Pegasus

A newsletter for the Caux Round Table Network
looking at business above the clutter and confetti

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Moral Capitalism At Work

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Pegasus

INTRODUCTION

A At the Caux Round Table Global Dialogue in Querétaro, Mexico, in 2002 Herman Wijffels of The Netherlands pointed out that capitalism does not stand alone unaided. Business must seek profits in environments established by government and the law and monitored by civil society.

In this issue of Pegasus we therefore bring you three comments on the inter-relationships among business, government and civil society.

For business and government, the issue contains an essay on the current dysfunctional relationship in the United States and the European Union between economic growth driven by the private sector and the revenue demands of the modern entitlement state. The yet unsolved conundrum in both federations is that a generous entitlement state demands a robust and wealthy private sector to generate tax revenues while such a state acts as a drag on economic growth. Is there a necessary trade off between growth and entitlements? Can a modern capitalism support both?

Second, we excerpt for you the pertinent findings of an important civil society organization, Global Financial Integrity, on the outflows of illicit capital from different countries.

The significance of these outflows is twofold: first, these funds leave their countries of origin and so are not available to contribute to economic growth in those countries, but rather to the haven countries to which they are sent; and, second, these funds are obtained in the main by structures of corruption and political oppression. Outflows therefore indicate countries with sub-optimal political and governance regimes.

Third, we publish a thoughtful essay by Doug Tice reflecting on the harmony between a politics of competition in ideas and policies with both free market dynamics leading to a greater common good either in policy outcomes or economic growth.

I hope you will enjoy and profit from these presentations.

Stephen B. Young
Global Executive Director

THE PRICE AND VALUE OF **POLITICS**

DOUG TICE
COMMENTARY EDITOR
STAR TRIBUNE

The Caux Round Table ethical principles for government and politics circle around the norm of discourse ethics, considering government and politics as continuous, open-book processes more than fixed end-states. The parallel, of course, is to markets and to the quality movement of continuous improvement vis-à-vis stakeholders.

A few years ago, when American politics was beginning to become dysfunctional, D.J. Tice wrote a short essay reflecting on the process of competition in markets and politics. His thoughts add specifics to the CRT approach and so his essay is presented here.

D.J. Tice is currently Commentary Editor of the Star Tribune in Minneapolis, Minnesota. He has been a writer, editor, publisher and political columnist based in the Twin Cities for more than 30 years.

It is usually a mistake to suppose that anything is really new in human affairs – really unique to one's own time. So it is with the notion that modern politics is abnormally polarized and harsh.

But there is also nothing new about people believing their own political atmosphere is exceptionally toxic. Politics, in short, has always been unpopular.

George Washington famously warned his countrymen against "the spirit of party," decrying the power of political parties to "organize faction, to give … an artificial and extraordinary force … to an artful and enterprising minority of the community." While such mobilizations of common interests "may now and then answer popular ends," he added, "they are likely in the course of time and things to … subvert the Power of the People…"

It was already too late. The spirit of party was intense when Washington spoke, and within a half century elaborate coalitions of officeholders, financiers, interest group leaders, pundits and political strategists – institutional parties much as we know them today – had assumed a lasting and integral role in the

American system of government.

Yet Washington's aversion to the "artificial and extraordinary force" parties and partisan motives bring to bear on government has remained a heartfelt American sentiment down through the years. Reining in the power of parties, and especially of party bosses, was a vital goal of the bipartisan Progressive movement of the early 20th century. The Progressives' creation of the primary system, along with nonpartisan election of judges in many states and of legislators in a few (Minnesota enacted both, although party identification returned to the legislature in the 1970s) began an effort to legally restrict the influence of parties that continues today in, among other things, campaign finance laws seeking to limit the fundraising and spending of both parties and independent advocacy groups.

In a much-discussed 1998 book, "The Argument Culture: Stopping America's War of Words," Deborah Tannen demonstrated how far this traditional suspicion of political competition is taken by some contemporary commentators. Tannen laments the role of "argument" – essentially, the competitive model of decision making – not only in American political life, but also in the press and in the Anglo-American adversarial legal process.

Tannen writes: "This book is about a pervasive warlike atmosphere that makes us approach public dialogue, and just about anything we need to accomplish, as if it were a fight. It is a tendency in Western culture in general, and in the United States in particular, that has a long history and a deep, thick, and far-ranging root system. It has served us well in many ways but in recent years has become so exaggerated that it is getting in the way of solving our problems. Our spirits are corroded by living in an atmosphere of unrelenting contention…"

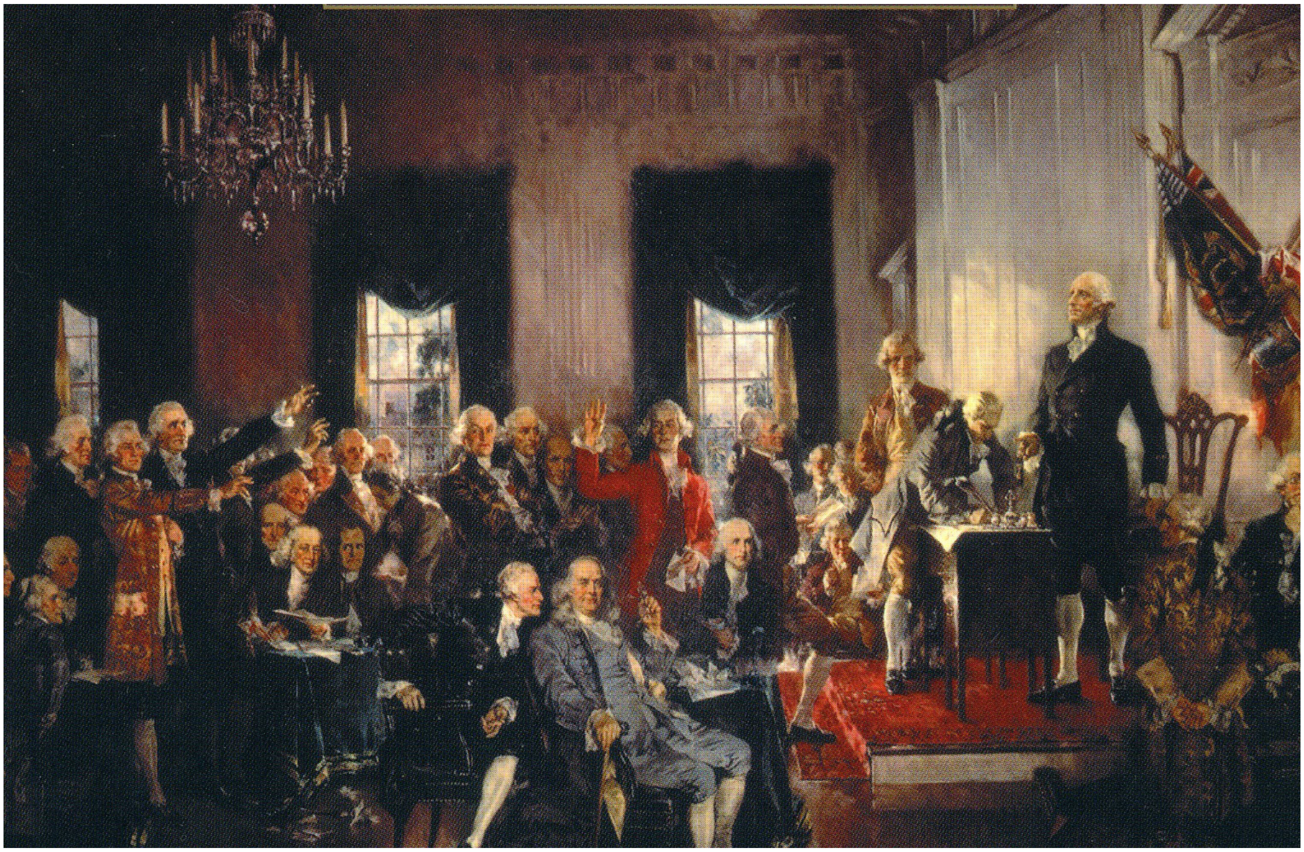
It would be easy to show from Tannen's many illustrations that the type of argument she finds "exaggerated" is almost invariably argument that she happens to disagree with. Like many who condemn "incivility" for "getting in the way of solving our problems" she generally and apparently unconsciously means that ardent debate gets in the way of our solving problems in ways she approves.

At one point, to let one example stand for the whole, Tannen complains about the press's rapt attention to the debate over "partial birth abortion," contending that the issue is of interest only because it is "a highly rancorous and emotional" dispute, and not because it is particularly important. Tannen seems quite oblivious to the fact that partial birth abortion could hardly stir passions and produce legislation unless many people disagree with her proclamation that is an insignificant distraction from important things (which, one suspects, are simply the things she cares about).

It is no cure for an overheated argument culture to treat one's own conclusions as self-evident truths that require no defense. Indeed, it is likely to annoy people and make matters worse.

Tannen's thesis shows how the modern case against competitive politics can metamorphose into just another political tactic – and a disingenuous one at that. But when Tannen writes of "our spirits" being "corroded by an atmosphere of unrelenting contention" she expresses a sincere and legitimate dissatisfaction with competitive society that is not easily answered.

In "The Power of Public Ideas," edited by Robert Reich, an assortment of authors offered a more sophisticated critique of political competition. In essence, these authors argue not so much that it is a mistake to allow competition among the self-interested aims of groups and individuals to produce policy through a process of electoral battle, compromise and bargaining – rather that it is a mistake to believe this is in point of fact the main way policy is made in America.



Scene at the Signing of the Constitution of the United States by Howard Chandler Christy (1940)

"The impoverished language and premises of self interest can neither articulate nor explain powerful human sentiments like compassion, loyalty, affection and duty," writes Gary Orren in "Beyond Self Interest." The authors in this collection insist scholarship shows that neither voting patterns nor many public policy decisions can be explained through the self interest of citizens and leaders. It is the view of these authors that inspiring leaders, moral beliefs, and group identification based not on common "interests" but on kinship, ethnicity or religious faith play a much larger role in shaping public policy than American political scholarship and debate commonly acknowledge. They believe higher ideals can play an even greater role if their power is recognized.

There is merit in this argument. One need look no further than Tannen to find a modern commentator unable to fathom or respect political passions aroused by an issue like partial birth abortion, which threatens only moral and religious convictions, not pragmatic interests. It has become a commonplace for pundits of liberal or libertarian persuasion to lament the nation's preoccupation with "culture war" issues such as abortion, gay rights, the pledge of allegiance, pornography, etc., when "important" questions about taxes and spending and the like should be our focus. Ideals and values, for that matter, may drive public attitudes and policy decisions about tax and spend issues as much as narrow interests do, just as these authors suggest.

But fully recognizing the role of ideals and loyalties in determining political goals cannot diminish the deeper challenge of peacefully resolving disputes, whatever their inspiration, and protecting against abuses of power. History shows that factions inspired by sincere and even selfless visions of moral truth as they understand it can be terrifyingly ruthless and oppressive when given the chance.

The fires of faction

In this atmosphere of longing for more consensus and public spiritedness it is bracing to look back to America's dry-eyed founders and their rationale for embracing political competition as the antidote to selfishness and factionalism.

The founders, as we saw with Washington, were vividly aware of the danger that organized political factions would "subvert the Power of the People." They worried more than many modern Americans do about factions gaining power to oppress and plunder the public, and rather less about factions "getting in the way" of government "solving our problems." That is partly because they lived in a simpler society than ours, and one with stronger non-governmental, social restraints on individual conduct. But it is also because the founders accepted a clumsy, slow and, yes, argumentative political system as the price to be paid for preventing the concentration of arbitrary power.

America's founders did not doubt that high-minded motives would often inspire leaders and citizens to public-spirited action. Nor did they question the indispensability of virtue. Nearly all of them expressed the certainty that only a moral and religious people could be fit for liberty.

But the founders had few illusions. In the Federalist Papers, James Madison wrote: "It is vain to say that enlightened statesmen will be able to adjust … clashing interests, and render them subservient to the public good. Enlightened statesmen will not always be at the helm." He added bluntly: "[W]e well know that neither moral nor religious motives can be relied upon as an adequate control."

Madison's co-author of the Federalist Papers, Alexander Hamilton, called on Americans "to awake from a deceitful dream of a golden age and … adopt as a practical maxim for the direction of our political conduct that we, as well as all other inhabitants of the globe, are as yet remote from the empire of perfect wisdom and perfect virtue."

Abraham Lincoln and Stephen A. Douglas Debating at Charleston, Illinois by Robert Marshall Root (1858)

Madison judged that moral restraints would prove especially helpless to discourage belligerent and selfish action by groups. When contending for the interests of his group, each individual would be able to ease his conscience by reflecting that he was acting on behalf of the others, not himself. “The latent causes of faction,” Madison wrote, “are … sown in the nature of man… So strong is this propensity of mankind … to fall into mutual animosities, that where no substantial occasion presents itself, the most frivolous and fanciful distinctions have been sufficient to kindle their unfriendly passions and excite their most violent conflicts.”

Those who consider today’s cultural disputes frivolous could recognize the tendency Madison was describing. Others who fear the power of special interests to corrupt government would surely agree that neither enlightened leaders nor internal moral restraints can be relied upon to stop them.

But Madison, fully aware of the problems that concern modern reformers, rejected the notion that less political freedom or less “argument” was the cure. “Liberty is to faction what air is to fire,” he conceded, but “it could not be less folly to abolish liberty, which is essential to political life, because it nourishes faction, than it would be to wish the annihilation of air, which is essential to animal life, because it imparts to fire its destructive agency.”

Simply put, political competition was the device Madison and the other founders proposed to contain the fire of factionalism and keep it from burning down the house.

In a properly designed republic, Madison explained, “the constant aim is to divide and arrange the several offices in such a manner as that each may be a check on the others.” The citizens, too, would be divided into numerous overlapping constituent groups that would produce varying coalitions of interests. Thus: “Whilst all authority … will be derived from and dependent on the society, the society itself will be broken into so many parts, interests and classes of citizens, that the rights of individuals, or of the minority, will be in little danger from interested combination of the majority. In a free government, the security for civil rights … consists in … the multiplicity of interests.”

The ever inadequate supply of virtue in society, Madison believed, recommended “this policy of supplying, by opposite and rival interests, the defect of better motives,” so that “the private interest of every individual may be a sentinel over the public rights.”

John Adams, perhaps the most pessimistic of the founders concerning human nature, nonetheless believed a well-structured system of political competition could work wonders with even the most discouraging raw material. “It would be impossible to prove,” he wrote, “that a republic cannot exist even among highwaymen, by setting one rogue to watch another; and the knaves themselves may in time be made honest men by the struggle.”

Trouble, scandal, conflict – and good government

The framers’ dry-eyed view of human nature – and their plan for a governmental system to make the best of it by enlisting one scoundrel to stand guard over every other – should still give pause to reformers who would smother the fire of faction, bottle up the spirit of party and muffle exaggerated argument. Political competition bestows two great if sometimes frustrating gifts on the process of making public policy.

Scrutiny

First, because of political competition, every American regime is dogged by outspoken and tireless critics. To be sure, the complaints of the out-of-power opposition are often inspired by sincere ideological and practical differences. But the simple, selfish desire to wrest power and its spoils from the other side adds zest and relentlessness to the opposition's efforts.

Thus every administration and every legislative majority faces a well-organized, well-financed, and highly motivated chorus of detractors eager to expose every corruption, dissect every failure, and lampoon nearly every initiative.

The self-serving partisanship involved ensures that false accusations and unjust criticisms are common. But in such an environment, it is unlikely that any leadership that was wholly corrupt, unjust, or incompetent could survive the inevitable onslaught. Precisely because political rivals are already pursuing selfish aims, they cannot easily be bought off or deceived about where their interests lie.

Being a journalist, I am well aware that America's free press prides itself on being the "watchdog" of government. In fact, the press plays an irreplaceable role as a disinterested critic of both every government and every loyal opposition. To be exact and sober about it, the press has its own self-interest and its own competitive pressures, which fuel its cantankerous nature.

The press is in the storytelling business, and the most popular stories have always been about trouble, scandal and conflict. Shakespeare wrote no plays about how everything went smoothly for a group of people. Hollywood makes blockbuster movies about the Titanic, not about the thousands of ocean liners that crossed the sea without difficulty.

Similarly, journalistic prizes, circulation battles and ratings wars aren't won by getting to the bottom of government's successes or bringing political integrity to light.

Does this mean that competitive pressure lowers the tone and ambitions of journalism, much as it oversimplifies and overheats political debate, inflating the value of trivial dirt digging over thoughtful policy analysis? Of course it does – and this, too, doubtless corrodes a

The United Nations

society's spirit. But journalists themselves must shoulder the challenge of becoming better behaved without becoming tame.

Meanwhile, all this said, it remains true that the press "watchdog" can be charmed by a charismatic leader, and thereby defanged, in a way his political opponents cannot be. Direct political competition alone guarantees complete – indeed excessive – scrutiny for every political power.

Moderation

The second great blessing of political competition is its tendency to discourage and penalize extremism. The product that ultimately "sells" in the political marketplace is by definition the one that appeals to a majority of voters. That majority, more often than not, over the course of time, will prefer stability and prudence to daring and visionary change.

This moderating effect of politics is especially, perhaps uniquely, evident in America, where the founders' elaborate constitutional system of checks and balances, multiple constituencies, and an executive independently chosen through winner-take-all state elections all but guarantees the overwhelming dominance of the two major parties. In other, "simpler" democracies, the competitive struggle becomes more complicated. A larger number of influential parties exist, coalition governments are common, and the gravitational pull of the center is diminished.

In America's competitive two-party system, the dominant parties have a real chance of winning in any election and of wielding real power if they do. This gives them an incentive that minor parties lack to avoid being drawn into excesses by the demands of narrow factions. Ideological factions and interest groups are by nature extreme and selfish. The membership of such groups often finds more satisfaction – and their leaders often find more popularity – by maintaining purity of principles rather than by contributing to electoral victory at the cost of policy compromise. Parties, to win, must be more practical.

"No new taxes!" is an effective slogan. "U.S. Out of (Wherever) Now!" is a demand protesters can lustily shout. But "Only A Reasonable Level of Taxation!" falls a little flat. "U.S. Out of (Wherever) As Soon As Prudently Possible!" might exhaust and discourage the most dedicated peace lovers.

Yet these sorts of sensible – or at least defensible – centrist policies are what American government in the end commonly pursues, even though the politicians may continue to intone the more extreme slogans and even strive to make it appear they have fulfilled them. This happens in no small part because of politicians' powerful desire to prevail in the political competition.

The cost of the moderation political competition fosters is, of course, a lack of boldness in policymaking, at least until a consensus for boldness develops. It is an ironic bit of good fortune, however, that political parties, when successful, almost invariably overreach in response to their clamoring factions. The result is frequently a defeat at the polls, but useful policy experiments are sometimes undertaken beforehand.

ILLICIT FINANCIAL FLOWS FROM DEVELOPING COUNTRIES: 2001-2010

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Executive Summary

Two main issues, which arose in the past year, encouraged us to supplement our standard methodology used to estimate illicit flows based on the World Bank Residual method adjusted for trade misinvoicing.

First, we investigated the net measurement of inward from outward capital flight traditionally used by economists in academic journals. We reaffirm our commitment to a gross outflow approach, rather than a net approach, because only a return of licit capital that is recorded can offset loss of capital. The return of unrecorded and illicit capital cannot be used for productive purposes. In other words, the gross/net issue is linked to the nature of the capital.

Second, we explored the effect of the global financial crisis on both illicit and licit flows, determining that the residual method of estimating illicit flows adjusted for trade misinvoicing may include some licit capital as well as illicit. Moreover, if the CED+GER method includes licit capital, the support for a gross outflows approach is strengthened, as one cannot be sure whether the inward capital flight is licit or illicit in nature. Therefore, we present estimates of illicit flows using both the CED+GER method and the conservatively focused Hot Money Narrow method adjusted for trade misinvoicing (HMN+GER).

A firm judgment as to which method provides a more accurate method for estimating illicit flows is somewhat premature at this stage. While the HMN+GER method provides more conservative estimates of illicit outflows, it may exclude certain illicit transactions such as round-tripped FDI which could be erroneously recorded as private sector flows. We invite readers to comment on the appropriateness of the two methodologies for estimating illicit flows including reasons why one should be preferred over the other.

Using robust (non-normalized) estimates for both measures, we found that in 2010 developing countries lost between US$858.8 billion to US$1,138 billion, implying that as much as US$279 billion of the higher figure could be licit capital flows of the private sector—outflows that took place as a result of “normal” portfolio maximizing considerations. While the two estimates were quite close in the early 2000s, capital market liberalization in many large emerging markets may have encouraged

more licit or "normal" capital flight over the years. The gap between the HMN+GER and CED+GER estimates widened, reaching a peak in 2008 at the onset of the global economic crisis. In the following year, outflows of legal capital flight dropped more sharply than illicit outflows. The latter showed a steady upward trend for all developing countries more or less immune to macroeconomic shocks and adjustments.

We then further analyzed the gap between the two non-normalized (or robust) estimates in order to shed light on possible legal capital flight from the various regions of the developing world during the 10-year period studied. We observed that in the case of developing Europe, the MENA region, and Western Hemisphere, the gap tends to widen over time, reaching a peak in 2008 although it has closed in the following two years. The widening gap is perhaps the result of more normal capital flight due to a relaxation of capital controls. In all three regions, licit outflows plunged in 2009 due to the effects of the crisis on domestic and foreign capital markets noted above. In the case of Asia, the gap, which was almost nonexistent in the early 2000s, began to widen in 2005 and reached a peak in 2008 at the onset of the crisis. But the gap closed almost completely in 2009 as both licit and illicit outflows from Asia fell in tandem.

A finding that is worrisome is that the HMN+GER measure of illicit flows increased at a faster pace than the CED+GER measure (13.3 percent vs. 12.6 percent). The adverse implication is that increasing illicit flows are likely to result from a worsening of governance-related drivers given the scant evidence of a systematic increase in measurement errors.

In order to avoid overlap and to focus more sharply on flows that are likely to be purely illicit, we analyze trends, shares, and country rankings based on the HMN+GER method. According to this measure, illicit flows from developing countries in the robust calculation increased by over US$500 billion since 2001 implying a real growth rate of 8.6 percent per annum on average, which exceeded their average rate of economic growth (6.3 percent per annum). We established that about 80 percent of illicit outflows were channeled through the deliberate misinvoicing of trade, although the shares of outflows from trade misinvoicing and the balance of payments have fluctuated.

We found that Asia, accounting for 61.2 percent of cumulative outflows, was still the main driver of such flows from developing countries. Indeed, five of the ten countries with the largest illicit outflows (China, Malaysia, the Philippines, India, and Indonesia) are in Asia. The Western Hemisphere, led by Mexico, follows at 15.6 percent, with the Middle East and North Africa (MENA) at 9.9 percent. Developing Europe follows MENA in share size, making up 7.0 percent of illicit flows, with the balance flowing out of Africa (6.3 percent).

MENA had the highest growth rate of illicit capital in real terms (26.3 percent per annum on average), followed by Africa (23.8 percent), Asia (7.8 percent), Europe (3.6 percent), and Western Hemisphere (2.7 percent). The rapid growth of outflows from the MENA region was due mainly to the increase in crude oil prices, which drove the region's current account surplus. It seems that rising oil prices provide more incentive for unrecorded flows. The finding is consistent with Almounsor (2005) who also found a significant positive link between illicit outflows and crude oil prices.

Trade misinvoicing continued to be the preferred method of transferring illicit capital from all regions except the MENA region where it only accounted for 37 percent of total outflows over the decade ending 2010. At one extreme, Asia preferred trade misinvoicing over balance of payments leakages by 94 percent to 6 percent. Trade misinvoicing was also the dominant channel of illicit outflows from the Western Hemisphere (84 percent), Africa (65 percent), and developing Europe (53 percent).

According to the HMN+GER method, the ten countries with the largest outflows of illicit capital (in declining order of magnitude) were China, Mexico, Malaysia, Saudi Arabia, the Russian Federation, the Philippines, Nigeria, India, Indonesia, and the United Arab Emirates. Total outflows from China over the decade ending 2010 (US$2,742 billion) exceeded total cumulative outflows from all other nine countries on the list (US$1,728 billion). The new rankings imply that illicit flows impact more people more adversely than what the previous IFF reports indicated. This is because the CED+GER rankings included Kuwait, Venezuela, Qatar, and Poland among the top ten countries with the largest outflows. However, these countries have relatively much higher income and fewer people living on less than US$2 a day, compared to the Philippines, Nigeria, India, and Indonesia which are ranked among the top ten countries under the HMN+GER methodology. Hence, the revised rankings do a much better job of reflecting the adverse impact of illicit flows on poverty compared to the CED+GER method.

Finally, we explored the significant statistical issues related to the recording of sovereign wealth funds (SWFs) in the balance of payments and how incomplete or incorrect recording of SWF-related transactions can lead to errors in estimating illicit flows (due to errors in recording balance of payments variables). If, for instance, there is a drawdown of reserve assets to invest in SWFs and the drawdown is fully recorded, while an SWF-related drawdown to pay off external debt is not recorded then the increased use of funds is not offset by a decline in external debt which would be reflected in an increase in unrecorded capital outflow. Had the subsequent debt repayment been correctly recorded, there would have been no change in unrecorded outflows. Errors could also be introduced in the appropriate recording of reserves due to SWF-related deposits. We conclude that the criteria as to whether specific SWF funds are to be considered part of reserve assets should not be based on mechanical rules but should be based on judgments regarding encumbrance, control, and ease of availability.

We looked at the net errors and omissions (NEO) in the balance of payments for a group of ten countries with the largest SWFs. While NEOs are driven by many factors, the purpose was to see whether there is a simple casual link between SWFs and NEOs given the statistical capacity of the SWF country. Normally we would expect countries with strong statistical systems to do a better job of capturing SWF transactions. In general, we found that there is little correlation between the balance of payments of certain countries with large SWFs and the relative strength or weakness of their statistical systems. This led us to believe that SWF transactions do not seem to adversely impact the NEO, although there are a few notable exceptions. The finding that the NEO in the balance of payments data reported by United Arab Emirates, Saudi Arabia, and Qatar to the IMF are relatively high imply that estimates of illicit flows from these countries must be interpreted with caution due to the risk of significant measurement errors.

I. Introduction

1. Studies at Global Financial Integrity (GFI) on illicit financial flows from developing countries have been based on the World Bank Residual method (using the change in external debt or CED version) adjusted for trade misinvoicing. Economists such as Claessens and Naudé (1993), Cumby and Levich (1989), Epstein (2005), Gunter (2004), Ndikumana and Boyce (2008), Schneider (1997), and others have used this method for many years to estimate the volume of capital flight from developing countries and entire regions. The methodology used in GFI studies has been consistent with this overall approach, except for the fact that the “traditional” approach netted out flows in both directions, while GFI’s methodology is based on gross outflows. In this report, we

revisit our methodology, reaffirming the “gross outflow” approach and fine-tuning our balance of payments estimates to provide the reader with alternative estimates of illicit financial flows.

2. The need to broaden the methodology was based on two reasons. First, we looked more closely at the rationale for preferring the gross outflow approach in contrast to the traditional net approach. Some economists, such as Fuest and Riedel (2012) and Nitsch (2012), imply that our gross approach may significantly overstate the problem of capital flight. However, the rationale for netting capital flows rests on the premise that net inflows of legitimate capital (i.e. reversal of capital flight) represent a benefit to a country. Legitimate inflows need to offset the original loss of capital through other channels either within the same year or across previous years in order to arrive at a net cumulative position over a given period. However, if we are concerned with estimating illicit financial flows or illegal capital flight, the netting out procedure makes little sense. This is because there is no such concept as net crime— flows in both directions are illicit. Hence, illicit inflows which cannot be used productively and are much more likely to end up in the underground economy provide little or no benefit to governments. The rationale of netting flows is reasonable in analyses of legal or “normal” capital flight. We will show that the method traditionally used by economists may well capture both “normal,” or legal, and “abnormal,” or illegal, capital flight. The gross versus net issue is therefore linked to the nature of capital (i.e. whether it is licit or illicit) which required us to examine, more closely, the types of capital included in the traditional versus GFI methodologies.

3. Second, during the course of our study on illicit flows in connection with the report Illicit Financial Flows from Developing Countries Over the Decade Ending 2009 (henceforth the 2011 IFF Report), we noticed a sharp decline in total outflows of illicit capital from developing countries and regions in 2009. However, the 2011 IFF Report found no evidence that major developing countries adopted macroeconomic, structural, or governance-related policy measures which could account for this decline. We attributed the sharp fall in illicit flows to the slowdown in recorded source of funds (such as new loans and foreign direct investment) relative to use of funds. This can also be thought of as an increase in the latter relative to the former. Hence, the need to explain the fall in illicit outflows as a result of the global economic crisis became apparent. The question was if illicit flows reacted so strongly to an economic crisis, what is the response of licit or “normal” capital flight?

4. This report is organized as follows. Section II discusses the rationale for adding a second methodology to focus more sharply on illicit flows and minimize the risk of including legitimate capital flows. We will compare estimates of illicit flows using the new approach against the previous method based on change in external debt (CED) adjusted for trade misinvoicing based on the gross excluding reversals (GER) method. To maintain a sharp focus, section III presents our analysis of the trends in illicit outflows using the new non-normalized methodology from developing countries and regions over the period 2001-2010. Section IV discusses the impact of sovereign wealth funds (SWFs) on the reliability of estimates of illicit flows from developing countries that maintain large SWFs. The final section will draw the main conclusions of this study.

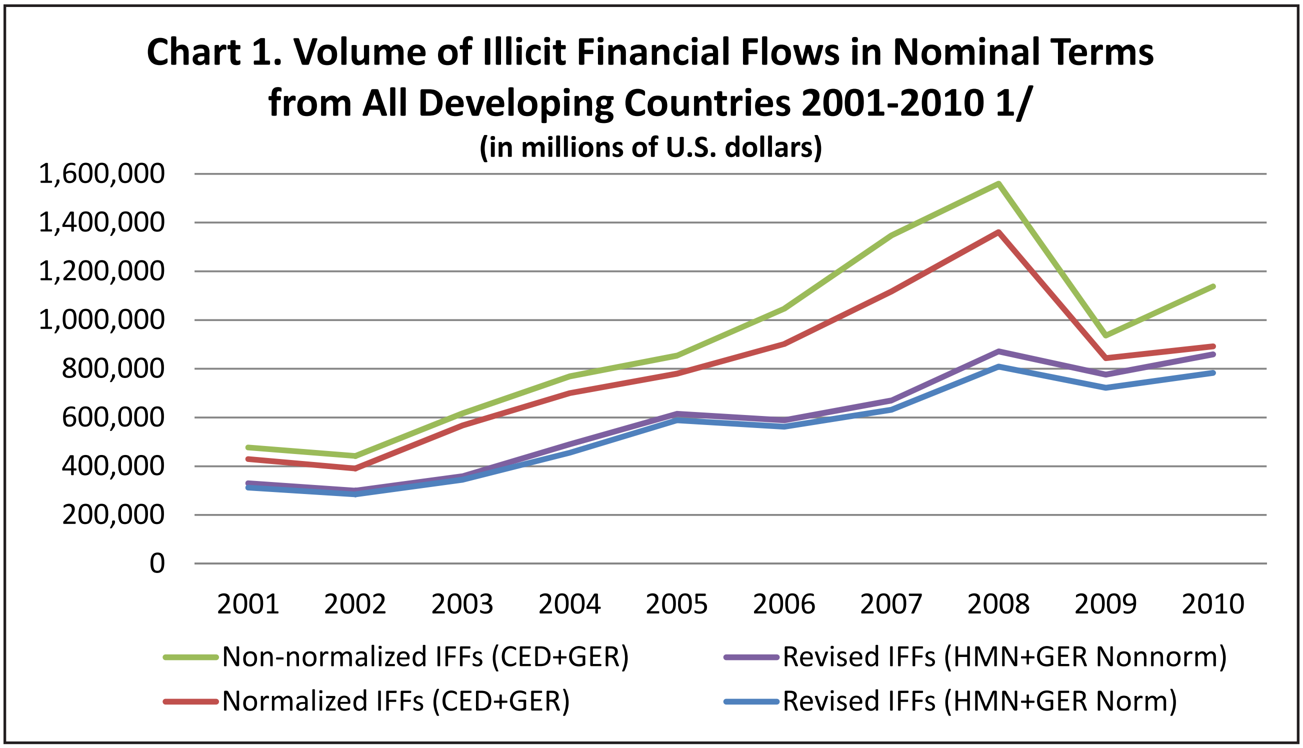


Table B. Four Estimates of Capital Flight, All Developing Countries, 2001-2010
(in billions of U.S. dollars)

Non-normalized IFFs (CED

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative	Average	Logarithmic Growth
Africa	24069.7	24956.3	33186.4	41615.3	37401.7	53682.8	85336.6	101921.	76254.7	86145.0	564570.158	56457.01	18.08
Asia	225542.	216093.	273437.	345624.	425024.	497556.	535632.	608911.	423061.	584040.	4134924.57	413492.4	12.03
Developing Europe	72252.1	64375.9	104141.	128721.	104875.	140961.	252959.	329248.	111721.	126324.	1435580.72	143558.0	10.83
MENA	55769.4	37820.7	89585.7	132992.	157687.	218270.	283384.	305885.	186557.	178402.	1646357.86	164635.7	20.21
Western Hemisphere	99470.9	98694.3	116668.	119987.	128685.	135722.	189578.	213836.	138515.	163084.	1404245.19	140424.5	7.07
All Developing Countries	477104.	441940.	617019.	768942.	853674.	104619	134689	155980	936111.	113799	9185678.52	918567.8	12.61

Normalized IFFs (CED+GE

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative	Average	Logarithmic Growth
Africa	9617.99	15998.9	28053.2	33348.9	31694.2	48295.0	77478.0	93859.7	72275.2	62979.8	473601.429	47360.14	24.73
Asia	221385.	192489.	253692.	331513.	395049.	383453.	424427.	513607.	388845.	490562.	3595027.34	359502.7	10.40
Developing Europe	67339.8	55956.8	92343.4	109518.	90964.7	134379.	242223.	314482.	80375.2	43343.7	1230928.46	123092.8	4.63
MENA	49853.7	32615.4	84696.8	128590.	151539.	210054.	218095.	288816.	175010.	157976.	1497250.20	149725.0	20.07
Western Hemisphere	81080.4	93938.9	108677.	97281.9	110781.	125127.	154847.	149915.	127073.	136995.	1185721.18	118572.1	6.22
All Developing Countries	429277.	390999.	567463.	700254.	780029.	901310.	111707	136068	843579.	891858.	7982528.62	798252.8	11.45

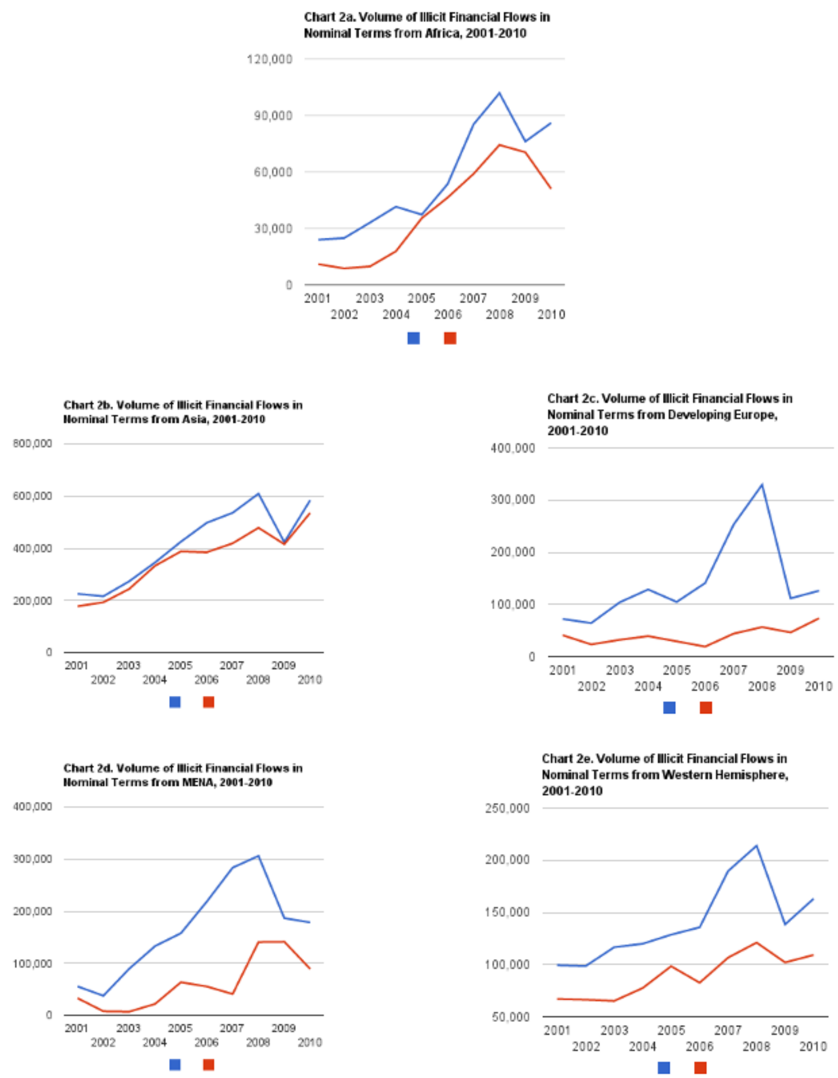
Revised IFFs (HMN+GER

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative	Average	Logarithmic Growth
Africa	11098.2	8837.75	9899.14	17929.5	35519.9	46484.8	59065.0	74404.3	70526.1	51056.9	384821.973	38482.19	29.15
Asia	177834.	192980.	244157.	332933.	387942.	384623.	418841.	478328.	415513.	535672.	3568827.49	356882.7	12.43
Developing Europe	41129.3	23509.8	32359.2	39423.9	29448.1	19360.6	44173.9	56733.9	46509.3	73670.6	406319.116	40631.91	8.03
MENA	33229.9	8044.86	7269.11	22119.8	63715.7	55570.3	41141.3	140729.	141340.	89188.5	602348.945	60234.89	31.74
Western Hemisphere	67185.3	66441.9	65289.2	77592.6	98480.5	82684.8	106727.	121106.	102117.	109254.	896880.760	89688.07	7.06
All Developing Countries	330477.	299814.	358974.	489999.	615106.	588724.	669949.	871302.	776007.	858842.	5859198.29	585919.8	13.28

Revised IFFs (HMN+GER

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative	Average	Logarithmic Growth
Africa	7505.71	7092.32	9300.86	11724.0	29989.9	44024.0	51884.0	70071.4	69167.9	41531.0	342291.361	34229.13	32.38
Asia	175249.	189936.	241902.	328839.	379056.	368016.	409178.	461932.	398224.	523106.	3475442.62	347544.2	12.13
Developing Europe	39196.1	18881.3	25668.3	23538.0	27059.8	18454.3	36570.2	49713.6	28579.1	30165.7	297826.909	29782.69	2.94
MENA	28087.1	6658.35	5460.38	20424.0	61148.1	53009.1	38514.2	129512.	134579.	82243.8	559636.859	55963.68	34.01
Western Hemisphere	62289.8	61978.6	62368.8	71020.6	91636.9	78759.3	95871.9	97727.8	91570.3	106132.	819357.296	81935.72	6.59
All Developing Countries	312328.	284547.	344700.	455545.	588891.	562263.	632018.	808958.	722120.	783179.	5494555.04	549455.5	12.88

Chart 2. Illicit Financial Flows by Region, 2001-2010 1/
(in millions of U.S. dollars)



1/ Estimates of GER in the CED+GER and the HMN+GER lines are non-normalized. All tables and charts in section III of this report and Tables 1, 2, and 14 of the Appendix use non-normalized estimates, as discussed in the following section on normalization.

CED+GE

Region	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative	Average
Africa	24,070	24,956	33,186	41,615	37,402	53,683	85,337	101,921	76,255	86,145	564,570	56,457
Asia	225,542	216,093	273,437	345,625	425,024	497,557	535,633	608,911	423,061	584,040	4,134,925	413,492
Developi	72,252	64,376	104,141	128,722	104,875	140,961	252,959	329,248	111,722	126,325	1,435,581	143,558
MENA	55,769	37,821	89,586	132,993	157,688	218,271	283,385	305,886	186,558	178,403	1,646,358	164,636
Western	99,471	98,694	116,669	119,988	128,686	135,722	189,578	213,837	138,516	163,085	1,404,245	140,425
All Devel	477,104	441,941	617,020	768,942	853,675	1,046,193	1,346,891	1,559,803	936,111	1,137,998	9,185,679	918,568

HMN+GE

Region	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Cumulative	Average
Africa	11,098	8,838	9,899	17,930	35,520	46,485	59,065	74,404	70,526	51,057	384,822	38,482
Asia	177,834	192,980	244,158	332,934	387,942	384,624	418,841	478,329	415,514	535,672	3,568,827	356,883
Developi	41,129	23,510	32,359	39,424	29,448	19,361	44,174	56,734	46,509	73,671	406,319	40,632
MENA	33,230	8,045	7,269	22,120	63,716	55,570	41,141	140,729	141,340	89,189	602,349	60,235
Western	67,185	66,442	65,289	77,593	98,481	82,685	106,728	121,106	102,118	109,254	896,881	89,688
All Devel	330,477	299,815	358,974	490,000	615,107	588,724	669,949	871,303	776,007	858,843	5,859,198	585,920

Table D. Illicit Financial Flows Broken Down by Region in Real Terms 1/

(millions of 2005 U.S. dollars)

HMN (Hot Money Narrow, Balance of Payments component)

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals	Share of Region in Total (in %) 2/	Percent Change 2009-2010	Logarithmic Growth 2001-2010
Africa	3,046.90	3,867.83	4,725.81	1,830.78	20,296.96	17,074.15	16,249.92	19,500.26	28,166.71	17,684.04	132,443.35	12.16	-59.28	29.92
Asia	13,401.60	7,719.32	7,630.93	7,143.15	15,306.33	16,116.48	16,116.95	18,451.53	60,669.44	78,154.46	240,710.20	22.11	22.37	25.30
Developing Europe	15,169.20	13,780.33	17,831.09	11,158.29	16,150.18	9,318.99	25,460.74	35,789.54	16,813.01	19,720.77	181,192.13	16.64	14.74	5.71
MENA	15,065.87	5,099.98	4,836.05	3,049.18	51,940.31	42,135.72	28,534.03	95,266.49	91,627.83	57,104.52	394,659.98	36.25	-60.46	38.39
Western Hemisphere	16,099.37	15,642.15	11,905.65	13,016.79	22,021.10	6,784.96	8,027.66	1,498.08	20,254.26	24,556.16	139,806.16	12.84	17.52	-4.38
All Developing Countries	62,782.94	46,109.61	46,929.53	36,198.18	125,714.88	91,430.29	94,389.30	170,505.90	217,531.25	197,219.94	1,088,811.83	100.00	-10.30	20.06

GER (Gross Excluding Reversals, Trade Mispricing component)

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals	Share of Region in Total (in %) 2/	Percent Change 2009-2010	Logarithmic Growth 2001-2010
Africa	9,970.75	6,741.53	6,554.74	17,410.85	15,223.01	27,336.82	37,595.39	42,270.63	36,033.88	25,818.43	224,956.03	4.95	-39.57	21.78
Asia	195,188.91	223,945.02	270,598.45	350,155.26	372,635.85	351,347.94	365,710.00	378,659.67	317,576.23	378,258.85	3,204,076.19	70.52	16.04	6.35
Developing Europe	33,073.39	14,442.30	19,043.78	31,150.83	13,298.00	9,177.93	14,809.40	11,311.26	25,524.89	43,049.40	214,881.19	4.73	40.71	0.70
MENA	23,911.14	4,557.54	3,447.45	20,689.41	11,775.39	10,955.46	8,971.52	21,567.63	37,035.34	18,887.36	161,798.24	3.56	-96.09	12.29
Western Hemisphere	62,705.67	64,118.59	62,494.51	70,254.26	76,459.43	72,211.05	89,268.22	99,044.93	72,704.62	68,532.67	737,793.96	16.24	-6.09	2.85
All Developing Countries	324,849.86	313,804.99	362,138.93	489,660.62	489,391.68	471,029.19	516,354.53	552,854.12	488,874.95	534,546.71	4,543,505.60	100.00	8.54	6.13

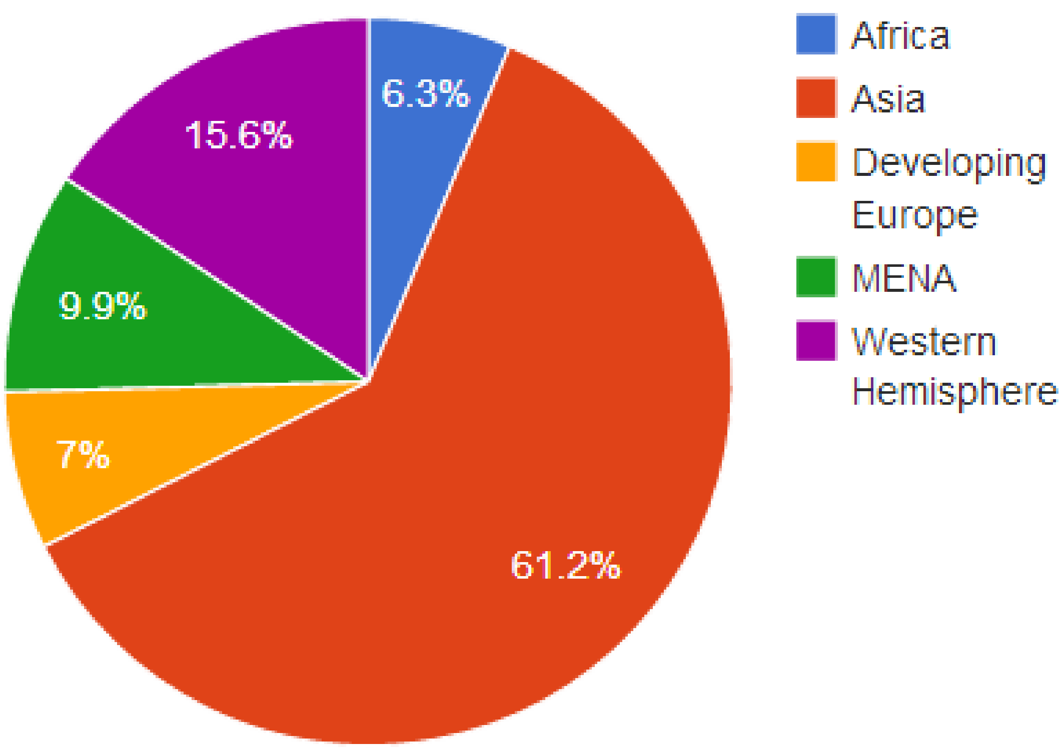
Total HMN + GER

Region/Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Totals	Share of Region in Total (in %) 2/	Percent Change 2009-2010	Logarithmic Growth 2001-2010
Africa	13,017.64	10,609.36	11,280.54	19,241.63	35,519.97	44,410.97	53,845.31	61,770.88	64,200.60	43,502.47	357,399.38	6.35	-47.58	23.83
Asia	208,590.52	231,664.35	278,229.38	357,298.41	387,942.18	367,464.42	381,826.96	397,111.19	378,245.67	456,413.32	3,444,786.39	61.16	17.13	7.81
Developing Europe	48,242.59	28,222.64	36,874.88	42,309.12	29,448.18	18,496.92	40,270.14	47,100.80	42,337.90	62,770.17	396,073.32	7.03	32.55	3.59
MENA	38,977.01	9,657.52	8,283.50	23,738.59	63,715.70	53,091.17	37,505.56	116,834.12	128,663.17	75,991.87	556,458.22	9.88	-69.31	26.32
Western Hemisphere	78,805.05	79,760.74	74,400.16	83,271.04	98,480.53	78,996.00	97,295.88	100,543.02	92,958.88	93,088.82	877,600.12	15.58	0.14	2.65
All Developing Countries	387,632.81	359,914.60	409,068.46	525,858.80	615,106.56	562,459.49	610,743.84	723,360.02	706,406.21	731,766.65	5,632,317.42	100.00	3.47	8.62
HMN Percent of Total	16.2	12.8	11.5	6.9	20.4	16.3	15.5	23.6	30.8	27.0	19.3	Ave. CED % (2001-2010)		18.1
GER Percent of Total	83.8	87.2	88.5	93.1	79.6	83.7	84.5	76.4	69.2	73.0	80.7	Ave. GER % (2001-2010)		81.9

Source: Staff estimates, Global Financial Integrity, based on official balance of payments and trade data reported to the IMF by member countries.

1/ Current dollar estimates are deflated by the U.S. Producer Price Index base 2005 (from IMF IFS online database).

Chart 4. Illicit Flows in Real Terms 2001-2010; Regional Shares in Developing World Total 1/



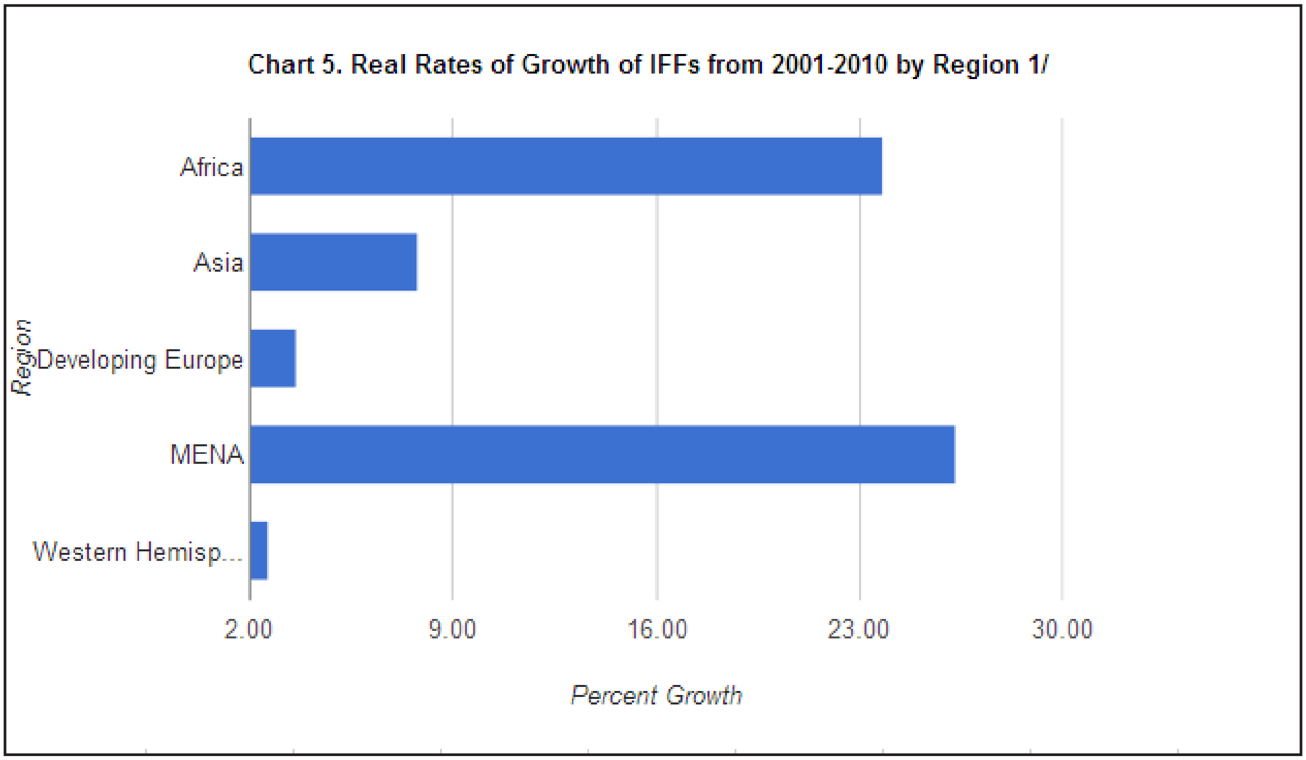


Chart 5. Real Rates of Growth of IFFs from 2001-2010 by Region 1/
Africa
Asia
Developing Europe
MENA
Western Hemisp...
Region
2.00
9.00
16.00
23.00
30.00
Percent Growth

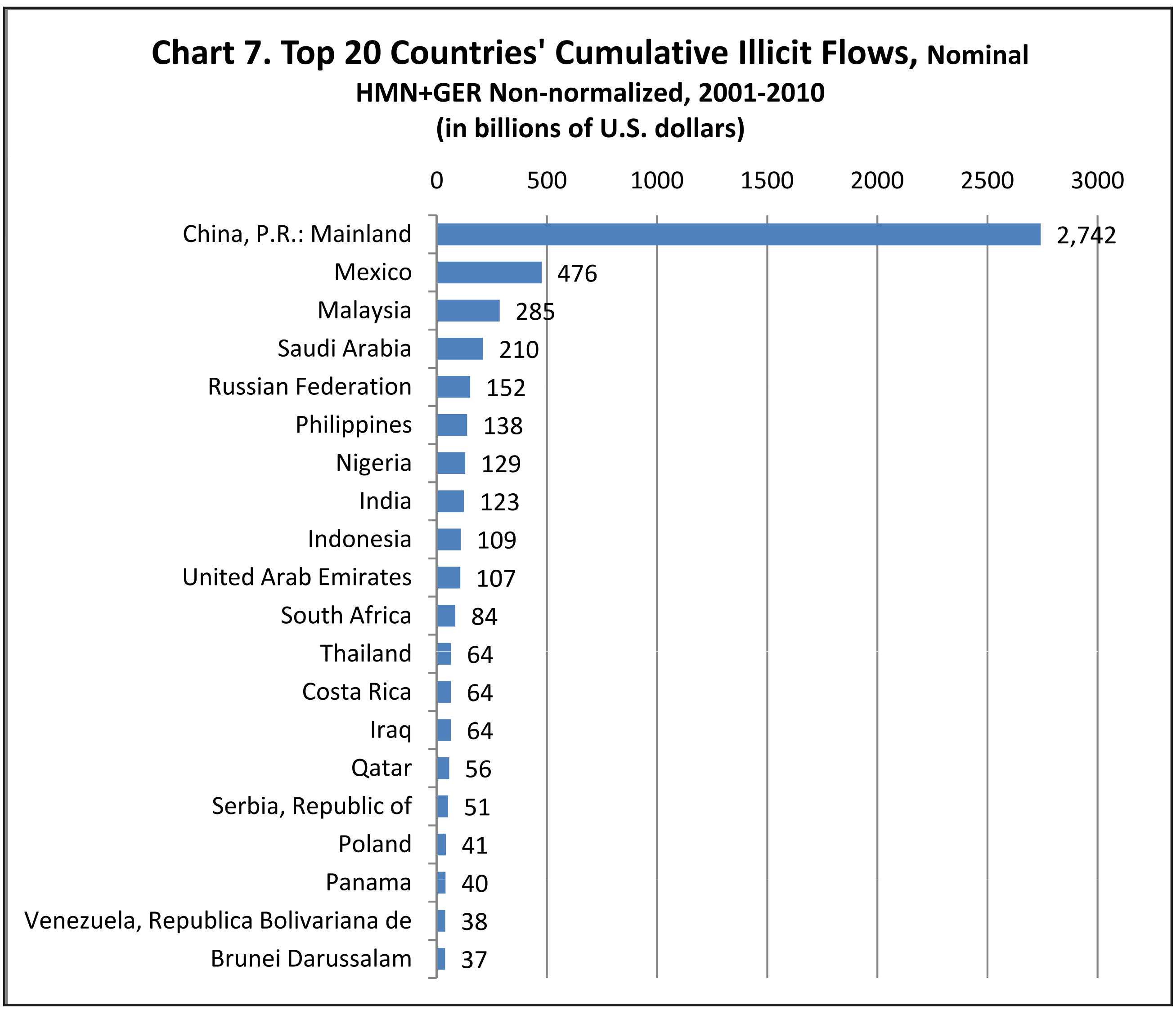


Chart 7. Top 20 Countries' Cumulative Illicit Flows, Nominal
HMN+GER Non-normalized, 2001-2010
(in billions of U.S. dollars)
0
500
1000
1500
2000
2500
3000
China, P.R.: Mainland 2,742
Mexico 476
Malaysia 285
Saudi Arabia 210
Russian Federation 152
Philippines 138
Nigeria 129
India 123
Indonesia 109
United Arab Emirates 107
South Africa 84
Thailand 64
Costa Rica 64
Iraq 64
Qatar 56
Serbia, Republic of 51
Poland 41
Panama 40
Venezuela, Republica Bolivariana de 38
Brunei Darussalam 37

Cumulative illicit financial flows from developing countries from 2001-2010
(in millions of U.S. dollars)

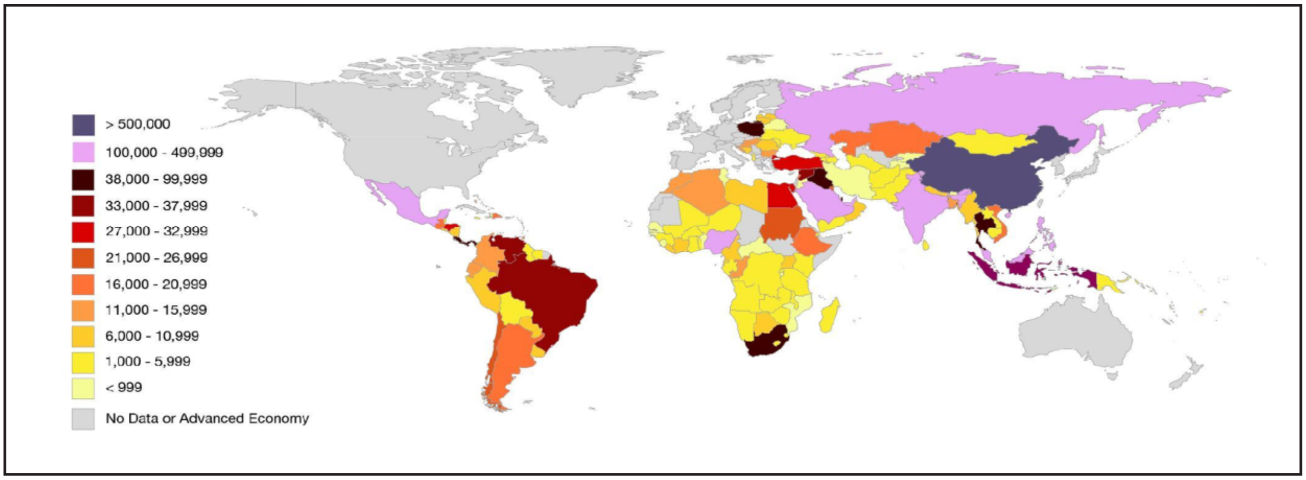


Table 2. Country Rankings: by Largest Average IFF Estimates, 2001-2010 (in millions of U.S. dollars)

Rank	Country	Average of all years (where data is available)
1	China, P.R.: Mainland	274,170
2	Mexico	47,561
3	Malaysia	28,524
4	Saudi Arabia	20,996
5	Russian Federation	15,159
6	Philippines	13,782
7	Nigeria	12,904
8	India	12,332
9	Indonesia	10,886
10	United Arab Emirates	10,650
11	Iraq	10,597
12	South Africa	8,390
13	Thailand	6,426
14	Costa Rica	6,370
15	Qatar	5,611
16	Serbia, Republic of	5,144
17	Poland	4,077
18	Panama	3,987
19	Venezuela, Republica Bolivarian	3,791
20	Brunei Darussalam	3,704
21	Brazil	3,510
22	Syrian Arab Republic	3,260
23	Egypt	3,099
24	Honduras	3,081
25	Turkey	2,896
26	Sudan	2,637
27	Kuwait	2,419
28	Chile	2,417
29	Aruba	2,354
30	Lebanon	2,105
31	Kazakhstan	1,916
32	Trinidad and Tobago	1,884
33	Vietnam	1,753
34	Dominican Republic	1,695
35	Ethiopia	1,685
36	Argentina	1,670
37	Guatemala	1,622
38	Bulgaria	1,585
39	Croatia	1,525
40	Congo, Republic of	1,503
41	Algeria	1,471
42	Hungary	1,442

43	Bahamas, The	1,408
44	Bangladesh	1,406
45	Morocco	1,283
46	Colombia	1,254
47	Ecuador	1,135
48	Nicaragua	1,093
49	Liberia	1,083
50	Montenegro	1,042
51	Equatorial Guinea	1,003
52	Bahrain, Kingdom of	971
53	Peru	952
54	Libya	902
55	Romania	884
56	El Salvador	867
57	Bosnia and Herzegovina	836
58	Nepal	801
59	Paraguay	754
60	Oman	741
61	Uruguay	736
62	Myanmar	728
63	Lithuania	692
64	Cote d'Ivoire	688
65	Latvia	680
66	Uganda	680
67	Cameroon	674
68	Turkmenistan	659
69	Botswana	604
70	Zambia	548
71	Armenia, Republic of	526
72	Cambodia	498
73	Angola	483
74	Georgia	477
75	Malawi	469
76	Macedonia, FYR	461
77	Ukraine	460
78	Congo, Democratic Republic of	438
79	Azerbaijan, Republic of	429
80	Madagascar	423
81	Namibia	420
82	Jamaica	415
83	Bolivia	386
84	Zimbabwe	365
85	Lao People's Democratic Repub	342
86	Tanzania	333
87	Swaziland	308
88	Guinea	306
89	Djibouti	292
90	Gabon	289

	91	Mali	289	
	92	Fiji	270	
	93	Moldova	252	
	94	Pakistan	251	
	95	Yemen, Republic of	249	
	96	Burkina Faso	242	
	97	Afghanistan, Islamic Republic of	240	
	98	Ghana	218	
	99	Papua New Guinea	203	
	100	Barbados	198	
	101	Togo	196	
	102	Guyana	188	
	103	Lesotho	179	
	104	Rwanda	158	
	105	Sri Lanka	153	
	106	Albania	136	
	107	Samoa	125	
	108	Niger	122	
	109	Mauritius	114	
	110	Kenya	112	
	111	Mongolia	112	
	112	Belize	107	
	113	Suriname	104	
	114	Solomon Islands	91	
	115	Tajikistan	91	
	116	Jordan	88	
	117	Mozambique	85	
	118	Belarus	78	
	119	Kyrgyz Republic	71	
	120	Dominica	64	
	121	Seychelles	62	
	122	Haiti	57	
	123	Sierra Leone	53	
	124	Maldives	52	
	125	Burundi	49	
	126	Gambia, The	47	
	127	Guinea-Bissau	46	
	128	Tunisia	31	
	129	Bhutan	27	
	130	Tonga	27	
	131	Cape Verde	27	
	132	Benin	23	
	133	Central African Republic	18	
	134	Comoros	16	
	135	Vanuatu	13	
	136	Antigua and Barbuda	12	
	137	St. Vincent and the Grenadines	7	
	138	Sao Tome and Principe	6	

139	Timor-Leste, Dem. Rep. of	5
140	St. Lucia	4
141	Grenada	4
142	St. Kitts and Nevis	3
143	Senegal	1

Source: Staff estimates, Global Financial Integrity, based on official balance of payments and trade data reported to the IMF by member countries and external debt data reported by those countries to the World Bank.

Countries below rank 143 either had missing data (see Table 9) or have received only illicit inflows over the period 2001-2010.

UNSUSTAINABLE **CONTRADICTIONS** WITHIN THE MODERN ENTITLEMENT STATE

STEPHEN B. YOUNG
GLOBAL EXECUTIVE DIRECTOR
CAUX ROUND TABLE

Our contemporary, post-industrial, globalized entitlement state suffers from unsustainable fiscal disequilibrium.

This sustainability crisis broke out in the Eurozone first because the providers of state entitlements there – national governments – can't issue fiat currencies. They must borrow funds to meet revenue deficits, but buyers of their debt became skittish. Because the United States has a fiat currency, the entitlement sustainability crisis is less acute, as revenue deficits are overcome with issuance of currency.

Why has the modern, post-industrial entitlement state entered an evolutionary stage of crisis? With such wealth available – global GDP is some US$60 trillion – why have the entitlement states of advanced countries not settled down into happy, sustainable equilibria?

Simply put, entitlements are a form of non-market rent extraction that have grown to overburden wealth creation.

Economies are systems of interdependencies. Sustainable systems align mismatches among the interdependent sub-systems into constructive reciprocities for circulation and absorption within the entire system, thus maintaining its equilibrium. When mismatches cannot be so constructively aligned, the system enters disequilibrium, or structural crisis.

Karl Marx gained fame for pointing out that free market capitalism was a system in constant disequilibrium, destined for one business crisis after another until its final collapse in a great depression when low levels of consumption would be unable to absorb high levels of production. Marx called the forces within capitalism that pressed for disturbance widerspruch or "contradictions". Widerspruch also has connotations of dissent, discord, objection, discrepancy, inconsistency, opposition, antithesis, conflict, contrary, and misalignment.

The principal widerspruch that energized his concern was the antagonism between capital and labor. Marx's observation about free market economies after the beginning of the industrial revolution was that they generate frictions and opposition of interests on a regular basis. Later the Austrian economist Joseph Schumpeter would call this the "creative destruction" aspect of capitalism.

Accordingly, the entitlement state is the latest stage in the evolution of free market capitalism from one set of contradictions to another. First came primitive capital accumulation, which launched the industrial revolution; that evolved into the finance/factory capitalism of the mid-19th century; this in turn absorbed the demands of labor and other non-capitalists by becoming mid-20th century welfare-state capitalism. Then, in the late 20th century, welfare states expanded their non-market activities to evolve into entitlement states.

The aspect of welfare state capitalism that gave birth to the entitlement state is rent extraction from the economy to finance rental payments to recipients of state entitlements.

For example, in the United States by 2011, 35% of Americans lived in homes receiving one or more means-tested benefits. Rent received by these Americans through Medicare, Medicaid, and Social Security consumed 42% of the federal budget, with additional monies being spent by the 50 states on medical entitlements and income support. Federal Medicare and Medicaid "rent" payments to Americans will reach 10.4% of GDP by 2020. Americans on food stamps grew from 17.1 million in 2000 to 47.5 million in 2012, even though unemployment has dropped. Social security disability checks are now sent to 8.6 million people, up from 3 million in 1990. College Pell Grant awards were made to 3.9 million students in 2000 and to 9.7 million in 2012. The list of other rental payments – subsidies to agriculture, green energy, etc. – is long.

> "Tis the portion of man assigned to him by the eternal allotment of Providence that every good he enjoys shall be alloyed with ills, that every source of his bliss shall be a source of his affliction - except Virtue alone, the only unmixed good which is permitted to his temporal Condition... The true politician .... will favor all those institutions and plans which tend to make men happy according to their natural bent which multiply the sources of individual enjoyment and increase those of national resource and strength - taking care to infuse in each case all the ingredients which can be devised as preventives or correctives of the evil which is the eternal concomitant of temporal blessing."
>
> **- Alexander Hamilton**

Money paid out by the government as entitlement rental income comes from money taken out of the economy by the government as rent through various forms of taxation.

Non-market rent extraction adds stress to an economy. It takes out more from the productive sector than it gives back; it is a net drain of energy and resources out of the markets for production and investment – like entropy where heat is not converted to work. This disequilibrium is introduced into the structure of the entitlement state.

From the 1600s through 2000, the American economy grew, on average, 3.5% per year. It has only grown 1.81% a year since then. Annual growth of 3% to 4% is needed to provide sufficient revenue for Federal government "rent" payments.

At low levels of rent extraction, an economy is not seriously affected, but at higher levels, the drain reduces the wealth-creating capacity of the system. The system slows down, reducing the generation of funds that can be extracted by the government as non-market rents. The entitlement state then enters a new phase of questionable sustainability.

Economies with very high levels of rent

extraction and low levels of wealth are Cuba, North Korea, and many countries in Africa. Excessive rent extraction led to the collapses of the Marcos regime in the Philippines, the Mubarak regime in Egypt, and the Ghaddfi regime in Libya to name a few.

Some rents contribute to growth if they are given in exchange for factors of production in competitive markets, for example, the rent paid for access to the legal right to use land or equipment. These rents are income earned on private property. But other forms of rent extraction are less supportive of optimal economic growth. Monopoly and cartel profits are rents derived from unusual market power, acquired in most cases through political means or anti-trust abuses of competitive advantage. Given market power, the monopolist can restrict output and charge more than the actual marginal cost of production – a “rent” premium. Under conditions of perfect competition, no rents can be collected.

Like gambling, such power-based rents rarely create new value; they merely redistribute the wealth that is already on the table. Gambling is rent extraction from the other players because winnings come to the one with title to the preferred asset under the rules of the game – in Poker, a hand with Ace High extracts rents from holders of all lesser cards.

Payments to Mafia and Triad bosses to avoid harassment are non-market rents paid in homage to non-economic power; payments to corrupt officials are also rents paid in deference to power.

Non-market forces arising from the application of non-economic forms of power – armed force and law principally – make possible the extraction of rents. Taxes paid to government are rents lawfully paid to provide social goods.

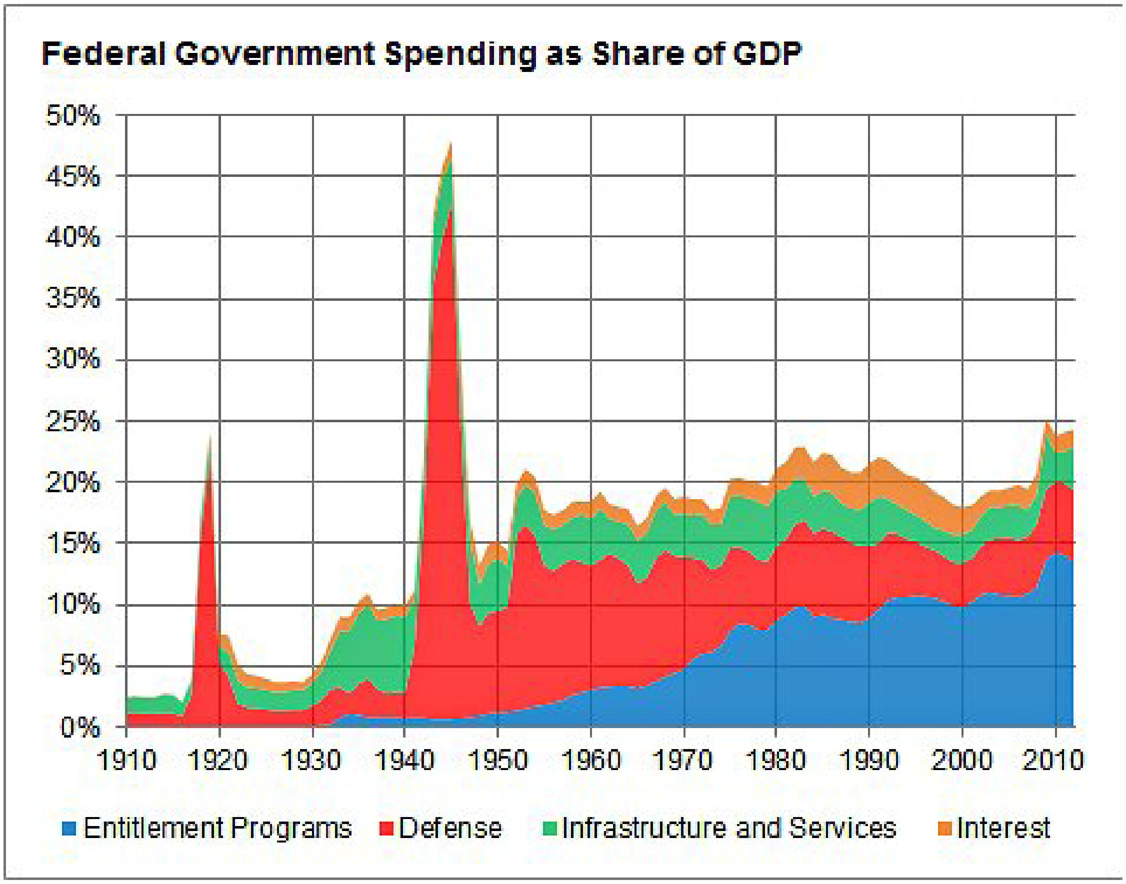
Entitlement states would be well advised to consider carefully the burdens of legal rent extraction that they impose on their economies.

“... isn’t the crisis. It is the wider Western Civilization failing to achieve a cultural condition reflecting norms largely accepted and independent of government and the force of law. It is its visible moral decay, its inability to persuade individuals to voluntarily forgo the excesses that human knowledge and organizations make possible.”

- Jaime Manzano, Letter, WSJ, March 9, 2013

“Many a one thinks that he has God and everything in abundance when he has money and possessions; he trusts in them and boasts of them with such firmness and assurance as to care for no one. Lo, such a man also has a God, Mammon by name, i.e. money and possessions, on which he sets all his heart, and which is also the most common idol on earth. He who has money and possessions feels secure, and is joyful and undismayed as though he were sitting in the midst of paradise. On the other hand, he who has none doubts and is despondent, as though he knew of no God. For very few are to be found who are of good cheer, and who neither mourn nor complain if they have not Mammon. This [care and desire for money] sticks and clings to our nature, even to the grave.”

- Martin Luther, The Large Catechism, III, Part First, The First Commandment (Gottingen 1976) p. 560


Federal Government Spending as Share of GDP
50%
45%
40%
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15%
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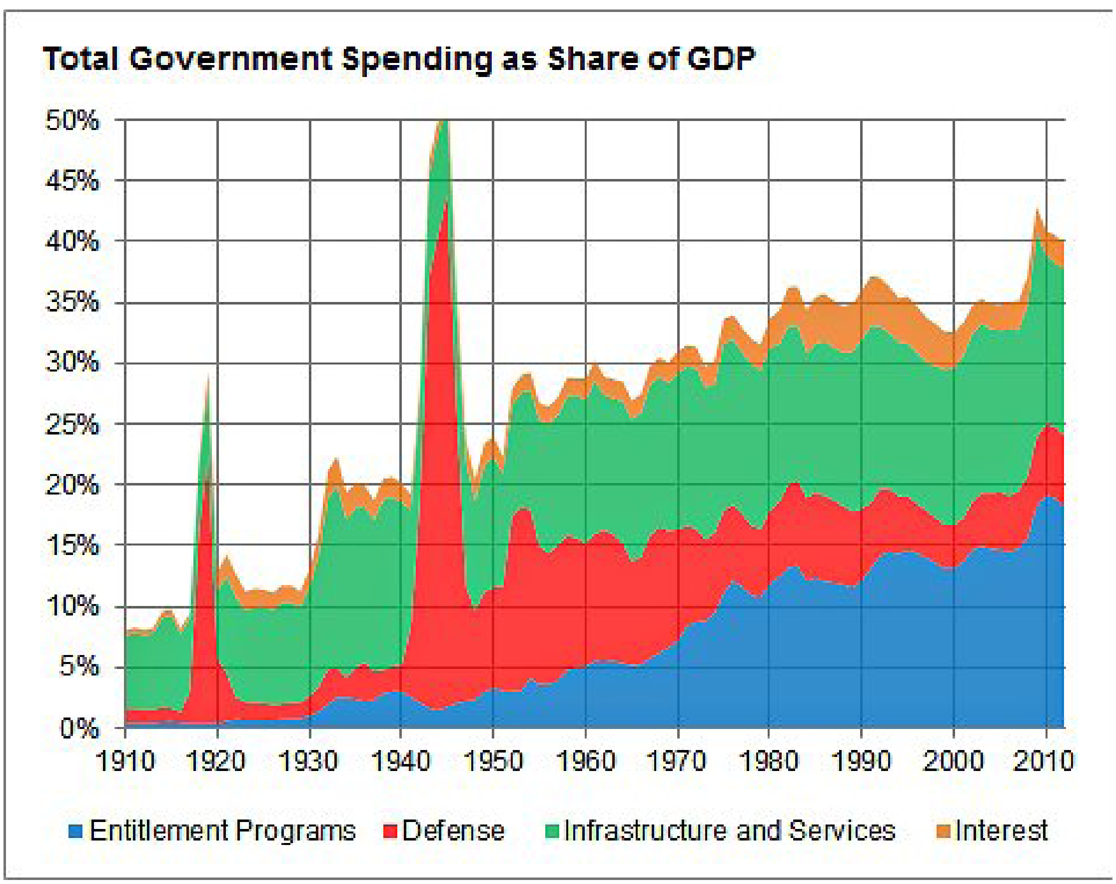
Entitlement Programs
Defense
Infrastructure and Services
Interest


Total Government Spending as Share of GDP
50%
45%
40%
35%
30%
25%
20%
15%
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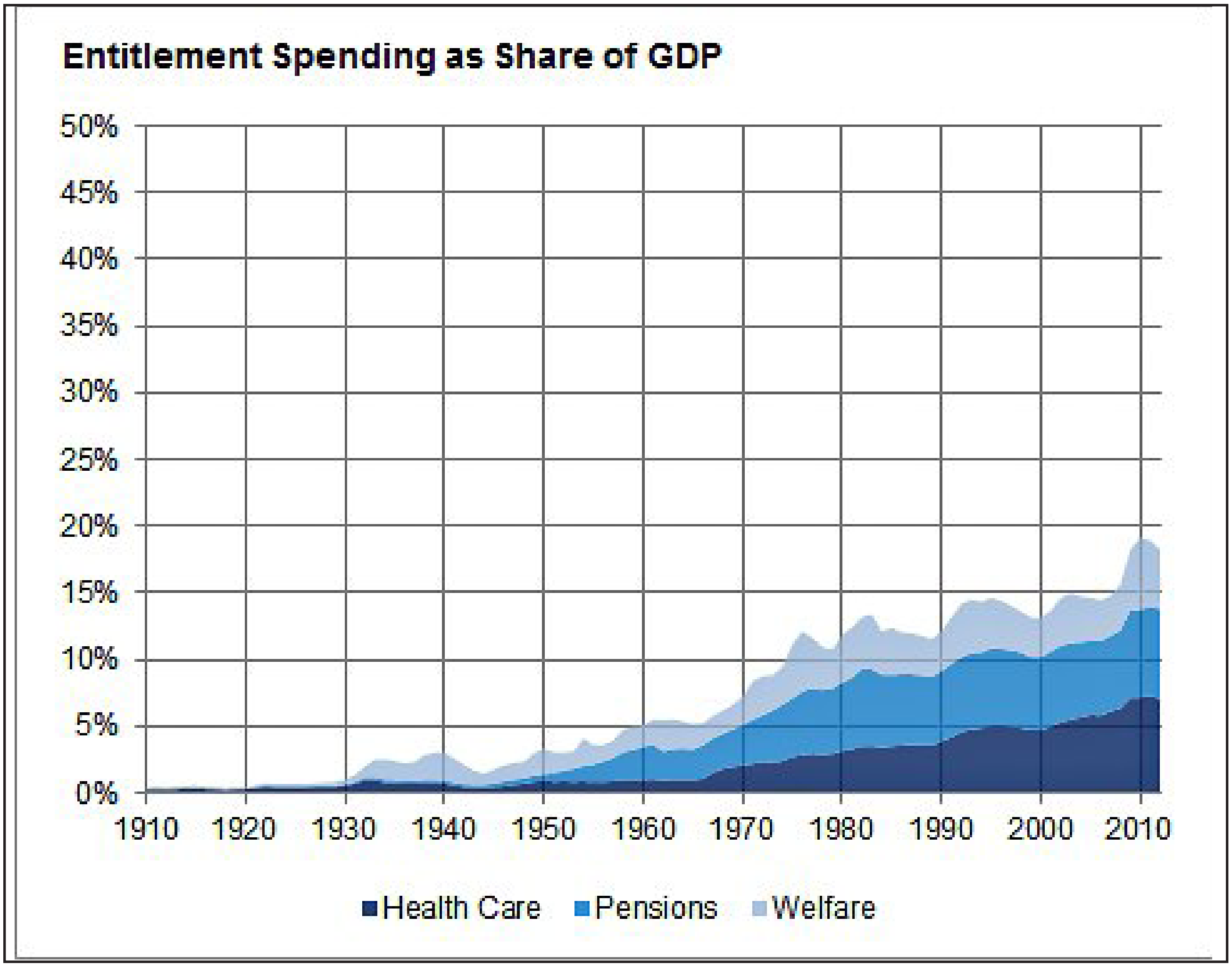
Entitlement Programs
Defense
Infrastructure and Services
Interest


Entitlement Spending as Share of GDP
50%
45%
40%
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Health Care
Pensions
Welfare