterparts in prospective "equivalent organizations," the legal cost of making such a determination often reaching $25,000 for each new organization to receive funds from the U.S. NPPO. If that determination is favorable, the U.S. NPPO can transfer

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[14] "Equivalent" meaning that the foreign NPPO meets the HEW-SEER-PUC test for type of projects supported and that no part of the foreign NPPOs expenditures benefits private persons except for payment of reasonable expenses to cover goods and services needed by the NPPO to legitimately conduct the operations chartered in its Articles of Incorporation and By-Laws.

funds to the equivalent organization, just as it can to any other approved U.S. NPPO, and along with the transfer of funds to the donee goes the transfer of responsibility over how the funds are spent.

Transfer of "Expenditure Responsibility" from the Donor NPPO to the Recipent NPPO.

The ability of U.S. NPPOs to avoid costly "expenditure responsibility" is one of the factors that has helped American grant-making foundations so important in the world. Thus, U.S. NPPOs have been enabled to avoid becoming ensnarled in accounting processes and audits, which are better done by the foreign organization that receives and administers the U.S. NPPO grant of funds.

In this manner, the U.S. NPPO is free to focus its energy on evaluating the substance of its grant programs. The ability of grant-making foundations to transfer Expenditure Responsibility to other NPPOs is the main reason that they prefer (and often require) that their funds be granted only to approved organizations rather than to individuals or to non-approved organizations.

The above discussion does not mean that U.S. NPPOs are unable to grant funds to an organization that is not equivalent to a U.S. NPPO (or make grants to individual scholars, artists, or writers either at home or abroad), but to do so adds a complication to the grant-making process. Rather than passing on the Expenditure Responsibility (as the U.S. NPPO does when it makes grants to another NPPO or U.S. equivalent), the Expenditure Responsibility remains with the donor NPPO when it makes a grant to an organization that is not an NPPO (or its U.S. equivalent) or to an individual.

In the case where the donor NPPO retains Expenditure Responsibility, it has to concern itself with costly financial oversight involved, which may problematic whether of in or outside the USA.)[15]

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[15] Interview September 17, 1992 in Transylvania with UCLA's James W. Wilkie, based upon his experience as Consultant to the U.S. Council on Foundations.

U.S. Philanthropy in Societal Context

American philanthropy evolved during the 20th century into the fourth of 4 spheres of overall societal organization, as is revealed in Table 2-3. Although in U.S. foundation parlance the idea that philanthropy is the "Third Sector" of society is completely misleading. Actually, as we see in the following table, philanthropy is the fourth sphere of what amounts to a complicated society, the outline of which is clear.

The fourth, or Tax-Exempt Organization, sphere was not well regulated until the end of the 1960s. Previously there was no clear distinction between "private" and "not-private" foundations, but in 1968 U.S. Congress became incensed over the way in which the Ford Foundation "granted" funds to the colleagues of Robert F. Kennedy after his assassination in Los Angeles. Those "grants," taken together with other "foundation abuses" (mainly the proliferation of such organizations without any controls), led to hearings that found not only that, indeed, philanthropic funds had been granted the RFK brain-trust for their personal use rather than for any research project, but that many foundations served little purpose except to protect family fortunes from taxation, individuals paying themselves huge salaries to administer their own money placed in their own foundations.

Thus, in 1969, the Internal Revenue Service Code was modified to distinguish between

"foundations supported by the broad general public"

("Public" or "Not-Private Foundations"), which could continue to operate with little oversight by the IRS albeit with clear definition of rules against "self-dealing" by foundation administrators

and

"Private Foundations," with close control of the donors to prevent them from using their foundation to support their private (as opposed to "public" activities.

In 1971 all foundations and other such NPPOs had to reregister and to justify their status as being "Public" or "Private." The word "public" has constituted a problem of meaning for foreigners who seek to emulate U.S. NPPO law because for most of the development world the word means "government" or "government-owned." But in America "public" also means “supported by the broad general public” not publicly-owned by the government, depending upon context.

Since 1969, and with further clarification of rules in the 1970s, the U.S. TEO law has come to represent the clearest and most flexible philanthropic standard in the world. In spite of some continued abuses where foundation executives are found to be using NPPO funds for their own private benefit, NPPOs continue to thrive. Indeed society at large as well as the American Congress have recognized the value of decentralizing to foundations and other such NGOs the development of ideas which the government itself is ill-equipped to conceive or develop. Because from time-to-time a foundation leader (such as the president of the United Way) are exposed, the public remains confident of their unique system of giving.

U.S. NPPOs can pay salaries and expenses to their board of directors and to their administrators as well as to cover their own research projects. But such expenditures are expected to be reasonable, without setting any fixed limits except to require that the NPPOs report them as a percentage of total program

TABLE 2-4

AMERICAN SOCIETY'S FOUR SPHERES:
AND THE ROLE OF PHILANTROPHY

1. State Sphere

A. Central government

- Executive power (defense, police, roads, post office, etc.)
- Legislative power
- Judicial power

B. State government Provincial

C. Municipal government

D. Parastate independent government agencies and/or industries that may permit no private sector investment or permit only minority private sector investment

i. Social security
ii. Public utilities

-Nationalized Railway System, Airlines, Telephone System, Steel Mill, Ports, etc.

iii. GONGOs: Government-Organized NGOs, in U.S. English (QUANGOS: Quasi-Autonomous NGOs, in British English.

This type of "extra-governmental organization" includes panels, councils, and authorities operating local services in such areas as health, education, housing, and training with central government funds but only loose attachment to a ministry (often without standard audit) and little (if any) outside accountability.[1]

2. **Private Sphere** which attempts to earn profits for investors.

   i. FPPOs = For-Private-Profit Organizations.

3. **Mixed "State-Private" Sphere**

a. State companies which permit nearly equal or majority private investment

b. Utilities, ports, industrial plants, airlines, etc.

c. Subsidized Privatize companies with the state holding a majority or minority of shares
   i. including some privatized social security funds

4. **Tax-Exempt Organization (TEO) Sphere** (see Table 2-5)

TEOs have the goal to gain more income than expenditures and to invest that excess income in order to provide a growing base of interest income to pay operating expenses. The income comes from

i. donations from individuals or private companies-- the incentive of the donors is not only altruistic but also to receive a deduction against their tax payments, hence the saying: "with regard to income taxes, one has the choice of either (a) paying them to the government for its activities (many of which may be useful, wasteful, corrupt, etc.), or (b) divert all or part of one's taxes from the government to support one's own targeted TEO activities, with or without one's own foundation structure."

ii. grant-making foundations donations to other NPPOs.

The goal of NPPOs (including operating foundations such as hospitals and universities) is to seek an "endowment," that is a grant that can be invested to earn the interest that can be used to pay costs of administration and operation. TEO's seek to gain more income than they spend in order to endow their TEO in perpetuity or for the time chartered.

iii. Contributions to ATEOs (Activist Tax-Exempt Organizations) that are tax deductible, but as a business expense not as a charitable deduction.

A. NPPOs (Not-for-Private-Profit Organizations)

1. **NPPOs-M (income from many donors)** often called "foundations/funds supported by the broad general public" because they normally receive at least 1/3 of their income from *many donors* [2] (including government agencies) and not more than 1/3 of their income from their own investments (including interest, dividends, royalties, etc.)

   a. community foundations, charities
   b. emergency relief, e.g. Red Cross
   c. NGOs that do not engage in legislative lobbying
   d. "operating foundations" (including the special case of those private operating foundations permitted to operate under NPPO-M status rather than under NPPO-F status immediately below, such as private hospitals and private universities which spend most of their yearly income to benefit the general population. (see Table 2-5)

2. **NPPOs-F (income from few donors) often called** "privately-funded foundations" that normally receive most of their income from only a few donors *(often only one family or company)* , do not receive at 1/3 of their income from a *many donors and*/or receive more than 1/3 of their funds from the

NPPO's investment income (including dividends, royalties, etc.) or from an excess of nonrelated

business income:[3]

a. family-endowed foundation, e.g. Soros
b. business-endowed foundation, e.g. Ford Foundation
c. others (See Table 2-5)

B. ATEOS (Activist Tax-Exempt Organizations—my term)

ATEOs (sometimes misleadingly called "social welfare organization") may engage in activities that are activist in relation to legislation, in contrast to NPPOs which must maintain an objective and informational role in relation to legislation.

a. trade association, chambers of commerce
b. NGOs which do engage in legislative lobbying.
c. business leagues, etc. (See Table 2-6)

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1. How to Control Quangos," *Economist,* August 6, 1994, pp. 45-47.

2. NPPO's qualifying public and/or governmental support that can be counted from any one donor (except another NPPO or government agency), not including in the 2% limitation any amounts less than $1,000. (Unusual amounts may be excluded.) Nevertheless, even if an NPPO does not meet the requirement of many donors donating at least 1/3 of the income, it may still qualify under this category if it receives at least 10% of its total support from governmental and donor sources, has a continuous program of soliciting funds from the general population, and all other pertinent facts concerning the NPPOs organization (including the NPPOs governing board) are likely to appeal to persons having some broad common interest of purpose. (See Bruce R. Hopkins, *The Law of Tax-Exempt Organizations,* fifth edition; New York: John Wiley & Sons, 1987), pp. 452 and 447.)

3. Ibid., p. 449.

TABLE 2-5

PROVISIONS FOR INCOME AND EXPENDITURE OF
THE THREE TYPES OF TEOs

(NPPOs-M, NPPOs-F, ATEOS)

1. NPPOs-M (funded by many donors) are often called "public foundations," and "public charities"—

The "public" idea is unfortunate because it is confusing to many citizen in America as well as to leaders of the developing world who seek to understand U.S. TEO law, but for whom "public" connotes "government" rather than "broad general public." Although NPPOs-M may receive funding from government agencies, they are not under government control. NPPOs-M are called "not-private foundations" in much of the TEO legislation.

NPPOs-M, often called "not private foundations" normally receive at least 1/3 of their income from many donors and less than 1/3 of income from investments, except that *private operating foundations*, such as universities and hospitals that spend most of their yearly income on the welfare of the general population, are included here rather than as NPPOs-F, below.

NPPOs-M can
- receive tax-free grants & donations from another NPPO
- receive donations deductible from income, gift, and estate taxes

Donors to NPPOs-M reduce their "taxable income" by taking tax deductions as follows against:

up to 50% of an individual donor's "adjusted gross income" and
up to 10% of a private corporation' "adjusted gross income"

Note: Donor "gross income" minus "business expenses and other certain other payments" equals
"adjusted gross income,"
from which donations to NPPOs are deducted to get
"taxable income"

2. NPPOs-F (income from few donors) are often termed "Private Foundations" (e.g., Rockefeller Foundation, Soros Foundation, Ford Foundation, Pew Charitable Trusts), or "private charities." However, private operating foundations such as hospitals and universities are included in NPPOs-M, above, because they spend most of their yearly income on operations to benefit the general population

These are organizations which:

a. do not meet the 1/3 and 1/3 criteria, discussed under NPPOs-M
b. can receive tax-free grants & donations from an other NPPO
c. can receive donations deductible from income, gift, and estate taxes up to 30% of an individual donor's adjusted gross income (up to 20% if properties) but no more than 50% total donations to both types of NPPOs
d. up to 10% of a private corporations' adjusted gross income

In contrast to NPPOs-M that are broadly funded, NPPOs-F which are funded by a few donors must pay a 2% tax on net investment income and must distribute a certain minimum percent of each year's income

3. Activist Tax-Exempt Organizations (ATEOs, a concept developed here) differ from NPPOs in that ATEOs:
    a. may engage in activities such as influencing legislation;
    b. may not attract donations deductible from income, gift, and estate taxes;
    c. may not receive grants from NPPOs;
    d. do receive their income from donors who deduct their contribution from income as a business expense.

ATEOs are "action organizations" which may draft legislation and lobby for its passage to benefit a specific group, in contrast with NPPOs which must maintain an analytical role in addressing the pros and cons of legislation that must benefit the general society

Like the NPPO, the ATEO:

1. may not engage in political campaigns or finance political parties;
2. may and is expected to make "profits" which are tax free to the extent that they are used for the ATEO's purposes (including the payment of salaries and expenses);

ATEOs may work with NPPOs in order to attract funds to support activities which are eligible for deductions from income, gift, and estate taxes. For example, businesses leaders who establish a regional planning ATEO (through business expense tax deductions that are intended to advance the interests of private companies), also may establish an NPPO to attract funds which will benefit the region's population as a whole, e.g. funds for general regional research and development. (Cooperating NPPOs and ATEOs must retain their autonomy--one cannot control the other.)

TABLE 2-6

NPPOS [501(C)(3)] CLASSIFIED BY MAIN FUNCTION FUNDS USE*

Functions[a,b]	Grant Funds[c]	Develop Activity[c]	Operate Entity[c,d]
Grant-Making Foundations	x		
Foundations and Trusts	x		
Community Foundations	x	x	
Universities and Schools..................................	x	x	x
NGOs[e,] (Non-Governmental Organizations) that do not engage in legislative lobbying		x	x
Emergency Relief Groups (Red Cross, etc.)		x	x
Charities, Hospitals, and Orphanages		x	x
Scholarship Funds..	x	x	
Private Voluntary Organizations (PVOs)		x	
Research & Scientific Centers, Think Tanks		x	x
Civic Groups (inc. monument preservation)		x	x
Educational Associations & Consortia	x		
Professional Associations	x	x	x
Religious Organizations & Cemetery Leagues[6]		x	x
Humane Societies		x	x
Human & Civil Rights Organizations		x	
Cultural Societies & Literary Clubs	x	x	
Sports Associations	x	x	x

[a] Any NPPO may opt for ATEO status. Functions may overlap as when a foundation dedicates its funds to operate a scientific research center or hospital.

[b] Terms such as "foundation," "center," "institute," "association," "fund," "NGO," "society," "organization," "trust," "consortium," "club," "sponsorship," etc., are interchangeable. Further, NPPOs may cooperate with ATEOs--see below.

[c] These 3 categories are not mutually exclusive; and some NGOs do grant funds.

[d] "Operating" organizations or foundations devote most of their income to serve the function for which they were created, e.g. administering a school or museum.

[e] GONGOs (government-organized NGOs) are included in Table 2-4 as parastate organizations. Also known as QUANGOS.

*An NPPO may

(a) and is expected to make "profits" which are tax free to the extent that they are used for the NPPOs purposes (including the payment of salaries and expenses)--see text;

(b) engage in nonpartisan research on and make available its analysis of legislation, offering general recommendations about policy beneficial to society at large;

(c) provide information and technical advice or assistance in response to a written request by a governmental body;

(d) communicate with any legislative body with respect to any decision which might affect the organization and its tax-deductible activities or status;

(e) engage in routine communications with government officials or employees;

(f) communicate with its members about legislation of direct interest to them.

An NPPO may not

(g) spend on legislative activities (excepting those listed above in a to f) more than $1 million dollars (or expend more than 20% on the first $500,000 of its outlays, 15% on the next $500,000, or 5% of any of its remaining expenditures);

(h) encourage any person or body to influence legislation;

(i) engage in conduct that is not analytical, informational, and/or educational as it address the pros and cons of legislation. Cf. ATEOs (see Table 2-7, below).

TABLE 2-7

ATEOS LISTED BY MAIN PURPOSE

[Exempt under the 25 Sections of the
U.S. Internal Revenue Code (IRC)
listed below]

ATEOSs may engage in legislative lobbying but NPPOs
may not do so, see Table 2-6, above
ATEOs may opt to change to NPPO status,
provided that they change their mode of operation)

Donors take their tax deduction as a
business expense,
not as a tax deduction

Purpose

Corporations holding titles for "other" tax-exempt organizations than those that follow— IRC 501(c)(2).

Local employee associations--IRC 501(c)(4).

Labor, agricultural, and horticultural organizations-- 501(c)(5).

Trade associations, business leagues, professional associations, health care organizations, chambers of commerce, boards of trade, -- 501(c)(6).

Social clubs--501(c)(7).

Fraternal beneficiary societies--501(c)(8).

Voluntary employees beneficiary associations-- 501(c)(9).

Domestic fraternal societies--501(c)(10).

Teachers' retirements fund associations--501(c)(11).
Benevolent or mutual organizations--501(c)(12).
Cemetery companies owned and operated for members--501(c)(13).
Credit unions operated for members--501(c)(14).
Mutual insurance companies--501(c)(15).
Crop operations finance corporations--501(c)(16).
Trusts providing supplemental unemployment benefits--501(c)(17).
Certain funded pension trusts--501(c)(18).
Veterans organizations--501(c)(19).
Farmers cooperatives--IRC 521.
Associations to protect and indemnify ship owners--IRC 526.
Political organizations--IRC 527.
Homeowners' associations--IRC 528.
Group legal service organizations--IRC 501(c)(20).
Trusts for black lung benefits--501(c)(21).
Multi-employer pension plan trusts--501(c)(22).
Other ATEOs (e.g. title-holding of the same company by multiple ATEOs, and ATEO operated retirement plans.
Governmental ATEOs:

i. state governments
ii. political subdivisions
iii. corporations authorized by the U.S. government under IRC 501(c)(1), e.g. Federal Deposit Insurance Corporation, Federal National Mortgage Association, which generally do not receive payments eligible for deduction for income taxes as a business expenses.)

TABLE 2-8

TYPES OF U.S. TEOs REGISTERED WITH THE IRS, AS OF 1997

Section 501(c):	Number[1]
NPPOS	
(3) NPPOs (HEW-SEER-PUC)	692,524
ATEOS	
(2) "Other" ATEOs than listed below	7,113
(4) Social welfare	141,706
(5) Labor, agriculture organizations	64,902
(6) Business leagues	78,406
(7) Social and recreation Club	66,387
(8) Fraternal beneficiary societies	87,990
(9) Voluntary employees beneficiary associations	14,464
(10) Domestic fraternal beneficiary societies	20,954
(11) Teacher's retirement fund	13
(12) Benevolent life-insurance associations	6,368
(13) Cemetery companies	9,646
(14) State-chartered credit unions	4,959
(15) Mutual-insurance companies	1,206

(16) Corporations to finance crop operations	25
(17) Supplemental unemployment	542
(18) Employee-funded pension trusts	1
(19) War-veterans' organizations	31,961
(20) Legal-service organizations	92
(21) Black-lung trust	27
(22) Multi-employer pension plan	0
(23) Veterans associations founded prior to 1880	2
(24) Trusts described in section 4049 of ERISA	1
(25) Holding companies for pensions, etc.	908
Total	1,230, 267

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1. Excludes 27 TEOs organized under section 501(c)(1) as act of Congress; also excludes IRC 526, IRC 527, and IRC 528, listed in Table 2-7, above.

SOURCE: "Tax-Exempt Organizations Registered With the IRS," *Chronicle of Philanthropy*, March 11, 1999, p. 42.

TABLE 2-9

WHO GIVES TO AMERICAN NPPOs

AND WHO RECEIVES FROM THEM, 1999

Who Gives	Billion Dollars	%
Individuals	143.7	75.6
Foundations	19.8	10.4
Bequests	15.6	8.2
Corporations	11.0	5.8
TOTALS	190.1	100.0
Who Receives[1]		
Religion	81.7	43.0
Education	27.4	14.4
Health	18.0	9.4
Human service	17.4	9.1
Arts, culture	11.1	5.9
Public benefit	10.9	5.8
Environment	5.8	3.1
International Affairs	2.7	1.4
Other	15.1	7.9
TOTALS	190.1	100.0

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1. Grants abroad are included in all of the categories. Detail adjusted to equal totals.

SOURCE: "Charities are Having to Give more in Order to Receive,"

Los Angeles Times, December 26, 2000.

expenditures. Any abuse may be self-flagged in the yearly report to the IRS wherein percentages spent on the directors and administration will stand out as questionable in the tax return, which is open to public inspection.

The number of American TEOs in 1997 is shown in Table 2-8, which shows that of the 1.2 million organizations, about 56% were NPPOs. The great variety of TEOs is distributed in the table according to section 501(c) of the U.S. Internal Revenue Code. ATEOs, 46% of the total in Table 2-8, are tax exempt in their operations but are not eligible to receive tax deductible donations. Rather, payments to them may be deducted as a business expense.

Table 2-9 shows who gave to American NPPOs in 1999 and who received. Clearly individuals give the most to NPPOs, 75.6%, compared to foundations which gave 10.4%.

The U.S. standard for philanthropy, outlined in the above tables, has been accepted in part by Mexico, thus creating the first international standard in the world. In 1993 Mexico adopted U.S. 501(c)(3) legislation as an option for NPPOs thus establishing the U.S.-Mexico standard, which contrasts starkly to the European Union and its 15 separate TEO standards.

This U.S.-Mexican standard does not yet incorporate the role of ATEOs, but it does make a major break in Mexico's Roman Law tradition inherited from France and Spain, wherein acts are illegal unless the law code specifically makes them legal—certainly a barrier to innovation because laws are often years (if not decades or centuries) behind new times. Uncertainty about legality is itself inhibition against developing programs in new spheres, even if not clearly prosecutable.

Under the U.S. common-law approach, which is the basis of the U.S.-Mexican TEO Agreement, NPPOs may innovate without waiting for their ideas to first be legally permitted. Indeed the U.S. TEO law is so open that it frustrates persons who seek "final clarity." Openness incorporates what I call the HEW-SEER-PUC framework, which offers a guide, which recognizes that because of the rapid change of world events and options, and because the future cannot be foreseen, no limits can be placed on what NPPOs may undertake to do. U.S. TEO activity often develops pilot projects that can be adopted into government programs, which are always much slower to undertake innovation because of the risk-averse nature of bureaucracy.

Types of Foundations

The member organizations of the Council on Foundations (which, even though it has worldwide members, should be renamed the U.S. Council of Grant-Making Foundation) generally fall into one of 2 classifications ("Private" and "Public") and 4 categories.

CLASSIFICATION A. PRIVATE FOUNDATIONS:

These foundations are usually founded by one individual, often by bequest. Sometimes individuals or groups of people, such as family members, form a foundation while the donors are still living. Many large independent foundations, such as the Rockefeller and Ford Foundation, are no longer governed by members of the original donor's family, but are now run by boards made up of community, business and academic leaders—often with members from around the world.

As a rule, private foundations make grants to other tax-exempt organizations to carry out their charitable purposes.

Private foundations must make charitable expenditures of approximately 5% of the market value of their assets each year. Although exempt from federal income tax, private foundations must pay a yearly excise tax of one or two percent on their net investment income. (See Table 2-5, above.)

1. Company Foundations

These foundations are established to directly fund the Not-for-Private Profit activities of For-Profit Companies, which yearly can donate and deduct up to 10% of their taxable profits. Such foundations represent the company, as in the case of the "Hewlett-Packard Foundation," and not the founders, each of whom have established their own family foundation: the "Hewlett Foundation" and "Packard Foundation," to which each can yearly make donations to reduce their taxable income by 30% (20% if in property).

2. Family Foundations

The concept "Family foundation," which includes those such as the Hewlett Foundation and the Packard Foundation (discussed immediately above) is not a legal term, but denotes those private foundations that are either managed or strongly influenced by the original donor or members of the donor's family. It is estimated that about two-thirds of all the foundations in the U.S. are family foundations. These are exemplified in the "Hewlett [Family] Foundation" and "Packard [Family] Foundation," to which the families can yearly make donations to reduce their taxable income by 30% (20% if in property).

CLASSIFICATION B. FOUNDATIONS SUPPORTED BY THE BROAD GENERAL PUBLIC:

These foundations must have at least one-third of their income from the broad general public and no more than one-third from investment income. Donations to them are deductible up to 50% of gross income of donors.

3. Community Foundations

These foundations build their endowments through contributions from several donors, usually within a given geographic region. The first Community Foundation was established in 1914 in Cleveland.[16]

Community foundations support charitable activities focused primarily on "local" needs--those of a particular town, county or state. They are designated "public charities" and they raise a significant portion of their resources from a broad cross-section of the public each year.

Community foundations provide an array of services to donors who wish to establish endowed funds without incurring the administrative and legal costs of starting independent foundations. There are approximately 300 community foundations across the U.S. today, the New York Community Trust being the largest.

In the 1990s a dynamic new type of community foundation has emerged to help government adopt entrepreneurial attitudes, as is exemplified in the case of the

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[16] Ben, Whitaker, *The Foundations: An Anatomy Of Philanthropy and Society,* London: Eyre Methuen, 1974, p. 42.

Silicon Valley Joint Venture TEO.[17] Joint Venture has successfully merged private sector motives and funds with public policy that encompasses several counties in the greater Silicon Valley, which includes Stanford University. In providing "venture capital" type funding, for example, Joint Venture has funded local schools provided that they agree to fundamental redesign by providing computer-based education to all students in order to develop an electronic community. At the outset in 1992, Joint Venture Silicon Valley set up 14 working groups with over 1,000 citizens who distilled creative ideas into new initiatives intended to continually rejuvenate the area's economy. The working groups have focused on such clusters as education and workforce, business services,

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[17] See Douglas Henton, John Melville, Kim Walesh, William F. Miller, "Making of a Total Quality Community," pp 347-356, in James Wilkie, W. and Clint E. Smith, eds., *Integrating Cities and Regions: North American Faces Globalization,* Guadalajara, Los Angeles, Guanajuato: Universidad de Guadalajara, UCLA Program on Mexico, Centro Internacional Lucas Alamán para el Creci-
miento Económico, 1998.

technology, regulatory process, tax policy, bioscience, and physical environment.

As we will see, the El Paso Community Foundation define "community" in non-geographic terms as well as geographic one.

4. Other Foundations.

This category includes the many trust funds, trusts, charities, and "public" organizations described under NPPOs in Table 2-5 above. These grant-making foundations may also operate entities and undertake their own research programs, as is indicated in Table 2-5, above, as is possible under the flexibility of U.S. TEO law.

Meaning of Deductibility.

Amounts donated to NPPOs do not reduce taxes dollar-for-dollar, but rather reduce the amount on which taxes are paid. For example, a donation of $10,000 does not reduce taxes paid by that amount but reduces the *taxable income* by that amount.

Assuming that the donor is in the 25% tax bracket, although the $10,000 deduction reduces taxes paid by only $2,500, it has the ancillary benefit of permitting the donor to direct the entire $10,000 to the donor's chosen NPPO as well as a specific activity of the NPPO, if so desired.

Donors may direct that their donations be used, for example, to grant fellowships for graduate study, but they cannot direct to whom the fellowships should go. Indeed, since the Ford Foundation grants to the assassinated-JFK colleagues, such fellowships must be awarded in open competition with pre-established criteria and, preferably, an independent award panel.

Summary in Charts

The structure of America's four societal spheres discussed above in this chapter is summarized in Chart 2.1 to reveal at a glance how the TEO works. The two types of NPPOs show clearly here, but as we will see in the Epilogue, the Anti-Model discussed there threatens this clear-cut system.

Chart 2.1

America's Four Spheres

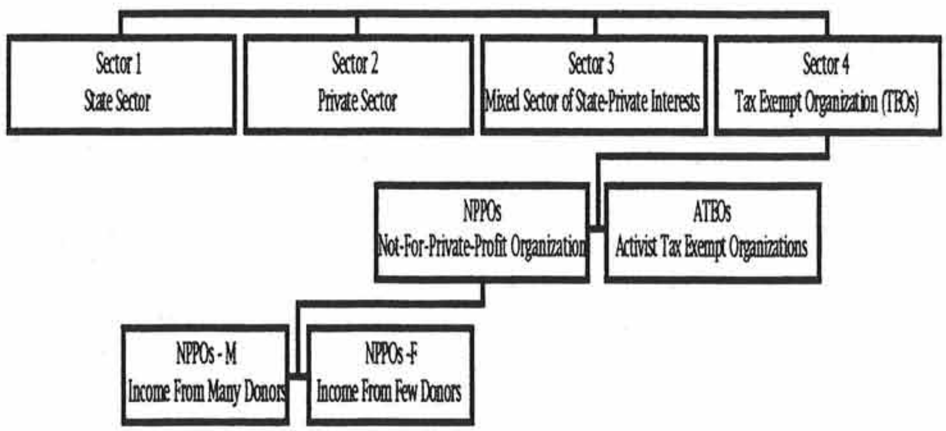
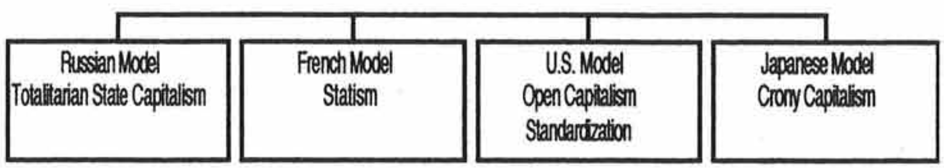


Chart 2.2

Competing Models For Globalization



To put the U.S. society system into context with its four great rivals of the twentieth century is itself revealing, as is shown in Chart 2.2. Of the four, the Russian Model imploded, as we have seen earlier in this work. The French Statist Model has lost its appeal and is highly questioned even in France. The Japanese Model has been caught in a decade of stagnation owing to the crony capitalism which it represents, in my view.

Thus the one workable Model for the world is the U.S. Model of what I call "Open Capitalism via Standardization" to facilitate the flow of funds, be the For-Private-Profit (shown in Sector 2 of Chart 2.1) or Not-For-Private Profit (shown in Sector 3).

Conclusion

Having seen how the U.S. TEO model works and the place of NPPOs within the model, we may not turn to the case studies of the Rockefeller Foundation (Chapter 3) and the Soros Foundation (Chapter 5), which help us to understand how operating styles can vary so greatly. Because each of these NPPOs has used U.S. TEO law in a different way, they help us to see the extremes, as they range from centralized to decentralized operations.

The Epilogue takes up briefly two new models and one anti-model. The former is represented by El Paso Community Foundation (which is decentralized to the greater El Paso and Ciudad Juárez area) and the Turner and Gates personal foundations (which eliminate bureaucracy in favor of family control). The anti-model involves NPPOs of questionable legality and doubtful ethics (ably represented by the Fidelity Investments Charitable Gift Fund).

The reader is asked to suspend judgement about the parts of NPPO puzzle until we have examined the following cases.

CHAPTER 3

THE ROCKEFELLER CENTRALIZED FOUNDATION AND LATIN AMERICA

["This Foundation is chartered by the State of New York] to promote the well-being of mankind throughout the world."
- Rockefeller Foundation, Articles of Incorporation, 1913

American capital must participate in the economic development in which it is investing. If the people could enjoy a rising standard of living and American business firms could be identified with that happy event, all would be beneficial.
- Nelson A. Rockefeller, 1930s-1940s

Overview.

In establishing the Rockefeller Foundation in 1913 as the first worldwide foundation, [1] the Rockefeller family philanthropic influence on the world came under John D. Rockefeller

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[1] For discussion of the epigrams above in historical context, see Margaret Carroll [-Boardman], "The Rockefeller Corollary: The Impact of Philanthropy and Globalization in Latin America," Los Angeles: Ph.D. Dissertation in History, University of California, 1999. For the business history, see Keith T. Poole, "Entrepreneurs

(1913-1917), John D. Rockefeller, Jr. (1917-1960), and John D. Rockefeller III (1952-1971) These family leaders established implicitly guidelines for the Rockefeller Foundation (administered by a professional staff of experts) and all other future internationally-oriented foundations. And they established the idea of centralizing their Foundation Main Offices at their corporate headquarters in New York City, from where through the Foundation's centralized board of directors authorized projects in so many field and so many countries.

Even though the Rockefeller Foundation, like the Ford Foundation and others which have come to rival its international activities, would later establish branch offices in countries such as Brazil, Mexico, and China, final decisions on philanthropic activity have been vested in their New York City Main Offices.

Let us take the case of the Rockefeller Foundation and see the implications of its having launched, as part of its ethic to "prime the pump and then move on to prime other pump," various programs in the Americas, especially through governments which

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and American Economic Growth: John D. Rockefeller," <http://voteview.uh.edu/entrejdr.htm>, 2000.

have the power to continue funding after the priming process. We will examine what happens in the process of having fathered the First Phase of the Green Revolution and having helped to finance the Second Phase as well.

The Rise of the Rockefeller Foundation in the Americas

The chronology of John D. Rockefeller's use of philanthropy to establish new institutions tells a legendary story:[2]

1889 University of Chicago

1901 Rockefeller Institute for Medical Research—the first of the four Rockefeller Foundations that would exist until consolidation into one big Rockefeller Foundation in 1928

1903 General Education Board established to assist the U.S. Department of Agriculture with grants needed to expand farm demonstration work in the southern states as well as to help fund secondary education there and higher education

[2] Bremner, *American Philanthropy,* pp. 120 and 192ff.

throughout America—the second of the Rockefeller Foundations that would not be consolidated until 1928

1973 Laura Spelman Rockefeller Memorial Funds to assist Southern "Negroes," the third of the Foundations that would be consolidated in 1928

1994 Rockefeller Sanitary Commission to eradicate such diseases as hookworm. This Commission was absorbed in 1913 by:

1913 Rockefeller Foundation chartered by the State of New York "to promote the well-being of mankind throughout the world"—the fourth of the Foundations, under which the other three will be consolidated in 1928.

The Rockefeller Foundation is taken over in 1913 by John Sr.'s son John D. Rockefeller, Jr., who serves as "CEO" of the Foundation until 1939 (first as president, then Chair of the Board of Trustees) to lead the following kinds of programs in Latin America:

1916 International Health Board established in São Paulo as the Conselho Sanitario Rockefeller

1973 Consolidation of Rockefeller's 4 foundations and major programs (such as the public health research to combat yellow fever and malaria as well as to support universities and their fellowship programs) into "The" Rockefeller Foundation

1933 Rockefeller Foundation dedicates $1.5 million to speed discovery of remedies for the world depression after 1929

1950 International Health Board São Paulo Office for South America coordinates long-term contracts to help establish and/or improve Public Health Departments (including tropical medicine research) in Bolivia, Brazil, Colombia, Ecuador, Peru;[3] Yellow fever vaccine developed in the Rockefeller's New York laboratories

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[3] Margaret Carroll [-Boardman], " The Rockefeller Corollary," 1999, p. 48.

1951 Medical breakthroughs funded in England where penicillin is developed for clinical and by1939 the malarial-carrying-anopheles-gambiae mosquito is eradicated in Brazil;[4]

1942 Institute for Tropical Agriculture established in Costa Rica

1943 Establishment in Mexico of what would later be titled the Center for Improvement of Wheat and Corn (CIMMYT), which led directly to the First Phase of the Green Revolution.

1975 International Rice Research Institute (IRRI) established in the Philippines as an expansion of the CIMMYT Model, with Rockefeller Foundation participating not solely but with governments, international organizations, and other foundations).

1971 Rockefeller helps found CGIAR (Consultative

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[4] Rockefeller Foundation Home Page, "History and Timeline of the Foundation," <http://www.rockfound.org/frameset2.html>.

Group on International Agricultural Research), based on Rockefeller's CIMMYT model developed in Mexico

1995 Rockefeller Foundation devotes half of his agricultural-program funds to support the development of what comes to be called "Golden Rice," rich in the Vitamin A that is lacking in the standard white rices—lack of Vitamin A causes millions of Asians to have vision problems and blindness.[5]

1999 Second Phase of the Green Revolution comes to fruition with development of the new Quality Protein Maiz (QPM), which gives the world a corn seed with double protein of high quality that is easily digested.

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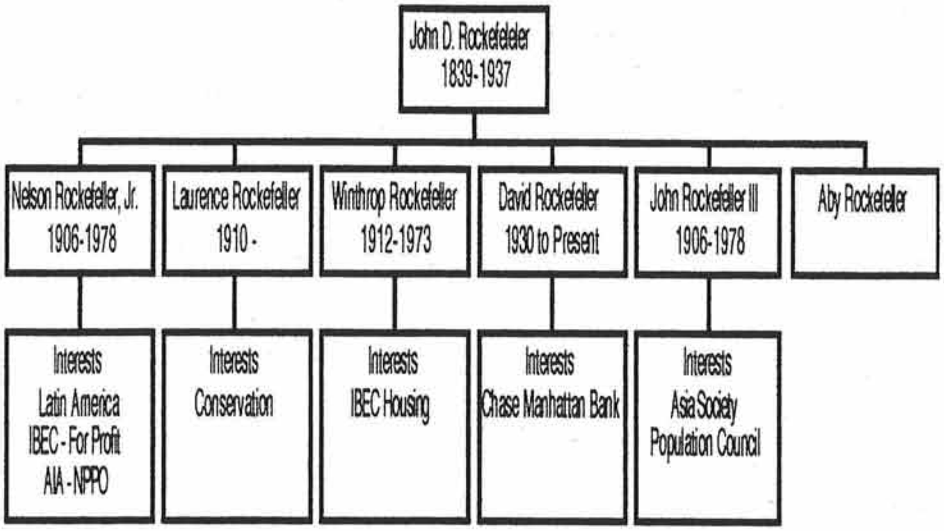
[5] Some half million children still go blind each year due to Vitamin A deficiency. Adequate Vitamin A decreases the incidence, duration and severity of childhood diseases, such as measles, and it reduces the risk of routine infections becoming severe infections that lead to death. See <http://www.rockfound.org/frameset.html>.

Chart 3

Rockefeller Family Chart and Interests



As shown in Chart 3, even before John D. Rockefeller's death in 1937, Rockefeller family members specialized in different world areas, with Nelson and David Rockefeller devoting their energy to Latin America and John D. III to Asia.

By the 1940s Nelson recognized that the family role of active development of Rockefeller Foundation projects had passed to the

Foundation's professional staff, led by his father John, Jr. Relegated mainly to endorse Rockefeller Foundation activities that were beyond their control, he became personally involved beginning in 1946 in establishing and funding a different type of NPPO--one that they could control and link directly to business:

1946 Establishment of the Tax Exempt American International Association for International Social Development (AIA) to receive an important share of the profits donated by Nelson and David and by the private company that they and others established in 1947 as the International Basic Economy Corporation (IBEC).[6]

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[6] See Martha Dalrymple's history of AIA (ironically published by IBEC, with which AIA had been planned as one organization but which lawyers had decided to set up separately so that the NPPO and private business activities would operate at "arms-length" from each other): *The AIA Story: Two Decades of International Cooperation,* New York: American International Association for Economic and Social Development (IBEC), 1988, p. 187.

IBEC, which John Jr. declined to join (but to which he, Laurance, Rodman, and Winthrop donated their personal funds) was formed especially to help the Brazilian and Venezuelan governments upgrade their technological services to the private sector.[7]

1968 Nelson proposes shift from official U.S. assistance to achieve economic and social change through the injection of U.S. industry into Latin America: "When a modern U.S. industry enters an underdeveloped area, it has the capacity to close a technology gap that may span 50 years, 100 years, even 1,000 years. . . . To rely only on the infusion of government aid is to believe that we can buy economic development. It cannot be bought—it can only be built."[8]

1969 Nelson publishes *The Rockefeller Report on the*

[7] Carroll [-Boardman], " The Rockefeller Corollary," p. 174.

[8] Speech to the U.S. National Planning Association quoted by Margaret Carroll [-Boardman], " The Rockefeller Corollary," p. 212.

Americas,[9] commissioned by President Nixon. Nelson visited the entire Latin American region and called for the USA to help it with the technological, political, and cultural" means to take advantage of the "technological explosion and surge of industrialization," or see the region overcome by a "tidal wave of population [and] an uneasy nationalism."

Nelson A. Rockefeller in the Post-1940 World and Latin America[10]

Nelson, who had become intensely interested in Latin America beginning with his 1935 investment as majority

[9] Chicago, Quadrangle Books; quote is from p. 135.

[10] Although this section focuses on Nelson, it should be noted that two of his brothers were closely involved with Latin America and with him from the mid-1930 through the 1960s. Laurance invested in Pan American Airways to link the Latin American counties with each other and to the USA; and David headed up the Latin American Division of Chase Manhattan Bank.

shareholder in Creole Oil of Venezuela; and he gained a new perspective when he served during World War II as chief executive for the Office of Inter-American Affairs (OIAA). There he sought from 1941-1944 to build cultural and commercial relations with Latin America. Here he encouraged Hollywood to make films about Latin America and to develop distribution for Hollywood. But he was also involved in helping Brazil, Colombia, and Venezuela to dismantle German ownership of airlines such as Varig, AVIANCA, and VASP.

During these war years President Roosevelt charged Nelson with strengthening the disease prevention programs that had been developed by the Rockefeller Foundation's São Paulo Office since 1916 and especially since the 1930. To this end, Nelson established yet another bland, bureaucratically-designed organization, the Institute of Inter-American Affairs (IIAA), that could stimulate real programs in the Public Health Bureaucracies in Latin America, yet do so without alienating national bureaucratic hierarchies. His IIAA put up $35.7 million to more than match the $20.6 million spent by 18 of the 20 Latin American countries—only Argentina and

Cuba were not included because of their "advanced" health systems.

Nelson especially wanted his IIAA to undertake economic development projects that could be mutually supported by U.S. private business, but Roosevelt purposefully limited OIAA's responsibilities to "measures for the control and prevention of disease, sanitation, sewage disposal, housing, improvement works, nutrition, general medical treatment, and the education and training deemed necessary to achieve these objectives."[11]

Frustrated by Roosevelt's attempt to limit his activities in the OIAA and IIAA, Nelson was pleased to take on an assignment with broader dimensions; and in 1944-1945 he became U.S. Assistant Secretary of State for Latin American Affairs In this role he expended much energy to promote Latin American economic and social growth, which had international political ramifications.

Nelson ran into bureaucratic problems again, however, when at the 1945 negotiations to establish the United Nations, he antagonized Secretary of States Edward Stettinius by organizing the

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[11] Quoted in Margaret Carroll [-Boardman], "The Rockefeller Corollary," p. 137.

Latin American states into what the Russians perceived as a potential "voting bloc." [12]

Upon leaving the government, Nelson undertook in 1946 one of the first U.S. philanthropic attempts to create civil society. His approach mainly involved helping to establish professional research teams employed as part of civil government. Apparently Nelson recognized that without a strong civil society, the areas could not develop a strong Civic Society arm. In any case, Civic Society as we know it today did not exist in Latin America of his time.

Nelson was interested in strengthening, and creating if necessary, civil society in Latin America, where he developed alliances between the Rockefeller Foundation and national governments. Nelson believed that civil society had to be developed in Latin America in order to mediate between governments—all too often authoritarian--and their "citizens," who generally could not rely on responsible governmental administration of basic services.

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[12] Ibid., p. 152.

To the end of helping governments to organize technical training, research, and services, Nelson was one of the leaders in establishing the American International Association for Economic and Social Development (AIA,) which was incorporated in New York City in August 1946. AIA's Board of Directors focused on accomplishing three objectives:

1. raising the standard of living of the millions of the poverty-stricken people in the region, by
2. increasing productive output, through
3. generating the active participation of the people themselves."[13]

Nelson was concerned that in the difficult aftermath of World War II, President Truman's policy disregarded Latin America, mainly focusing on the Marshall plan for Europe and to prevent the expansion of Soviet hegemony. Therefore, in 1947 Nelson asked IBEC to take the first steps in allocating U.S. private assistance to foster development in Latin America in 1947. For example, IBEC established university networking in Venezuela, Brazil, Costa Rica and Argentina.

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[13] Ibid., Chapter 5, "Nonprofit Foundations Train Latin American Specialists," p. 131.

In 1950, Nelson obtained Rockefeller Foundation funding to support his AIA network by exporting U.S. technical expertise to Latin America.[14] The major educational and technological projects were initiated in Venezuela, Brazil, Chile, and Costa Rica. With his strong conviction that such programs would bring democracy to the countries, the Rockefeller Foundation funded AIA to implement a concerted effort to fund university and scholarship programs that would promote sustained economic growth based on U.S. capital and technology, implicitly backing the prevailing Rostow non-Communist Paradigm for Development[15]

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[14] Tourtellot, Arthur Bemon, *Toward the Well Being Of Mankind: Fifty Years Of the Rockefeller Foundation*, Garden City: Doubleday, 1964.

[15] W. W. Rostow, *Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge: Cambridge University Press, 1960. See also, Philip Coomb, *The Fourth Dimension Of Foreign Policy: Educational and Cultural Affairs*, New York: Harper & Row, 1964, which examines how U.S. philanthropic activities outside America aided in the fight against Communism.

AIA carried out such projects as setting up, for example, farm credit systems, funding agricultural research and extension, supporting rural education and rural youth programs. It was also involved in colonization in Venezuela as well as importing technology to enhance food production.

Nelson always tried to link his projects to government agencies that could carry out his works in the long-run scheme of history, but AIA came to an end because of historical happenstance during the early 1960s. Nelson had pinned his hopes on working with the U.S. Agency for International Development (AID) to develop Eastern Brazil in the states of São Paulo and Goiás, where AIA had determined that several million families could be settled to develop mechanized agriculture and parallel commerce and industry on *campos cerrados* --forest enclosed open lands. The idea was to experiment with phosphorous and lime fertilizers to open unused lands and relieve the growing pressure for land as the population grew in Brazil.

To carry out the campos cerrados project, Nelson and David called upon their AIA subsidiary, the IBEC Research Institute (IRI). Although they had separated IRI from both AIA and IBEC to be a separate entity in Brazil and serve as the FPPO that could demonstrate the possibility of generating royalties to conduct NPPO-type research, by 1957, however, it became clear that no profit would be forthcoming and the IRI should merge under the NPPO shield of AIA. Yet when it became clear in 1963 that in order to obtain U.S. Aid funds that they would have to separate IRI from AIA to sign an U.S. AID contract, IRI made the break with AIA.

At the same time, however, Francisco Julão was organizing his Peasant Leagues to threaten land invasions in Brazil's Northeast, and U.S. AID became fearful of political instability and withdrew its support at the last minute. When U.S. AID was phased out of partnership with AIA to favor projects closely related to the Alliance for Progress, Nelson and David realized that they could not compete with the huge buildup of Alliance funds, and in 1968 the curtain was drawn on AIA and IBEC, bringing an end to 22 years of attempting to make NPPO operations self-supporting by wise use of FPPO funds.[16] Yet this attempt itself defined the implicit idea of the "Rockefeller Corollary."

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[16] Carroll [-Boardman], "The Rockefeller Corollary," pp. 173-209.

The Green Revolution as the Legacy of the Rockefeller Foundation

Meanwhile, as we have seen in the Overview to this Chapter, the Rockefeller Foundation's support of agricultural research in Mexico had continued since 1943. And by the 1960s it paid rich dividends.

The research center, now named CIMMYT, arose when U.S. Vice President Henry Wallace attended the 1940 inauguration of incoming President Manuel Avila Camacho. In a long meeting with outgoing President Lázaro Cárdenas and incoming Agricultural Minster Marte R. Gómez, Wallace was asked by them to help Mexico overcome the crisis created in production of corn and wheat by the ejido (communal farm) system. Supposedly the ejido had "flowered" under Cárdenas after 1934. The truth was different, however; Cárdenas and Gómez invited Wallace to stay on in Mexico and visit the countryside with them to discuss matters from his experience in farming and as former U.S. Secretary of Agriculture. Wallace was so impressed by the urgent need to resolve the crisis in production created by the failed ejido system that he took up the matter with his powerful friends in Washington, D.C. and New York City. [17]

Wallace met with Nelson Rockefeller, who as head of OIAA was eager to implement President Roosevelt's "Good Neighbor Policy." In March 1941, OIAA coordinated Wallace's tour of Latin America. After reviewing Mexico's food production resources Wallace came to the conclusion that, "if anyone could increase the yield per acre of corn and beans in Mexico, it would contribute more effectively to the welfare of the country and the happiness of its people than any other that could be devised";[18] and Nelson was ready to move on two fronts.

First, in 1941, with Wallace's support, Rockefeller organized the creation of the Institute for Tropical Agriculture (ITA) to coordinate scientific research within the Western Hemisphere.[19]

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[17] Norman E. Borlaug Oral History Interviews with James W. Wilkie, Mexico City, July 1999.

[18] Raymond Fosdick, *The Story of the Rockefeller Foundation* (New York: Harper, 1952), 184-185.

[19] This organization was set up as separate public U.S. government GONGO, affiliated with Rockefeller's OIAA. This was a unique legal

ITA's primary project was to create a new Inter-American Institute of Agricultural Science.[20] Unfortunately, the project was never fully successful as President Truman at the end of World War II terminated ITA. [21]

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structure used by Nelson during World War II. It allowed him to channel funding from Roosevelt's Federal Emergency Fund into the project. See Carroll [-Boardman], "Sowing the Seeds of the Green Revolution: The Pivotal Role Mexico and International Non-Profit Organizations Play in Making Biotechnology an Important Foreign Policy Issue for the 21st Century" PROFMEX Web Journal *Mexico and the World,* 11 (August1999), <www.profmex.com>, note 16.

[20] OIAA provided $500,000 for initial construction costs. The organization's permanent budget was to come from all members of the Pan American union, according to ibid., note 17.

[21] Carroll-[Boardman], in ibid., note 18, tells the story: "The Institute for Tropical Agriculture (ITA) and the Pan American Union (the predecessor organization to the Organization of American States) agreed to construct a research institute in Costa Rica. Construction issues delayed completion of the project until after the end of World War II. Unfortunately, by 1946 President

Second, Nelson endorsed Wallace's request to the Rockefeller Foundation to establish a "corn and wheat" project in Mexico. Support was forthcoming from the Foundation, who in 1943 sent to Mexico Dr. George Harrar to become chief of Rockefeller's Office of Special Studies jointly supported by and within the Mexican Department of Agriculture. Harrar recruited a team of brilliant researchers: Dr. Edwin Wellhausen to develop Mexican maize, Dr. Norman Borlaug to develop wheat, and Dr. John Niederhauser to develop the potato.

For these products, Borlaug had the first success. Borlaug collected seeds from all regions of Mexico and compared them to

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Harry Truman had terminated OIAA's projects and shut down this wartime agency. With no support from the U.S. government, enthusiasm for the project evaporated and the project faltered. From 1958-1960, budget short-falls forced the Institute search for outside funding sources from organizations such as Nelson's AIA and the International Cooperation Administration (U.S. AID's predecessor agency). In the 1960's President Kennedy's Alliance for Progress resuscitated the Institute as several U.S. AID programs drew upon its experiences and resources.

seeds from around the world before he began his plant breeding to develop a new seed that could thrive in all regions of Mexico. Thus, Borlaug created strong new hybrids producing higher crop yields developed in conjunction with soil management, fertilizers, insecticides, fungicides, conservation measures, irrigation, and farm machinery.

Borlaug achieved huge gains by the 1950s and helped Mexico export the revolutionary Mexican seed to India and Pakistan to stave off famine in the mid-1960s. With regard to Mexico's wheat yield, it went from a 1943 total of 800 kg/ha to a 1980 yield of 3,360 kg/ha, with production reaching 11.1 million metric tons[22]

With regard to CIMMYT's charge to improve corn in Mexico, the results were not as dramatic because minifundia ejido farmers were impossible to reach without an effective agricultural extension agency to demonstrate the possibilities for farmers who adopted new seeds and new methods. However, the 1948 yield of 750 kg/ha to a 1980 yield of 1530 kg/ha, with production reaching

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[22] James W. Wilkie, ed., *Statistical Abstract of Latin America*, Volume 23 (1984), p. 300.

2.7 million metric tons.[23] The big breakthrough in developing a new, high-quality corn seed, would take decades to develop and would only reach fruition in 1999. This new type of corn, with double protein easy to digest had actually provided the basis for the Second Phase of the Green Revolution in staple food for the poor.

With regard to potatoes in Mexico, the 1948 yield of 450 kg/ha went to a 1980 yield 1,270, when production totaled 902 million metric tons.[24]

These gains, especially in wheat, marked the beginning of what I call the First Phase of the Green Revolution in Staple Foods, for which Borlaug won the Nobel Peace Prize in 1970. The First Phase was notable for exporting CIMMYT's breakthroughs and its model to achieve the following results:

4. for the developing world, between1950 y 1980 food production rose by 3% yearly over the population growth rate;

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[23] Ibid. p. 301. Figure for 1948 is the average for 1948-1952.

[24] bid. p. 305. Figure for 1948 is the average for 1948-1952.

5. in Mexico, between 1940 y 1960 the production of corn tripled;
6. in Mexico, between 1950 y 1970, the production of wheat quadrupled;
7. in India, la production of wheat tripled between 1967 y 1992;
8. in the Philippines, la production of rice doubled between 1960 and 1980.[25]

The triumphs of CIMMYT have not come easily owing to on-going international funding struggles and bureaucratic problems in Mexico. Much of the story of bureaucratic name changes is told in Norman E. Borlaug's article "[History of the Office of Special Studies from 1943 to 1960, of the Instituto Nacional de Investigación Agrícola (INIA), of the Instituto Nacional de

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[25] Gordon Conway, *The Doubly Green Revolution: Food for All in the 21st Century,* pp. 48-49; "The Green Revolution," *Los Angeles Times,* December 22, 1997, pp. 17.

Investigación Forestal Agrícola y Pecuario (INIFAP), 1960-1966, and of] CIMMYT, 1966-1986," published in 1987.[26]

By 1966 CIMMYT achieved its independence from the Mexico government to become an internationally-funded-scientific-research-and-training NPPO.[27]

Meanwhile, in 1968 CIMMYT undertook to develop "Strategy For the Conquest of Hunger," and its model was extended to establish CGIAR (the Consultative Group on International Agricultural Research), linking what would become 16 agricultural research centers (including Mexico) in countries on all continents, as is shown in Table 3-1.

Funding for CGIAR came from the Rockefeller and Ford Foundations, Inter-American Development Bank, African Development Bank, Arab Fund for Economic and Social Development, Asian Development Bank, European Commission, and countries hosting the CGIAR units.

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[26] Reprinted in pp. 239-264 of Anwar Dil, ed., *Norman E. Borlaug on World Hunger*, San Diego, Islamabad and Lahore: Bookservice International y Ferozsons (Pvt) Ltd., 1997.

[27] <www.cimmyt.mx> or <www.cimmyt.cgiar.org>.

Recently CIMMYT has joined Future Harvest, an U.S.-based NPPO, which serves as a general funding mechanism for all of the CGIAR centers.[28] In addition to receiving U.S. tax deductible donations that it passes on to CGIAR, Future Harvest sells

[28] www.futureharvest.org/about/donate.html

merchandise through its FPPO arm (Greater Good), which donates up to 15% of each sale to CGIAR.[29]

TABLE 3-1
Chronology of the CGIAR Centers

Original members of the system, founded before the CGIAR:
Line 1: Center Acronym and Name
Line 2: Date of foundation (and date joining the CGIAR)
Line 3: Headquarters Location

IRRI International Rice Research Institute
1960 (1971)
Los Banos, Philippines

CIMMYT Centro Internacional de Mejoramiento de Maiz y Trigo

1966 (1971)
Mexico City, Mexico

IITA International Institute of Tropical Agriculture
1967 (1971)
Ibadan, Nigeria

CIAT Centro International de Agricultural Tropical
1967 (1971)
Cali, Colombia

Founded or adopted by the CGIAR,

[29] <www.greatergood.com>

to broaden the system, after 1971:

ICRISAT International Crops Research Institute for the Semi-Arid Tropics
1972 (1972)
Hyderabad, India

CIP Centro Internacional de la Papa
1970 (1973)
Lima, Peru

ILRAD Merges with ILCA to become the International Livestock Research Institute (ILRI), 1994
1973 (1973)
Nairobi, Kenya

ILCA Merges with ILRAD to become in Nairbi the International Livestock Research Institute (ILRI), 1994
1974 (1974)
Addis Ababa, Ethiopia

IPGRI International Plant Genetic Resources Institute
1974 (1974)
Rome, Italy

WARDA West Africa Rice Development Association
1970 (1975)
Bouake, Cote d'Ivoire

ICARDA Internacional Center for Agricultural Research in Dry Areas
1975 (1975)
Aleppo, Syria

ISNAR International Service for National Agricultural Research
1980 (1980)
The Hague, Netherlands

IFPRI International Food Policy Research Institute
1978 (1980)

Washington, D.C.

Founded or adopted by the CGIAR to strengthen its mission, 1991-1993:

ICRAF International Centre for Research in Agroforestry
1977 (1991)
Nairobi, Kenya

IWMI International Water Management Institute
1984 (1991)
Colombo, Sri Lanka

ICLARM Internacional Center for Living Aquatic Resources Management
1977 (1992)
Manila, Philippines

INIBAP Is merged into the Rome International Plant Genetic Resources Institute (IPGRI) in 1994
1984 (1992)
Montpellier, France

CIFOR Center for International Forestry Research
1993 (1993)
Bogor, Indonesia

Mergers in 1994:

INIBAP Is merged with IPGRI

ILRI International Livestock Research Institute is created by merger of ILCA and ILRAD.
Nairobi, Kenya1994

SOURCE: <www.cgiar.org/chron.htm> and Interviews at CIMMYT, July 1999.

CIMMYT has continued to serve as the worldwide headquarters which now links 55 partner countries, International and regional organizations, and private foundations.[30] It is co-sponsored by the World Bank as well as by 3 U. N. agencies (Food and Agricultural Organization, Development Program, and Environment Program).

With the success of CIMMYT and CGIAR in elevating the agricultural production capability of specific developing countries and of providing high quality food inexpensively to the poor, have come a number of problems that are inter-related.

Problems Faced by CIMMYT and CGIAR, 1990--

The first problem is the criticism launched by the so-called "Greens" and how to respond to their demand that all world food production retain its organic nature by eliminating pesticides, herbicides fungicides, and overuse of fertilizers as well as use of

[30] For a list, see <http://www.cgiar.org:80/index.htm>.

antibiotics and hormones in the food supply. [31] Some contemporary analysts, such as Vandana Shiva and Tom Barry, consider that the entire Green Revolution has been a failure. According to Shiva, who sums up well the extreme view, the Green Revolution has led to reduced genetic diversity, increased vulnerability to pests, soil erosion, soil contamination, reduced soil fertility, micronutrient deficiencies, water shortages, reduced availability of nutritious food crops for the local population, the displacement of vast numbers of small farmers form their land, rural impoverishment and increased tensions and conflicts among farmers.[32]

For Barry, who also speaks for a large group of urban intellectual critics, Mexico offers a case study: Despite intensive wheat production, by the 1970s when Mexico began importing wheat, the countries farmers changed to agroexport and/or to

[31] For discussion of such problems, see "Agriculture and Technology Survey, *Economist,* March 23, 2000.

[32] Vandana Shiva. "The Violence of the Green Revolution Ecological Degradation and Political Conflict in Punjab." *The Ecologist,* 1991, p. 21.

sorghum production. This modernization, claims Barry brought increased dependence on foreign capital, rising food imports, and the "widespread adoption of U.S.-style consumption patterns, including the purchase of more processed food."[33]

Such critics, however, seem unaware that they are criticizing the First Phase of the Green Revolution and that a Second Phase is underway. The Second phase is aimed at finding ways of ending or reducing the problems identified by Shiva and Barry, who have not understood that the laundry list of issues that they raise never has applied to all producers. Rather, they might better have said that most producers might have been at fault in some types of problems in overuse or environmental damage, but at fault for all types.

A much more sophisticated and measured approach is taken by Marc Lappé and Britt Bailey, who see Norman E. Borlaug's work

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[33] Tom Barry, *Zapata's Revenge*, Boston: South End Press, 1995, p. 32.

in plant genetics as having been the antidote to genetic engineering of plants:[34]

> We challenge the orthodox description of plants [produced by genetic technology as being] scientifically controlled wonders with stably introduced, balanced genomes.
>
> [The] potential problem is that the genes being manipulated are presumed to affect only single traits. But many plant genes produce a variety of effects (called "pleiotropy"), where changes in form and function result from a single gene insertion.
>
> Traditional breeding practices, [however,] take such effects into consideration. In contrast to transgenic crops (which are often marketed after only a single test plot is harvested), traditional crop breeding has been much more tedious. . . . often spanning three to four growing seasons. [Then and only then] were novel varieties widely introduced Norman Borlaug's dwarf wheat is a case in point.
>
> A PRE-BIOTECH CASE STUDY
>
> Borlaug, a plant breeder at the Center for the Improvement of Maize and Wheat (CIMMYT) outside of Mexico City, bred a remarkable strain of wheat in the 1950s and 1960s through his efforts to increase cereal yields. He found that simple increases in soil nitrogen, while stimulating wheat growth, normally produced an unwieldy plant that was too tall for

[34] Marc Lappé y Britt Bailey, *Against the Grain: Biotechnology and the Corporate Takeover of your Food* (Monroe, Maine: Common Courage, 1998), pp. 14-15, 23.

> most combines to harvest and subject to wind damage or "lodging" where the growth-stimulated plant would fall over. Through judicious breeding methods and introgression, Borlaug successfully introduced a "dwarfing gene" from a variety called Norin 10.
>
> Originally isolated by indigenous farmers in Japan in 1873, this gene was introduced into Mexico by native farmers at the turn of the century. Wheat yields increased threefold. Borlaug simply transferred this existing trait (actually a group of closely linked genes) onto a modern wheat variety, giving it the ability to grow in harsher conditions with shorter growth times than before. According to a sign posted at CIMMYT, "100 million lives have been saved by Norin 10." . . .
>
> The genes being chosen for engineering are in the main quite different from Borlaug's Norin 10. Instead of blocks of genes that will increase yield or improve efficiency [as in the Borlaug case]. . . . the new genetically constructed crops are designed for a single technological advantage, such as herbicide resistance. . . .
>
> The key question about genetically engineered crops is whether or not [the Borlaug type of advance] could prove attainable through the systematic introduction of single genes.

But Borlaug himself responds to the question by Lappé and Bailey with a resounding, "No," and although no doubt grateful for their compliments, implicitly Borlaug finds their argument wrongly superficial. Thus, Borlaug writes:[35]

> In the past, conventional plant breeders were forced to bring unwanted genes along with desirable ones when incorporating insect or disease resistance in a new crop variety. The extra genes often had negative effects, and it took years of crossbreeding and selection to oust them. Conventional plant breeding is crude in comparison to the methods being used in genetic engineering, where we move one or a few genes that we know are useful. We must do a better job of explaining such complexities to the general public, so people will not be vulnerable to antibiotech distortions....
>
> Science is under attack in affluent nations, where antibiotech activists claim consumers are being poisoned by inorganic fertilizers and synthetic pesticides. They also claim that newer genetic engineering technologies decrease biodiversity and degrade the environment. Neither claim is true, but fear-mongering could be disastrous for less-developed nations.
>
> Recently, in India, I confronted a move to outlaw inorganic, synthetic fertilizers. Government officials had been influenced by a cadre of international foes of technology. Officials told me that although Indian agriculture had greatly benefited from the use of such fertilizers in its Green Revolution--by which India achieved self-sufficiency in grain in the 1970s--they were now concerned that these products might have long-term negative effects. They wanted to revert to the exclusive use of so-called organic fertilizers.

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[35] Norman E. Borlaug, "We Need Biotech to Feed the World," *Wall Street Journal, December* 6, 2000.

They were correct about one thing -- India *has* been the beneficiary of modern agricultural techniques. In the mid-1960s, both Pakistan and India saw widespread famine. I managed to persuade both governments to try the highly productive dwarf wheat and the improved integrated crop management practices that my colleagues and I developed at [CIMMYT].

The results speak for themselves: In 1965, wheat yields were 4.6 million tons in Pakistan and 12.3 million in India. By 1970, after the introduction of our new wheat, Pakistan produced nearly twice its amount, while India increased its yield to 20 million tons. The trend continues. This year Pakistan harvested 21 million tons, and India 73.5 million -- all-time records.

This salutary trend will be reversed if misguided bureaucrats have their way. Such a law as India proposed would have seriously diminished the country's ability to feed its one billion people. Famine would again rear its ugly head.

The citizens of affluent nations may be able to pay more for food produced by "natural" or "organic" methods. The chronically undernourished people of impoverished nations cannot. They also cannot afford to have the promise of new agricultural technology nipped in the bud, as many antibiotechnology activists wish.

The latter have been agitating about the supposed threats to human health engendered by bioengineered foods. But such foods pose no greater threat to health than foods produced by conventional methods -- probably even less. While activists inveigh against introducing a gene from one plant or one species into another, they fail to note that conventional breeders have been doing just that for many years.

Some environmental extremists bewail the use of genetic modification that allows crops to be herbicide resistant, or others that allow plants to produce their own insecticide. Among other charges, they suggest that herbicide resistance might be passed to wild relatives of the crops, and that insecticide-producing plants will decimate insect life and decrease biodiversity.

The truth is that resistance genes bred into crops by conventional means could also be spread to wild relatives by Mother Nature herself. Steps can be taken to minimize the possibility of that happening. Further, the suggestion that insecticide-producing plants will wipe out insects like Monarch butterflies is truly far-fetched. The most likely threat to the butterflies is a reduction of their winter habitat by encroaching land development in Mexico.

What the activists don't want people to know is that one very good way to protect wildlife habitat is to ensure that marginal lands are not pressed into agricultural service in an attempt to feed burgeoning populations. In 1960 in the U.S., the production of the 17 most important food, feed, and fiber crops was 252 million tons. By 1999 it had increased to 700 million tons. It is important to note that the 1999 harvest was produced on 10 million fewer acres than were cultivated in 1960. If we had tried to produce the harvest of 1999 with the technology of 1960, we would have had to increase the cultivated area by about 460 million acres of land of the same quality -- which we didn't have.

It is this type of arithmetic that is so important when considering how to feed the world's ever-increasing population. In 1914, when I was born, there were about 1.6 billion people in the world. Now it's about six billion, and we're adding about 85 million each year. We will not be able to feed the people of this millennium with the current agricultural techniques and practices. To insist that we can is a delusion that will condemn millions to hunger, malnutrition and starvation, as well as to social, economic and political chaos.

I visited Russia recently and spent some time at the newly renamed N.I. Vavilov Institute of Genetics and Crop Breeding in St. Petersburg. As I was leaving the conference room, a professor emeritus pulled me aside and pointed to the red chair at the head of the conference table, which was unoccupied during our meeting. "That's where Trofim Lysenko sat for 12 years when he destroyed our agricultural research programs and sent many of our top scientists to prison camps."

T. D. Lysenko, of course, was the pseudo-geneticist who insisted that Soviet agriculture must be run along politically correct party lines. Many who disagreed with Lysenko, including N.I. Vavilov, perished in prison camps. I fear that, like Lysenko, those ideologically opposed to technological advances will unduly influence our government and developing nations, as they have almost succeeded in doing in India. If they do, our prospects for feeding the world will be dim indeed.

I believe the world will be able to produce the food needed to feed the projected population of about 8.3 billion in the year 2025. I also believe that it can be done with little negative impact on the environment. But it cannot be attained without permitting the use of technologies now available, or without research to further improve and utilize new technologies, including biotechnology and recombinant DNA.

Borlaug has long made good fun of urban intellectuals whom argue that organic farming is preferable to technology-based farming because supposedly it prevents negative side effects:[36]

[36] Norman E. Borlaug, "CIMMYT 1966-1986: Accomplishments in Maize and Wheat Productivity," (1987) in Dill, ed., *Norman Borlaug on World Hunger*, p.257.

> Some organic gardening enthusiasts insist that the wide use of organic fertilizer could satisfy all of our fertilizer needs. This, however, is nonsense.
>
> The amount of composted organic animal manure (1.5% nitrogen on a dry weight basis) that would be needed to produce the 70 million metric tons of chemical nitrogen used today would be about *4.7 billion tons--quite a dung heap and quite an aroma. . .*
>
> [But 47 billion tons are not] available. This volume of organic material [would be] equal to twice the weight of the world cereal production and would require a three- to fourfold increase in world animal production, with all the additional grain and pasture feed that such an increase would require. Even now there are many areas of the world where overgrazing is causing serious erosion problems.

Finally, With regard to the Lappé and Bailey argument that some studies reveal that the genetically-engineered crops resistant to the herbicide Roundup Ready™ reveal *reduced yields*, not improved yields,[37] Borlaug implicitly show the fallacy of such reasoning when he writes:[38]

> Take the case of maize with the gene that controls the tolerance level for the weed killer Roundup. Roundup kills all the weeds, but it's short-lived, so it doesn't have any residual effect, and from that standpoint it's safe for

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[37] Lappé and Bailey, *Against the Grain,* p. 15.

[38] Norman E. Borlaug Interviewed *in Reason Online,* April 2000, <http://www.reason.com/0004/fe.rb.billions.html>

people and the environment. The gene for herbicide tolerance is built into the crop variety, so that when a farmer sprays he kills only weeds but not the crops. Roundup Ready soybeans and corn are being very widely used in the U.S. and Argentina.

At this stage, we haven't used varieties with the tolerance for Roundup or any other weed killer [in Africa], but it will have a role to play. Roundup Ready crops could be used in zero-tillage cultivation in African countries. In zero tillage, you leave the straw, the rice, the wheat if it's at high elevation, or most of the corn stock, remove only what's needed for animal feed, and plant directly [without plowing], because this will cut down erosion.

Central African farmers don't have any animal power, because sleeping sickness kills all the animals--cattle, the horses, the burros and the mules. So draft animals don't exist, and farming is all by hand and the hand tools are hoes and machetes. Such hand tools are not very effective against the aggressive tropical grasses that typically invade farm fields. Some of those grasses have sharp spines on them, and they're not very edible. They invade the cornfields, and it gets so bad that farmers must abandon the fields . . . and clear some more forest. That's the way it's been going on for centuries, slash-and-burn farming.

But with this kind of weed killer, Roundup, you can clear the fields of these invasive grasses and plant directly if you have the herbicide-tolerance gene in the crop plants

Beyond the problem of educating citizens to ignore the well-meaning but unsophisticated criticism of the Greens is the second problem that CIMMYT faces—finances. CIMMYT, as headquarters of an expanding CGIAR, has been hurt since 1993 by its very success of the Revolution in food production. The luxury of what appears to be agricultural surplus allows many critics to insist on the "organic food for all" regardless of the fact that the urban poor cannot afford its high prices—organic ally produced usually being two to three times higher in cost.

Further, the idea of all foundations that have followed the Rockefeller Foundation prescription for "priming the pump" is to step out once the pump has been primed and leave the on-going funding of activities to others. But if all private foundations coincidentally look for new pumps to prime and reduce their funding of CIMMYT and CGIAR, who will pay for the on-going research to bring the Second Phase of the Green Revolution to fruition in a manner that continues to expand food production yet overcomes problems of the First Phase? Not other private NPPOs whose leaders, fearing that the funding of biotechnological food production will bring criticism from urban "intellectuals," implicitly leads them to fund less controversial programs.

The Rockefeller Foundation, which at the outset in 1943 put up 87% of the funds (the rest coming from the Mexican government), was phasing down its share of funding, the total share falling to only 54% in 1950, as is shown in Table 3-2. By 1960 the Rockefeller share stood at 29%, and fell to 8% in 1964. By the time of the great financial pinch on CIMMYT in 1993, when county funding to CGIAR fell by about $16 millon, Rockefeller funding to CIMMTY was about 1%.

The Rockefellers share of CGIAR income was 19% in 1972, falling in 1976 to 6.1%, and 1.5% in 1978. Since the 1990s the share has been about .1%, as is shown in Table 3-3.

TABLE 3-2

ROCKEFELLER FOUNDATION SHARE OF CIMMYT INCOME, 1943-1997

Year	%
1943	87
1950	54
1960	29
1964	8
1997	1

SOURCES: Calculated from Nicolás Ardito Barletta, "Costs and Social Benefits of Agricultural Research in Mexico" (Chicago, Ph.D. thesis in Economics), table given in Cynthia Hewitt de Alcántara, *La Modernización de la Agricultura Mexicana,* p. 34; and CIMMYT, *Annual Report, 1998.*

TABLE 3-3

ROCKEFELLER FOUNDATION SHARE OF CGIAR INCOME,[1] 1972-1997

Year	%
1972	19.3
1976	6.1
1978	1.5
1982	.6
1993	.1

1996	.1
Total[1]	.1

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1. Absolute Total is US$ 4,294,9 million.

2. 26 years.

SOURCE: Calculated from CGIAR, *Annual Report, 1997.*

TABLE 3-3

CGIAR FUNDING SOURCE SHARES, TOTAL FOR 1972-1997

Source	%	
Industrialized Countries	71.4	(net after harsh budget cuts amounting to $17.4 million, 1993-1996)
Developing Countries	1.5	(Including Mexico: .1%)
Foundations	2.4	
International & Regional Organizations	24.4	
Non-CGIAR Members	.3	

SOURCE: Calculated from CGIAR, *Annual Report, 1997.*

In the meantime, CIMMYT had created 18 research centers under CGIAR, each new one competing with CIMMYT and the other centers for funds that began to shrink in the early 1990s. Too, each research new research center has to compete for bureaucratic space as well as budget within CGIAR.

To resolve such internal problems, CGIAR conducted during the early 1990s an internal reevaluation for "CGIAR Renewal," which had several major results. In 1994 CGIAR downsized in the number of its centers to 16, using mergers. (See Table 3-1, above.) Further, The renewal of the CGIAR has influenced the research approach to change from merely being a crop-breeding center towards answering user-orientated research questions.

With regard to crop breeding objectives, CGIAR now is seeking to reduce overall genetic vulnerability and increase stability of production in farm fields. Durable disease resistance, efficient nutrient use (in modern varieties) and stress tolerance to heat and drought are important aspects of this research process.

With durable disease resistance it is possible to achieve high production levels with reduced use of pesticides. Efficient use of nutrients in modern varieties causes high yields at a low nitrogen level. To obtain varieties with tolerance to drought it is found that it is better to select under stress conditions.[39]

CGIAR has moved beyond the research front to counter its critics by showing what the phases of the Green Revolution have accomplished, especially through the CIMMYT Model, discussed below. Also, CGIAR has recognized that because the First Phase of the Green Revolution focused on large-scale, resource rich farmers, the Second Phase can now focus on benefiting resource-poor farmers. Thus, CGIAR is now attempting to improve seed varieties with a greater understanding of the socio-economic and political realities, traditional agriculture, and the role of women who often serve as head family. This new research direction takes into research on soil fertility, crop agronomy systems (irrigated, steep hills) and problems of technology adoption. Too, CGIAR is developing close relations with rural NGOs, often helping to fund their activities to gain input for needed research. CGIAR's research

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[39] <www.cgiar.org/chron.htm>

topics are increasingly identified in global programs (such as on genetic resources), eco-regional programs (rice-wheat for African highland and Latin America), and cross-regional programs (e.g. sustainable mountain development).

The Second Green Revolution is exploring the needs and opportunities for innovative agricultural research by broadening the scope for collaboration and taking practical measures to strengthen partnerships, in the interest of promoting sustainable agricultural development for food security.

One method that CGIAR used to explain to Civic Society, GONGOS, and governmental agencies was to organize the 1999 Global Forum. This Forum served to broaden CGIAR partnerships with National Agricultural Research Systems (NARS), regional organizations, advanced research institutions, universities, and the private sector, among others, and to increase the participation in the CGIAR decision-making process—transparency seen as reducing hostility to research. This process leading to the Forum involved consultations with groups of NARS on the substance of research collaboration, the subsequent emergence of representative regional groupings, and, finally, the Global Forum itself.[40]

To gain access to funding, CGIAR did two things. First, it joined forces with Future Harvest to facilitate U.S. tax deductible donations from private citizens and companies and also to gain a percentage of merchandize sales made to "Greens," as discussed above.

Second, to offset the drastic reduction in funding from the U.S. government that took place in 1993 (minus US$ 7.5 million that year and minus another $8.2 million in 1994),[41] CGIAR has coordinated efforts with such organizations as the Netherlands International Agricultural Center (IAC) to serve as Liaison office to the to the CGIAR. IAC's tasks are to advise the Netherlands on developments and funding of the CGIAR (about $11 million yearly)

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[40] At which "A Declaration and Plan of Action for Global Partnership in Agricultural Research" was adopted, see the home page: http://www.cgiar.org/gforum/globfor.htm September 11, 2000.

[41] CGIAR, *Annual Report, 1997.*

and to stimulate interaction between the international and the Netherlands research community.

CIMMYT's Own Solution to the Shrinkage in International Funding

CIMMYT's has taken a two-prong approach.

1. Reminded the world what it has accomplished as well as to forge new paths in food production;
2. Developed its own research partnerships around the world, going beyond Mexico (as it did before CGIAR was established), and in this manner easing the need to create expensive new CGIAR centers everywhere.

First, as the present CIMMYT direct reminds us, the crops maize and wheat are among the three most important basic foods in the developing world.[42] To improve productivity, profitability, and sustainability of maize and wheat systems emphasis must be put on conservation of genetic resources, germplasm improvement,

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[42] Dr. Timothy Reeves (Director General of CIMMYT), Presentation at the Conference on "The Green Revolution: Learning From the First, Striving for the Second," Wageningen, The Netherlands, June 4, 1996, CIMMYT Workshop Report No. 9.

natural resource protection, socio-economic outcomes—all though training of partners and especially local NGOs. The major problems facing food production in the world include decreasing grain supply and stocks, declining soil fertility, decreasing ration arable land per person, and stagnating donor assistance.

Nevertheless, the world's developing countries have planted over 50 million hectares with CIMMYT-related wheat varieties. That corresponds with 70% of the wheat area in the developing world excluding China. Moreover, 80 % of the germplasm is from CIMMYT origin.

At the same time, CIMMYT has helped spread biodiversity in way that are not widely known:

- diversity has increased among modern bread wheats;
- a larger number of cultivators is used and each is planted to a smaller percentage of area;
- there is an increase or constant diversity of parentage;
- there are larger numbers of different landraces in pedigrees,
- yield stability has increased;
- vulnerability to wheat rust has decreased.

The present strategy is to developing crops for small areas rather than for large areas and to achieve durable resistance by accumulating genes, CIMMYT serving as the "melting pot" for genetic resources all over the world. The CIMMYT seed bank is one of the largest, if not the largest, seed banks in the world; and it maintains hundreds of varieties that are no longer cultivated.

Given wide agreement that the food production has at least to double, Reeves calls for recognizing that farmers with small or marginal holdings have benefited less than wealthier farmers; intensive mono-cropping has made production more susceptible to environmental stresses and shocks. Further, with evidence of diminishing returns from intensive and intensively chemical agricultural production, what is needed is a new approach, equally revolutionary, but different in its ideas and style.

Second, CIMMYT is undertaking new partnerships in isolated places around the world, hence avoiding the establishment of whole new CGIAR centers in an era of financial shrinkage. CIMMYT's *Annual Report, 1999-2000,* discusses some of the new geographical locations where CIMMYT has placed staff to develop projects:[43]

> Australia: Joint CIMMYT-University of Queensland research to develop the "QU-gene" wheat simulation model that draw upon data such as the wheat section of the International Crop Information System and the Geographic Information System at CIMMYT to simulate conditions in different climate years for up to 100 breeding cycles to see what the outcome is for specific geographical areas.[44]

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[43] <www.cimmyt.org/whatiscimmyt/AR99_2000>

[44] In North Africa, for example, four out of five years are dry. Farmers sow their wheat, and if they see the year will be very dry, they will not let the crop grow to harvest, but allow their livestock to graze on it. For that they need a wheat variety that produces lots of stems and leaves. The variety has to produce a lot of grain, too, since farmers expect to reap an abundant harvest one year out of five, when rainfall is adequate. In this case, the simulation module aids in setting breeding priorities by running many breeding cycles while weighing the importance of different traits depending on the specific needs (feed vs. food) in the specific environment where the variety will be grown.

Bangladesh: Assistance in agronomy;

Beijing: QPM research;

Bolivia: Assistance in agronomy

Ethiopia: Assistance in agronomy, wheat breeding;

France: CIMMYT, French Institute de Reserche pour le Développement and three seed companies (Pioneer Hi-Bred International, Groupe Limagrain, and Novartis Seeds) sign in 1999 a five-year agreement to conduct research on *apomixis*.[45]

Nepal: Assistance to NARS of South Asia; pathology and Breeding;

Spain: Development of Triticale (breeding of wheat and rye;

Syria: Research with ICARDA on bread and durum wheat breeding program for semiarid regions;

Turkey: Assistance in winter and facultative wheat breeding;

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[45] *Apomixis* is the natural ability of some plants to reproduce offspring identical to the mother plant through asexual reproduction. In the plant kingdom, more than 400 species, most with little or no agronomic potential, possess this apomictic characteristic. Greater knowledge about this natural plant mechanism may provide the basis for its transfer to some of the most commonly grown agricultural crops such as hybrid maize. <www.cimmyt.cgiar.org/Research/wheat/InvestIn-SoftHard/htm>

Uruguay: Assistance in breeding wheat for cold
temperatures and long production cycles;

Uzbekistan: New wheat seeds for Baitkurgan Kibray
District of the Tashkent Region;

Zimbabwe: Assistance in breeding and networking.

Vietnam: Cooperation with the National Maize Research
Institute, for which CIMMYT and Shivaji Pandey
(CIMMYT director of the Maize Program) won
in 1993 Vietnam's Friendship Medal. At the
ceremonies in Hanoi, Pandey stated:
"Few countries have achieved so much in
maize production in such a short time."

The latest honor received by CIMMYT came when its maize breeder Surinder K. Vasal and its cereal chemist Evangelina Villegas shared the 2000 World Food Prize for their breakthrough in creating Quality Protein Maize—a work of Nearly for decades.

Vasal began his research in 1970 when CIMMYT hired him as a postdoctoral scientist from India to work with its cereal protein quality lab and develop a useful product based on the "opaque-2" gene. That gene had been discovered in 1963 by

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Purdue University scientists who, while studying a set of seemingly commonplace Andean maize races, found one extraordinary sample. It contained a peculiar gene that "value-contained an "added protein trait," which significantly increased grain levels of two amino acids:

lysine, and

tryptophan amino acids.

These are essential building blocks for proteins in humans, poultry, and pigs. The Purdue scientists gave the gene the name "opaque-2" because it gives kernels a chalky appearance. Unfortunately, its low yields and susceptibility to many pests and diseases could not eliminated in breeding efforts, research was abandoned until taken up again by CIMMYT.

AT CIMMYT, Vasal was joined over the next 20 years by Villegas and together they developed novel lab and field procedures to overcome opaque-2's drawbacks. "Lacking biotech tools, Vasal capitalized on traditional breeding techniques to incorporate a series of special genes that countered the unwanted side-effects of opaque-2"; and to ensure that the protein trait was not lost, Villegas worked with her lab group to carefully measure amino acid content in the protein of some 20,000 maize grain samples each year. It was 12 years before they began to believe they would accomplish their goal. By 1982-1983, they saw the real possibility of completely changing the appearance of the opaque-2 kernel by using modifier genes to maintain protein quality."[46]

Their new product, developed with strong support from the United Nations Development, was given the name "quality protein maize" (QPM) by former Maize Program director Ernest W. Sprague. QPM looks, grows, and tastes like normal maize, but it contains nearly double the lysine and tryptophan and a generally more balanced amino acid content that greatly enhances its digestibility and nutritive value. Studies worldwide have found that QPM:

> - contributes to reducing protein deficiencies, particularly in young children—the nutritive value of protein in QPM approaches that of protein from skim milk. Children can meet 90% of their protein needs by eating 175 grams of QPM. The next step is to add zinc, iron, and vitamin A

[46] Ibid.

to benefit the estimated two billion persons worldwide who suffer from iron-deficiency anemia, the many developing country children at risk of blindness from lack of Vitamin A, and the approximately 600 million people whose health is affected by zinc deficiency;[47]

- helps malnourished children be restored to health;
- increases the size and stamina of pigs, poultry, and other animals compared to those that do not use QPM in animal feeds;

During the late 1980s and 1990s, according to CIMMYT, its breeders Magni Bjarnason, Kevin Pixley, and Hugo Córdova further developed high yielding QPM varieties.

Unfortunately in 1993-1994 amid the financial squeeze facing CGIAR, CIMMYT's International Board of Directors voted to suspend research into QPM, 21 years being seen as too long to support a project—no matter that it appeared ready for the final breakthrough to make it successful. In yet another shortsighted view, the Board authorized effective dismantlement of CIMMYT,

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[47] "CYMMIT Research On Maize" December 12, 2000 <www.cimmyt.cgiar.org/Research/maize/InvestIn-NutriEnri>

blaming its budget problems on the "wasted funding" for QPM. When Donald L. Winkleman, CIMMYT Director General at the time, gave in without a struggle against the Board's narrow vision, the result stopped QPM cold, favoring other programs. CIMMYT seemed on its way to extinction.[48]

Fortunately for QPM (and ultimately for CIMMYT), two Japanese foundations (Sasakawa Foundation and the Nippon Foundation) stepped in to take up the loss of QPM funding in Mexico,[49] where in 1994 the government had problems focusing on agricultural research owing to a series of political crises—including the assassination of the Official Party's presidential candidate and the rise of a guerilla movement in Chiapas.

The Sasakawa Foundation helped transfer QPM research from Mexico to Obatanpa, Ghana, where the project was brought to fruition. There 30,000 hectares of QPM were sown, accounting for more than half of 1995 commercial maize seed sales in Ghana.

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[48] Borlaug Oral History Interviews with James Wilkie, May and July 1999.

[49] Ibid.

By1997 the Sasakawa Foundation funded expansion of trials to other countries in Africa; and a Brazilian research organization (EMBRAPA) developed and marketed QPM varieties in that South American country.[50]

In the meantime, CIMMYT breeder Hugo Córdova and his colleagues developed, high yielding QPM hybrids with funding from the Nippon Foundation, which has encouraged their testing and promotion worldwide. Speaking about the yield advantage of new QPM hybrids, which average up to 10% over local commercial hybrids, Córdoba says that QPM has caught the eye of breeders and policymakers in many developing countries, especially China,[51] where it is estimated that up to 200,000 hectares will be planted with QPM by the end of 2000.

With the success of Mexico's QPM outside the country, the scene was set by the late 1990s for CIMMYT to be resurrected and endowed with new funds from Mexico and international organizations as well as private foundations. But redemption could only come after the failed Director General Winkleman had

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[50] Ibid.

[51] <www.cimmyt.org/whatiscimmyt/AR99_2000>

been "promoted" up and out of CIMMYT, and after the CIMMYT Board member who had led the drive to discredit QPM had been "removed."[52]

Ironically, then, Mexico could finally begin to benefit from its own QPM, and in March 1999 CIMMYT's Director General Timothy Reeves and the Mexican Minister of Agriculture Romárico Arroyo announced an Accord to attempt the cultivation of 2.4 million hectares of land in 2000 in order to obtain 8 million tons of QPM corn.[53] Under this plan, both CIMMYT and Mexico's INIFAP (National Institute of Forestry, Livestock, and Agricultural Research) are administering a new QPM "kilo por kilo" program which allows farmers to trade an equal amount of old maize seeds for new improved QPM seed.

By the end of 2000, however, it had become clear that the CIMMYT-Mexico Accord will take years to implement for two reasons: On the one hand U.S. corn prices collapsed and Mexico's

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[52] Borlaug Oral History Interviews with James Wilkie, May and July 1999.

[53] *Excélsior*, March 26, 1999. See also Carroll [-Boardman], "Sowing the Seeds of the Green Revolution."

corn imports from America surged. On the other hand, most Mexican farmers remain conservative and hard to convince that they should change their traditional seeds for the new varieties of QPM.

The QPM goal of plantings will be difficult to reach in Mexico because the country still does not have an effective agricultural extension service such as the one that CIMMYT had hoped to help the Mexican government establish in the 1940s (but could not owing to government lack of organization and funding), or such as the ones that Nelson Rockefeller had tried and failed to help governments establish throughout Latin America from the 1940s through the 1960s.

Conclusion

This chapter has shown how the Green Revolution fostered by the Rockefeller Foundation has been a worldwide success, yet raised serious questions about the U.S. foundation ethic that calls for allocating funds only to "prime the pump" and then move on to new areas that need to be primed, with maintenance funding left to others.

With such programs as that of CIMMYT, however, where new breakthroughs are constant over the long term, the question that foundation founders of CIMMYT (such as Rockefeller) and county founders of CGIAR (such as the USA) must ask themselves:

> "Is the pump ever fully primed?"
>
> "Once the original founders 'move on' to new areas, and
>
> > if all funders only want to fund the 'new,'
> > who is left to fund such important international,
> > operating NPPOs such as CIMMYT?"
>
> "If quality research takes decades, are
>
> > grant-makers willing to be patient?"

The Green Revolution launched by the Rockefeller Foundation in 1943 has taken nearly six decades to bring to fruition. Indeed, the problem that most concerned former President Lázaro Cárdenas, when he sought out Henry Wallace to seek help in revitalizing the failed ejido system that he had inherited to Mexico, was that of corn production. And wheat production would be the breakthrough of the First Phase of the Green Revolution, which had greater benefit to countries such as

India and Pakistan. Not until 60 years later will Mexico's corn problem be begun to be resolved as part of the Second Phase of the Green Revolution, the pump for which must be primed anew.

Certainly the centralized way in which Rockefeller Foundation funds have reached CIMMYT in Mexico have not helped when the hard decisions have to be made to reduce funds for one the most important of all Rockefeller programs ever initiated. Apparently the Foundation's central office bureaucrats in New York City fear turning over money to an increasingly complex agricultural research structure that the Foundation can not even attempt to micromanage, as all centralized foundations are now wont to do. Through its public health and food research, the Rockefeller Foundation has indeed successfully met the goal of its charter to "promote the well-being of mankind throughout the world." It now may want to invest heavily once again in CIMMYT and CGIAR to further the goal of world staple food production in the new era of the Second Phase of the Green Revolution. Responsible "fathers" do not abandon their children or leave them nearly starved, especially when the children are themselves seeking to feed poor people around the world.

CHAPTER 4

THE WORLD'S NATIONS RUSH INTO FREE TRADE BLOCS[1]

By the 1980s we have seen that the rise of Fast-Track Globalization brought to an the end the long era of Gradual Globalización (1571-1981), and it did so by taking free trade to ever more parts of the world in two ways:

- Nations have been joining Free Trade Associations (FTAs) that have usually existed in "virtual terms" before they are officially negotiated by the nations involved.
- Companies that seek to benefit from breakdown of international trade barriers have been moving

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[1] Parts of this chapter build upon and go beyond my work (published with James W. Wilkie) as "Globalización *Fast-Track* y el Surgimiento de Areas de Libre Comercio (ALC) y Corporaciones Transglobales (CTG) Virtuales," pp. 307-359 in Oscar González Cuevas, ed., México Frente a la Modernización de China, México, D.F., Universidad Autónoma Metropolitana-Azcapotzalco y Editorial Limusa, 1999.

beyond the concepts of Trans-National
Corporations (TNCs) and Multi-National
Corporations (MNCs) to
form Trans-Global Corporations (TGCs).

In spite of some globofobiac intellectuals and popular protests against FTAs, most national governments of the world have recognized that if they do not join FTAs, they will be out on the opportunity to capitalize on the process of Fast-Track Globalization that has swept the world since the 1980s. To develop this argument, I divide this chapter into the following sections:

A. Introduction
B. Analysis of Globalization
C. FTAs, Global Standards, and the WTO
D. Mexico as Leader of World Free Trade
E. "Non-National" Commerce
F. Trans-Global Corporations
G. Human Ability of Nations to Compete:
   The Index of Human Development
H. Economic Ability of Nations to Compete:
   GDP in PPP Terms versus GDP
I. Further Thoughts

A. Introduction

The spectrum of activity under Fast Track Globalization can be seen in the following 10 examples:

Mexico, member of APEC, leads the
movement to establish the FTAA—
Free Trade Area of the Americas
even as it signs in 2000 with EU that regions first FTA.
Chile has limited itself to associate membership in
MERCOSUR because it would have to raise its tariffs to the
MERCOSUR level, cut off its free trade agreement with Mexico,
and abstain from joining NAFTA on its own.

Argentina signs with Mexico in 1998 an FTA,
which Brazil challenges as breaking the
MERCOSUR's
requirement that its members
cannot negotiate separate
FTAs. the Americas.

Black Sea Economic Cooperation Group,[2]
far distant from MERCOSUR, but
including Mercosur meets since 1997
with EU nations in Romania

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[2] The Black Sea Economic Cooperation Group (BSEC-11, including Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine) and observer states (Austria, Egypt, Israel, Italy, Poland, Slovakia, Tunisia) was established to consult on sea-river transport and commercial exchanges.

and Ukraine to analyze mutual problems concerning sea and river transportation, as well as reorganization of commercial exchanges.

Romania, the former Soviet anchor for COMECON's south, seeks since the mid-1990s to join NATO as the anchor for the EU border facing Balkan volatility, Black Sea oil transportation issues, and Muslim anti-west activity. At the same time that Romania seeks entry to the EU, it opens its market to low cost food from the Islamic Republic of Iran.

China, member of APEC, gains with accession of Hong Kong July 1, 1997, a second vote in APEC and becomes APEC's fourth most important economy; and China negotiates with Boeing and Airbus to establish its own multi-national airline industry even as most nations see their Multi-National Corporations (MNCs) and Trans-National Corporations (TNCs) become Trans-Global Corporations (TGCs)

India, which has its own Ocean group, seeks also to join since the mid-1990s the trade group of the Pacific Ocean—APEC

South Africa, leader of the South Africa Development Community, seeks since the mid-1990s to join also the Indian Ocean Development Group.

The world's countries rush in the 1990s to join FTAs—see Table 4-1.

British Columbia and Alberta, alienated by the Quebec-Ontario struggle over how Canada is to be ethnically defined, joined in the 1990s with Oregon and Washington, to form Cascadia--a transborder economic sub-regional bloc.

"Trans-Global Corporations" form worldwide "virtual mergers" that since the 1990s increasingly exist only in cyber space rather than in any nation--see Table 4-2.

B. Analysis of Globalization

To understand the role of fast-track trade, we must go back to the era of Gradual Globalization, which began with the 15th century when exploration and development of trade routes began. Modern global capitalism began in 1571 when the Spanish empire established the City of Manila and received its Galleons carrying silver enroute to China--for the first time in history, Europe, the Americas, Asia, and Africa were trading directly and the growth of the world market system underway.[3]

Gradual Globalization gained currency with the concomitant growth of mercantilist ideas and the establishment of colonial

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[3] On the role of the Manila Galleons, see economist Dennis O. Flynn, *World Silver and Monetary History in the 16th and 17th Centuries,* Brookfield, Vermont: Alder Shot UK, 1996.

empires. Its triumph came in the free trade led by 19th-Century Liberals, who used their policy to defeat internally-oriented colonial systems of political domination such as that of Spain to establish what some Liberals called "benign economic colonialism," for example the British-Argentina relationship. The end of the 19th-century was evermore complicating ideological concepts complicated because Positivism and Social Darwinist thinking, which especially led Liberals to believe that principles of natural science could be applied to social science, heavily influenced them. Positive rules and the survival of the fittest justified the rise of monopoly--should not the fittest survive--and then the rise of the statist dogma.[4]

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[4] Liberalism has always been confusing to understand because Liberals of the 19th century demanded active state intervention that provided economic subsidies to the private sector even as they demanded state regulation of strict social morals. By the last quarter of the 19th century, most Liberals had applied Darwinist thinking to organize such governments as that of Porfirio Díaz in Mexico (1876-1911) as well as to justify the Mexican Revolution of 1910 and subsequent statism in the name of the masses. Thus

The year 1913 marked the apogee of Closed Globalization.[5] British companies carried from England textiles to the world and traded everywhere foreign goods: for example, tea and silk from China, ivory from Africa, pearls from the East Indies, spices from the West Indies, and opium from India. British banks financed the

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Liberals of the 20th century came to stand for statism in economic terms even as they were divided on the extent of permissible social freedoms: Some would rigidly control the masses to use their political support, others could allow the masses to experiment with divorce, abortion, and even homosexuality. For an early analysis of evolution of Liberal economic thought in the world, see the history of capitalism by Karl Polanyi, *The Great Transformation*, Boston: Beacon Press, 1944. For a case study analyzing the many varieties of 19th-century liberalism in Mexico, see Enrique Krauze, *Siglo de Caudillos: Biografía Política de México, 1810-1910*, México, D.F.: Tusquets Editores, 1994.

[5] According to economist Paul Krugman, quoted in Marcus W. Brauchli, "Echoes of the Past: The Roots of the Global Economy Go Back Many Centuries," *Wall Street Journal*, September 26, 1996.

construction of U.S., Argentine, and Australian railroads. British foreign trade accounted for about half of its GNP and its overseas investments were half its internal assets.

Three events brought crisis to the world market system: World War I (which disrupted world trade), the 1929 collapse of Wall Street (which encouraged countries to seal themselves off from the busts--and booms--of capitalism), and World War II (which caused the collapse of Europe's colonial empires). With the breakdown of the world market in the 1930s, 20th-Century Liberals generally took two different paths for the following thirty years. In the USA, "New Deal Liberals" nationalized little but regulated much.[6] Outside the USA, "Liberals" nationalized private industry rather than try to regulate it, making industries public. Such Liberals often became democratic socialists and made free trade illegal in order to construct internally-oriented national trade dominated by state capitalism that would be developed in the spirit of Soviet Communism if not Nazi National Socialism.

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[6] See John Kenneth Galbraith, *American Capitalism. The Concept of Countervailing Power*, Boston: Houghton Mifflin Company, 1952.

Such socialists confused their citizen-followers, as well as themselves by claiming to represent the popular will and "demand" for forced collectivization based upon mythical communally-oriented pasts that never existed.

The role of intellectuals in inventing mythical pasts to justify socialism and communism can be judged in two very different ways. On the one hand, it can be condemned as involving the criminal misuse of "history" to justify ideological actions. (People are "mobilized" against individual imagination by "intellectual thugs" who have been and remain willing to justify terror to achieve selfish ends in the name of "central planning." On the other hand, the role of such intellectuals can be seen as having unwittingly left mass consumption to the West, thus keeping low the cost of raw materials, especially including petroleum products, needed for the West's rapid modern development. In this latter view, the self-inflicted low consumption of collectivism in areas such as Eastern Europe, Russia, China, and Africa led to "anti-capitalist mass poverty" as opposed to the West's "capitalist mass wealth,"[7] wealth defined here as high consumption coinciding with the individual opportunity needed to propel innovations leading to rapid growth.

That "rational" governments could shield their people behind walls of high-cost, (backward, and inefficient production, avoiding world competition through high tariffs, outright restrictions, and use of quotas and licenses to inhibit imports) were of little consequence to "populist" leaders. Such leaders constituted a "New Class" who did not need to own industry as long as they could direct it, siphoning off subsidies for themselves in a bargain with the state workers (the main function of whom

[7] Although after 1929 capitalism became "mixed capitalism" because it incorporated the social safety net advocated by its enemies (much as socialism and communism adopted capitalism as a state function), since the 1989 Fall of the Berlin War the concept "mixed" has been largely dropped for two reasons: Analysts seek to emphasize the anti-state trend that led to the West's victory in the Cold War and promote the importance and extent of economic deregulation as well as privatization.

was to resist changes in production as being disruptive of reward to seniority rather than merit).

New Class leaders in countries such as Mexico (for four decades of protectionist tariffs,) and Brazil made corrupt alliances that in effect involved "crony capitalism." In countries such as Romania, New Class leaders also simply used state funds as if they were their own, as many have continued to do so in Russia and China.[8]

Such scams of Gradual Globalization were undertaken in the name of the masses, who were made to pay high prices for shoddy and outdated goods and services, the theory being that anti-capitalist nationalism would purportedly benefit all workers and peasants. Even the public solution to engage in the smuggling of modern products was advantageous to government officials. They siphoned-off millions of dollars in expensive bribes and/or simply

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[8] Much as did the "rightist" dictators Trujillo in the Dominican Republic and Somoza in Nicaragua, who took off their government hat to put on their private one. Or same as Hugo Chávez of Venezuela, or Ion Iliescu of Romania, democratically reelected in 2000.

"legalized" smuggling by issuing to themselves and their friends "special permits" to import low-cost goods that could be bought cheaply and sold dearly, thus also putting into their own hands control of the modern commercial sector. These are being valid for Eastern European, Asian, and Latin American countries.

With Western political leaders realizing by 1960 that closed national markets could not grow (and with the nascent European Community model in mind), they adopted the idea of directed regional blocs, such as the Latin American Free Trade Area. This idea was attractive because it gave employment in developing countries to intellectuals who thought that, as enlightened governors, they could plan everything rationally including the activity of the private sector to the extent it existed as statism triumphed or seemed to "triumph" in the 1970s. Intellectuals who justified the role of closed trade blocs could point to Russia's Council on Economic Assistance for Eastern Europe (COMECON) as having functioned well for the Soviet orbit.

In reality, statist-oriented intellectuals never did get to govern as a group anywhere, as they had hoped in countries ranging from England and France to Argentina and Cuba (nevermind Russia and Romania where ruling political dictators claimed to be intellectuals governing in the name of the masses). Rather the mass of intellectuals justified the right of professional politicians and sometime generals to govern, often without mercy.

Gradual Globalization sought first to gain and hold national wealth and later to do the same for nations and world regions intent on building internal trade among like-minded "rational" governments. Would not the consolidation of small- and medium-size countries into large population blocs yield the basis for producing goods with the economies of scale needed to reduce prices and stimulate sales being lost to legal and illegal smuggling? The answer for developing countries was: "No," and not only because the general population of such groupings as COMECON and CACM were too poor to buy much at any price, but because the people with money wanted to buy the latest model of what they had seen on television worldwide by the 1980s.

Communications undermined Gradual Globalization and communism by 1989. Beyond TV, the spread of the copying machine in Russia and its Eastern Bloc helped create the implosion of the Soviet Union; the introduction of the FAX machine in China helped dramatically in 1989 to expose the myth of Maoism. The mushrooming of computer communication via the internet in Serbia helped local citizens in 1997 to make some democratic gains against the wishes of Slobodan Milosevic, would-be "Savior of Greater Serbia."

C. FTAs, World Standardization, and the WTO

The dramatic rise of FTAs modeled on NAFTA, and the EU, is suggested in the rise of virtual trade blocs, as is delineated in Table 4-1. We see the emergence of 12 trading regions that have come into existence since 1973 without regard to formal date signed or still to be signed in the future. Some of the "blocs" remain as a concept rather than a fact. NAFTA has provided world leadership in establishing the rules that Fast-Track Globalization needs to facilitate the flow of for-profit funds (be it in investment or profit remittances) through banking, accounting, commercial, and quality-control standards. With the 1997 NAFTA-EU agreement the import goods are tested only once (thus ending the costly process of testing by each bloc),[9] the pressure is now on countries such as Japan and China to eliminate duplicate testing of import goods (already meeting world standards elsewhere) that is mainly designed to prevent foreign competitors from entering their internally-oriented domestic markets.

Because Fast-Track Globalization is continually being reminded of how the excesses of "euphoric capitalism" brought about both the collapse of Wall Street in 1929 and withdrawal of nations from the world market, I do not believe that its architects will be so short-sighted as to long ignore adjustment policies needed to save the new world market. Nor should critics of

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limit pressure on currency values and interest rates) but the migrant poor can wire their paycheck home instantly and inexpensively without regard to national borders and problems of the mails.

[9] Excluding for the time being automobiles, which require more detailed negotiation, but including pharmaceuticals, which limits the unbridled power of the U.S. FDA to block the U.S. use of medicines proven in Europe to be effective.

TABLE 4-1

POPULATION OF 12 VIRTUAL TRADE BLOCS,[a]
1973, 1983, 1993

Regional Blocs‡	Million 1973	1983	1993
APEC-21	1,763.6	2,046.2	2,342.6
ASEAN-10	307.4	381.2	460.0
CIS-5	208.4	221.3	232.2
EU-15	345.8	357.5	369.0
EU-25 (Inc. CEE-10)	442.2	461.4	475.2
NAFTA-3	289.7	331.4	376.8
MERCOSUR-6	148.0	182.2	218.5
SAFTA-10	203.5	254.1	309.0
ACS-25	132.8	167.8	208.3
FTAA-35	536.0	636.6	747.5
SAARC-7	743.4	937.9	1,179.8
SADC-12	74.4	98.8	128.9
A. Pop. in FTAs[b]	3,552.9	4,162.7	4,843.6
B. *World Pop.* [c]	*3,860.0*	*4,685.0*	*5,544.0*
C. Percent A/B	*92.0%*	*88.9%*	*87.4%*
D. ARAB-18	129.6	172.3	230.0
E Percent D/B	*3.4%*	*3.7%*	*4.1%*

‡ Regional blocs (with number of member countries) are defined here as if in existence since 1973 without regard to formal date signed or still to be signed in the future. Some countries belong to several blocs, e.g. Mexico to NAFTA, ACS, and APEC.

a. Excludes blocs stunted in growth, e.g. CACM, CARICOM, SELA—these areas are included here in ACS.

b. Country populations are counted only once, even though countries may belong to more than one bloc.

c. Blocs do not add to World total because of countries which do not belong to a present or proposed bloc.

(Table 4-1, Continued)

Blocs	Defined
ACS-25	Association of Caribbean States
APEC-21	Asia Pacific Economic Cooperation
ARAB-18	Arab-18 Non-Free Market Countries (Not an FTA bloc)
ASEAN-10	Association of South East Asian Nations (ASEAN FTA in-the-making)
CEE-10	Central and Eastern Europe
CIS-5	Confederation of Independent States
EU-15	European Union-15
EU-25	European Union-25 (including Central & Eastern Europe--CEE)
FTAA-35	Free Trade Area of the Americas
NAFTA-3	North American Free Trade Area
MERCOSUR-6	Southern Cone Common Market (including Bolivia & Chile as "observers")
SADC-12	South African Development Community
SAFTA-10	South American Free Trade Area
	SAARC-7South Asian Association for Regional Cooperation

Neo Liberalism ignore the fact that (although the end of the failed welfare systems in the USA and England appears to be undertaken in a draconian way at the expense of the infirm, the youth, and the aged poor), great need has existed for reform to eliminate flawed social welfare systems. In America, for example, husbands had to leave home in order that the state funds his family--legislation clearly contributing to social breakdown. Further, it has become necessary to halt the rise in number of persons otherwise employable except for the fact that unemployed benefits make it too easy to avoid any work. Where some observers see such reform as dismantling "brick-by-brick" the hard-won public spending and regulations that have tempered the extremes of capitalism,[10] I expect that some welfare benefits will be restored.[11]

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[10] See Robert Kutter, "A Warning from a Consummate Player," *Los Angeles Times,* January 27, 1997.

[11] But perhaps only with de-privatization of American health care, which since the late 1980s set up Health Maintenance

Indeed, the architects of Fast-Track Globalization already are taking several steps through the recently established World Trade Organization (WTO) and its member countries to require cooperation among trade blocs.[12] On one hand, they are harmonizing standards for quality and establishing arbitration of trade disputes, definition of prohibited government subsidies, investigation of dumping, and implementation of standard rules for accounting, banking, and testing. On the other hand, they are establishing codes of conduct to end the use of "sweatshop" labor by transnational companies.

Organizations (HMOs) that earn profits by collectivizing patients (gathered then together in a "collective") and not maintaining health. HMOs now short-change patients by paying taxes as well as high executive salaries, siphoning funds away from health programs formerly run as NPPOs wherein "management" did not mean "rationing" of health care.

[12] Jarvie, William D., "A Web of Free Trade Agreements is Being Spun; Becoming Less Commercially Dependent on the U.S. Is the Goal," *MB*, October 2000, p. 16.

Meanwhile, as we see here in other chapters, the NGO sector is establishing itself to expose injustice and demand social responsibility by the private as well as governmental sector, especially in formerly communist countries where civil society did not exist or has just recently reemerged. Indeed, Romania has established since 1990 at least 3,050 NGOs,[13] more such organizations than has any country in Latin America since NGOs became widespread in the early 1980s. Such organizations rely on volunteerism as well as upon grants. With regard to funding, there is a need to establish the free flow of foundation grants from their huge financial pools in the USA, Japan, and Western Europe to NGOs worldwide. Because it is increasingly clear to all that neither central governments nor provincial governments can solve many problems, the need to establish community foundations led by distinguished citizens becomes evermore

[13] Of 11,000 questionnaires sent in 1996 to Romanian NGOs, 3,050 had been registered by the time that the Fundatia Pentru Dezvoltarea Societatii Civile published its *Catalogul Organizatiilor Neguvernamentale din Romania, 1997,* Bucharest, ROMCARTEXIM.

important. The community foundation allows long-term planning that goes beyond the frequent changes in government, which so often result in aborted programs.

If the strongest example of Fast-Track Globalization to date is found in NAFTA and the EU because they push standardization, in a number of areas. There is globalization of trade as well as a globalization of financial markets and globalization of law. The weakest example is that of MERCOSUR. Although MERCOSUR claims implicitly to develop in the mold of Globalization, in my view it represents Closed Globalization. Thus, many Brazilian leaders are proposing to use Brazil's tariff-protected MERCOSUR market to dominate an internally-oriented South American market that would inhibit world competition.[14]

At the same time Brazil opposes Chile's joining NAFTA because it weakens MERCOSUR and Brazil's attempt to make it the leader in establishing the proposed Free Trade Association of the

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[14] "MERCOSUR, Aún Lejos de la Integración", *El Financiero*, December 4, 2000, p. 40.

Americas (FTAA).[15] Although those same Brazilian leaders claim that they favor joining the U.S.-Mexico FTA, they realize that Mexico has become the bridge between North and South America, which is hardly possible for Brazil given its geographic positioning.

D. Mexico as Leader of World Free Trade

During the 1990s Mexico positioned itself to become world leader in signing major FTA's, the springboard for exports to the North America and to South America for all the countries with which it has FTAs. In implicit opposition to MERCOSUR, Mexico is using bilateral and regional agreements with Latin American countries to lay the basis for the FTAA (Free Trade Agreement of the Americas,) a basis that the USA can not help to build because it is trapped in petty partisan political struggles between the Republican Party and Democratic Party.

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[15] Anthony, Boadle, "Western Hemisphere Summit Could Help Free Trade Block," *Mexico City News*, December 1, 2000, p. 34.

TABLE 4-2
MEXICO'S FREE TRADE AGREEMENTS (FTAs)
SIGNED IN THE 1990s
AND BEING NEGOTIATED IN DECEMBER 2000

Signed as a Member Organization

NAFTA (Mexico-USA-Canada)
Group of Three (Mexico-Colombia-Venezuela)

Signed with Trade Blocs
European Union (15 nations)
European Free Trade Association (Switzerland, Norway, Iceland, and Liechtenstein)
Northern Triangle (El Salvador, Guatemala, Honduras)

Signed as Bi-Lateral FTAs

Middle East: Israel
Latin America: Bolivia Chile, Costa Rica, Nicaragua

FTAs Being Negotiated with Trade Blocs

ACS (Association of Caribbean States among 25-countries)[1]
APEC (This Geo-Political Organization is Moving Toward FTA Status among 21 countries)[1]
MERCOSUR (Argentina, Brazil, Paraguay, Uruguay)

FTAs Being Negotiated with Bi-Lateral Status

Asia: Japan, Singapore, and South Korea
Eastern Europe: Romania
Latin America: Argentina,[2] Ecuador, Panama, Uruguay[3]

FTAs In Feasibility Analysis for Bi-Lateral Negotiation

Asia: China
Latin America: Brazil, Peru

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1. Negotiations are on "Slow-Track."
2. Pre-Mercosur Trade Agreement, to which Brazil objects.
3. Agreement exists that gives 90% of goods free-trade status.

SOURCES:

1. Olga M. Lazin, "NAFTA and The European Union Compared" in *Statistical Abstract of Latin America (SALA),* Vol. 30, Part 1, pp. 1208-1220, translated and published as Bloques Emergentes de Comercio Internacional: Comparación Entre el Area Libre de Comercio de Libre Comercio del América del Norte," in *Carta Económica Regional* (Universidad de Guadalajara, May 1996), pp. 29-36, and *Mexico & the World Web* Journal, Issue 3, May 1997<www.netside.net/mexworld>.
2. See also the first scholarly analysis of Mexico's role in laying the basis for the FTAA, see James W. Wilkie and Olga M. Lazin, 'Mexico as Linchpin for Free Trade in the Americas," in *SALA, Vol.* 31, Part 2 (1995), pp. 1176-1204; and in Carlos Pallán Figueroa et al., eds., *Mexico and the Americas,* México, D.F., ANUIES, 1996, pp. 23-61.
3. See the Mexican Government's web site on its FTAs at <www.secofi-snci.gob.mx/Negociaci_n/negociaci_n.htm>.
4. Jose, Antonio Avila, "The Zedillo Years: First Pain, Then Gain," *Mexico City News*, December 1, 2000, p. 36; and William D. Jarve, "Mexico Globalizing," *MB*, October 2000, pp 16-22.

Thus, Mexico has achieved the following FTAs: in South American with Bolivia, Chile, Colombia and Venezuela; and it is negotiating FTAs with Argentina and Uruguay. In Central America, Mexico has FTAs with El Salvador, Costa Rica, Honduras, Nicaragua; and it is negotiating with Panama. In the Caribbean it is a leading force in developing the 25-country Association of Caribbean States, which is bringing together the countries in and bordering upon the Caribbean Sea, the goal being to combine small countries for strength in negotiating with America.

But Mexico's larger strategy has been to sign FTAs with all parts of the world, as is shown in Table 4-2. Mexico has focused it FTAs to become a linchpin for exports to all countries with which it as agreements as well as to the USA. Mexico is the first and only country to achieve a trade agreement with the European Union. That the EU chose to sign its first overseas agreement with Mexico makes sense because Mexico is the only country in the world to belong to NAFTA, APEC, and have built a network of FTAs in Latin America.

Mexico's great success in establishing so many FTAs, combined with its geographic position in the world, has made Mexico a hub for world industrial investment. Such investment sees its exports facilitated to all countries with which Mexico has free trade. Although the USA remains Mexico's biggest source of investment income and is its biggest export recipent, since the mid-1990s this situation is changing. U.S., European, and Asian investment in setting up plants in Mexico to export also to the countries listed in Table 4-2.

Hence, an U.S. or Asian company which does not have free trade access to Latin America under the tax laws of its own country, can acquire free-trade access be establishing their industrial plants in Mexico. Even China, Mexico's fierce competitor, has recognized the advantages of the Mexican maquiladora industry (an in-bond assembly-for-export program,) particularly the electronics manufacturing.[16]

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[16] Camila, Castellanos, "As International Competitors, Ties Between China and Mexico Are Not Always Amicable," *MB [Mexico Business]*, October, 2000, p. 26.

Only Africa is not yet represented in Table 4-2, a problem that is owing to Africa's own lack of development and ability to compete in the world. The African Mexico's strategy, which emerged implicitly rather than explicitly, has overcome two problems that complicate national policy in the era of Fast-Track Globalization. First, because the nationalist antipathy to foreign direct investment and inflow of portfolio funds has vanished almost everywhere at once and there is not enough private capital to meet all the demands for it,[17] countries must develop unique offerings to compete, and Mexico has done so.

Second, the establishment of the WTO on a sound footing is complicated by the entry of China as a maquila center that hopes to compete with Mexico not only by investing in Mexico but by

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[17] The change of world wall-graffiti slogans (from "Foreign Exploiter Go Home!" to "Foreign Investors Come Back with Hi-Tech to Create Jobs and a Modern Work Force!") means that where prior to 1989 there were too many funds available and too few places to go, since 1989 the obverse is true.

attracting industrial investment because the basic work force costs 75% less than in Mexico.[18]

But Mexico, as one of the last countries required to approve China's admission to WTO, used its skills to negotiate an opening of the Chinese market to Mexican sugar.

About free trade in general, Ernesto Zedillo who as President of Mexico (1994-2000) set up an independent electoral system governed by Civic Society and permitted it to count the votes that ousted his own Official Party after 70 years in power, used his last year in office to speak out against opponents of FTAs. Thus he said at the 2000 U.N. Millennium Summit in New York City:

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[18] The "nationalist-wing" of U.S. Congress (which is concerned that "God-less China has built its huge balance of payment surplus by using slave-labor hidden in a closed market)" and the Congressional "humanist-wing, (which is concerned that "China's economic growth is built upon human rights violations") have been defeated by the internationalist-wing, which won approval for Chinese membership in the WTO.

From first-hand experience, we Mexicans know that globaliz0ion is not the problem. In fact, it is the reverse: globalization can be part of the solution. It must become
a positive force for the entire world' population in solving its real problems poverty, marginalization and inequality. . . .

Inequality, both among and within nations has deepened, for while some are participating in globalization, others are not, or cannot. . . .

[Some developing countries do not profit from globalization because they do not have political and freedom.] Others, even enjoying democracy, cannot participate as the lack of education, health, and nutrition prevents them from taking advantage of globalization's potential. . . .

[Mexico] enthusiastically adheres to the Millennium Declaration [--a sweeping commitment to human Proges and welfare that requires a broad reform of The U.N.] to make it more democratic and representative, more efficient and useful for all, to attain greater legitimacy and authority before the people of the world.[19]

Having made many of the same points at the 2000 APEC Conference, Zedillo's stature as leader of free trade was recognized almost immediately after leaving the presidency of Mexico on December 1, 2000.

[19] *Mexico City News*, September 9, 2000.

The United Nations announced on December 15 that Former President Zedillo would chair a blue-ribbon commission of world leaders to recommend new ways to finance development in poor countries amid recent decreases in aid by the world's donor nations.

Thus the U.N. announced that:[20]

> Ernesto Zedillo is to head the panel, whose members will also include former U.S. Treasury Secretary Robert Rubin, former French Finance Minister and President of the European Commission Jacques Delors and others.
>
> The panel is expected to present recommendations by May [2001] on initiatives that governments, businesses and international institutions can take in trade, aid, debt relief and investment.
>
> Official government assistance, once the bulk of all development aid, has fallen dramatically over the past decade. It currently makes up only 18% of financial flows to developing economies.
>
> In 1990, the figure was 56%, U.N. statistics show.

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[20] <http://interactive.wsj.com/archive>, December 15, 2000. In Mexico, critics of Zedillo objected that this appointment is ironic in light of the fact that his presidential administration drastically short-changed social welfare programs.

The decrease has come despite unprecedented growth in trade and investment. Much of that growth, however, has been concentrated in the industrialized world, while the developing world still languishes in poverty compounded by debt and trade barriers.

The U.N. estimates that the cost to poor countries of high trade tariffs--in the neighborhood of $100 billion to $150 billion--exceeds the aid they receive.

The panel's recommendations are to be forwarded to a special U.N. meeting on financing for development in early 2002 to be attended by governments, the International Monetary Fund, the World Bank and the World Trade Organization.

The other panel members include: Abdulatif Al-Hammad of Kuwait, president of the Arab Fund for Economic Development; David Bryer of Britain, director of OXFAM; Mary Chinery-Hess of Ghana, former deputy director-general of the International Labor Organization; Rebeca Grynspan, former Vice President of Costa Rica; Majid Osman, former finance minister of Mozambique; Manmohan Singh, former Indian finance minister.

This U.N. Commission on Financing the Globalization of Underdeveloped Countries in my view should be made a Permanent Commission, the problems hardly possible to identify fully by May 2001. Such a recommendation will need to take into account the history of philanthropy as well as the problems of Virtual Trade

Blocs (discussed above) and "Non-National Trade" (discussed below).

E. "Non-National" Trade

Meanwhile the China/Malaysia argument in favor of the "Asian Model" seems since the Asian economic crisis of 1997-1998 to be in its death throes. In that dubious theory the "Asian model," be it expressed in Singapore, Jakarta, or Beijing, argued that their societies value "opening economically" more than opening to human and civil (including democratic) rights.

The rush of nations to join multinational blocs and to encourage transnational private corporate activity is prodded in all countries by the fear of the educated and upwardly mobile modern technical labor force that if they do not gain the foreign capital needed to make the high-cost yearly updates in computer and high-technology equipment and services, their nation will not be able to become a player in the Globalization process, leaving them in the zero-sum-game of subsidies for primitive production and unproductive labor.

In this rush to create FTAs, ASEAN has agreed to discuss expansion under the following formula: ASEAN 10+3, to begin in 2000 to incorporate China, Japan, and South Korea. Separately, China has indicated its desire to sign a FTA with ASEAN, just as ASEAN has expressed its interest in having China join it.[21]

To launch the possible expansion of ASEAN, in 2000 its members its members signed the "ASEAN" FTA pact to link their region with high-speed Internet connections and eliminate duties on information-technology goods and services by 2010. Singapore Prime Minister Goh Chok Tong laid out the summit's objectives after meeting with ASEAN leaders and their counterparts from China, Japan, and South Korea: "A free-trade zone and economic cooperation will be the key areas, but certainly peace and stability is the ultimate goal."[22]

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[21] ASEAN presently includes Singapore, Malaysia, Indonesia, the Philippines, Thailand, Cambodia, Vietnam, Laos, Myanmar and Brunei.

[22] <www.latimes.com/business/20001125/t000113045.html>, from *Los Angeles Times,* November 25, 2000.

Those who simplistically still view the world in traditional terms of investment capital centers can no longer speak in conspiratorial terms of a few Atlantic financial centers influencing the world (New York, London, Berlin)[23] but must now include Seoul as well as Tokyo and Taipei in the equation. Until the South Korean crash of 1998, Daewoo's investments around the world had begun to rival the U.S. giant General Motors as the world's

[23] Paris (officially preoccupied as it is with its out-dated Minitel Internal Information System, with its fear of using the English-language basis for world Internet communication, and with its mis-focus on its lost and poverty-stricken African "interests") has hobbled the country's private sector and taken France out of much world financial competition. Further, France's insistence on the awkward multi-national funding for Air Bus (involving France, Britain, Germany, Spain through each country's main aircraft manufacturer) compromised until privatization in 1999-2000 the EU's biggest single business and largest exporter. France's refusal to use standardized arms has rendered impotent the EU's attempt to achieve a common military and defense policy or plan. (See *The Economist,* June 14, 1997).

largest producer of autos and vans. Even though Daewoo now seek to join with a world partner such as GM or Ford Motor.

In the new world of high-tech industrial investment it was not U.S. and German companies that expanded most quickly and broadly in automotive and electronics production throughout developing areas as Eastern Europe, Russia, and Mexico. Rather it was the “Korean” company Daewoo, which since the early 1990s has been the most dynamic. Daewoo’s strategy has been to turn the failed communist plants of Romania and Russia, for example, into producers of the compact autos and small vans needed to replace the shoddily produced Dacias and Ladas of yesteryear. Those old autos, only slightly better than the East German Trabant, have been breaking down by the thousands, thus opening the way to the imaginative Daewoo strategy of leasing and selling on credit--the 2 passenger

van is especially attractive in Eastern Europe where every other family seems to have reliable need to transport goods for its new small business. Here Daewoo has adopted proven U.S. credit policies to stimulate local economies in which it invests. Such dynamism led many observers to ask: "Where are the U.S. automotive firms?"

Beyond Daewoo's penetration of national markets ranging from Romania to Poland, Russia, and Mexico, everywhere we see new combinations of international investment exemplified in the following:

- Herdez of the USA is canning "Mexican Mix" vegetables in Poland;

-Makers of coffee machines such Europe's Krupp and Braun of Germany and Cuisinart of France are using their European designs to produce in Mexico for domination of the U.S. market as Mexican exports; Procter Silex of Canada is producing in Mexico to export to the USA. Toastmaster competes with Mexico by producing in China; Mr. Coffee produces in the USA but uses mostly foreign components. (Only Black & Decker designs and produces in the USA.);

-Südmilch of Stuttgart is manufacturing yogurt in Poland for sale also in Germany, Hungary, and Romania;

-Star Foods of Poland is vacuum-packaging almond croissants for six-month sale in all of Eastern Europe with labeling in Hungarian, Greek, and English as well as Polish;

-Interbrew of Belgium is making and bottling the Austrian Eggenberger Hopfen König beer in Baia Mare, Romania;

-Papastratos International of Holland has franchised the manufacture in Russia of "President, Fine American Blend" cigarettes, also for export to Eastern Europe, without stating that they are produced in Russia.

Having spent time in Asia as well as Europe in the last year, I observed that Eastern Europe is more open to free trade than Western Europe, NAFTA, or APEC. The following examples of items available at low cost in Eastern Europe stand out:

-Turkey's Pakmaya Bakers Yeast (labeled in Greek, Romanian, and Russian as well as in English, Syrian, and Turkish);

-Thailand's "Riviera" Canned Tuna;

- England's West Goods Canned Salmon Produced in Canada;

-Italy's American Garden Peas;

-Lebanon's Scottish Castle Whiskey;

- Poland's Rasputin Vodka produced in Germany for export to Eastern Europe and to Russia;

-China's Xanadu USA Flavor Peanuts;

-France's Royale Cigarettes;

- Bulgaria's Bulgar Tabac Cigarettes;

- USA's Camel, Kent, L&M, Lucky Strike, and Viceroy Cigarettes.

- Marlboro will no longer import its cigarettes to Romania but manufacture them there--the worst type of foreign investment.

Romania appears to be emerging as the first "non-national country" in the world because it is so open to imports. Where countries such as Mexico and China that are always concerned about the viability of domestic industry, Romania does not have the same concern. The dictator Ceausescu so encouraged the production for export of raw agricultural and mining goods that Romania developed little industry except poor quality Dacia autos and Roman trucks. Therefore, because Romanians have never chanted "Produced in Romania by Romanians" they demand high quality imports. In this way they have been able to leapfrog ahead of much of the developing world, which still waits for a wide variety of high quality goods.

In telephone connection to the world, Eastern Europe is also able to leapfrog ahead of such areas as Latin America and ASEAN. Romania and Hungary are especially advanced, as advertised by Ericsson phones in *Time Magazine* (Latin American editions of mid-1997), which showed the population of an entire village with all persons holding a cellular phone in hand as they stand on the sides of a small mountain lake. Because Romania had such a primitive telephone system until 1996, there was no system to tear out and the country could start fresh with land lines where feasible and with cellular where land lines are nearly impossible to maintain. Service costs are low owing to the fact that there are no vested interests attempting to protect their out-dated investment. Ironically, then, Ceausescu left Romania in a disastrous state that could take-off quickly to leapfrog old telecommunications systems in other areas.

With regard to international news, while U.S. and European cable watchers are limited to watching crises as defined by CNN, European antenna viewers suffer under the "international" Sky News that main broadcasts drivel about the doings of the British Royal Family, the elite at Wimbledon, the clods watching and participating in the latest Rugby match, and superficial discussion of issues in Northern Ireland. Clearly there is a need for responsible day-to-day international reportage and analysis of world events, including serious discussion and investigation of the detailed decisions and activities about the process of market integration.

Because capitalism is newly starting up in Eastern Europe, there is need for information on prices and markets rather than for proliferation of exchange rate summaries and useless stock market indexes. Beyond traditional economic quotations, the capitalists of Eastern Europe often involve small companies and family business. Among them are many who have learned several basic capitalist concepts that have seemed hard to grasp in areas such as Latin America: Capitalists can make more if they sell in high volume even if at low cost than they can make selling few items at high cost. Further, they will win customers if they reduced their profit margin.

That Fast-Track Globalization needs to adapt and to defend itself is clear, especially in light of how the left justifiably won the 1997 French elections under Lionel Jospin. [24] Although the statist-oriented Jospin unwisely advocated in his campaign more expenditures for big government health, welfare, and retirement funds, he also wisely advocated decrease of taxes on low salaries. (May I ask, why not eliminate all taxes on low salaries?), and wisely advocated a reasonable decrease in the Value Added

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[24] For a Mexican analysis of the 1997 French election, see Gastón García Cantú, "El Ocaso Neoliberal; En el Espejo de Europa," *Excelsior* (Mexico City), May 30, 1997.

Tax (VAT) from 20.6% to 5.5% on items of basic necessity.

Do any of these three French major propositions threaten Capitalism? In my view, the answer is that they do not. Rather they strengthen it. I argue that the VAT in all countries needs to fall to less than 10% on all items and zero on foods and medicines, otherwise mass consumption capitalism is harmed as is the ability of the middle class to establish new capitalist enterprises.[25] VAT tax rates threaten the healthy development of Neo Capitalism as follows:[26] Sweden, 25%; Belgium, 21%; Italy, 20%; Romania 18%; Netherlands and Britain, 17%; Spain, 16%; Germany, 15%; New Zealand, 13%. Healthy VAT rates of 5 to 10% are seen in Canada, Switzerland, and Japan. The U.S. average state sales tax is about 5%--wisely the USA has not brought misfortune upon itself by enacting the multi-layered VAT.

Major votes against Neo Capitalism's regressive VAT tax and housing policies have taken place in at least seven cases since

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[25] The VAT not only inhibits economic growth but is also a highly regressive consumption tax that insidiously centralizes the tax collection process at the expense of local government.

[26] For worldwide VAT rates see: www.ch/vat.htm.

1989: Japan, 1989; USA, 1992; Canada, 1993; Britain, 1997; France, 1997. The Olive Tree Coalition now runs Italy; and Mexico has just elected a statist to power as Chief of Government of Mexico's Federal District. Although in reporting the above votes some observers are wondering if a frontal assault is being mounted on Neo Capitalism,[27] I see the votes, as involving the correction needed to keep Neo Capitalism in good health.

Brazil shows the strain of attempting to develop Neo Capitalism. In some ways it is still recovering from its attempt to lock foreigners out of its computer market. Brazilian leaders in the 1970s thought erroneously that mathematics could be nationalized so they decreed that all computers and software had to be made in Brazil--the result was the loss of 10 years in the New Globalization process as Brazil fell further and further behind in the ability to compete in hi-tech design by computer and data processing. Today President Fernando Henrique Cardoso is stymied by the Brazilian Senate in his attempt to reform the country's pension system. Without reform of that system (in

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[27] For example, see Kevin Phillips, "Is the Big Pendulum Taking a Leftward Swing?" *International Herald Tribune,* June 12, 1997.

which there is no fixed minimum retirement age and under which retirees can retire as early as age 32 and then take a new government job). Thus the whole Brazilian reform system is called into question, as is the battle against inflation.[28]

F. Trans-Global Corporations

Beyond the rise of FTAs is the emergence of what James Wilkie and I call the Trans-Global Corporation (TGC). I present here the concept "TGC" to emphasize the new role of international business that has come to supersede the role of nations and national policies. Indeed, the terms "Trans-National Corporations" (TNC) and "Multi-National Corporation" (MNC), often used interchangeably, have serious problems as used in present meaning. The problem with the concepts of TNC and MNC is that they imply involvement of national roles in economic policy. Further the idea of "TNC" may have made sense when such a company as Korea's Daewoo was supported by Korean national policy to develop exports, in reality Daewoo came to

[28] See *The Economist,* June 7, 1997.

operate in many places ranging from Mexico and Poland to Romania and Russia where national policy of all countries has been superseded. The problem with the concept of "MNC" is that it should be used to include only cooperation among nations through their nationalized industries, such as Airbus, Inc. which is owned by the governments of UK, France, Germany, and Spain through each country's air firms--by the mid-1990s these firms were in the process of being privatized and state subsidies withdrawn. In short:

- Trans-Global Corporations such as airline alliances exist in the "virtual space" of cyber communication rather than in any geographical place where national policy rules;

- Multi-National Companies such as Airbus, which existed in European Union's geographical space, are now being privatized and removed from national policies;

- Trans-National Corporations (such as Daewoo, based in Korea) may have been fostered by national export policy to attract industry, but subsequently national policy has been superseded, except in China, which has been seeking to set up its national airline industry in conjunction with Boeing or Airbus.

Indeed the world's airline industry as it has emerged in the 1990s involves TGCs, as is shown in Table 4-2.

Beyond "non-national consumption," let us consider the concept of non-national investment. The premier case involves computer-language design which is based on the "24-hour international day." Work on this new computer language begins in Seattle from where, after the first shift of eight hours has been completed, the project is flashed via internet to Bombay to begin the next shift. Similarly, the next eight-hour shifts will begin when the Project is zapped electronically back to Seattle. In the meantime, consultants in overlapping times zones are consulted in Los Angeles, Stockholm, Singapore, and Manila.

Such TGC investment has two important qualities: First, it cannot be seized in the public interest by any nation because the computer experts and computers can easily move to another country and their project simply be rerouted on its internet trajectory. Second, such investment keeps well paid computer specialists working around the world rather than centralizing them in the USA or Japan.

G. Human Ability of Nations to Compete:
The Human Development Index

To test the degree to which countries are prepared to compete in the era of TGCs, and to begin to see what the Zedillo Commission faces, let us compare the accumulation of "human capital" in countries around the world. I do this by reorganizing here in Table 4-3 data developed by the United Nations Development Program (UNDP). Selecting six closely competing economies, my abstract of UNDP data for internet usage show that Mexico with 1.5 internet users for each 1,000 persons is ahead of Romania (.8), China (.1), and Haiti (does not round to .1) but far behind China's politically "autonomous" Hong Kong (48.5) as well as behind the USA (38.0), Singapore (30.1), and Japan (7.2). The economy with the highest score is Finland (139, not shown in Table 4-3).

UNDP data for R & D (research and development scientists and technicians per 1,000 persons) place China (with a score of .6 per 1,000 persons) ahead of Mexico (.3) but behind Romania (2.0)

TABLE 3

INDICATORS OF HUMAN CAPITAL IN EIGHT ECONOMIES
(A) INTERNET USERS PER 1,000 PERSONS
(B) R & D SCIENTISTS AND TECHNICIANS PER 1,000 PERSONS[1]
(C) HUMAN DEVELOPMENT INDEX RANKINGS[2]

(1995)

Country	A. Internet	B. R & D	C. HDI
China	.1	.6	106
Haiti	.0	.0	159
Hong Kong	48.5	.2	25
Japan	7.2	7.0	8
Mexico	1.5	.3	49
Romania	.8	2.0	74
Singapore	30.1	2.6	28
United States	38.0	4.0	4

1. Research and Development.
2. 2. Index is calculated using three equally weighted factors (p. 107 in source):
   - life expectancy at birth;
   - adult literacy plus combined first-, second-, and third-level schooling gross enrollment rates;
   - real GDP in purchasing-power parity (PPP) U.S. dollars-- See Table 4-4, below, for analysis of the PPP concept.

SOURCE: U.N. Development Programme, *Human Development Report 1998* (New York: Oxford University Press, 1998): Col. A: pp, 166, 193; Col. B: pp. 140-141; Col. C: pp. 162, 190.

and far behind Japan (7.0, the world's high along with Sweden which is not shown in Table 4-4). Also behind in R & D is Hong Kong (.2, which uses its high internet figure to enhance its standing as a financial center rather than try to be and R & D center) and Haiti (.0). The rate for the USA (4.0) does not reveal it to be the world's greatest innovator and highest contributor to patent registrations.

The UNDP Human Development Index (HDI) ranks Mexico as country number 49 on a scale of 1 (best, Canada) to 174 (worst, Sierra Leone). China ranks poorly (106) compared to Haiti (159, Latin America's worst), Romania (74), Singapore (28), Hong Kong (25), Japan (8), and the USA (4).

This inwardly-looking index equally weights the following three factors:

- life expectancy at birth;
- adult literacy plus the combined first-, second- and third-level schooling gross enrollment rates;
- real GDP in Purchasing Power Parity (PPP) U.S. dollars.

Because of the one-third weight given to economic wealth calculated in terms of internally oriented GDP as well as PPP, the HDI is important for assessing the internal situation of countries but flawed for purposes of comparing the ability of countries to compete internationally.

H. Economic Ability of Nations to Compete: GDP in PPP Terms Versus GDP Terms

In this age of Fast-Track Globalization, it is ironic that the traditional measure of GNP (which is best translated as "gross inter-national product" of each country) is the most useful one for comparative international analysis.

The concept of GNP refers to:

> internal product (GDP formally termed "gross domestic product" is defined as the internal production of a country's goods and services (labor, property, and exports of goods and services) produced physically within a country)

plus

> net external income (Net Income is defined as the profits produced abroad by investors and investments and returned home (including profits from labor and property and net remittances).

In contrast, the idea of GDP (which is best translated as "gross internal product" of each country) is much less useful for international comparisons; and the least useful concept is the highly touted new idea that measures GDP in terms of PPP (GDP/PPP).

GDP excludes the net income and net remittances from abroad. Remittances are royalty payments on patents licensed abroad as well as retirement funds and money sent by relatives to family and friends. I estimate, for example that Mexico's net remittances from Mexicans working in the USA amounted in 1998 to US$10 billion (an amount exceeding all of the countries agricultural exports combined.)[29] Official Mexican data place the

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[29] In 1998 Mexico's agricultural exports amounted to only about US$4 billion; petroleum exports fell to US$7.1 billion (down US$4.1 billion from 1997 owing to the collapse of world oil prices and the fall of the Mexican oil blend from the average of US$16.46 per barrel in 1997 to US$10.16 in 1998. In January 1999 the Mexican blend fell to US$7.60 or a low now seen since 1879. See *Reforma,* January 23, 1999, *El Financiero,* February 11, 1999, and *Excélsior,* December 2, 1998.

remittances at about US$5 billion or half of my estimate, but in my view transfer of these funds is difficult to calculate because so much is not sent by wire transfers that are registered for tracking by normal measures, as in the case of amounts carried across the border by Mexicans returning home with large amounts of cash.

The concept of GDP/PPP attempts to measure the purchasing power of a country's currency *inside* a country. PPP is the number of units of a country's currency converted to U.S. dollars (the world's reference currency) required to purchase the same representative basket of national goods and services that an U.S. dollar would buy in the USA. It does not reveal international purchasing power; and it does not include net foreign factor income, deductions for depreciation of physical capital, or depletion and degradation of natural resources.

Data for GNP and GDP/PPP in the six competing countries being discussed here are contrasted in Table 4-4. In general, GDP/PPP show poorer countries to be richer and richer countries to be poorer, except for the USA and Hong Kong which do not much change from the GNP figures.

TABLE 4-4

SIZE OF SIX COMPETING ECONOMIES MEASURED IN CONTRASTING TERMS:

OUTWARDLY-ORIENTED GNP[1]
AND INWARDLY-ORIENTED GDP/PPP

(1966: Million U.S. Dollars and Per Capita U.S. Dollars)

Country	GNP	GDP/PPP
China		
Total	906,079	3,390,000
Per Capita	750	2,800
Hong Kong		
Total	154,288	163,600
Per Capita	24,290	28,600
Japan		
Total	5,149,185	2,850,000
Per Capita	40,940	22,700
Mexico		
Total	341,718	777,300
Per Capita	3,670	8,100
Singapore		
Total	92,987	72,200
Per Capita	30,555	21,200
United States		
Total	7,433,517	7,610,000
Per Capita	28,020	28,600

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1. Gross National Product (GNP) comprises

    Gross Domestic Product (GDP, or total of goods and services produced *inside* a country, including exports)

   plus

    net factor income sent back to the country from labor, capital, royalty, and remittance earnings produced *outside* the country.

   GNP includes net factor income from foreign earnings in order to reveal the power of a country's wealth in international markets.

2. Purchasing Power Parity is intended to reveal the purchasing power of a country's currency *inside* a country. PPP is the number of units of a country's currency converted to U.S. dollars (the world's reference currency) required to purchase the same representative basket of *national* goods and services that an U.S. dollar would buy in the USA. It does not reveal international purchasing power; and it does not include net foreign factor income, deductions for depreciation of physical capital, or depletion and degradation of natural resources. Data are rounded.

SOURCES: GNP data are from *New York Times Almanac, 1999; PPP* is from *Wall Street Journal Almanac, 1999,* except Hong Kong is from *World Almanac, 1999.*

By examining Table 4-4, the reader can see concisely that GNP makes sense whereas GDP/PPP makes little or no sense at all. With regard to per capita wealth, for example, by no stretch of the imagination does Mexico rise from a reasonable figure of US$3,670 GDP/PPP to the surrealistic amount of US$8,100. That Japan's per capita figure can fall from US$40,940 (GNP) to US$22,700 (GDP/PPP) makes some sense in light of the high cost of living in Japan, but this latter amount seems excessively low. If the 22,700 figure is right, however, it suggests that Japan's economy has priced itself out of almost any possibility for internal economic recovery from its long economic depression of the 1990s. Finally, whereas in terms of GNP, Japan has a total wealth five times that of China, according to GDP/PPP data, China's total wealth is greater than that of Japan, which we can see here is clearly wrong.

The long-term internal economic status of selected countries is given in Table 4-5, which portrays the GDP per capita from 1960 to 1995. China remained the poorest country during the entire period even though it rose from US$75 per capita yearly in 1960 to 481 in 1995. Although Mexico at US$935 stood slightly ahead of Brazil at US$823 in 1960, by 1970 it moved ahead and continued to widen the gap until the mid-1990s when Brazil reached US$2,051 per capita compared to Mexico's US$1,724.

This situation may have reversed itself with Brazil's devaluation of 1998-1999.

The case of South Korea, which is often compared to that of Mexico, shows it standing at US$520 GDP per capita in 1960, or slightly more than half of the Mexican level. South Korea and Mexico were about equal in 1980 (about US$1,950), but Mexico declined in the 1980s and early 1990s. Thus, South Korea shot ahead to reach US$4,132 per capita in 1990 and US$5.663 in 1995, while Mexico

fell to US$1,839 and US$1,724 during the same period. With South Korea's economic collapse in 1997-1998, the 70% gap between the two will have been reduced by at least half.

Romania stood at half of the Russia US$3,204 GDP per capita in 1980 but by 1995 had reduced the gap to about 30%. The Russian economic collapse in 1998 should make the two equally poor, depending upon the amount of dollars transferred out of Russia by the Russian Central Bank to an off-shore firm (Financial Management Company--FIMACO) to "protect" the Russian reserves during the period from 1993-1998.[30]

Meanwhile Japan's GDP per capita (US$4,706) which was less than half that of the USA (US$10,707) in 1960 had caught up with the USA by 1980 (each nearly US$16,400). Japan continue to gain at the expense of the USA and by 1995 Japan stood at US$24,104 compared to the USA GDP per capita of US$20,716 in constant dollars of 1987. Since 1995 Japan's internal economy has languished and that of the USA has gained strength.

Malaysia, which had been behind both Brazil and Mexico in 1960 opened its borders to foreign capital and caught up with both 1990 and then outdid both by 1995 when it reached US$3,108. The dictator Mahathir Mohamad proved to be a sore

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[30] Boris Fyodorov, who was finance minister when FIMACO was established, claims FIMACO was a money-making scam for crony capitalists and corrupt officials in the Russian Central Bank, according to Phil Reeves, "Huge Financial Scandal Unfolds in Russia," Mexico *City News,* February 12, 1999." See also, "Transfirió Rusia Reservas [Hasta US$50 Billion] a Paraíso Financiero en la Isla de Jersey]," El *Economista,* February 12, 1999.

loser after the collapse of his economy in 1997. A "trader" in international currency himself, he called George Soros a "currency speculator" and blamed him for "bringing ruin to Malaysia's hard won gains.

Malaysia's problem was not caused by Soros but rather by the "crony capitalism," which he has fostered, a corrupt banking system that could no longer fool international investors. To save his tottering regime, Mahathir imposed capital controls putting in place a one-year waiting period to repatriate investments; and framed his deputy Anwar Ibrahim on unrelated and dubious trumped-up charges, eventually finding him "guilty as charged."

Because the capital controls imposed in September 1998 stopped long-term investors instead of currency traders, Mahathir eased the controls in February 1999 to permit investments to be withdrawn from Malaysia before one year but at a tax of 30% if during the first seven months after entry, and the tax dropping to zero if removed before seven months.[31]

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[31] Mark J. Landler, "Malaysia Eases Some Foreign Investment Controls," *New York Times,* February 2, 1999.

The Asia, Russia, Brazil economic crises of 1998 have both hurt and helped Mexico. Although the Mexican peso lost about 20% of its value and reached 10 to the dollars,[32] Mexico became the second most important trading partner of the USA, supplanting Japan's role behind Canada.[33] Indeed with impeachment defeated, President Bill Clinton met with President Ernesto Zedillo in Mérida February 14-15, 1999, to reactivate the idea of the FTAA even as Mexico was negotiating with Panama,[34] Guatemala-Honduras-El Salvador, Israel, and the European Union

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[32] Banamex-Accival *Review of the Economic Situation of Mexico, October*, 1998.

[33] "Zedillo, Clinton To Meet in Thriving Business Atmosphere," Mexico *City Times,* February 12, 1999. Owing to the drought in Mexico during 1998, Mexico became the second largest importer in the world of U.S. corn, the imports of which rose 69.4%. Meanwhile, Mexican agroindustrial exports to the USA rose 103% between 1993 and 1998, according to Francisco Hoyos Aguilera, "México, Segundo Provedor Agrícola de Estados Unidos," *Excelsior, December* 31, 1998.

[34] "Pronto, TLC México-Panamá," *Excelsior,* February 12, 1999.

to establish its own international agreements, which all came to fruition in 2000, as discussed above.

In the meantime, companies from Japan, Taiwan, and South Korea have been increasing their investments in Baja California, prompting Chris Kraul to write: "What Asia crisis?"[35] Thus, the number of in-bond maquila factories owned by foreigners increased to 1,045 with 221,000 employees, up 12% from November 1997 to November 1998. About one third of all Mexican maquilas are in Baja California state and about two-thirds of the Baja maquilas are located in Tijuana to take advantage not only of low wages and low transportation costs but also taxes paid only on the value added to goods by workers. The total foreign investment in Baja maquilas is US$1.5 billion; and Tijuana now produces about half of the 24 million television sets purchased in the USA each year. As Kraul reminds us, "Big local players such as Sanyo, Matsushita, Sony, and Samsung, which once assembled products largely from components shipped in from Asia, must

[35] "Asian Companies Continue to Flock to Tijuana Area," *Los Angeles Times,* December 30, 1998.

produce most of those parts in North America by 2001 or face onerous tariffs."

The Mexican maquila provides a way for Japan to understate the favorable balance of payments enjoyed at the expense of the USA. Maquila imports to the USA from Mexico are counted as Mexican exports, not Asian imports.

I. Further Thoughts

That Globalization continues apace and cannot be stopped by those who would dub it "Americanization" is perhaps obvious, but two examples suggest the ramifications of cyberspace in the New World TGCs. First, China's attempt to put obstacles to internet communication with and by its citizens seems doomed to fail because Chinese users can avoid barriers by connecting to foreign servers with what are increasingly less expensive and cumbersome methods of programming.[36]

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[36] Implicitly disagreeing with us is Rone Tempest, "China Puts Roadblocks on Information Superhighway," *Los Angeles Times*, September 6, 1996.

Second, I must smile at the entrepreneurship of one David Korem, who has founded the first "Cyberspace Nation." Korem claims to have everything a sovereign nation needs, including territory, citizens, banks, investors, and a government. The country, named Melchizadek, "exists" only on a Web Page, which explains that the name is pronounced "mal-khay-tzed-ek.' The Web Page claims that this Cyber Nation is the "Switzerland of the Pacific." Korem claims to have chartered 300 banks for US$50,000 each from his residence in California, but the California Department of Financial Institutions says that it cannot investigate the banks because their physical premises cannot be found in California and do not appear to be doing business or taking deposit in the state, according to *Wall Street Journal* reporter Bruce Knecht.[37]

Korem admits that he has never visited his territory,

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[37] For more on this Cyber Nation, see Bruce Knecht, "A 'Nation' in Cyberspace Draws Fire from Authorities," *Wall Street Journal, February* 9, 1999.

perhaps because as the U.S. State Department notes: the country's coordinates listed on the Web Site "seem to point to a seamount, an underwater mountain less than 1,000 feet *below sea* level."

Truly, the age of cyber Globalization has arrived.

CHAPTER 5

RISE OF THE U.S. DECENTRALIZED MODEL FOR PHILANTHROPY: GEORGE SOROS' OPEN SOCIETY AND NATIONAL FOUNDATIONS IN EASTERN EUROPE

In *The Open Society and Its Enemies,*
Karl Popper argues against the
"closed society"
of unquestioned authority advocated by
such thinkers as Plato and Marx.
Popper asks
'How do we organize society's institutions to
prevent leadership (be it in individual or majority)
from adopting authoritarianism?'

--George Soros (1996)[1]

I give away millions of dollars because I
care about the principles of
Open Society,
and I can afford it.

--George Soros
(1995)[2]

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[1] My interviews, New York City, May 15, 1996. Popper's book was published in 1945. Popper, Karl, R., *The Open Society and Its Enemies*, New York: Routledge and Kegan Paul, 1945.

This chapter focuses on George Soros and his efforts to foster Open Societies worldwide through his establishment of the decentralized Open Society Foundation Network (SON,) to which, as a "responsible capitalist" and economic philosopher he regularly has "donated about half of his investment profits." Much of that profit has been generated by his controversial Curaçao-based hedge fund operations worldwide, which are not approved by the U.S. Securities and Exchange Commission (SEC), thus preventing direct participation by U.S. investors. Soros, originally from Hungary via England, has been involved with creating a new bases for Civic Society in places ranging from Haiti to Thailand and from China to India, as well as in Eastern Europe upon which we focus here.

To understand the historical importance of Soros to U.S. philanthropy and to the meaning of what I call his Decentralized

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[2] Quoted in Interview by Harvey Shapiro, "Advocating an Open Society," *United Airlines Hemispheres Magazine*, March 1996, p. 15.

Model, let me compare here Soros' role to that of Rockefeller's and what I call his Centralized Model.

Rockefeller and Soros Compared

Although many observers have compared Soros to Rockefeller in that both established foundations to use their "dubiously" earned profits, this comparison is not fair for several reasons. First, the profits earned by Rockefeller came from monopoly capitalism (which assures earnings, but Soro's profits have come from speculative capitalism (wherein no net earnings are guaranteed). Second, whereas John D. Rockefeller established the Centralized Foundation Model (albeit with de-concentrated administrative offices around the world, as we have seen in previous chapters), Soros founded the Decentralized Model.

Further, where Rockefeller saw himself as a God's steward of wealth, Soros has seen himself (rightly) as fostering what he calls Open Society, a term which I capitalize here. Indeed Soros did contribute to world Open Society magnificently in the through his donation of such tools of anti-authoritarianism as blank newsprint in the 1970s and fax machines in the 1980s to help bring down the Soviet Empire in Eastern Europe.

Simultaneously, Soros has sought to institutionalize in developing countries Karl R. Popper's concept of "Open Society," which Soros equates with "civil society" but is what I denominate in this work as "Civic Society." Let me summarize at the outset Soros' thinking as distilled from my interviews with him and from his writing:

> Open Society is democratic, civil society based on freedom of citizens to think and write openly in a just system wherein government agencies (including the police and the courts) operate independently on behalf of the population, which expects and receives fair treatment under law.

This definition fits historically with the desire of many thinkers to institute civilian government elected by and for the people, as distinguished from military- or religious-government and from government by dictators and their authoritarian henchmen who claim to rule in the name of the people, who in reality have few or no rights and are discouraged from thinking for themselves. Civic society includes the private and non-governmental spheres as well as the governmental sphere, in that the government supports and works together with the civil society. It differs, however, from Civic Society, which is what builds and maintains civil society—a distinction that Soros himself only makes implicitly, but funds explicitly throughout the world.

As I articulate here the important difference between Rockefeller and Soros, it is that whereas Rockefeller implicitly funded civil society as the basis for making the world better for mankind; Soros has implicitly funded Civic Society to help organize the Civil Society, without which the activists of Civil Society may not even be able to survive.

On the one hand, the Rockefeller family has used U.S. civil society as its model to take to the world—civil society that has evolved out of the English colonies and U.S. Independence. As the Rockefeller family looked at Latin America, they saw it, in my view, as having been stunted in its development; and funding of it hopefully could change society to change itself with the explicit goal of bringing these countries into the market.

On the other hand, Soros has much the same model but, in my view, seeks to apply it to places where civil society has been crushed, if it even ever existed. Thus he does not fund civil society, but rather Civic Society, which represents the activist, socially responsible sphere of societal organization that makes organized demands on civil government (such as offering inputs and serving as watchdog as well as identifying problems) and cooperates with government to help maintain civil society.

Both the Rockefellers and Soros have used U.S. Tax Exempt Organization (TEO) law to contribute to human betterment worldwide, and they have been headquartered in New York City—but with very different ideas about how their grants are spent. Where the Rockefeller Foundation has de-concentrated administration to branch offices in the world, Soros has established independent foundations in the countries to which he donates. These foundations have a board of directors with leading private citizens representing the various sectors of civil society to develop the activist program of Civic Society.

Much history of the Rockefeller Foundation activities around the world has been written and analyzed because the Foundation itself has commissioned studies and organized its archives for independent analysis. In contrast, the Soros Foundation has done little self-reflection and, because of these decentralized boards, has not developed a central archive where independent analysis can be undertaken. Both foundations rely on oral history to some extent, but the history of the Soros Foundation(s)[3] is much more so, and even perhaps exclusively. For this reason it is regrettable that Soros has spent so little time writing about what his Foundations have accomplished and so much trying to elucidate

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[3] The Soros Foundation is comprised of many Foundations (usually one in each country to which he is able to send grants from the USA because they are organized on the U.S. TEO Model even as they try to meet the legal requirements of the host country) and many Funds (such as the Open Society Fund/Foundation—some of the terms being used interchangeably. Although some critics argue wrongly that Soros seems to create a separate Fund or Foundation for each new idea that he has, he has created a series of inter-locking administrative units, the funding of which is not always easy to track.

the Popper's theories and about the future of the world economy, both without much success, as we will see below.

Although I began my study of philanthropy with the idea of focusing my research on the history of the activities of the Soros National Foundations, I realized the extent of problems in such an undertaking once I first met with George Soros in 1996, but my discussions with him gave me an appreciation of his dilemmas.

In presenting my preliminary thoughts to Soros in order to obtain his reaction, I offered several hypotheses, at the outset juxtaposing the need to examine:

1. the stated goals and achievements of the Soros National Foundations as summarized verbatim from country reports, newsletters, and Soros Internet pages

against

2. the comparative results of what have been achieved.

Further, I hypothesized to Soros that he has taken a risky approach to international philanthropy that is uncommon in that he hopes that other U.S. and European foundations will follow him into East-Central Europe and also eventually take up funding of his National Foundations once he retires—no endowment having been created to continue his work. In this regard, as he, by himself, has sought to create in each country an Open Society Foundation which is supposed to become self-supporting, he may face the problem that competing foundations will not want to fund the Soros vision but fund their own—foundations and other funders tending to be jealous of their own fame. Unless competing foundations are at least co-founders of any initiatives, they rarely seem to want to provide funds at a later date (This truism was lamented by Nelson Rockefeller, whose AIA died in Latin America for lack of the full support needed to remain in operation.)

Further, I stated my concern that unless he suitably seeks to help countries to change their TEO laws to meet international standards (such as the U.S.- Mexico international standard), it is difficult for risk-averse U.S. NPPOs to follow him into countries that seem problematic owing to the vagaries of what TEO law means from country to country. (Foundations seek to operate with the certitude that the usual and customary TEO activities may take place, otherwise their TEO status may be at risk in their home as well as the host country.)[4]

With regard to my hypotheses, Soros doubted that his Foundations could be easily compared for results, given the great difference in organization and activities from country to country. Moreover, each National Board is concerned that confidential data might be misused against them, especially where civil society is not strong and where there is no appeal against sanctions taken by governmental authorities.

Soros agreed that the future of his National Foundations may expire by between 2010 and 2015 unless new funders step

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[4] Bureaucratically conservative foundations, especially those based in the USA where the largest corpus of tax-free funds is domiciled, do not in the main take the risks of donating abroad because they fear becoming enmeshed in legal problems related to tax reporting in their home base of operations as well as the host country. Foundations such as Rockefeller and Ford with years of international experience are the exception rather than the rule, although this is changing.

forward and so far success has been negligible. And he admitted that it is ironic that, without responsive TEO laws based on international standards, it will be difficult to create meaningful Open Societies, especially because host countries rarely have a well-functioning donor sector in place without easy tax deductibility.

Nevertheless, Soros indicated to me his concern that attempts to change TEO laws to match the U.S. standard could "backfire," given the anti-foreign tenor of many congressional representatives in the U.S. Congress who may look for opportunities to develop legislation that could inhibit the transfer abroad of U.S. official and private foundations assistance funds.

Although in my view Soros is unduly worried about possible U.S. Congressional activity against foundations,[5] nevertheless, I

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[5] It is noteworthy that the U.S. Senate approved of the U.S.-Mexican standards for mutual recognition of the TEO spheres; and the U.S. Congress has not succumbed to the "simplifying" flat-tax approach that implicitly would perhaps make charitable donations irrelevant. Soros' own activities of personally funding medical use of marijuana in states such as Arizona and California

had enough reason to reorient my approach to focus mainly on articulating Soros' comparative place in U.S. philanthropy, to which he has created the Decentralized Foundation Model and personally offset the long-standing and problematic Rockefeller Centralized Foundation Model.

Soros was also able to apprehend remarkably the significance of geopolitical issues prior and after the Cold War.

His most successful foundation to date is in Ukraine, where the foundation supports literally "two dozen independent organizations, each with its own board of directors," in his own words.[6]

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would seem to be a greater problem for him, especially because many of his critics do not realize that he does not route such "political lobbying" funds through his Foundations and Funds.

[6] George Soros, and Byron Wien, *Soros on Soros: Staying Ahead of the Curve,* New York: John Wiley, 1995, p. 139.

Who Is Soros: Speculator? Philanthropist, Economic Philosopher?[7]

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[7] This history of Soros, of his views discussed below, and of his financial speculations and investments draws upon Soros' own oral interviews, speeches, books, and articles as well as my interviews with his staff and observers of his activities in such places as Budapest, Mexico City, Moscow, and New York City. Given the Soros justifiable concern about confidential information about his financial dealings, those of his staff and many close observers of his activities have chosen not to be identified. Thus, some of the "history" presented here has to await Soros's confirmation, correction, and/or the fleshing out of detail that is necessary to complete the record. Soros' financial gains and losses from speculation around the world are very sketchy, often only being revealed by Soros himself in allusions to events rather than any detailed statements, which the SEC would require if his financial transactions were conducted in the USA rather than outside. While I belief that Soros' business activities have been entirely legal, a question has arisen in France about 1988 "insider trading," that may soon be resolved at trial: See "French Trial

The question is intriguing about how Soros has become a lone "global trouble-shooter who uses philanthropy to solve problems where no one else dares to go," and who tries to donate at least "half" of his yearly profits to his Foundations ($350 million in 1996 alone),[8] which he has dedicated to help break statism in formerly Communist countries and in so many currently authoritarian countries. In this role as anti-statist he has written widely on the future of the world economy, philosophizing about economics.

According to s official biography posted on the Soros Foundation web site:

> George Soros was born in Budapest, Hungary in 1930. In 1947 he emigrated to England, where he graduated from the London School of Economics. While a student at the London School of Economics, Mr. Soros became familiar with the work of the philosopher Karl Popper, who had a profound influence on his thinking and later on his philanthropic activities. In 1956 he moved to the United States, where he began to accumulate a large fortune through an international investment fund he founded and managed.

Reportedly Ordered for Soros," *New York Times,* December 23, 2000.

[8] This is $2 million more than the Ford Foundation distributed in 1996 and $243 million more than the Rockefeller Foundation, according to Newsweek, September 29, 1997. See also *Soros on Soros*, p. 123.

Mr. Soros currently serves as President and Chairman of Soros Fund Management LLC, a private investment management firm which serves as principal investment advisor to the Quantum Group of Funds, a series of international investment vehicles.

Mr. Soros established his first foundation, the Open Society Fund, in New York in 1979 and his first Eastern European Foundation in Hungary in 1984. He now funds a network of foundations that operate in thirty-one countries throughout Central and Eastern Europe, the former Soviet Union, and Central Eurasia, as well as in Southern Africa, Haiti, Guatemala, and the United States. These foundations are dedicated to building and maintaining the infrastructure and institutions of an Open society. Mr. Soros has also founded other major institutions, such as the Central European University and the International Science Foundation.

[The foundations in the Soros network has spent since 1996 the following approximate amounts:]

1996 $362 million
1997 $428
1998 $574
1999 $560
2000 $550 (est.)

In addition to many articles on the political and economic changes in Eastern Europe and the former Soviet Union, Mr. Soros is the author of *The Alchemy of Finance*, published by Simon & Schuster in 1987 and republished in 1994 by John Wiley & Sons; *Opening the Soviet System,* published by Weidenfeld & Nicholson in 1990; *Underwriting Democracy*, published by The Free Press in 1991, *Soros on Soros: Staying Ahead of the Curve,* published by John Wiley & Sons in 1995, and *The Crisis of Global Capitalism: Open Society Endangered,* published by Public Affairs in 1998, [and] *Open Society: Reforming Global Capitalism,* [published by Public Affairs in] 2000.

Although Soros has not talked much about his childhood, by one account he faced life as a child in the battleground that was Hungary, where he lived under German and Russian occupations. Departing for England in 1947, he went to school there and eventually graduated from the London School of Economics in 1952.[9]

By 1956 Soros moved to the USA, where in the 1960s he become an American citizen noted for his risk-taking investment practices, especially in world financial markets. This risk-taking brought him a fortune through speculating in currency.

Since 1969, according to *Soros on Soros,* he has operated the Quantum Fund, which is a "little-regulated, private-investment partnership based in Curaçao" (an island near the coast of Venezuela), which belongs to but is autonomous from the Netherlands). The Fund is geared to wealthy non-U.S. individuals, who typically attempt to achieve quick, very large returns based on highly leveraged "bets" that currency will appreciate or depreciate. His early bets on currency culminated in his 1992

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[9] Connie Bruck, "The World According to Soros," *The New Yorker,* January 23, 1995, p. 59.

"breaking the Bank of England," which could not maintain the value of the pound in the face of the Soros-led speculation that England's currency was "seriously over-inflated."[10]

Time summarized his 1992 strategy as follows:

> Soros' Quantum Fund makes money by anticipating economic shifts around the world. In 1992 Soros thought the British pound would lose value because of political and economic pressures. He borrowed billions of pounds and converted them to German marks.
>
> When the pound collapsed Sept. 16, [1992], Soros repaid the pounds at the lower rate and pocketed the difference. His profit: $1 billion.[11]

Soros has not seen himself so much as a speculator but as an investor who keeps country central banks "honest." If they wrongly value their currency for economic and political reasons, he will expose them for going against the free market. Indeed, in 1992 apparently part of his winnings from England came from

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[10] George Soros and Byron Wien, *Soros on Soros: Staying Ahead of the Curve* (New York: John Wiley), 1995, pp. 81-83.

[11] This article from *Time,* September 1, 1997, may be consulted on Soros's web site: <www.soros.org/gsbio/index.html>.

bad bets on the pound that had been placed by the dictator of Malaysia Mahathir Mohamad, who was himself speculating with his country's currency—as if it were his own money.

When crony capitalism caught up with Asia in the mid-1997 collapse of currency and markets starting in Thailand and moving on to Malaysia, Indonesia, the Philippines, and South Korea, Mahathir attacked Soros, blaming his speculation for having destabilized the region.[12] In a interesting debate conducted in the world press, Soros denied being the cause of the panic, and Mahathir insisted that without currency controls such as enacted by Chile more than a decade earlier, no country could survive the onslaught of billions of dollars in sudden capital inflows and outflow. About the time that Mahathir instituted currency controls on September 1, 1998, however, Chile was already in the process of deciding to return to the free currency market, concerned that unless it did so investment would go elsewhere.

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[12] Kynge, James, "Malaysian Premier in Veiled Attack on Soros," *The Financial Times*, July 23, 1997.

In the meantime, Soros testified before the U.S. House Banking Committee investigating the Asian collapse to say that Malaysia's newly imposed currency controls would have a "disastrous" effect on its own economy and also hurt neighboring countries by causing capital to flee in fear that capital controls might become a generalized solution to the region's problems. Soros told the Congressional Committee that relief through lower interest rates and stock market gains could only be "temporary because the borders are porous and money will leave the country illegally . . . [and] the local capitalists associated with the regime will be able to salvage their businesses, unless the regime itself is toppled.[13]

What Soros might also have told the Committee was that his New York City computer data banks (which monitors hour-by-hour world prices, exports, imports, and financial flows, among other types of data to be correlated with each other and then related to political information) had detected what Jeffrey Sach's

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[13] <www.indian-express.com/fe/daily>: Indian Express Newspapers (Bombay) Ltd., September 16, 1998.

would articulate in the *New York Times* as the real Asian problem (which was not Soros) but:

> a combination of rising wage costs, competition from China and lower demand for Asia's exports (especially electronics) caused exports to stagnate in 1996 and the first part of 1997. It became clear that if the Asians were going to compete, their currencies would need to fall against the dollar so their costs of production would be lower. It also became clear that with foreign lending diverted into real estate ventures, there was some risk that the borrowers, especially banks and finance companies, would be unable to service the debts if the exchange rates weakened. After all, rentals on real estate developments would be earned in local currency, while the debts would have to be repaid in dollars.[14]

But while Soros may have won currency bets in Malaysia (if he did win), he has not always won. He had big losses in Mexico in 1994-1995 when he bet wrong on the peso and on the stability of the country and his losses came also in his purported investment in the Santa Fe Development Project on the western edge of Mexico City. Too, Soros has noted that he lost $2 billion in the late 1997 collapse of the Russian ruble and stock market values.[15]

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[14] <www.stern.nyu.edu/~nroubini/asia/AsiaSachsOp-EdNYT1197>: Jeffrey D. Sachs, "The Wrong Medicine for Asia," *New York Times*, November 3, 1997.

[15] "Brazil: Currency Fears Prompt Plunge," *Los Angeles Times*, October 31, 1997.

Soros admitted that he had bet that the G-7 countries would not permit such a loss in value, especially because of the heavy exposure of Germany in Russia. And to matters, Malaysian currency controls turned out to be mildly salubrious, and were relaxed by 2000.

Soros also lost hugely in the collapse of hi-tech stocks in America in March-April 2000 as well as from the continued fall of the Euro in relation to the dollar. These events brought relative disaster to Soros. Danny Hakim of *New York Times* explained matters on April 29 as follows:

After absorbing huge losses in recent weeks, the financier George Soros said yesterday that he was reorganizing his investment empire and would abandon many of the high-risk investment techniques that made him a billionaire many times over and rewarded his wealthy investors handsomely.

[But, admitting that his Quantum Fund had declined from $22 billion in value to $14.4 billion during the first four months of 2000,] Soros said:

> Maybe I don't understand the market. . . Maybe the music has stopped but people are still dancing. . . I am anxious to reduce my market exposure and be more conservative. We will accept lower returns because we will cut the risk profile. . . A large hedge fund like Quantum Fund is no longer the best way to manage money [because it] is far too big and its activities too closely watched by the market to be able to operate successfully . . . Dr. Mahathir will be very depressed—

he won't be able to blame all his mistakes on me.

The larger record of Mr. Soros is intact, with the Quantum Fund returning, on average, 32 percent a year between 1969 and 1999, after fees. Even with the recent troubles, the compound return is phenomenal.

Yesterday, Mr. Soros was questioning whether the vicissitudes of the modern market were transforming the hedge fund industry in ways that made it less practical to run a so-called macro fund, which is free to use a wide variety of financial instruments in any area of the world.

Stunned by these admissions, the world waits to see how Soros will make his next investments needed to generate the profits that his Network of Foundations requires to maintain operations worldwide.[16] Soros standing as the largest owner of

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[16] In his Letter to Quantum Group Shareholders, April 28, 2000, Soros wrote: "Markets have become extremely unstable and historical measures of value at risk no longer apply . . . My own needs are for a more reliable stream of income to fund my charitable activities. . . . In [reorganizing and changing investment focus,] my objective is to establish an organization that can efficiently administer my funds, and those of other shareholders, even beyond my lifetime."

Reprinted in *New York Times*, April 28, 2000.

cattle and cattle land in Argentina, for example, will not generate the income so needed for his philanthropy in Eastern Europe, not to mention the other areas of the world.

Soros as Philanthropist[17]

Thirteen years before he won his $10 billion bet against the pound sterling (September 1992) Soros had begun to use his gains from speculation to support the opening of closed societies. In 1979 he established in New York City the Open Society Fund as

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[17] This history of Soros, of his views discussed below, and of his Foundations are taken from his own oral interviews, speeches, books, articles and Foundation reports as well as from interviews with Soros Foundation leaders and staff in such places as Romania Hungary, Russia, and New York City. Given the Soros justifiable concern about confidential information being used against the National Foundations, Soros Foundation leaders and staff have chosen not to be identified. Thus, some of the "history" presented here has to await Soros's confirmation, correction, and/or the fleshing out of detail that is necessary to complete the record.

an NPPO to support dissidents living under the Communist regimes, but he had kept a relatively low profile in doing so.

Indeed Soros had been interested since his period in England to foster the democratic values of "an Open Society," as defined by the philosopher Sir Karl Popper. Determined by 1979 to make Popper's concept into a practical program, Soros established the Soros Foundations/Open Society Fund, Inc.

Soros credits his membership in the Helsinki Watch and Americas Watch human rights groups as sparking him his 1980 creation of the Open Society Fund to offer a number of scholarships in the United States to dissident intellectuals from Eastern Europe.[18] To develop that spark, he recruited Aryen Neyer, who was the head of Human Rights Watch, to become the President of Soros' Open Society Institute in New York City.

Recognizing the importance of incisive and responsible journalism, Soros began to fund a broad array of activities to train and equip reporters, editors, and media managers for their new responsibilities in democratic, free market societies. His ultimate goal has been to create an informed electorate that has access to

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[18] Soros on Soros, p. 115.

diverse, objective are reports supplied by a press corps with high professional standards.

Soros moved with high visibility into philanthropy by establishing the Soros Foundation in Hungary (1984), China (1986), USSR (1987), and Poland (1988), as is shown in Table 5-1.

After the fall of the Berlin Wall in 1989, Soros began to reorganize his own activity by turning over to his staff the details of managing his hedge fund; and he began to immerse himself in the world of philanthropy. He was perhaps the first, and among the few, who recognized the urgency of moving to organize civil society and Civic Society in the ruins of the Russian Empire after 1989, otherwise the socialist would remain in place. s diagnosis was correct in that hardly had Russia and Eastern Europe overturned their dogmatic regimes when authoritarian forces attempted to seize power. In arguing that Eastern European countries had a complete absence of democratic experience and no modern political infrastructure was in place to support their new and fragile democracies, Soros called for a philanthropic type of

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TABLE 5-1

SOROS NATIONAL FOUNDATIONS, SUB-TOTAL ACTUAL OUTLAY, 1994

Founded	Country	US$ Million
1984	Hungary	16.0
1986,	China	---(a)
1987,	Russia	25.9
1988,	Poland	5.0
1990,	Bulgaria	6.5
	Estonia	3.0
	Lithuania	4.5
	Romania	12.4
	Ukraine	12.6
1991,	Yugoslavia	11.5
1992,	Albania	2.8
	Belarus	3.2
	Bosnia & Herzegovina	4.7
	Croatia	4.9
	Czech Republic	1.3
	Estonia	3.0
	Latvia	2.9
	Macedonia	8.0
	Moldova	2.7
	Slovenia	3.0
1993,	Kazakhstan	.2
	Kyrgystan	.2
	Slovakia	2.4
	South Africa	5.0
1994,	Georgia	.1
Rroma (Gypsy)		22.7
	Sub-Total	164.5

(a) Forced by the Chinese Government to close in 1993

SOURCE: *Building Open Societies, Soros Foundations 1994*, OSI, New York, 1995

TABLE 2

SOROS FOUNDATIONS, TOTAL ACTUAL OUTLAY, 1994

Sub-Totals		US$ Million
National Foundations (Table 1)		164.5
CEU Budapest & Prague		39.9
International Science Foundation		51.3
Internat'l Soc. Science Educ Program		25.0
Open Media Research Institute		1.5
Soros Foundation-Paris		1.3
East-West Management Institute		1.1
Soros Training for Economic Transformation Network		1.2
Soros Foundation-New York City	36.6	
Presidential Grants	6.8	
Virtual Univ. Exchanges	5.0	
Children & Youth Programs	9.6	
Burma Project	1.2	
Internet	.7	
Support to Affiliates	6.7	
East-East Program	1.0	
English Language Programs	.7	
Arts & Culture Program	.5	
Medical & Health Programs	3.2	
Data Base on War Crimes in Former Rep. of Yugo.	.3	
Other	.9	
Less internal transfers among offices		-22.4
Total 1994		300.0

Calculated from: *"Building Open Societies", Soros Foundations 1994*, Open Society Institute, New York, 1995

Marshall Plan, not to rebuild, but to build basic civil society. When his call went largely unanswered, Soros moved ahead on his own. By 1990 he created three more foundations, moving into Central and Eastern Europe and the Soviet Union, dramatically accelerating the level of his giving. As Soros explains, "I have used financial markets as a laboratory for testing my theories...[on how to capitalize on] the collapse of the Soviet Empire."[19]

The Soros National Foundations by 1994 stood at 26—excluding China which had been forced to close by in 1993 after completing seven years of what the Chinese Government called "subversive activity." National Foundations now had no office in Asia, but in 1993 had added South Africa. Each of these operations took an inordinate amount of s time as he interviewed candidates to direct operations in each country and helped to select the distinguished representatives of Civic Society that would determine how the funds are spent.

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[19] *Soros on Soros,* p. v.

With regard to budget, data in Table 5-2 show that the National Foundations spent 55% of the total Soros Foundation outlay in 1994--$300 million. The Soros main office in New York City allocated only 12%, including about 2% for his "Presidential Grant" fund and various programs such as the important construction of a data base on war crimes in the Former Republic of Yugoslavia. The expenditures reveal the Soros concern with the deterioration of U.S. health and medical programs.

The 1994 Soros Foundations expenditures reveal that 17% went for the International Science Foundation (which includes recruiting former Russian scientists and sending them to countries where they can make a living without having to build dangerous weapons systems), and about 8% for Soro's International Social Science Education Program (which include training in policy studies, economics, and business administration.

The Central European University, which Soros was reluctant to establish but finally did so, accounted for about 13% of his Foundations outlay in 1994, yet another constant commitment. CEU has been more successful than the National Foundations at raising its own funds, but it is still far from having established the necessary endowment to make it self-sufficient.

The Central European University (CEU) was founded in 1990 with campuses in Budapest, Prague, and Warsaw. The CEU is accredited in Hungary as degree-granting educational institution to "prepare the leaders of the future." The CEU press publishes in the English, Czech, Hungarian, Polish and Slovak languages provides news on the region in the domains of Literature, Political Science, Economics and European Studies.

The Consortium for Academic Partnership, established in 1993, has expanded to include what Soros calls the "Virtual University," that is a program that includes:

- CEU scholarships for students to pursue doctoral work in the United States and Europe;
- professorial exchanges for the CEU Economics School; Freedom Support Act Fellowships;
- supplementary grants for students from the former Yugoslavia displaced by war;
- supplementary grants for Burmese students

With regard to research, Soros established the International Science Foundation, especially to fund former Soviet and the Baltic states scientists; and a basic fund of $100 million enabled them to continue their research in their native countries.[20] Emergency grants were given out of $500 to some 30,000 scientists, travel grants and scientific journals were provided. Eventually the International Science Education Program would make the Internet available not only to the scientists but also to schools, universities, libraries and media.[21]

It has been said that George Soros has his own foreign policy. He has the money to back up his ideas, and in 1994 alone, his Foundations around the world gave away $300 million, or more than Portugal, New Zealand, or Ireland. High-profile projects included a water purification plant in Sarajevo.[22]

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[20] This and the following discussion is based upon *Building Open Societies: Soros Foundations 1994*, New York: OSI, 1994, pp. 15-35.

[21] <www.soro.org. *The International Science Foundation*>

[22] Richard Teitelbaum, "What's Soros Up To Now?" *Fortune*, September 4, 1995, p. 94.

Although theoretically the National Foundations are independent and can seek funds from any source, the reality has been that because Soros is basically the sole funder, they must develop projects within the Soro's general guidelines or face non-renewal. Some Foundations, as in Russia, saw Soros oust "corrupt" Open Society leaders, who chose to spend the NPPO funds on new Mercedes autos for the staff rather than follow the Soros guidelines. Soros did not have to personally dismiss Foundation officials, but signal to the National Board of Directors that no funds would be forthcoming until appropriate changes were made.

Soros continued to add new National Foundations:

1995, Haiti,

South Africa,

Burma (what had been a Project in 1994 operated out of New York Office because of the military dictatorship's hostile view of the idea of Open Society),

1997, Guatemala, Southern Africa

The move into Guatemala was coincident to Soros closing down the Belarus Foundation in 1997 owing to harassment from tax authorities there. Rather than continue to operate under siege from the government, Soros suspended Foundation operations to call the attention of Europe and the USA to the deteriorating human rights situation in that country. At that point, Belarus withdrew its legal recognition of the Foundation.[23]

[23] *Open Society News*, "Belarusian Soros Foundation Forced to Close," New York: OSI, 1997, p. 8.

TABLE 5-3

SOROS's 31 NATIONAL FOUNDATIONS, 2000

(Reorganized here to show place in alphabetical order; officially the place name usually follows the "dash" or come after the "For"

Country	Name

Albania: Open Society Foundation for

Armenia: Open Society Institute Assistance Foundation-

Azerbaijan: Open Society Institute -

Belarusian Soros Foundation

Bosnia And Herzegovina Open Society Fund-

Bratislava (Slovakia)Open Society Fund-

Croatia Open Society Institute–

(Estonia): Open Estonia Foundation

(Georgia): Open Society Georgia Foundation

Guatemala: Soros Foundation-

(Haiti): Foundation Connaissance Et Liberte

Hungary: Soros Foundation-

Kazakstan: Soros Foundation-

Kyrgyzstan: Soros Foundation-

Latvia: Soros Foundation-

Lithuania: Open Society Fund-

Macedonia: Open Society Institute –

Moldova: Soros Foundation-

Mongolian Foundation for Open Society
Prague (Czech Republic) Open Society Fund-
Slovenia: Open Society Institute-
South Africa: Open Society Foundation For
Southern Africa: Open Society Initiative For
Tajikistan: Open Society Institute-
(Ukraine): International Renaissance Foundation
(Romania): Foundation for an Open Society[1]
Russia: Open Society Institute-
Sofia (Bulgaria): Open Society Foundation-
Stefan Bátory Foundation (Poland)
Uzbekistan: Open Society Institute-
Yugoslavia: Fund for an Open Society

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1. For working purposes, it is called "Foundation For An Open Society-Romania," and the same is true for all countries listed in parentheses.

SOURCE: <www.soros.org/natfound.html>, December 2000

With regard to the make-up of the 31 National Boards, the Soros Foundation Internet page announces that each is formed by "distinguished citizens from different ethnic, geographic, political, and professional backgrounds." Given the diversity of social, political, and economic conditions in the countries of the network," and although the National Boards and their programs vary in nature and urgency from one foundation to another, "all of the Foundations' activities share an overarching common mission: "to support the development of an Open Society." The local nature of the decision-making process at the Foundations is "one of the distinctive features of Mr. Soros' approach to philanthropy."[24]

By 2000 the Soros National Foundations listed 31 names serving as Operating Foundations as it is shown in Table 5-3. According to Soros, these national foundations are committed to certain common goals, such as a pluralistic free press, the rule of a democratically elected government, a vigorous, ethnically diverse civil society, respect for minorities, and a free market

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[24] <www.soros.org>, December 2000,opening statement.

economy. They also share a commitment to working together across national, ethnic, and religious boundaries to achieve these goals and such regional objectives as cooperation and peace among neighboring countries.

The manner in which the National Foundations pursue these goals is up to each board of directions and staff, which sets program priorities in response to the particular situation and problems in each country. These National foundations support, in part or in whole, a variety of fellowships abroad as well as national meetings and projects to train a corps of persons who understand the goals of Open Society and the need for NPPOs to serve as countervailing power to government.

Because the countries in which his Foundations have been established do not enjoy a support base of NPPO activity such as in the USA—where the NSFRE, National Society of Fund-Raising Executives, [25] holds seminars with leaders in the private sector

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[25] Effective January 1, 2001, NSFRE has become the "Association of Fundraising Professionals," as recommended by James W. Wilkie, who advised NSFRE that the "National" concept is no longer useful, especially because of the fact that the Society now

about their responsibility to raise NPPO funds for the general welfare of the country--, the Soros National Foundations must themselves usually train business executives to make them aware of the fact that the NPPO sphere has two side—fund raising from citizens and companies as well as fund expenditure.

To inculcate the "culture of giving" and the "charitable impulse," the National Foundations, then, draw upon NSFRE documents that provide both a "Code of Conduct for Fund Raisers," and a "Donor Bill of Rights." The Code reads as follows:[26]:

> [NSFRE and its Code of Conduct exist] to foster the development and growth of fund-raising professionals and the profession, to promote high ethical standards in the fund-raising profession and to preserve and enhance philanthropy and volunteerism. Members of NSFRE are motivated by an inner drive to improve the quality of life through the causes they serve. They serve the ideal of philanthropy; are committed to the preservation and enhancement of volunteerism; and hold stewardship of these concepts as the overriding principle of their professional life. They recognize their responsibility to ensure that needed resources are vigorously and ethically sought and that the intent of the

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has chapters and members around the world. See <www.nsfre.org/index>.

[26] <www.nsfre.org/welcome/general_info>

donor is honestly fulfilled. To these ends, NSFRE members embrace certain values that they strive to uphold in performing their responsibilities for generating philanthropic support.

NSFRE members aspire to:

practice their profession with integrity, honesty, truthfulness and adherence to the absolute obligation to safeguard the public trust;

act according to the highest standards and visions of their organization, profession and conscience;

put philanthropic mission above personal gain;

inspire others through their own sense of dedication and high purpose;

improve their professional knowledge and skills in order that their performance will better serve others;

demonstrate concern for the interests and well being of individuals affected by their actions;

value the privacy, freedom of choice and interests of all those affected by their actions;

foster cultural diversity and pluralistic values, and treat all people with dignity and respect;

affirm, through personal giving, a commitment to philanthropy and its role in society;

adhere to the spirit as well as the letter of all applicable laws and regulations;

advocate within their organizations, adherence to all applicable laws and regulations;

avoid even the appearance of any criminal offense or professional misconduct;

bring credit to the fund-raising profession by their public demeanor;

encourage colleagues to embrace and practice these ethical principles and standards of professional practice; and

be aware of the codes of ethics promulgated by other professional organizations that serve philanthropy.

Further, the Soros National Foundations draw upon NASFRE's Donor Bill of Rights to teach the "inner-meaning" of philanthropy to fund-raising executives in the private sector but also to reassure prospective donors as follows:[27]

> Philanthropy is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:
>
> 1. To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.
>
> 2. To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.
>
> 3. To have access to the organization's most recent financial statements.
> 4. To be assured their gifts will be used for the purposes for which they were given.
>
> 5. To receive appropriate acknowledgment and recognition.
>
> 6. To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.

[27] < www.riarlington.com/nsfrebor>

7. To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.

8. To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.

9. To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.

10. To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

That the Soros National Foundations must create the "culture of giving" reflected in the Code and the Bill of Rights constitutes an added burden on organization and activities that is almost beyond comprehension in the USA, where NPPOs take it for granted that organizations such as NASFRE provide the infrastructure for funding philanthropy. For example, America also enjoys the advantage that NASFRE-trained executives not only convince their employers to contribute to NPPOs, but also move back and forth between the NPPO sector and the private sector.

Beyond NASFE, it is important to note that the new trend in U.S. public-policy training is represented by the graduates of the

UCLA School of Public Policy. Previously most graduates went into government or international-agency serviced. Today only one-third do so, one-third go into the private sector, and one-third into the NPPO sector. The profession of philanthropy represents one factor for the growth of services in America, whether it be on the fund raising side as a Certified Public Fund Raiser or as a foundation staff member.

Without the above infrastructure and supporting contexts for the NPPO sector to support his National Foundations, Soros has been concerned from the outset about how to end his role as sole funder. Thus his 1994 Annual Report, for example, suggested that the National Foundations must at once build the culture of giving as the basis of Open Society. Soros sees these interacting goals, which he admits are perhaps too ambitious,[28] as building the infrastructure and institutions necessary for the National Foundations to create Open Society based on a broad array of programs for education, children and youth, civil society, human rights, public health and humanitarian aid, science and medicine,

[28] Interview, New York City, Open Society Fund headquarters, May 15 and 17, 1996.

arts, culture, and economic restructuring as well as innovative media and communications programs.

Soros and the Media Revolution Against Statism

Soros has used media (newspapers, telecommunications and eventually the Internet) as the main tools in his crusade to establish the opening of societies. His prominent role in bringing down the Iron Curtain is indisputable.

The dramatic revolution and expansion in communications that took place during the late 1970s was expanded to Eastern Europe first through distribution of fax and copying machines that began to break the Communist hold on distribution of information.

With the human-rights orientation of spreading information, one of Soros' first projects had been to offer photocopying machines to cultural and scientific institutions, which was the perfect way to undermine the Communist Party control of information in Hungary. As copying machines increasingly became available in 1984, the Party apparatus could not control the machines and the dissemination of information, thus, as Soros has stated, his foundation in Hungary enabled people who were not dissidents to act, in effect, like dissidents. Similarly the Soros grant program for writers increased their independence, therefore helping to bring about the "disarming" of the Party.[29]

Soros also tried to set up a foundation in China, establishing in 1986 the Fund for the Opening and Reform of China. That China operation was closed down by the Chinese government in the long bitter aftermath of the Tiananmen Square massacre, Soros being labeled as a "CIA agent."[30] Soros is optimistic about China, however, because with the rising number of foreigners living there and the rise of the Internet, which builds on the success of the fax in spreading information, make it increasingly impossible to re-establish the rigid thought-control that prevailed previously.

Censorship in Central and Eastern Europe and the former Soviet Union is now less explicit than it was under communist regimes, who required that all broadcasts and newspapers pass

[29] See *Soros on Soros*, 118-123.

[30] Ibid., 139.

through an official censor. Governments, however, still control much of the physical infrastructure of media transmission therefore exercising indirect censorship.[31] To offset censorship, the Soros Foundations have provided the print media access to international news services and electronic mail as well as equipment, including desktop computers, printing presses, and even blank newsprint.

News outlets supported by national foundations include periodic subsidies to:

Radijocentras, Lithuania;

Radio Vitosha, Bulgaria;

Uniplus, Romania;

Radio Tallin, Estonia;

Radio Echo of Moscow, Russia;

Feral Tribune, Croatia;

Ieve magazine, Ukraine;

Pritonmost, Czech Republic;

Vreme, Yugoslavia.

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[31] *New York Times* Editorial: "The Not-So-Free Eastern European Press," October 2, 1995.

In Russia, the foundation is providing funds to refurbish more than two dozen independent radio stations and to organize them into a network for sharing information.

One of the most-attacked initiatives was the Soros-funded programs in Romania and Macedonia that have acquired second-hand printing presses in the United States. In supporting democratic movements, often times Soros is accuses of meddling in internal affairs. For example, in Romania when the Soros Foundations faced in 1991 the government's attempt to quash news by increasing prohibitively the price of newsprint at election time, the Foundation bought newsprint abroad and trucks to import paper so that independent newspapers could continue to publish. President Iliescu subsequently accused Soros of supporting the opposition, to which Soros responded that he was only supporting a pluralistic, free press. [32]

In Romania, Soros has administered since 1994 the first public surveys ever taken and published them as the "Public Opinion Barometer." The goal is to take the pulse of opinions about the country's economic and political life.

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[32] *Soros on Soros*,, p. 139.

On another front, Soros Foundations in Romania, Russia, and Ukraine have sent local journalists to CNN's U.S. headquarters in Atlanta, Georgia, for the six-week International Professional Program. Foundations in the former Yugoslavia sent reporters to London for two months of training and work at the Balkan War Report, the highly regarded publication of the Institute for War and Peace Reporting. The Soros foundations' priorities in the area of communications are support for the establishment of strong, competition in the independent media as well as the expansion of telecommunications throughout the above mentioned regions.

Rather than creating competition, ironically Soros found that in one major case he has had to subsume it in order to save it--the case of Radio Free Europe. With the tremendous reduction in funds supplied by the USA, Radio Free Europe would not have survived had not in 1994 Soros moved it to Prague and reorganized it as part of his Open Media Research Institute (OMRI),[33] In this case Soros entered into a joint-venture to acquire

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[33] The OMRI Library contains archives Soros centered in Prague to

Radio Free Europe's Research Institute and, under a fifty-year lease, its archives.[34]

On the human rights front, the Soros foundations network disseminates and gathers documentation of abuses and human rights violations in Central and Eastern Europe, all concentrated in The Open Society Archives in Budapest.[35]

Two of the most relevant educational programs of the Soros Foundation are the Transformation of the Humanities Project and the Social Science Projects, which attempt to undo the previously state-controlled educational system in Russia and the other countries of the former Soviet Union and ex-satellite states. The ambitious project to replace Marxist-Leninist text books and teaching in school and universities has been undertaken in cooperation with the Ministry of Education and commissioned thousands of books, training professors, giving grants to

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save much of history of Central and Eastern Europe under the domination of the former Soviet Union.

[34] Bruck, *The World According to Soros*, p. 71.

[35] Todd Diamond, "Responding to the Trauma of Kosovo," *Open Society News*, Summer 1999, p. 8

innovative schools, introducing new curricula at selected demonstration sites in various disciplines.[36]

The new textbooks, as well as Western texts adapted and translated for Russia, are being published at a rate of ten a month and 10,000 copies a run. The Transformation of Humanities Project has been replicated in Ukraine, Lithuania, Belarus, Estonia, Kazakhstan, Kyrgystan, Romania, Bosnia and Hertzegovina, and Macedonia.

Russia has been a difficult country for Soros. He began organizing the Soviet Cultural Initiative Foundation in 1987 only to have the management of it fall into the hands of a reformist clique of Communist Youth League officials, who paradoxically proceeded to form a closed society to promote an open one.[37]

For Soros, Gorbachev had the great merit to have first shaken the rigid power structure and break the isolation into which the Soviet Union had fallen. Gorbachev thought of Europe as an open society, where frontiers lose their significance. He

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36 *Soros on Soros* , p.128.

37 Ibid., p. 128.

envisaged Europe as a network of connections, not as a geographic location, the network extending the concept of civil society through an international arena. Gorbachev could not implement such ideas, but he must be credited with having planted them in infertile soil.[38]

By the 1990s, the Soros Foundations began widespread dissemination of the computer in Russia and Eastern Europe to open even the most remote areas to the expanded communications links required for mass organization and concerted action. Thus, the Hungarian-born philanthropist Soros has embarked on an ambitious plan to set up 30 Internet training centers across the far-flung regions of Russia.

Meanwhile, Bill Gates, whose business visit to Russia, happened to coincide with one of many Soros' visits, may have been influenced implicitly by Soros because he has established his own program to help set up in Russia Internet training and access

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[38] George Soros, *Opening the Soviet System*, London: Weidenfeld and Nicolson, 1990, p. 102.

to Internet data bases.[39] Gates, who has no philanthropic infrastructure of his own around the world, has, however, helped to establish the spread of computer culture in the developed world, a culture that led to the Internet, which Soros has used to link his National Foundations via electronic communication as well as to facilitate the spread of his ideas.

Soros' goal has been to turn the closed society of totalitarianism into an Open Society that follows Popper's prescription for setting "free the critical powers of man."[40] Before the revolutions that swept Central and Eastern Europe, dissidents had a similar goal; they called it "civil society," defined by some as "the connective tissue of democratic political culture."[41]

At the end of 2000 we have been fortunate to witness in the Czech Republic a case which helps us to define the concepts of civil society and Civic Society: Staff at Czech Television have

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[39] Jeffrey, Williams, "In the Kremlin, [Gates,] a Computer Czar," *Los Angeles Times*, October 11, 1997.

[40] Karl Popper, *The Open Society and Its Enemies*, 1995, p.183.

[41] George, Soros "Address to the [Central European University] Budapest Graduation Ceremony," p. 15.

refused to accept the appointment last month of new director-general Jiri Hodac because they see the parliament-elected Czech Television Council as dominated by Vaclav Klaus, leader of the Civic Democrats (ODS), and mainly interested in politicizing the news by interfering with their editorial independence.[42]

Rebel employees led by the station's journalists have occupied studios, which they see as an organ of civil society, and even though they have declared a strike have been producing their own versions of new programs since Dec. 23. Backed by journalist organizations and unions throughout Czechia (including 120,000 petition signers) and Europe, they have demanded through Civic Action that the station retain its non-political role in civil society. Although Hodac has managed to black out the rebels' broadcasts and replace them with news prepared by a team loyal to him, viewers with satellite and some with cable can still see the rebels' news.

Thus Reuters News Service reported the Czech television conflict as having exposed growing rifts in Czech society over the shape of democracy, 11 years into post-Communist transition:

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[42] *New York Times*, January 3, 2001.

> The protesting television staff have the backing of the vast majority of Czechs, including President Vaclav Havel, who has said Hodac was named "against the spirit'" of the law.
>
> The ODS insist Hodac was appointed by a democratically elected body, and have sniped at Havel for joining those who aim to ``abuse the conflict... to destabilize the society."
>
> Hodac has fired more than 30 of the rebels and filed criminal complaints against some. He has threatened to use force to clear the newsroom, but police have refused to intervene.
>
> Havel, an arch-rival of ODS leader and Lower House chairman Vaclav Klaus, is a champion of a strong "civil society,'" giving various citizens' groups a bigger voice in public affairs.
>
> Klaus strongly opposes this concept, saying only political parties have a real mandate to rule.[43]

Here the concepts of civil society and Civic Society are clearly juxtaposed; and the difficulty of maintaining freedom of the press under State Television; it is clear until Civic Society remains vigilant, as in today's Czechia. Further, the case raises the question about whether or not Czechia is ready to join the European Union.

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[43] Ibid.

This case fits within Soros' conception of Open Society and demystification of government, wherein closer association between the nations of Europe is desirable, provided that the State not defines or dominates the international activities of the citizenry. His concept holds great appeal for people who have been deprived of the benefits of an Open Society.

Soros' priority is to help give access to the world of information not only to journalists, as we have seen, but to other professional groups, especially including librarians and scientists as well as individual citizens. For Soros it is Electronic mail and Internet connectivity that hold the possibility of bringing to East-Central Europe and Russia a new method of communications particularly suitable to the building of open societies,[44] as is exemplified in the case of Czechia, namely the use of media against the attempt by Statist-oriented politicians to control the media.

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[44] *Open Society News*, Fall 94, Electronic Edition, Soros Foundation: <www.Soros.org>.

An intrinsic part of "opening" societies, the commitment to bringing peace and stability to war-torn South Eastern Europe is one of the fundamental projects supported by the OSI network program.[45] The Civic Education Program launched fall 2000, investigation of economic development and local governance, education systemic reform are part of the concerted regional efforts covering a number of Stability Pact countries.

Soros as Philosopher Economist

Soros has never been able to separate his business thinking from his philanthropy, which is perhaps a good thing, except that he has wasted his time attempting to rephrase the meaning of Karl Popper's thoughts about Open Society, almost as if to

[45] "Soros Foundations Network Project in South Eastern Europe," *Open Society News*, Soros Foundation Network News, OSI, Fall 2000, p. 19. More details on the network projects at: www.osi.hu/sppp/index.html

convince himself rather than his readers that there Popper's theory is more as a practical guide than a philosophical insight.

Too, in his travels to Russia and Eastern Europe in the early 1990s, Soros became convinced that many citizens there are disillusioned and angry with the West, because the market economy being imported lacks a concept of common interest.[46] Hence he soon found himself arguing that the U.S. model of untrammeled pursuit of self-interest can not always or everywhere represent the common interest.

Overly generalizing the meaning of his travels at one point in time, Soros argued that the U.S. model, which now dominates world development thinking, requires new rules and standards of behavior to circumscribe and contain competition in order to sustain it. To this end he has suggested that the concept of Open Society has the answer for developing new standards—Open Society being based on recognizing the fact that the world in which we live is inherently imperfect, as is human understand-

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[46] George Soros, "Address to the [Central European University] Budapest Graduation Ceremony," *CEU Gazette*, Spring/Summer 1995, p. 15.

ing of it. In Soro's philosophy, the great merit of Open Society is to permit correction of faults. So far, so good, but then Soros has suggested that the Western democracies are morally bankrupt if they subsume common interest to the pursuit of narrow self-interest.[47]

Taken by these ideas, in 1998 he wrote *The Crisis of Global Capitalism: Open Society Endangered,* [48] in which he spent too little time telling us about his own experiences in the market and too much time telling us how the world should be reorganized to prevent capitalism from destroying itself.

Now in 2000 he has written yet another philosophy of the market place entitled *Open Society: Reforming Global Capitalism,*[49] wherein he tries to keep up with modern philosophic studies by adding equations about the nature and complexities of Open Society.

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[47] Ibid.

[48] Geoff Shandler, ed., New York, Public Affairs Press.

[49] *Open Society: Reforming Global Capitalism*, New York: Public Affairs Press, 2000.

But let us see what Sylvia Nasar, a fellow at Cambridge University who is writing a book on 20th-century economic thinkers has to say in her brilliant analysis of Soros' economic philosophy:[50]

> *Open Society: Reforming Global Capitalism* is only a marginally better book than the windy and portentous *Crisis of Global Capitalism,* published just two years ago--and then mostly because in the new book Soros recants some of his old conclusions. It's a shame. Buried under all those vague philosophical musings, pretentious phrases ("reflexivity," "radical fallibility") and grandiose proposals, Soros has a valid point.
>
> [Soros] is correct in saying that capitalist economies tend to be unstable and that the source of instability can usually be traced to the logic--or illogic--of financial markets. The idea that financial markets are prone to booms and busts, herd behavior and self-justifying panics is, of course, not exactly new. Nor is the notion that investors' mood swings can, unless contained by government intervention, inflict horrible and utterly unwarranted damage on the "real" economy. John Maynard Keynes--the great British economist, who also happened to be a highly successful investor--made these very observations at the start of Great Depression when he urged financial authorities to adopt an active role in stabilizing investors' expectations.

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[50] Sylvia Nasar, "So He's Not a Prophet. So He's a Reformer: The World Seems to Work Better than George Soros Thought, but He Still Has Ideas to Fix It," *New York Times Book Review*, Dec. 31, 2000, p. 8; <www.nytimes.com/books/00/12/31/reviews>

While Soros' point is hardly original, it's one that tends to be forgotten in good times. If Wall Street were only left to its own devices, goes a sanguine and often heard refrain, the global capital market would always reward economic virtue and punish only vice. For most of the last quarter-century, this laissez-faire attitude seemed to fit the facts. As global finance grew by leaps and bounds, most developing countries grew faster than developed ones. And those emerging economies that tied their fortunes most closely to international financial markets grew fastest.

Then in the late 1990's virulent panics not seen on a large scale since the 1930's suddenly caught the world by surprise. Just three years after Mexico's 1994 peso crisis, the Asian miracle economies were toppling like dominoes. By 1998 Russia had defaulted on its foreign debt and within a year Brazil was teetering on the brink. The global crunch hardly conformed to the notion of a few bad countries getting their just deserts. Market fundamentalists tried to claim that the guilty were only getting the punishment they had coming. But to most observers, including Alan Greenspan, the chairman of the Federal Reserve, the consequences seemed vastly disproportionate to the causes. Investors rushed for the exits, making even the United States begin to look vulnerable. As the Dow dived and the bond market froze, it appeared to some that the triumphant march of global capitalism was about to come to an abrupt and nasty end.

"Prophecy is the most gratuitous form of error," the novelist George Eliot once dryly remarked. At the height of the crisis in 1998, Soros abandoned his earlier, prudent habit of avoiding public comment, and embarked on a series of wildly mistaken pronouncements. In "The Crisis of Global Capitalism," he claimed that global capitalism was "coming apart at the seams" and predicted its imminent demise.

[Soros admits:] "In retrospect, I was wrong to predict disaster, and now I have some egg on my face." Unlike the Yom Kippur war in 1973 or the Iranian revolution of 1979, the turbulence on the far side of the globe did not produce recession in the United States or Europe. Meanwhile, the economies that were knocked down during the panic have staged an amazingly fast comeback. Mexico, the first victim of capital flight in the 1990's, has since repaid its $26 billion bailout and now boasts 6 percent growth and an inflation rate of less than 10 percent. South Korea is expanding at 11 percent, wiping out the 7 percent decline in its output during the crisis. Singapore, Hong Kong and the Philippines have also rebounded. Thailand and Indonesia are still struggling, but show signs of recovery. Brazil, which got a $45 billion aid package at the end of 1998, is expanding at a 4 percent rate after two years of zero growth.

Soros' even more dire political prophecies did not pan out either. "I predicted that nationalist forces will engage in an orgy of expropriation," he says. Instead of embracing fascism, as he feared, most of the affected countries adopted reform programs and, eager to keep new technology coming their way, did their best to get foreign investment flowing again. "Under current conditions it simply does not pay to opt out of the system," he writes now. "There may be some rogue states, but they are unlikely to bring down the capitalist system. The end of the system is not currently in sight."

In explaining his wrongheaded predictions, Soros says that he underestimated the speed and smoothness with which financial authorities--including the much-maligned International Monetary Fund--would contain the crisis. (Someone else might go farther and say that international financial safeguards and intervention worked far better in the 1990's than they had during the third-world debt debacles of the 1980's.)

Thus it's odd that Soros hasn't abandoned his quixotic enthusiasm for a big fix. To be sure, he admits that there's little political appetite for his pet proposals, whether a world central bank or an economic NATO. This may be an age of global finance, but it's surely not an age of global government. And vague as he is on details, he never says why he thinks that the kinds of piecemeal reforms that are currently on the table--like tougher international banking standards, debt forgiveness or more gradual financial deregulation in emerging economies--aren't a workable way of regulating markets without strangling them.

The most interesting passages in *Open Society* are the introspective ones, in which Soros reflects on his own fortunes. Like the financial wizards who ran Long-Term Capital Management, Soros wound up with more than egg on his face. The man who brought the Bank of England to its knees in 1992 [and bet correctly] against the Thai baht in 1997 . . . became the chief victim of his own bearish theories. "I envisaged declines of various shapes and sizes, but the idea that the stock market may go on to new heights did not enter my field of vision,' he writes.

The great contradiction in Soro's philosophy of economics is not only that he engages in the type of prophesizing that his "mentor" Popper warned against,[51] but that as leader of Open Society, he calls for huge new bureaucracies and even a "

[51] In Popper's *The Poverty of Historicism* (originally published in *Economica*, 1944/1945.), Popper not only prescribes piecemeal reform because it can be better monitored to eliminate mistakes in the small; but he proscribes revolutionary reform because we can neither easily monitor the society-wide ramifications nor reverse leaps of faith. Popper contrasts historical prophecy and scientific prediction, arguing that the prediction of social events is severely limited by the impact on society of unforeseeable new knowledge.

Grand Alliance of Democratic Countries" to regulate world economy, currency flows, and trade.

Yet in late 2000 when interviewed in Chile, he sounded much as if he would be an excellent candidate for Ernesto Zedillo to invite to join the new U.N. Commission on Financing the Globalization of Underdeveloped Countries. (This Commission, as we saw in the previous chapter is concerned more about assistance funding—dear to Soros' heart—than with investment flows. Soros seems to agree implicitly with Ernesto Zedillo, the former President of Mexico who chairs the Commission, that "the problem that the world faces is inadequate capital flows from countries at the center to countries on the periphery. It is going to be a chronic, not a temporary crisis, and I believe it is already underway . . . [A] crisis cannot be avoided, but I believe that positive incentives can be created that could promote investments in emerging countries and those should be put in place by the international financial institutions." [52]

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[52] "Soros Predicts "Bouncy, Hard Landing for U.S.," *Los Angeles Times,* December 31, 2000, p. C3.

But at least Soros is brilliantly consistent. In his world of philanthropy he has created a huge bureaucracy involving 31 National Foundations and countless programs. Indeed by the late 1990s he began to be as much concerned with problems in the USA as with those where his National Foundations are located.

Further Thoughts on Soros

Soros' Foundations have heralded an era in which social and cultural responsibility, controlled by State up to 1989 in Russia and Eastern Europe, is defined by private giving. Soros Foundation grants to Eastern Europe outstrip the amounts given by most Western corporate foundations in Europe. Soros' funding has gone less to construct capitalism than to rediscover the human riches of intellect that communism plundered.

Soros' 1989 call for Marshall Plan for Eastern Europe and Russia to build civil society from the ground up was unfortunately not heeded by Western governments who preferred to promise much (but deliver little) economic aid. Germany only being the exception owing to the cost of reuniting East with West Germany into one Germany. Tragically, Soros' new Marshal plan (1989) was "greeted with amusement" by European leaders,[53] who clearly lacked the imagination and will to understand the depth of developmental problems faced where the Communist Party had ruled.

Although Soros called for the building of civil society, he himself has funded what I call Civic Society, except in the case of the $50 million he granted to the new Macedonian State in order to save it from bankruptcy.[54]

As we have seen in analyzing Soros' programs, where many have had salutary impact by giving hope (if not always working out the way Soros and the National Foundations had hoped), plans did not work out in China and Belarus. Further, in other countries Soros has suffered temporary setbacks (each of which demands an extraordinary amount of his time), such as the 1996 problem that emerged in Serbia when he Milosevic regime in Belgrade dealt a financial blow to the Soros National Foundation

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[53] Barry, Newman, "Soros Gives to Help East Europe Recover Lost Cultural Treasures," *New York Times*, March 22, 1994.

[54] *L'Evenement,* No. 583, 1989, p. 27.

and its media subsidies in two ways. It hurt all independent media by revoking the registration of the Soros Foundation, forcing it to close down operations in Serbia and Montenegro. This also has slowed the work of the Open Society Institute work in Belgrade where it is developing an important part of its A Balkan War Crimes Database.[55] In the end, Soros persevered and helped bring about the end of the Milosevic regime in 2000.

Another setback came from his own National Foundations in 1995 at the Tallin (Estonia) meeting of his East East Program. Soros, who had invited the National Foundations to seek donations from U.S. and European foundations until a responsible civil society could be created to foster the culture of giving and be able to fund them—a matter of decades--, heard his Foundation delegates from Eastern Europe and Russia conclude the opposite. Ironically, the Open Society Institute (OSI) meeting, which itself was funded from the USA, determined that "international funding is not the solution for the long term future" of the NPPO sector in Russia and Eastern Europe. Hence, the meeting concluded that it

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[55] *New York Times* Editorial: "Censorship in the Balkans," March,

should look inward to develop private funding sources in each country of the region.[56]

The East East Conference's conclusion not only ran counter to Soros' own experience of encouraging the flow of NPPO funds from outside into Eastern Europe and Russia, but owing to the lack of domestic philanthropy in each country, placed the burden of continued funding directly on Soros' shoulders.

Perhaps the problem has been caused by Soros himself, who as indicated above, has never fully or effectively recognized the need to develop the NPPO legal framework that will facilitate the in-flow of funds from the USA, without which the NPPO sector fostered by Soros will remain stunted, with the exception of PHARE funding from the EU which often mixes its philanthropic grants with small business grants that run counter to U.S. NPPO law. Neither the governments nor the private sectors in Russian

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14, 1996.

[56] *Open Society News*, Fall 1995/Winter 1996, p. 9. Ironically publication of this newsletter is centralized in New York City in order to be a neutral voice for the 31 National Foundations that compete with each other for Soros' funds.

and Eastern Europe have the funding needed to substitute for and expand upon Soros' funding--funding limited by Soros' personal ability to maintain his pace.

The problem comes back to the fact that without a NPPO legal framework to encourage internationally-oriented foundation "investment" in the human capital of Eastern Europe and Russia, the Soros Foundation Model cannot easily be followed, leaving Soros to stand alone as the funder of only resort. The challenge to Soros is not to be the sole funder in each country because the task of establishing the open basis for civil society requires the spending of billions of dollars by funders making the thousands of decisions no one organization can make.

Beyond Soros' use of funds to support debate and spread of information, then, Soros must now help support the NPPO legal basis for the establishment of competing foundations. Without competition, Soros Foundation decisions about whom to fund has the political consequence of alienating those who are not funded and who are without other recourse as the State contracts—a daily fact of life faced by the National Foundations who are often accused of favoritism. Where NPPOs in the USA have the luxury of suggesting to applicants for funding that they apply to a foundation with which they compete, the National Foundations have little such luxury.

What is needed is the establishment of U.S.-Mexican type NPPO legislation that will facilitate the inflow of funds from U.S. grantmaking NPPOs as well as permit foreign investors to establish company foundations, thus leaving some of their profits in Eastern Europe and Russia. This strategy, followed by the Ronald McDonald Foundation in Romania (which has unrivaled experience in such ventures) helps ward off the attack by "nationalists" who claim, erroneously (I hope), that their country is being sacked by greedy foreign capitalists.

Soros argues that to delve too deeply into national laws regulating the activities of his National Foundation invites a bad press, but with developing a standard NPPO legal framework for Russia and Eastern Europe that will facilitate the in-flow of funds from the USA, the NPPO sector fostered by Soros will remain stunted. Neither the governments nor the private sectors in Russian and Eastern Europe have the funding needed to substitute for and expand upon Soros' funding, and funding remains the sole responsibility of Soros' personal ability to maintain his profits at the level required to support the giant 31 National Foundations.

By creating a bureaucracy of Foundations, Soros faces two contradictions that he must have feared from the outset. First, how could he prevent his Foundations from becoming the kind of unresponsive operations run by a meritocratic elite (thus requiring long lead time to develop projects) that is more concerned with its own well being that that of its grantees--as has happened too often in many of the Rockefeller and Ford Foundation offices as well as in and too many multilateral development banks and agencies. Such bureaucracies defeat the purpose for which they were established because their leaders seek to protect themselves (and their jobs) by becoming risk-averse. In making so many appointments to establish the National Foundations, Soros faced the problem from the outset as to how (or to what extent) to appoint risk-takers, who might not be able to work well within countries where new national bureaucracies have been attempting to establish their own risk-averse positions.

Second, as a consequence of the first point, Soros has been able to do what most foundations cannot do, not only because his entire financial trading history is based upon that of being a risk-taker who grasps the moment. Yet the very nature of traditional foundation bureaucracies and foundations themselves is to avoid risk, not seize the moment. Because most foundation leaders and all leaders of multilateral development and banking agency tend to be risk averse, too often they miss the opportunity to be a part of genuinely new programs.

One big step to resolve the above problems came in the 1997-1998 through the initiative by Soros and Francoise Girard (regional director for Romania in New York) when they decided to focus on legal reform issues. The legal reform program consists of three areas: first, to provide assistance in training judges; second to give law school courses on core human rights law and European law; and third, most importantly for analysis here, to offer funding for experts to advise parliament and the government in changing and improving legislation to help foster the NPPO sphere.[57]

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[57] "Civil Society Takes Hold in Romania," *Open Society News,*

With the conundrum Soros faces outside the USA as to how to stimulate new thinking, it is no wonder, then, that he has turned much of his focus to problems in American society, especially in light of the U.S. health-care crisis since the early 1990s.

With regard to philanthropy for medical goals, Soros' concerns about the American situation caused him to initiate a "Project on Death and Dying," dedicated to research and issues of terminal illness and pain management (which he had faced in the death of his own father), and on which he intends to focus more of his energies and funds. The goal of the Soros Project on Death in America is to help expand our understanding of and to transform the forces that have created and sustain the current culture of dying. The $5 million project supports epidemiological, ethnographic, and historical research as well as other programs that illuminate the social and medical context of dying and grieving.[58] In Soros' own words the American medical culture,

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Fall/Winter 1997, p. 9.

[58] George, Soros "Reflections on Death in America," *Open Society News*, Winter 1995, p. 2.

"modern medicine is so intent on prolonging life that it fails to prepare us for death." The results of the research will help to encourage family involvement and to reduce the dehumanizing effect of medical treatment.

By becoming involved in identifying solving U.S. problems, Soros has diverted funds from his National Foundations to support of a host of American projects, such as the Reproductive-Rights Program[59], the Emma Lazarus Program, and, the Center for Crime Prevention Program.

Conclusion

Although Soros has not led foundations to follow him into Eastern Europe and Russia (with perhaps the exception of Bill Gates who will build libraries and Internet educational sites in Russia), in the long term his Foundations provide a model for the future, a model that works without regard to borders.

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[59] See, for example, Rachel Zimmerman, "Wrangling Over Abortion Intensifies as RU-486 Pill Nears the Market," *Wall Street Journal*, November 14, 2000.

Regardless of what his detractors claim, Soros has tried to put half of his profits to good use, and as we will see in the Epilogue, he has helped to open a healthy competition by engaging in the "race of giving" with Ted Turner (owner of CNN) and Bill Gates (Microsoft.). Where their programs are trying to solve global problems (such as disease prevention), however, it is Soros who maintains the case for meeting national development of civic society and Civil Society. To this end, Soros has most recently focused on human rights issues in what appeared to have been lost cases such as Haiti and Guatemala, where education for the masses and open communications have been nearly non-existent.[60]

As a "responsible" capitalist, Soros helps build democracy into the communities of many nations by implicitly replicating the U.S. model of NGO that consists of an open elected board made up of local prestigious people from different interest groups: businessmen, doctors, academics, union leaders etc.

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[60] Poole Claire, "A New Latin Empire" *Latin Trade*, November 1997, p. 35.

Where Rockefeller failed, Soros has created successful NGOs, with local boards.

Soros' local boards of directors make their decisions openly and transparently. Projects are being funded by open review of the projects and they spend their funds with transparency and also submit a final report at the end of the year. If the NGOs have not been successful in completing the operation, no further funding will be available.

Soros has long been committed to building and promoting democratic institutions, and he helped lay the basis the 1999 Warsaw Pact to promote global democracy.[61]

Clearly this major world figure not only has created the Decentralized Model of Philanthropy, but he continues to be ever more active around the world. Ironically, his move out of hedge-funds in 2000 will give him even more time to keep his existing NPPOs operating. If he runs true to form, Soros will no doubt surpass 31 as the number of Foundations he seeks to leave to world history.

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[61] David Holley, "Conference Yields a Pact to Promote Global Democracy," *Los Angeles Times*, June 28, 2000.

CHAPTER 6

CASE STUDIES OF PHILANTHROPY AND GLOBALIZATION IN MEXICO AND EASTERN EUROPE'S ROMANIA

[In Mexico the Alianza Civica and the NGOs
tend to be identified with
protest against political, environmental,
and human-rights abuses.]

--Sergio Aguayo (1997)

Under communism the nations of Eastern Europe never had a
'civil society.'
A 'civil society' exists when individuals and groups
are free to form organizations that function
independently of the state,
and that can mediate between citizens and the state.
Because the lack of civil society
was part of the very essence of the
all-pervasive communist state,
creating [civil] society
and supporting organizations
independent of the state--[such as] NGOs—
have been seen by donors as
the connective tissue of democratic political culture—
an intrinsically positive objective.

--Janine R. Wedel, 1994, p. 323

[Scholars such as Chris Hann]
criticize the notion put forth by some western scholars
and former Central European dissidents
that there was no civil society in Central Europe
during the communist period . . . .

[because the concept of "civil society"
was not even included in the
Polish Political Dictionary
published in New York in 1980 and
London in 1985. . . .]
However, [under communism] civil society
itself continued to thrive at the grass-roots level,
although Western intellectuals could not
possibly have been aware of it. . . .
[Dissidents] liked to imagine themselves as the
"heroic underdogs"
opposing the totalitarian state.
In effect, Hann asserts, scholars were mistaken
in perceiving members of
communist societies as atomized and
unable to form an authentic civil society. . . .
[Civil society existed in the following forms:
•official associations licensed by the state
(such as Village Women Housekeepers Association,
Polish Student Association, Polish Scouts, and
professional associations such as writers)
which involved political imposition from the top
but at the bottom involved the possibility
of apolitical collective action against the party),
•unofficial associations (including extended kin groups)
•informal interest groups
(including traditional village families and mutual self-help groups),
•religious organizations
(usually but not fully controlled by the party), and
•social protest organizations
(which began in the 1956 rebellion for
"freedom and bread" and although quickly
curtailed by the party, evolved by 1976 into
KOR
or the Workers' Defense Committee]
to help detained workers and
defend those brought before the courts.

--Michael Buchowski, 1996, p. 83

Introduction.

This Chapter focuses on Civic Society's role in attempting to strengthen civil society in Mexico and to start to build it in Romania, where it was completely destroyed during the communist dictatorship from 1945 through 1989. My argument is that (1) civil society has been able to save itself in Mexico through Civic Action (often supported by philanthropic donations from abroad); and that (2) Civic Society is attempting to build civil society in Romania (especially through the role of the Soros Foundation), civil society that was destroyed in Eastern Europe and Russia by the Communists, who considered Civic Society as "subversive" to Statism.

Whereas Wedel in the quote above correctly poses the issue facing Eastern Europe, Buchowski completely misunderstands what civil society means. If we follow his definition of the communist pioneers' organization, the logical conclusion is that the brainwashed Hitler Youth were exemplary members of civil society.

In this chapter we will examine Mexico's new NPPO and NGO legislation and its unique standing as having achieved, through U.S.-Mexico treaty provisions, the mutual recognition of philanthropic spheres, thus facilitating the flow of U.S. foundation funds to Mexican NPPOs. The nascent Civic Society in Romania seeks to influence the Romanian government not only to establish civil society with fair societal rules and rights of appeal but also to follow the Mexican model, which involves working closely with U.S. Treasury to facilitate the inflow of U.S. foundation funds.

Why Mexico? Because it, together with the USA, has created the only international standard that exists to ease the flow of foundation funds internationally—and from the world's largest source largest pool of such funds, that of the USA.

It is of great interest to Romanian NGOs, as a Latin-based model, the only one in the world that corresponds to the pre-communist laws to which it has reverted after a time warp.

The years 1917 and 1989 offer the benchmarks for understanding the rise and eclipse of centralism, analyzed here in case studies for Romania in Eastern Europe and for Mexico in Latin America. World statism was generated simultaneously by the Mexican Revolution's 1917 Constitutional Model (which still prevails) and the 1917 Russian Model of Revolutionary Terrorism, both of which encouraged the rise of state monopoly that distorted economic, political, and social systems. In Russia and Mexico one-party political and economic systems came to define the dimensions of statist corruption that became prevalent in so many countries worldwide.

With the problems of excessive centralism manifest by the 1980s, statists in Mexico and Romania took very different paths to save their power. In the Mexico of 1983, the new President Miguel de la Madrid began to bring to a halt the expansion of state power by beginning to permit large private land holdings of production for export even as he began to close or sell some money-losing factories and service companies.

In Romania of 1983, the brutal dictator Ceausescu (1963 to 1989) attempted to deepen his control, thus accentuating the crisis in statism that within six years saw his bloody fall. Ceausescu's drive to increase state income by expanding food exports to the world caused crisis in central government financing of local welfare as well as shortages of staple goods needed by the masses. Thus, by 1989 Ceausescu's dictatorship of extreme state centralism of power at the national level left Romania's thousands of communities in poverty, with civil society unable to think for itself after 40 years of failed central planning.

Meanwhile, half-way-around the world, Mexico faced the problem of statism but one in which civil society had been compromised, not destroyed as had been the case in Romania.

In Mexico the rise of statism had been gradual beginning with President Lázaro Cárdenas in 1934. Cárdenas and those who followed him steadily expanded the size of the State until it owned more than half of the country's GDP. The statist solution seemed to work for decades and not until 1982 did Mexico's civil society and its population at large realize that it had been left bankrupt literally and figuratively, albeit, as in Romania, with subsidies from the central government to support the country's corrupt one-party political system.

With the 1982 collapse in demand for oil and raw materials owing to the world downturn after the Arab oil embargoes and quintupling of energy prices in the 1970s, Mexico was unable to borrow international funds, thus "bankrupting" efficient private industry as well as highly inefficient statist enterprises. Subsequent shrinkage of subsidies caused increasing crisis in the living standards for the thousands of Mexico's communities in which the only basis for funding had been the central government. With the decline in size of state economic power, then, the state itself has barely been able to cope with the series of recurring economic collapses caused by earlier central government mismanagement of nationalized industries.

Incapacity of the statists in both Mexico and Romania to maintain their corrupt systems changed dramatically after the fall of the Berlin War in 1989. The unmasking of the Soviet system and its 1991 collapse revealed it to be a negative development model, not the ideal model that ideologues believed to have existed. Now free to act, anti-statists unleashed rapid change in the old Communist World. "Anti-statism" in Mexico and Romania took different routes from 1989 to 1997. In Mexico, anti-statist leadership led by President Miguel de la Madrid began with timid care so as not to incur the wrath of the highly unionized society that always voted for the Official Party in return for relative privilege of believing that it "owned" the state enterprises. De la Madrid and his Secretary of Planning Carlos Salinas de Gortari could justify the first privatizations, however, because there could be no hiding that the State was literally bankrupt. Further, the two began deregulating the economy.

As President in his own right from 1998 through 1994, Carlos Salinas was aided by events in Russia. (The USSR's implosion both dispirited and paralyzed Mexicans who favored statism—their "model" gone from the world scene.) Thus Salinas could accelerate decentralization of state activity as well as massive sale and closure of inefficient industries. Another important aid was the rise of Civic Society dating back especially to between 1968 and 1985 when it had become increasingly clear that civil government was failing. The student strike of 1968 may have been led by some political thugs but the general movement was supported by the middle class actively demanding change in the university system. Then came the women's rights movement and organization of the Doctor's Strike against the low State's low salaries.

Finally, in 1985, almost the entire population of Mexico City found itself mobilizing to combat the effects of the devastating earthquake that had hit Mexico City, killing over 12,000 persons. With civil government standing paralyzed,[1] citizens realized that

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1 Juan Manuel Sáiz "Estado Sociedad Civil y Movimientos Sociales", p. 564, in *México 75 años de Revolución,* México, D. F.: Instituto Nacional de Estudios Históricos de la Revolución Mexicana, 1988.

they had to organize Civic Action in order to restore on their own civil society. Thus, they began to provide medical care, distribute food and clothes, and reconstruct housing—simply ignoring government officials who had not been appointed for any expertise but for their cronyism. Civic Society organized into NGOs, the number increasing dramatically each year after 1985.

In contrast to Mexico, the situation saw its great change in Romania in 1989 when "counter-revolutionary Communists" overthrew Ceausescu and his wife (she being considered to be the power behind him) and executed them to save themselves from the revolution against Communism that swept Eastern Europe after the fall of the Berlin Wall.

In "post-Communist" Romania, the brief spurt of Civic Action that had protested against the Ceausescus to bring an end to their regime was pushed aside by the old-line Communists, capitalizing on the fact that they themselves had conducted the "execution" of the dictatorial couple. Although the old-line leaders officially called for Romania's de-statification, they took little action against the State's power and certainly had no interest in forming real civil society. Indeed they were pleased to let the bureaucratic infrastructure and tangle of "red tape" remain in place, with no appeal against administrative indifference or error.

The Glimmer of Civic Society in Eastern Europe

To match the demise of statism, and often to help its demise, Civic Society has arisen in its own right to assume growing importance depending on the country, the USA providing for Eastern Europe perhaps the strongest "model." Ironically the USA may not be the best model because the "state" never gained the power that it came to hold in Eastern Europe and, therefore not only its law codes but also its experience are so very different.

The basic notion of Civic Society is that the people can and should prevent the civil society (including especially the government) from becoming authoritarian. Civic Society represents that part of civil society which mobilizes civic spirit to "right the wrongs" when they are identified and not resolved properly by government. Some of the "wrongs" are identified spontaneously and some on an on-going basis. (The U.S. American Civil Liberties Union, for example, maintains a standing corps of attorneys that respond to complaints as well as watch vigilantly for possible wrongs.)

The rise of civil society in Western Europe and the USA had been set back by World War I and world economic depression between 1929 and 1939. To face these emergencies, state power was seen as necessary for political and economic defense. In the USA, the New Deal's mixed capitalism and its expansion of state activity offered an alternative to the rise in Europe of statist fascism and statist communism.

In Eastern Europe, the Western concept of civil society had only partially penetrated by the early twentieth century. There, however, it existed in widely varying degrees ranging from incipient democracy in Poland to monarchy in Romania. In the latter, the nobles and the small middle class exercised civic responsibility.

Expansion of civil society in Eastern Europe, which was disrupted by World War I and remained weak during world economic depression of the 1920s and 1930s, saw its basis for action decapitated by successive German-Russian actions. The Germans occupied Romania as its "ally" by the early 1940s and held it until Romania was caught in the crossfire of German and Soviet warfare in 1944. When King Michael ordered his troops to turn on the Germans, he helped the Russians to seize the country. Then, after the Russians awarded him the Soviet Order of Victory, he was forced to abdicate.[2] Russia ruthlessly suppressed whatever civil society remained and put in its place a fake civil society which it called the "peoples' government."

With victory over Germany in 1945, Russia set out to break nascent civil society by Stalinizing Czechoslovakia, Poland, Hungary, and Bulgaria as well as Romania. Thus, Bolsheviks and some Socialists conducted a deliberately destructive and brutal campaign to liquidate associations, independent trade unions, and artisan guilds, community groups, churches, and social movements.[3] Among other values, the communists erased the notion of *noblesse oblige* and middle class social responsibility as they broke both the nobility and the bourgeoisie.

Because World War II had expanded the role of the state in all spheres worldwide, the post-war era in the West had to contend with reinvigorating civil society. By the second half of the

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[2] Crozier, Brian, *The Rise and Fall of the Soviet Empire*, Roseville, Ca: Forum, 2000, p. 100.

[3] Tismaneanu, Vladimir, *In Search of Civil Society*, New York: Routledge, 1996, p. 63

20th century, the English invented the concept of quasi-autonomous government organizations (QUANGOs), wherein the QUANGO is responsible neither to the government nor to the citizenry.

The idea of using TEOs as the basis to establish associations of active citizens as a "space" separate from government has a long history in England and America, such associations being able to mediate between the citizenry and the government as well as among different societal groups.

By the 1970s and 1980s many of these associations came to be known as NGOs. As we saw in the analysis of society's four spheres (see Chart A in Conclusion), NGOs fall into the fourth sphere, and they may or may not depend entirely on volunteer participation and/or paid staff. NGOs usually attempt to register with the government in order to achieve a tax-free status that allows them to receive donations deductible against the income of the donors--hence the incentive to donate.

That civil society defines the sphere of activity separate from the state clearly emerges in the burgeoning literature on the role of citizens in East Central Europe. Recent books have theorized in different ways about how civil society is defined by the dynamic of and tensions between the state and non-state activity. These authors include Ernest Gellner (1994), Jean L. Cohen, (1992), Andrew Arato (1992), and Adam Seligman (1995).

In such literature the strand of the civil society tradition that is most relevant in Eastern Europe is the one that has called for intellectuals to adopt "Civic Action"[4] to oppose the ruling intelligentsia who blindly support statist power. (Many so-called intellectuals did not want to end the state's heavy hand because they benefited from it.) The majority of Eastern European political dissidents (such as, Miklós Haraszti, Kis János, and Victor Orban) argued that civil society, in its traditional forms, has been endangered by collectivism, statification of social structures, and regimentation.[5]

The so-called intelligentsia who sought simple communist solutions justified its role as serving as the "vanguard of society." They helped the communists to construct a new class of bureaucratic

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[4]My term, imposed on the past.

[5] Gale Stokes, *From Stalinism to Pluralism*, New York: Oxford University Press, 1991, 1996, passim.

apparatchik and ruling elites later defined as nomenclature[6] In the meantime, humanist intellectuals who questioned power and opposed censorship were allowed to go on working in peripheral positions, but only so long as they did not overtly challenge the state's authority.

In its early stages, the process of collectivization and heavy bureaucratization was justified by the intelligentsia who helped the communists preach to the workers that nationalization would benefit the masses. This type of "associatedness" resulted in the destruction of intermediary networks such as independent trade unions. Thus, the complicity of the statist-oriented intellectuals helped destroy the societal networks that promoted civic articulation between the state and society. In destroying the interstitial "tissue" of the social construct in different degrees throughout Eastern European countries, pro-state intellectuals did so because they knew that civil society threatened the very nature of the communist ideology upon which they fed, literally and figuratively.

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6 Gellner, Ernest, ""Civil Society in Historical Context", *International Social Science Review,* No. 192, 1991, p. 495.

Well before the communists seized power in the Eastern Europe of the mid-1940's, some intellectuals (including writers, philosophers, and sociologists) had theorized about the possibility of creating an ideally collective future society, so at first many supported the communist seizure of power. By the time they realized what had happened, the many disillusioned intellectuals who did not want to work for the State found that their time was spent trying only to survive by making day-to-day life livable.

Dissidence was difficult to organize. For example the Polish dissident Adam Michnik built on the movement established originally to provide legal and material assistance to the families of workers imprisoned after the 1976 strikes.[7].

By 1978, he was one of the founders of the Workers' Defense Committee (KOR), and he called for a strategy of "self-organization" as part of establishing a Community for Social Self-Defense. Later, KOR became the base for a strategically coherent movement of mass organized protest that would become Solidarity.

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[7] Jan, Jósef Lipski, *KOR A History of the Workers' Defense Committee in Poland 1976-1981*, Berkeley and Los Angeles: University of California Press, 1985, p. 183.

The emergence in Poland of several independent organizations began implicitly to challenge the state power such as the ROPCIO (the Polish acronym for its chapter of Amnesty International), the Nationalist Confederation for Independent Poland, and the incipient Free Trade Union, each with their own publications.

In Czechoslovakia, two important political dissident thinkers emerged by the late 1970s. Vaclâv Havel called for people to "live within the truth," independently of official structures, and even to ignore the official political[8]. Vaclâv Benda called on population to "remobilize" within the civil society.[9] The break with the regime was implicitly contained in the rhetoric of dissidents, but it never reached maturity under the very effective repression by the state. Only later did it constitute itself into a serious challenge to the communist government.

In Hungary, philosopher György Konrad argued in his 1976 book *Antipolitics* that all power is antihuman, and therefore so is all politics. He called for de-statification and an antipolitical, democratic

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8 Václav, Havel, *The Power of the Powerless,* New York: M. E. Sharpe, 1990, p. 45.

9 Vaclav, Benda, *The Parallel Polis,* 1978, p. 15.

opposition in his analysis of the issues of transition in East-Central Europe. But resistance to the State did not come until the late 1970s, intellectuals began to oppose the State's so-called "remobilization of the population to work for the good of communism." Analysts abroad then began to observe the cleavage between the official system and an alternative "second society."[10]

The emergence of an embryonic civil society in the 1970s and the 1980s with semi-autonomies and semi-liberties was possible mostly in the relaxed communist environment of Kadar's Hungary and Edward Gierek's Poland, but it never did develop into a truly autonomous alternative to the power of the state - Solidarity in Poland being the exception, but much later.

Political stirrings in Eastern Europe surfaced gradually, first in rather ensconced forms such as "flying university" lectures and Samizdat publications.[11] Later came participation in informal self-

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10 Elemér Hankiss, *East European Alternatives*, New York: Oxford University Press, 1990, p. 147.

11 Ivan Berend, *Central and Eastern Europe 1944-1993 Detour From the Periphery to the Periphery*, Cambridge: University of Cambridge, 1983, p. 10.

educational groups. The rise of organizations that pursued independent activities and the call for establishing individual responsibility became evident in Poland only where the churches led in creating independent space for thought[12].

Stirring of Civic Society, then, was beginning to call for rejection of communism, with KOR and Solidarity in Poland embodying full-fledged and convincing alternative to the communist regime. They provided a spark for Civic Society, but could not by themselves bring about the collapse of communist ideology, which would have to wait for the communist system to implode politically and economically in 1989.[13]

Rise of alternative society beyond the reach of authorities had eroded the credibility of the ruling communists, implicitly destroying the monopoly of the state over the society and individuals. Such society had shown a glimmer of life after the 1960s, providing a basis for Civic Society, ironically in the absence of civil society.[14]

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12 Jan Jósef Lipski, *KOR A History of the Workers' Defense Committee in Poland 1976-1981*, 1985, p. 90.

13 Ibid., passim.

14 Vladimir, Tismaneanu, *Reinventing Politics Eastern Europe from*

The Helsinki Human Rights Accord of 1980 gave hope to dissidents in Czechoslovakia where political activists seized upon Chapter 77 of to anticipate a new type of politics.[15] Eventually they used Chapter 77 to demand human rights, open dialogue, plurality of opinion, and alternative structures, demands that slowly began to weaken communist ideology. Chapter 77 bolstered the call of some Czech intellectuals for free speech, free press, freedom from arbitrary search and seizure, freedom of movement, and judicial recourse against illegal arrest by the police and military.

In Romania, Ceausescu's extreme repression stunted intellectual protest. Only few individuals such as Mircea Dinescu, Paul Goma, Doina Cornea, and Radu Filipescu took the risk to openly protest against the regime in the late 1970s—but they gained no following. Nor did any organized urban socio-political activity take place in the 1980s.[16]

Stalin to Havel, New York: Free Press, 1992, p. 145.

15 Ibid., p. 144.

16 Pirotte, Gautier, *Les Associations de Type O.N.G. en Roumanie. Premiers Regards sur l'Arene Locale du Développment á Iasi,*

Once the communists lost power in Romania, his successor Ion Iliescu promulgated Law 42 in 1990 as his “moral duty” to reward those who had helped defeat the dictatorship. The problem that arose, however, was that former communists bribed their way into the reward system, thus creating division and distrust in society and setting back the rise of consensus which needed to make a qualitative shift from collectivism to individualism.

The Romanian Case

The Ceausescu dictatorship (1965-1989) left the country in total chaos. Under the Iliescu regime (1990-1996), debate about modernization of civil society came to life, but effective results were not possible to achieve without the development of a new legal framework.[17]

(Moldavie), Bucharest & Iasi: Université de Liége, 1999, p. 160 (manuscript.)

17 Andrew, Arato, and Jean Cohen, , “Social Movements, Civil Society and The Problem of Sovereignty," *Praxis International,* No. 4, October 1985, p. 14.

From 1990-1993, civil society benefited from pent-up demand and expressed itself in an explosion of activity, which simultaneously differentiated and politicized itself during the relative vacuum of power as Iliescu sought to establish his power. This initial explosion was partly the consequence of the fact that political independence was in a sense political opposition and partly an inclination toward a populist "bottom-up" approach to democratic development.[18]

The first three years of Iliescu's period were marked by the rise of Western-style NGOs, most hopeful that their mere existence would bring foreign grants. Romanian NGOs involved free association of autonomous persons who volunteered to help raise funds to take up the immediate decline in state social benefits. Only a few NGOs were able to gain foreign funding for their plans which called for, among other things, the teaching of democracy, the operation of orphanages, and the networking of ethnic groups.

By 1992 the profile of NGOs revealed an open separation between political advocacy groups and civic advocacy organizations. All NGOs, however, undertook qualitative changes in their activity to

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18 Thomas, Carothers, *Assessing Democracy Assistance: The Case of Romania,* Washington D.C.: Carnegie Endowment, 1996, p. 67.

achieve "institutional development, capacity building, and sustainability," the goal being to make the NGOs viable and effective.

The problems of Romania's nascent civil society are complex. First, there too few competent leaders to staff both government and NGOs so that Romania can compete effectively in the globalization process. Second, NGO leaders are tending to move into politics and business. Nevertheless, notes Dorel Sandor there is a chance that at least some of those who leave the NGOs will use their influence to support the nongovernmental sector.[19]

Although in Romania the pre-communist 1924 Law 21 on charities has been reinstated in the 1990s, it does not regulate in a specific manner the nongovernmental bodies. Law 21 only provides a general, vague legal framework and no categories to encompass modern institutions or communities. This permits corruption and produces misunderstanding of what civil society is meant to be.[20]

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19 Sandor, Dorel, "Romanian Nongovernmental Sector," *Regulating Civil Society. Report on the International Conference for Central and Eastern Europe on Legal and Regulatory Environment for Non-Governmental Organizations*, Sinaia: OSI, 11-15 May 1994, p. 37.

20 Lucian, Mihai, "Baseline Analysis: Romania," *Regulating Civil*

Crystallization of NGOs in post-communist Romania demonstrates the viable capacity of response to the challenges of transition. Having initially appeared when the state was impotent, clusters of nonprofits and civil actors spontaneously filled the gap as government activity sputtered.

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<u>My Participant Observer's View at the National and Local Levels in Romania</u>

My role as participant-observer of social life began in 1983 as a folklore student in the Department of Maramures during my University years in Romania and has continued since 1992 in my subsequent travels on behalf of PROFMEX.[21] In Eastern Europe and

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Society, Tallin: Open Estonia Foundation, May 24-28, 1995, p. 39.

[21] PROFMEX is consulting with the University of Cluj to develop the idea of establishing in Romania NPPOs (including NGOs) that will be recognized automatically by the U.S. IRS, as are Mexican NPPOs—see below. Such recognition expands the base of donors and eases the flow of tax exempt funds.

Russia I have been able to compare the attempts to create new civil society that matches the de-statification and privatization processes. What was striking to me as a student of rural folklore during the Ceausescu was to realize that the peasants of Maramures, in Northwestern Romania, were bound together in matters of common self-concern. They had developed a rudimentary civil society of their own in which they took decisions and solved problems by themselves in so called "claca." Moreover, these peasants had survived the "chopping tactics" of the communist polity that had tried to destroy community spirit. Instead those tactics caused a reaction that reinforced local individualistic energies in most Maramures villages.

This village resistance to collectivization was so particularized in a geographically isolated area, however, that it did and does not provide a model for transition of Romania to a modern pluralistic society. Rather the Maramures experience does suggest that socially-based rural civil society is difficult to destroy because of its dispersed nature. If Buchowski, [22] who is quoted in the epigram at the outset of the chapter had wanted to find civil society in a communist country, he would have done well to visit Maramures to see true collective spirit surviving—not because of the communist dictatorship but to spite it. Thus, my observations directly contradict those of Buchowski.

My travels after 1991 took me throughout Romania and especially to the capital and other urban areas in Transylvania, a region that accounts for 30% of the over 3, 500 NGOs founded since1990. I realized that the NGO sector then in formation had two levels: the well-organized foreign foundations which were organizing to solve general problems at the national level (such as the Soros Foundation, with offices in the regions of Romania) and the Romanian voluntary interest organizations that were then organizing to solve immediate local issues. The latter are what the Romanians call "form without foundation" or original versions of NPPOs that not only transfer the western models, but also are mainly based on genuine

22 Michael, Buchowski, in Hann, Chris and Elizabeth Dunn, *Civil Society Challenging Western Models*, Routlege: New York, 1996, Michael, Chapter 4, 1996.

social projects, according to Steven Samson vision is based on research in Albania.[23]

Although countries such as Romania need to develop legislation that permit the creation of very diverse organizations that operate with crosscutting and overlapping purposes, post-Ceausescu Romania has failed to do so repeatedly. Indeed the country's latest law that attempts to cover NGOs, law no. 32 of 1994, is not in accordance with the requirement of necessities of reasonable functioning of civil associations.[24]

Even with imperfect law, the concept of civil society now prevalent in Romania implies some kind of formal autonomous organization, made up of thousands of constituent associations and charities organizations that compete with the state.
Some non-governmental organizations and think-tanks do seek to provide a check on the power of the state, however, such as the Center For Political Studies and Comparative Analysis, the Romanian

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23 Steven Samson, "The Social Life of Projects: Importing Civil Society to Albania," in Chris Hann & Dunn, *Civil Society Challenging Western Models*, New York: Routledge, 1996, p. 126.

24 Lucian in *Regulating Civil Society*, p. 76.

Helsinki Committee, the Romanian Society for Human Rights (SIRDO), the League for the Defense of Human Rights (LADO), *Liga Pro-Europa,* Anti totalitarian Association-Sighet, Academy for Ethnic Studies, in Sighet, Civil Protection Maramures, Titulescu Foundation, Association of Lawyers in Defense of Human Rights (APADO), and Academic Foundation. Others make demands on the state for it to pave the roads, extend electricity to villages, install telephones, and provide general services, but they do so without umbrella legislation that legally authorizes and protects their activities.

What is evident from my consultations in Eastern Europe is that after the initial post-1989 enthusiastic phase brought many grants from abroad, especially the U.S., British, and French grant-making NPPOs. Since the mid-1990s, however, such international assistance and donations have slowed markedly. Except for Soros, many U.S. grant-making foundations have turned to fund world problems such as disease, as we see in the Conclusion, leaving NGOs disheartened in countries such as Romania. Without a tradition of being able to raise funds in their own country, NGOs that mushroomed in Croatia, Bulgaria, Hungary, the Czech and Slovak Republics, and Poland as well as Romania have in general not received funds from abroad—they had naively believed that by merely organizing an NGO to solve an important problem that foreign funding would be forthcoming.

The most acute problem faced by Eastern Europe's NGOs, then, is that of financing their activities as they seek a place in the new institutional order. With the slow pace of privatization in Romania, there is not yet any real base of private corporate funding to make donations to Romanian NPPOs, and without provision for secure tax deductibility donations to NGOs domestic funding is not feasible.[25]

Given the shortage of funds, some philosophers and practitioners of NPPO activity are requesting the volunteering of time, not the volunteering of money, and they are narrowing the scope of their activity to moral influence rather than charitable activity.[26]

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25 Ibid., p. 70

26 "Charitable activity," as defined in the U.S. TEO law to encompass what I call the HEW-SEEK-PUC spectrum of activity, which is not a closed-end definition but rather one that is open-ended - see Conclusion.

In this situation, I find that Katherine Verdery's concerns about the limitations on civil society are valid. Very much in the Toquevillean tradition, Verdery argues that the concept of civil society is linked to the political processes and has become, in the Romanian case, interrelated to that of reconnecting to democratic Western European values.[27] She suggests that the ruling political elites ,who dominate the public sphere since Ceausescu's heyday, have achieved symbolic capital by having claimed falsely that they suffered under communism, thus overshadowing other forms of a pluralist civil society. In important ways civil society still revolves around national symbols and organization left over from communist rule.

The New Ethnic Role for NGOs in Eastern Europe and Romania

NGOs now seek to play a major role in resolving ethnic tensions. Ethnic problems are exacerbated by the fact that most of the countries are heterogeneous in their ethnic and religious composition.

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27 Katherine, Verdery, *What Was Socialism and What Comes Next*, 1996, p. 106.

In Bulgaria, for instance, about 1 million of the 9 million inhabitants are Turks; Romani account for some 700.000 and another 400, 000 are Muslims.

In Romania, the shares of the 23 million population are Hungarians 7.1%, Romani 7%; in Czech Republic Slovaks are 3%, and Romani are 2.4%. In Slovakia, Hungarians are 10.7%, Romani 1.6%, Czechs Moravian, and Ruthenian more than 2%. [28] (The latter are persons descended from a marriage between any combination of the following: Ukrainian, Hungarian, Romanian.)

In the Kosovo province of Serbia, 90% of the population is reputed to be ethnic Albanian, and it seeks to drive out the Serbs in order to declare independence or join with Albania.

Where for decades refused to recognize ethnic differences under the Soviet optic, which saw such recognition as divisive, since 1989 there has been radical change. The European Union encourages Eastern European countries to accommodate regional differences in development, tradition, local circumstances, and the current state of systemic transformations. As András Biro, a Hungarian activist has

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28 *Transitions*, Open Media Research Institute, Vol. 7, February 1997, p.4.

put it: " For the first time in 40 years we are reclaiming responsibility for our lives."[29]

In Romania, in the immediate aftermath of the 1989, several ethnically heterogeneous villages (Bolintin, Casin, Miercurea Ciuc) saw the burning of the houses of the Gypsy ethnic minority and systematic murders. On March 15, 1990, the Romanian security and miners, in direct complicity with Ion Iliescu, took busloads of Romanians from remote villages to the city of Tirgu Mures, telling them that they were needed to save Romanian citizens there from being beaten by Hungarians during the celebration of Hungary's Independence Day. When the busses arrived, the Romanian villagers attacked the participants of the celebration and besieged the Hungarian minority's headquarters. It was there that the playwright Andras Sütö lost his eye. Several Hungarians and Gypsies were beaten and jailed for years. In a gesture of historic reconciliation, President Emil Constantinescu released them in1996 when he took office to try to change the Iliescu policies. Unfortunately the new president did not investigate or publicly expose this case.

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29 Salamon, Lester, "Civic Society in Eastern Europe," *Foreign Affairs,* Vol. 73, 1994, p. 113.

It is ironic that only analysis of this troubling case has come at academic and NGO meetings in the USA.

Without any mediating entity to prevent confrontation, a second incident took place in Cluj and Targu Mures in July 1990, which led the Soros National Foundation to establish in Cluj an office of its Open Society Network to develop social mediation programs.[30]

The general objectives of the Soros National Foundation in Romania, then, has been that of promoting the following objectives of civil society:

- confidence in a state of law, fair government administration, and independent judiciary;
- democratic election of a new political elite;
- existence of a diverse and vigorous civic spirit;
- the respect of the rights and opinions of minorities by the majority.

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30 Pirotte, Gautier, "Les Associations de Type O.N.G. en Roumanie. Premiers regards sur l'arene locale du développment á Iasi (Moldavie), Université de Liége, Bucharest & Iasi: 14 June-4 July 1999, Chapter II, p. 16.

With these calming idea, the situation in Cluj changed for the better, especially with the appearance of newsletters dedicated to end ethnic hated. Further, by publishing, for example, *Korunk* for Hungarians in the Cluj area it is important especially to the Romania's border with Hungary, it aided the development of relatively strong non-governmental associations (such as Alma Mater Napocensis of Cluj-Napoca and the Academy for Study of Ethnic Conflict-Sighet, all seeking to prevent and buffer ethnic tensions.

Soros had been the main source of funding for civil society in Romania since 1989, and one of its major contributions has been to

TABLE 6-1

EXPENDITURES OF THE SOROS NATIONAL FOUNDATION,

BY SUBJECT AREA, 1997

Area	US$	%
Education	2,318,583	28.0
Civil society	1,097,108	13.5
E-mail and Communications	833,956	10.3
Publications	879,350	10.8
Conferences and Travels	745,374	9.3

East-East	100,399	1.2
English Program	156,214	1.9

Source: Gautier, Pirotte, "Les Associations de Type O.N.G. en Roumanie. Premiers regards sur l'arene locale du développment á Iasi" (Moldavie Bucharest & Iasi): Université de Liége, June 14 - July 4, 1999, (manuscript.)

Table 6.2

	Activities	US$ Cost
1.	Human Resource and institutional analysis	8,730
2.	Identification of the Working Groups	8,700
3.	Training seminars for the Working Groups	92,340
4.	Seminar on Education 2000+ mission and strategy	30,340
5.	Seminar on Managing change	31,000
6.	Seminar on School Improvement	31,000
7	Working Groups activities	6,100
8.	Public Information	18,300
6.	General Program activities	5,695
9.	Education 2000+staff development and training	8,300
	TOTAL	148,165

establish the "Education Development Project," as is shown in Table 6.1 and 6.2.

Since 1997, the Soros National Foundation has been explicitly promoting the linkage of education to the Romanian market economy; and for example it has created the Iasi Job Placement Service to serve as a model for other cities and towns.[31]

In 1999 the Soros fund for summer training at Sinai of educational leaders involved the funding shown in Table 6.2. Regardless of the efficacy of the seminar, it was apparent to me that the attendees developed a professional attitude to their studies, during which the spent the whole of each day for a week, with few breaks. The esprit d-corps created at this Soros seminar was amazing, certainly motivating the attendees to return to the communities and promote the role of civil society as part of educational renewal in Romania.

The Soros Foundation's branches in Bucharest, Timisoara, Iasi, and Cluj have become autonomous organizations, the activity of which will focus on the following domains: education, health policies

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[31] Interview with Simona Aradei, Soros Foundation Job Placement Officer, Iasi.

and services, law reform, economic development (rural microlending)[32], ethnic minorities, community safety and mediation, rural assistance, regional cooperation, training and consultancy, arts and culture. All these new systemic changes are composed of an interacting intricate network of professionals in all domains within a dynamic, flexible and easily adaptable network.

The Impact of U.S. Foreign Aid to Romania

In addition to the major funding to Romania provided by Soros, the U.S. Agency for International Development (USAID) entered the scene. Whereas Soros funded Civic Society to organize an effective, modern civil society, USAID funder government development projects.

Thus the question arose in Romania: To what extent should Eastern European nations be copying or moving toward a Western trajectory of development based NGOs? The question was complicated because the Romanian government began to establish

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[32] Susan, Johnson, and Ben Rogaly, *Microfinance and Poverty Reduction*, Oxford, UK: Oxfam Press, 1997, p. 119.

QUANGOs in order to siphon foreign funds to official purposes and away from the NGOs.[33]

U.S. foreign aid to Romania has been marked by controversy because assistance focused on democracy overemphasized by the U.S. political model and focused narrowly on NGOs involved in political education (such as the Democracy Network program). Thus, Carothers has argued that U.S. aid has slowed real political reform in Romania, actually prolonging the agony of the Romanian economic and political system. By creating harmful dependency relations and not targeting environmental societies, the ethnic associations, religious

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[33] This analysis of the QUANGOs grows out of my 1992 discussions with Thomas Carothers at USAID Mission in Bucharest. Carothers (author of *Assessing Democracy Assistance: The Case of Romania*, 1996) is concerned that the QUANGO (known in the USA as the GONGO--government organized NGO) offers incentives that NGOs cannot such as political connection to the government, hence may be used for political ends that cannot be audited given the very nature of the QUANGO. The QUANGO, as we have seen is neither accountable neither to the government nor to the citizenry..

QUANGOs in order to siphon foreign funds to official purposes and away from the NGOs.[33]

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organizations, cultural diversity, that are the real basis of democracy, marked a great leap backward.[34]

Against this backdrop, some Romanian "ultra-nationalists" demanded that their countries return to its own "organic evolutionary path," eschewing the funds provided by USAID to rebuilding of the dimensions of social plurality. [35]

Ironically, then, both the USAID representative Carothers and the ultra-nationalists opposed USAID, if for different reasons, and the amount such assistance was considerably reduced by the late 1990s. The conflict of USAID's role only complicated a confused picture about the meaning of free-market democracies, mainly because of the failure of East Europeans and Russians to completely demythologize the Leninist ideology.[36] Although Dorel Sandor claims that the rebuilding and reemergence of segments of Romanian civil

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34 Thomas, Carothers *The Learning Curve*, Washington, D.C., Carnegie Endowment for International Peace, 1996, pp. 92 - 94.

35 Sandor Dorel, "Romanian Nongovernmental Sector," *Regulating Civil Society*, Sinaia, May 11-15, 1994, p. 37.

36 Vladimir Tismaneanu, Reinventing *Politics Eastern Europe from Stalin to Havel*, New York, Free Press, 1992, p. 182.

society has played a crucial role in the liberation from communist ideology, other analysts such Cohen and Arato (1992) are skeptical, implying that only 15% of NGOs are active.

Mexico as A Model for NPPO Legislation

The course of NGO history in Mexico has taken a very different course than in Mexico for two reasons: First, proximity to the USA and the world largest cache of grant-making NPPO fund; and second, the acceptance of President Carlos Salinas (1988-1994) and the U.S. government under Bill Clinton to accept the offer of the U.S. Council on Foundations to help change Mexico's Tax Exempt Organization laws The goal of change was to makes Mexico's TEOs compatible with the laws of the USA, thus encourage the flow of NPPO funds from the USA to aid in the development of civil society and Civic Action.

Although some sectors of Mexican society were worried about expanding the role of NGOs because they have been seen mainly as human rights organizations,[37] the main tasks of the NGOs seeming to

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[37] Eduardo M. Tavares, "La Vanguardia de la Sociedad Civil," *Epoca*, December 15, 1997, p. 54.

monitor human rights violations,[38] in reality the NGO situation has become more complicated in Mexico.

There were various causes to the rise of Mexican NGOs. First during the 1980s, dozens of NGOs tried to accommodate hundreds of thousands of Central American immigrants who arrived fleeing authoritarian governments in El Salvador, Guatemala, and Nicaragua.

Second the earthquake of 1985 impelled the mobilization of independent civil movements and NGOs to become the backbone of a renewed civil society. That same year the National Autonomous University of Mexico created a movement for the Defense of the Rights of Faculty; and in 1988 the Government of Aguascalientes established a governmental Commission for Human Rights, at the suggestions of its NGO sphere.

Third, coincidentally trends outside Mexico saw both service and advocacy NGOs increase dramatically around the world in numbers, diversity, and strength. Most important was the rise of issue-networks,[39] which united geographically dispersed NGOs to

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[38]Ibid.

[39] Term from Kathryn Sikkink, in Keck, Margaret E. and Kathryn

focus on specific issues such as human rights. Thus Mexican NGOs could support a common cause, say, in Argentina.[40]

Fourth, underlying and paralleling the phenomenon of issue-oriented NGOs has been the growth of the infrastructure-building NGOs that construct organizational and technological links for networking among activist NGOs, regardless of what specific issue upon which each NGO may be focused.[41] Diversification of Mexican human-rights organizations, pro-democracy NGOs, and indigenous-rights NGOs gained strength throughout the 1980s.

In an effort to seek a modern legal framework for Mexican NGOs, the Convergence of Civil Organizations was born in the 1990s. Simultaneously more networks of NGOs had emerged with different purposes, and in 1994 they began to play a grand role at national

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Sikkink, *Activists Beyond Borders: Advocacy Networks in International Politics*, New York: Cornell University Press, 1998.

[40] "Demandan ONG de Derechos Humanos que el Clero Argentino Abra sus Archivos," *Excelsior*, September 10, 2000, p. 2.

[41] Ronfeldt, David, *The Zapatista "Social Netwar" in Mexico*, Santa Monica, CA: Rand, 1998, p. 36.

level. One major coalition signed the "Pacto de Guadalajara,"[42] which resulted in offering a workable alternative to public housing politics, literally bringing in the state as a promoting agent to finance housing for underprivileged Mexicans.

The Chiapas 1994 rebellion attracted the focus of civil rights groups and sparked one of the most observed Mexican presidential elections in the country that same year. In both events the NGOs played a crucial role.[43] Furthermore, Global Exchange's exposure of criminal activity by police groups in the State of Guerrero called attention to the fact that "local and national human rights organizations fear that the increased activity by the federal army and the state police forces is part of a strategy to stifle the growth of

42 Jose Luis Méndez, "Las ONG hábitat, entre el estado y el mercado," *Organizationes civiles y políticas públicas en Mexico y Centroamerica, México, Academia de investigatione en politicas publicas,* Miguel Angel Porrúa, México, D.F., 1998, p. 166.

43 John, Arquilla and David Ronfeldt, *The Zapatista Social Netwar in Mexico,* RAND Arroyo Center, 1998, p. 14.

opposition political movements."[44] In this networking of NGOs, then, we can recognize features such as: collective investigation, consensual decisions, and implementation of the agreements through action committees.

The NGOs further expanded by incorporating the theme of electoral democracy on the agenda of social change and, for the first time in Mexico's history NGOs helped mobilize voters by the millions, a movement that finally on July 2, 2000, saw the Official Party lose power after nearly 71 years

Nowadays there are more than almost 5,000 NGOs in all states, with over 180 were being located in Mexico City. [45] The states of Jalisco, Veracruz, and Oaxaca have the most effervescent NGOs activities.[46]

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[44] José Juan de Avila, "Global Exchange: The Counter-Insurgency Strategy in Guerrero," reprinted in *La Jornada*, November 24, 1999.

[45] Mendoza, Margarita V., "Las relaciones Con Las ONG", *El Grupo Reforma, La Reforma,* 3 December 2000, p. 15.

[46] Sergio Aguayo, *Las Organizaciones No Gubernamentales de Derechos Humanos en México,* p. 1. For a view that suggests that a QUANGO-type organization helped foment change under President

Although, as in Romania, Mexican NGOs are facing the same problems of financing and a poor philanthropic tradition, however, the new government that took office on December 1, 2000, has promised to "unfreeze" in Congress the proposed Mexican law to more fully authorize the legal operation and protection of NGOs[47] Although the proposed law is hardly perfect, it constitutes an advance.

Unlike Romania, Mexico has succeeded together with the USA in designing the first international standard for TEO law.
By adopting and adapting the U.S. model, Mexico has gained more than direct access to the world's largest pool of funds available from grant-making foundations; it can now encourage U.S. companies

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Salinas, see John Bailey, in Jonathan Fox, Ann L. Craig, and Wayne A. Cornelius, eds., "Centralism and Political Change in Mexico: The Case of National Solidarity," *Transforming State-Society Relations in Mexico: The National Solidarity Strategy*, San Diego: Center for U.S.-Mexican Studies, University of California, 1994, p. 101 to p. 119.

[47] Interview with civil society leader Pedro Luis Pinzón, President of *Pro Democracia*, Mexico City, October 30, 2000.

investing in Mexico to make donations tax deductible in both countries against their Mexican profits. (Mexico has not yet established the U.S. NPPO "privately" funded by a limited number of donors (see Chapter 2) that would allow establishment of an NPPO in Mexico by an U.S. company.)

Most importantly, NPPOs that register under the new TEO law that has been effectively in place since the mid-1990s receive automatic recognition by the U.S. IRS. The first such achievement in world history, as we can see in Table A, in the Conclusion of this thesis.

Conclusion

As suggested in this Chapter, Globalization since the 1989 fall of the Berlin Wall and the subsequent collapse of the statist model has speeded growth of NPPOs in such formerly statist countries as Mexico and Romania. Both of these countries have suffered from outdated laws, but Mexico has advanced domestically and internationally in its TEO law, hence Romania's interest in the Mexican Model as the only one in the world that has been rooted in the same type of Latin Law to be reformed.

That the attempt to create new civil society is well underway in Eastern Europe is manifest in the numbers. As of 1995 I found in Romania 3,000 more NGOs registered than in 1992. As of 1994, Salamon found in Poland several thousand foundations that were registered with governmental authorities, in Hungary some 7,000 foundations and 11,000 associations.[48]

That they can function without new laws and in the face of competition from QUANGOs is not manifest.

Starting with the year 2000, Soros Open Network (SON) will formally inaugurate an intricate network of organizations built over the last ten year with the common mission of promoting the values of an Open Society. The Open Society Foundation--Romania is continuing its support for the integration of the Romanian society in the European Union in a new systemic environment, within a new organizational structure.

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48 Salamon, Lester M., "The Rise of the Nonprofit Sector", *Foreign Affairs,* Volume 73, No. 4, July-August 1994, p. 112.

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48 Salamon, Lester M., "The Rise of the Nonprofit Sector", *Foreign Affairs,* Volume 73, No. 4, July-August 1994, p. 112.

EPILOGUE

GLOBALIZATION AND TWO NEW MODELS
(EL PASO COMMUNITY FOUNDATION,
THE TURNER & GATES PERSONAL FOUNDATIONS
AND
ONE ANTI-MODEL
(FIDELITY GIFT FUND)

This analysis of "Decentralized Globalization: Free Markets, U.S. Foundations, Civil *And* Civic Society," remains open, hence this Epilogue in lieu of a conclusion. Each chapter of this work requires future on-going analysis. Indeed, there are some excellent observers who have questioned the linkage between Globalized Free Markets and the rise of civil society.

Thus, John Gray in reviewing some works that challenge my view asks in a rhetoric essay: "Does Globalization Bring Liberty?"[1] To which he answers "No." In arguing that the free market should not be identified with civil society, Gray cites Soros' *The Crisis of Global Capitalism: Open Society Endangered* (1998)—even though Soros contradicts much of his own 1998 point of view in his latest

[1] *TLS (Times Literary Supplement),* November 17, 2000, p 18.

book entitled *Open Society: Reforming Global Capitalism* (2000). Perhaps Gray's most impressive quote is: "the very idea of civil society is being corrupted. . . . [by organized crime]."[2]

It is my view, however, that Globalization and the Free Market have succeeded in many ways. For example, they have permitted the rise of communications that have aided the standardization, which facilitates the flow of For-Private-Profit funds and Not-For-Private-Profit funds. The latter have contributed their global profits in ways that are beyond the bureaucratic ability of national and international governments to cope. (However, the G-7 banking standards "imposed" on off-shore banking centers beginning in 2000 may well begin to slow the process of "money-laundering" that makes against globalized corruption so profitable—centers not in compliance will find their communications with the world "suspended.")

Beyond the two grant-making models analyzed in this work three new grant-making cases merit mention here as needing future research. Given the flexibility of the U.S. TEO Model, it is hardly

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[2] Ibid., quoting James H. Mittelman, *The Globalization Syndrome,* Princeton, N.J.: Princeton University Press, 2000.

surprising that the Centralized (Rockefeller) and Decentralized (Soros) Models would stand alone, and indeed two new models and one anti-model have surfaced recently.

EPCF

The El Paso Community Foundation (EPCF) Model represents the devolution of grant-making activity to the local level and at the same time opens the path to set up cross-border foundations for greater communities that now exist in the world divided arbitrarily by an international border. EPCF has a bi-national board of directors and meets regularly on both sides of the border, where it conducts grants that often are carried out across the border as well as in each country. As part of what it sees as its international responsibility, EPCF served as the chief operating foundation for the U.S. Council on Foundations to develop the U.S.-Mexico mutual recognition of NPPOs.

EPCF also receives funds to earmark for a special fund in a donor's name, but EPCF retains control over how the funds are spent and assures that they go for appropriate NPPO purposes.

Meanwhile donors themselves do not have to set up an expensive foundation.

Given its many roles of leadership, then, it is no wonder that EPCF was chosen in 1990 as the Model Community Foundation in the USA, making it eligible to receive grants from many large grant-making foundation[3]—these funds allowing it to grow to have it international impact for which it is now famous,

Fidelity Gift Fund

In the meantime, an Anti-Model has emerged since 1993 in the Fidelity Investments Charitable Gift Fund, which has become one of the fastest-growing charities in the USA, now ranking with the American Red Cross in donations received each year. According to Monica Langley writes in the Wall Street Journal:

> Fidelity doesn't coax donors with pictures of starving refugees or shivering homeless. Rather, . . . it promises clients top-notch money management, professional estate planning—and big tax breaks.

[3] Interviews with leaders of EPCF, 1995, 1996, and 2000.

> What's more, the fund . . . tells donors they can keep their fund growing tax-free [in a mutual fund] at Fidelity as long as they want.[4]

In short, what Fidelity has done combine the NPPO-F legal concept with the NPPO-M legal benefits, thus defeating the IRS controls on private foundations. As Langley notes, the NPPO world is very concerned that this Model will gravely harm U.S. philanthropy because apparently it not only violates the spirit of the law but its letter—all in the name of allowing donors to both keep their money (which grows in size through investments on their behalf) and through avoiding even minimum pay-outs, as required of the private foundations (NPPO-Fs). Some call this the "greed" motive for getting into philanthropy. Further, donors to Fidelity retain control over how the funds are disbursed—exactly the opposite of how a highly ethical foundation such as EPCF functions.

On a positive note, because the IRS approved Fidelity as a

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[4] "You Don't Have to be a Rockefeller to Set Up Your Own Foundation—Investors Pour $1.5 billion into Fidelity Gift Fund; What will the IRS Do? *Wall Street Journal*, February 12, 1998.

501(c)(3) organization without a close look at its real operations, the IRS has subsequently begun an investigation of the Fidelity approach, which I call an Anti-Model. Further, the IRS has frozen all future applications to replicate this highly questionable Model.

The Gates and Turner Personal Foundations Model

In yet a third new approach, Bill Gates and Ted Turner have each set up giant grant-making foundations to make a huge impact on a relatively few, high profile areas. Both are run under their personal direction and do not have a bureaucratic staff as developed by Rockefeller and Soros, discussed above.

Turner, founder of CNN and CNN-International, in 1997 pledged $1 billion over ten years to one recipient, the United Nations, which makes him one of the biggest funders of civil society in world history, and international civil society at that.[5] In December 2000 Turner made a separate donation, via the U.S.

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[5] See Salie Hofmeister, Turner Takes Lead in His New Race of Giving," *Los Angeles Times*, September 20, 1997; and "[America:] The Land of the Handout," *Newsweek*, September 29, 1997.

Department of State, of $34 million to the U.N. to make up for the U.S. short-fall in United Nations dues caused by the U.S. Congress demand that the American share of U.N. funding be cut from 25% to 22%. Without Turner's financial help there was no way to gain approval from the world's nations to make the transition to pay a greater share of U.N. dues. U.S. Ambassador to the U.N. Richard C. Holbrooke reported that:[6]

> Six weeks ago, after I had briefed [Turner] on the problem, Turner, with his characteristic combination of vision and energy, and a profound understanding of the leveraging effects of a dramatic bequest, said if the $34 million difference that this amounts to is the make or break, I will contribute that money. . . .

Beyond the U.N., Turner has announced that he is establishing a $250 million NPPO-F, headed by former Senator Sam Nunn (D.-Ga.) to reduce the threat of nuclear arms and other forms of mass destruction.[7] Further, Turner is funding research conquer AIDS as well as to make available very quickly the new "Golden Rice"

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[6] www.nytimes.com/2000/12/23/world/23NATI.html

[7] *Los Angeles Times,* January 6, 2001.

enriched with Vitamin A,[89] as developed through CIMMYT and CGIAR research discussed above. In 1997 he challenged his wealthy friends to surpass the Turner Foundation as "wealthiest U.S. foundation."

Doing just that, Bill Gates developed his personal foundation in 1999 to give it the lead as "wealthiest." His avowed purpose is to conquer diseases around the world, especially relating to childhood diseases that can be prevented through inoculation programs. Further, Gates is also funding research into spreading the seeds of the "Golden Rice."

Beyond disease, Gates is one of the few that is following Soros to install Internet training and communication centers in Russia as part of his support of the worldwide web and libraries everywhere, a hopeful sign that funders still realize the need to solve problems in countries—not only around the world all at once.

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[8] <www.TurnerFoundation.org>

[9] See "Giving: Gates Foundation Now the Richest In America," August 24, 1999, <pnnonline.org/giving/gates0824.cfm>.

ABBREVIATIONS AND ACRONYMS

ACE	Acuerdo de Complementacion Economica
AIA	American International Association for Economic and Social Development (Rockefeller Not-For-Private Profit Organization)
ALADI	Asociación Latinoamericana de Integración; see also LAIA
ALALC	Asociación Latinoamericana de Libre Comercio
Andean Group	Bolivia, Colombia, Ecuador, Peru, Venezuela
ANZCERTA	Australia - New Zealand Closer Economic Relations Trade Agreement
APEC	Asia Pacific Economic Cooperation Minister Conference. Australia, Brunei, Canada, China, Hong Kong, Japan, Indonesia, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Thailand, and the United States

ASEAN	Association of Southeast Asian Nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand)
BINGO	Business NGO (has corporate aspects)
BSC	British Security Coordination
CACM	Central American Common Market
CARICOM	Caribbean Community and Common Market
CBI	Caribbean Basin Initiative
CEPAL	Comisión Economica para America Latina y el Caribe
CFN	Community Philanthropy Netwok
CICAD	Inter-American Drug Abuse Control Commission; Comisión Interamericana para el Control del Abuso de Drogas
CIMMYT	Center for International Maize and Wheat Improvement
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CGIAR	Consultative Group on International Agricultural Research
CSCE	Conference on Security and Cooperation in Europe

EAI	Enterprise for the Americas Initiative
EAP	Environmental Action Program
EC	European Community
ECILAC	United Nations Economic Commission for Latin America and the Caribbean
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEA	European Economic Area; also European Environmental Agency
EEC	European Economic Community
EFTA	European Free Trade Area
EIB	European investment Bank
EMS	European Monetary System
EMU	European Monetary Unit
EP	European Parliament
EPA	U.S. Environmental Protection Agency
EPC	European Political Cooperation
EPCF	El Paso Community Foundation
ERDF	European Regional Development Fund

EU European Union

EURATOM European Atomic Energy Commission

FDI Foreign Direct Investment

501(c)(3): Section of the Internal Revenue Code that designates an organization as charitable and tax-exempt

FLACSO Facultad Latinoamericana de Ciencias Sociales

Four Tigers Singapore, Hong Kong, Taiwan, and South Korea

FPPO For-Private-Profit Organization

FTA Free Trade Agreement; also Free Trade Area

G-3 Group of Three (Colombia, Mexico, and Venezuela)

G-7 Group of Seven (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States)

GATT General Agreement on Tariffs and Trade

HEW-SEE-PUC Health-Education-Welfare and human rights, Science and religion-Economy-Environment and ecology, Publication and literature, Charity

HMO	Health Maintenance Organization
IAC	International Agricultural Center
IBEC	International Basic Economy Corporation (Rockefeller For-Profit Organization)
IRC	Internal Revenue Code
IAEO	International Atomic Energy Organization
IBRD	International Bank for Reconstruction
IDB	Inter-American Development Bank
ICPC	International Criminal Police Commission
IDEC	International Drug Enforcement Conference
IRRI	International Rice Research Institute
ISI	Import-Substitution Industrialization
LAIA	Latin American Integration Association (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela)
LAFTA	Latin American Free Trade Association
LDC	Less-Developed Country
MB	*Mexico Business*

MCCA	Mercado Común Centroamericano (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua)
MEP	Member of the European Parliament
MERCOSUR	Mercado Común del Sur (Argentina, Brazil, Paraguay, and Uruguay)
NAFTA	North American Free Trade Agreement; also North American Free Trade Area
NARS	National Agricultural Research System
NATO	North Atlantic Treaty organization
NRM	Natural Resource Management
OIAA	Office of Inter-American Affairs
NGO	Non-Government Organization
NPPO	Not-For-Private-Profit Organization
NPPO-F	-Few Donors (Private Foundation)
NPPO-M	-Many Donors (Not a Private Foundation)
NWF	National Wildlife Federation
OAS	Organization of American States
OIAA	Inter-American Institute of Agricultural Science

OECD	Organization for Economic Cooperation and Development. Membership (24): Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States
OMRI	Open Media Research Institute
OSI	Open Society Institute
OSF	Open Society Fund
PACS	Program For Academic Cooperation Of Students
PECC	Pacific Economic Cooperation Council (Australia, Brunei, Canada, China, Japan, Indonesia, Malaysia, New Zealand, the Pacific Islands, the Philippines, Singapore, South Korea, Taiwan, Thailand, and the United States)
PICAB	Programa de Integración y Cooperacion Argentino-Brasileno
PRI	Partido Revolucionario Institucional (Mexico)
PRONASOL	Programa Nacional de Solidaridad (Mexico)

PSOE	Partido Socialista Obrero de Espana
QPM	Quality Protein Maize
QUANGOs	Quasi-Autonomous NGOs
RCRA	Resource Conservation and Recovery Act
Rio Group	Membership (11): Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela
ROPCIO	Nationalist Confederation for Independent Poland
SEA	Single European Act
SEDUE	Secretaria de Desarrollo Urbano y Ecologia (Mexico)
SELA	Sistema Económico Latinoamericano
SEM	Single European Market
SICA	Sistema de Integración Centroamericana
SIS	Special Intelligence Service
SON	Soros Open Network
TEO	Tax Exempt Organization
TGC	Trans-Global Corporation
TM80	1980 Montevideo Treaty

UN	United Nations
UNCED	UN Conference on Environment and Development
UNDP	The United Nations Development Programme
USAID	United States Agency for International Development
USTR	U.S. Trade Representative
VAT	Value-Added Tax
VAT-PPP	Value-Added Tax – Parity Purchasing Power
Vísegrad Group	Central Europe Free Trade Agreement. Members: Hungary, Poland, Czech Republic, Slovenia, and Romania
WB	World Bank
WEU	Western European Union. Membership (9): Belgium, France, Germany, Italy, Luxembourg, Netherlands, Portugal, Spain, and the United Kingdom
WHFTA	Western Hemisphere Free Trade Area

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