4 / LESSONS FROM THE PAST

4.1 / THE WEST: THE END OF BUSINESS CYCLES; CAUTIOUS INTEGRATION; SOCIAL INNOVATION?

4.11 / The Limits of Automatism

As was previously explained, Part II of this book will deal with a forecast of the world's future economic and social trends. After having described in broad terms in Part I, the history of the last fifty years in the economic and social field, we have collected some knowledge about the initial position from which our forecast must start. Before trying to make our prediction we will first try to gain a better understanding of the operation of economic systems: what lessons for future policy can be learned from the past?

These lessons must be formulated against the background of existing knowledge about the subject, that is the science of economics and some of the other social sciences, in so far as they enable us to make accurate forecasts. The lessons must tell us in what respect previously accepted ideas about economic and social laws must be changed. Such ideas never were and still are not uniformly accepted: considerable differences exist among economic scientists and even more diverging opinions are held by political parties. In the short run changes in the latters' ideas are more influential in shaping policy than changes in the formers'. There are three sources of changes in ideas: [i] events may have taught us a lesson; [ii] logical analysis may have shown us a hitherto unknown relationship and [iii] new ideas may have come up spontaneously or by chance.

In this chapter we will discuss in a pragmatic order the lessons taught us, arranging the subjects according to the practical issues in the three main areas of the world in which they played a part. As announced we are starting with the West. Our first topic is the lessons we have learned about the automatism of free forces.

Some of the lessons learned from the facts are those concerning income distribution, especially under circumstances of excessive scarcity [sub-sec-
tion 2.23] and those concerning unstable markets [sub-section 2.24]. We now know—and have known for quite some time—that the income distribution produced by free market forces is extremely skew. This is true whenever the volume of capital per head of the population gives rise to a level of production which does not leave much for luxury for the population as a whole. This means that it applies with particular strength to all countries in the nineteenth century, to countries experiencing a war emergency and to countries in need of industrial development. We also know that the free forces in a number of markets either react so slowly or in such a weak fashion that the equilibrium is not stable. Prices and quantities describe wide deviations from their long term trend lines which cause serious problems to both producers and consumers.

Scientific analysis has examined these facts and contributed to their explanation and interpretation. Thus, the extreme skewness of the income distribution can be explained by the low productivity of the labour force when capital is scarce and the heavy swings in some markets can be explained in the way discussed before [cf. sub-section 2.24].

More interesting even, not only is scientific analysis able to present explanations, but it can also trace the consequences for policy problems. Welfare economics can show that in an optimum situation income must be redistributed, that is, that some people have to pay taxes and others to receive a supplement to the income they derive from production. In still other words, in order to have a condition of maximum welfare, it is not necessary that all people live within the limits set by the income they have from wages, interest, or rent. The idea each for himself cannot be proved to be a necessary condition for maximum welfare and is not an element of the best regime. Even though it has been propagated by liberalist politicians, this feature cannot be based on any consistent economic theory.

Political opinion in most western countries has also absorbed these realities and it is now generally accepted that a system of taxes and social insurance must be set up to take care of the redistribution of income; that in emergencies more intervention is needed, in some cases even a complete regulation of all aspects of economic life, and that unstable markets cannot be left to themselves.

4.12 | Tasks for Governments

What lessons have we learned about the tasks of governments? The facts, which often precede scientific analysis, also deviate from the pattern con—
ceived by laissez-faire. Thus, government was never absent, except in some text books of ultraliberalist enthusiasts. In the more moderate liberalist texts, government already had some duties allocated to it, namely to preserve order and security. During the nineteenth century the monopoly of the central banks became to be recognized as something useful. American practice at that time already shows considerable interference of the government in the building of railways. Education, even compulsory education, was another task accepted in all western countries. During the last fifty years we observe that public utilities — that is, production of energy and water and the organization of rail transportation and communications — have been drawn almost entirely into the public sector. Where they are not, as is the case to some extent in the United States, their rates are supervised by government and they have the obligation to supply their services even when it is not remunerative to them. With the elimination of most road tolls — some turnpikes being the modern exceptions — maintenance and building of roads has become a necessarily public task.

The public enterprises which have come into existence are not as inefficient as some text books suggest. Moreover, there is a tendency to give more freedom to management which adds to the efficiency of operation.

For the financing of the increased public tasks taxes have been imposed to an unprecedented degree. We already mentioned profit taxes which usually amount to about 40 or 50 per cent. It is amazing to observe [cf. 3, 36] that western economies have never developed so quickly as the last decade and that evidently the heavy tax burden has not been too much of a handicap.

Scientific analysis helps us to gain insight into some of these developments and to interpret them in a somewhat broader way. A careful critical analysis of the assumptions made by Pareto and his followers in order to prove that free enterprise is conducive to a maximum of welfare shows that these assumptions do not apply to all productive activities. As we saw, their two main assumptions were that marginal costs are higher than average costs and that no external effects are exerted by the production process. There are quite a few activities where the opposite is true, that is, where marginal costs are lower than average costs and where external effects do exist. The latter term requires clarification, since it is used in various meanings. In our terminology, an activity exerts external effects when it improves or deteriorates the economic position of people or enterprises which do not pay for that activity. A simple example is the improvement of a road. Those who use the improved road have less wear and tear on their vehicles and save time and yet do not pay
directly for these two advantages. Education is another example: not only does the man who is better educated himself have an advantage, but also his colleagues in the production process, who do not pay for it.

Most of the activities newly added to the public sector show one or both of the characteristics just mentioned. If they had been left to the private sector, there is every probability that they would not have been carried out at a sufficiently high level. It is certain that the private operator would have had insufficient incentive to do so if he should have operated under conditions of free competition. Whenever marginal costs are lower than average costs, free competition leads to prices below average costs and hence to unprofitable operations. Whenever there are external effects attached to some activity, the private operator would underestimate the advantages connected with it and tend to produce less than is desirable from the point of view of the community. One way out of these difficulties is the public operation of such activities.

At first sight it looks as if there are other ways out, especially in the case where marginal costs are lower than average costs. Thus, private enterprises may successfully—in the social meaning of that word—produce electricity, as the United States example shows. They can protect themselves against permanent losses and yet charge the customer with a reasonable price for the last units taken by applying a two-part rate system. As is well known, under this system the customer pays a fixed amount plus an amount proportional to the quantity taken. This reconciles the two requirements to be made: not to charge more than marginal costs for the last units and yet not to make permanent losses. It remains to be seen, however, whether not in the end all such production had better been brought into the public sector. Ideally all the products of this group should be operated under a two-part rate system, meaning that the customer would have to pay fixed amounts for each of them. If the public sector operates them all, these fixed amounts can be administered simultaneously with direct taxes, which is much simpler.

Upon the basis of this analysis one may now ask the question whether there are still other activities which it would be advisable to bring into the public sector. An interesting example is the decision about the nation's volume of savings. There are good reasons to argue that saving is another activity which has external effects. Savings contribute not only to the well-being of the saver but also to that of others. In a general way, the working population's well-being is positively affected by savings while the owners of the already existing capital will be adversely affected. Both of these are external effects, justifying a decision by the whole community rather than by the individual saver only.
After the war, when private savings were insufficient to finance reconstruction, some governments have already applied this idea.

Scientific analysis has also contributed to a better understanding of the repercussions of the tax system. The subject is too vast to deal with it adequately here. In many issues of a detailed character tax policy has been used to attain certain goals of economic policy. An important question of a general nature is whether the income redistribution we now have, mainly through income taxes, is the best kind. An income tax falsifies the marginal decision of a producer, since it systematically reduces the gain to be expected from an increase in production and hence puts a brake on such an increase. A tax on wealth or capital does so to a much lesser degree. The argument that wealth taxes will reduce private savings is correct, but this does not matter so much if we recognize that the final decision about savings must be made by the community.

Political opinion is more diversified with regard to the tasks of government than about the subjects discussed in the preceding sub-section. The desirability of a public sector larger than existed in the early twentieth century is generally admitted. The ideas on the boundaries between public and private activity vary considerably and are more influenced by political ideologies than by the type of argument used in this sub-section. It must be hoped that scientific thinking will spread and will gradually reduce the ideological gap.

Income taxes have been accepted by a wide section of the western community; above all by those who do not pay the highest taxes. The idea that wealth taxes are better than income taxes so far have had fewer advocates than one might have expected; but things may change. Socialist parties so far have not succeeded in getting this point of view accepted by other groups.

4.13 Controlling the Business Cycle

Perhaps the clearest change in Western thinking about economic policy can be found in the attitude toward business cycles. The fact is that the impact of public finance on the general demand for goods and services has increased considerably during the last half century and that since World War II no major depression occurred. In the same time span after World War I there were two serious depressions. What remains uncertain, for the time being, is the part played by a deliberate anticyclical policy in the handling of taxes and expenditures. It may be true that part of the changes in these instruments were made for other reasons.

Scientific analysis has definitely made enormous progress since the Great
Depression. We already stated [sub-sections 2.25 and 3.34] that much of the mysticism surrounding the cycle was dispersed, at least in the heads of scientists. This does not imply that today’s economists do not see possibilities for another slump in private expenditure. No doubt such a reduction may occur. We already know that some industries are stagnating; shipbuilding is an outstanding example. In the United States the automobile industry may be another example. For too long a period already sales in this industry have been maintained only by somewhat artificial psychological appeals. Apart from these possible sectoral declines in investment, the general level of re-investment may once again fall as a consequence of the low average age of the capital goods now in use.

The point is not, however, that such declines may occur. The point is what the answer to such a decline will be. We now know that it is proper and healthy, in such an event, to increase other components of demand; either consumption or investment in new sectors, and that it does not matter too much, from the cyclical point of view, whether we raise private demand by the reduction of taxes or public demand by an increase in public expenditures. The latter might be used for developing the less developed countries more quickly.

Political opinion has more or less accepted anticyclical policies. Since, however, important sections of the business community are still haunted somewhat by the old beliefs, these people at critical moments will need clear advice from the economic profession in order not to lose their heads. Much may be learned, at such moments, from an able presentation of the national accounts as they are now currently prepared by planning bureaus.

4.14 / Social Innovation?

While the purely economic components of our mixed society are rather well established and operating satisfactorily, it is less clear how far we have come in our attempt to solve the social and human issues behind what once was the social problem. While no doubt quite a few of the worst aspects of nineteenth century society have been eliminated, at least in the United States and Northern Europe, we cannot claim to be further than half-way or so toward our goal. In Southern Europe, moreover, we are lagging half a century.

The general rise in production and income in Northern Europe has eliminated hunger, rags and quite a bit of the slums. The redistribution of income now protects the sick, the old, and the unemployed from the worst extremes experienced formerly. Happiness, to the extent that it depends on material
goods, has been increased by the many new goods now within reach of almost all: decent clothes, as far as they are wanted — radio, television, recreation, travel, and better education. But we do know by now that happiness also depends on comparison with others and the upper ten per cent of the population still has something to show that the lower half — in terms of income — cannot dream of. Happiness depends, in addition, on such immaterial things as the satisfaction from one's work and the respect and appreciation received from one's environment. In these matters much remains to be done. With our progress we have discovered new difficulties. To begin with, social reform has not yet come to an end. In several respects exploitation persists notwithstanding all the changes. There still are privileged classes, even though they are not half as privileged as they used to be. But the solutions before us are less simple than we once thought. It is less easy to find the proper forms of industrial democracy, or co-determination, than we hoped. It is less easy to bring education to everybody, as we wanted to do.

Scientific analysis, together with the facts, has shown us some of the underlying reasons; to some extent they are not really new. We are bumping the limit of what human beings can perform. Even if industrial democracy is introduced in some industries or enterprises we have difficulty in finding the workers who are willing to take responsibility or who are able to solve some of the problems. Even if education is offered we find that the abilities of many pupils fall short of the necessary norms. In addition there remains, in the background, the old truth that happiness also depends upon each individual's own outlook on life.

With these more subtle analyses of the elements of happiness in mind we must nevertheless ask ourselves how society can be organized in order that a maximum of happiness will result. Part of the answer will still be found in the direction already shown to us by reformers and socialist politicians. There is still scope for more access to education; financial assistance is not yet sufficient in a number of cases. There is scope for more industrial democracy at various levels. But part of the answer may be new and has not yet been found. Other types of education and other types of industrial democracy are needed. Finally, still another part of the answer is that there are insoluble problems also; or that even in the optimum situation some people will be unhappy.

Political thought in the West has accepted as reasonable and necessary quite a few of the social innovations which have come into existence these last fifty years. These are now defended by non-socialist parties such as Europe's liberals and «Christian democrats»; this is one of the ways in which socialism
is penetrating our society. Opinions about what should be done next diverge
to a considerable extent. Here we have arrived at the frontier of human
thinking and experimenting. Isolated examples of outstanding quality alter-
nate with narrowminded attitudes, on both sides of the political frontier. The
world is waiting for new vision.

4.15 | Difficulties of International Co-operation

The last practical issue of economic and social policy within the Western
world which we are going to discuss is the difficulty experienced in gaining
international co-operation. The facts have been clear enough in our fifty-year
period. Lack of international co-operation has been the most dramatic char-
acteristic of that period, by far surpassing economic issues in its significance.
We must not forget that the two terrible wars the world went through were
Western wars. In between we had the Great Depression with another display
of narrow nationalism. It would be too gloomy a view not to recognize that
Westerners have learned a lesson in this respect, even when the main problem
of today is another conflict between Westerners in a slightly different sense,
namely, Europeans: those of West and East. The century-old enmity between
the French and the Germans does seem to have been overcome. Activities in
the field of European integration really are progressing. Yet in the same field
we are confronted every day with the limitations to international co-operation.
The origin of the most dangerous forces we meet is not necessarily this
primitive distrust between individuals of different nations we know from
history, but rather the abuse made by politicians, authorities, and pressure
groups of such distrust in order to serve selfish interests. An example of the
latter is the desire of politicians of authorities to «keep their hands free».
These facts, positive and negative, have again been absorbed by scientific
analysis. A new science is now in the making, polemology, the science of
international conflict, of which we must hope that it will some day contribute
effectively to the organization of a better world. Economics too must make a
contribution here: in stead of considering «political preferences» as data it
must be able to show to nationalists the economic disadvantages they cause to
their nations. One of the newer forms by which this can be shown is the con-
cept of external effects, already discussed; in particular external effects of the
means of economic policy. With this concept in mind it can be made clear
that decisions by authorities with a national responsibility will be biased as
soon as considerable external effects are connected with these decisions. As a
consequence of the decrease in transportation and communication costs the
interdependency of national economies continually increases and hence the external effects of national means of economic policy.

Political opinion on international co-operation within the Western world is rapidly changing in a favourable way. This is true in particular for opinions in the countries of the European Economic Community. Interesting enough it is not true for some of the political views in the Northern European countries, including Britain, where the left-wing socialists oppose the entrance of their countries into the Common Market. This opinion is based on the assumption that the EEC is an attempt at reinforcing laissez-faire, which is somewhat oversimplified. It is not too clear either whether the opinion is based on an appraisal of the interests of Europe as a whole or some other interests, because the issue is dealt with in qualitative terms rather than quantitative ones.

4.2 / THE EAST: DOGMAS AS STUMBLING BLOCKS

4.21 / The Role of the Factors of Production

In our attempt to summarize the lessons to be learned from the last fifty years of economic history we are now going to discuss the experiences of the communist countries. More particularly we now intend to discuss the changes in policy and regime made by communist leaders, especially where such changes are departures from principles originally considered important to and characteristic of their regime. Such departures, as in the West, show that experience has taught them something about the operation of their economies. We think there are a number of such changes and it is only natural that there should be. We have tried to group them and the first group refers to the role played by the various factors of production. In discussing our examples we will state the facts and the opinions separately. We will not make a distinction between scientific and political opinions, as we did in discussing western economic experience, since scientific and political opinions are more integrated in Eastern countries, at least as far as they are published.

In the very early days of the regime the role of the production factor «management» was underestimated. Managers were considered the servants of capital owners, more or less superfluous in a socialist society, where the workers or their representatives could take care of the organization of the production units «themselves». Soon enough the need for specialized managers became apparent, however, just as the need for qualified and skilled labour. This has been the basis for very important changes in wage and salary
policy, already discussed in sub-section 2.13. Since the original sympathies of all socialists and communists have been equalitarian, — and in the author's opinion, rightly, still are — we can only conclude that an extremely important lesson has been learned, namely that income differences have an economic function as long as scarcity of goods prevails and as long as qualified and skilled labour are scarce in comparison to unskilled labour. The lesson we may add is that the only way to introduce a greater equality of incomes is to create more qualified and skilled people.

The role of the production factor «capital» has also been misunderstood. Because of their aversion toward unearned income or interest on capital in capitalist society the communist leaders have banned the whole concept of interest, even in their cost and price calculations. This has led to relatively very low prices for a number of capital-intensive products, such as housing and electricity. As long as these goods were available in very limited quantities and rationed no bad effects resulted but when the rate of expansion of different industries had to be chosen and the most attractive methods of production had to be found, wrong choices may have been the consequence. Recent discussions — going back to important mathematical investigations made as early as 1939 by Kantorovich — have brought much more system and clarity into these decisions. The Russian approach now comes closer and closer to the Western scientific approach where a distinction is made between interest as a cost factor and interest as a private income. Opposing the latter need not imply being against the former. The allocation of capital goods and intermediate products in production processes and the choice of technology can be made much better when interest is recognized as a cost factor which reflects the scarcity of capital.

The facts stated have been accompanied by changes in the planning methods. This part of communist science has moved in line with the experiences and the lessons drawn from them. Economic science in the Soviet Union is not so intimately integrated with planning methods as western scientists are accustomed to, since economic science is more qualitatively, sociologically and ideologically oriented. It may take some time before Soviet economic science will reflect planning practices and the lessons just discussed.

4.22 / The Use of Money and Prices

Another interesting development in Soviet planning and organization occurred in their attitude vis-à-vis money and monetary concepts. They had an understandable aversion toward money which they, as so many critics of capi-
talism, saw as a symbol of the unjustified power of one man over another and as an instrument for the formation of unearned income. Like many other planners their outlook was influenced partly by engineers and partly by military people and their first plans were made in physical terms, using the quantities of various products and of labour rather than any monetary valuation of them. Again a somewhat more subtle approach to the matter might have resulted in a distinction between some very useful and some harmful functions of money. But revolutionaries are not subtle and at first the baby was thrown away along with the water. Later they rediscovered the useful functions of money, such as being a common denominator for the comparison of goods of different qualities and for summarizing an economy's operation in social accounts. For a long time, however, they preferred to express the targets of development in terms of the quantities of steel, coal, petroleum, cement, sugar, wheat and textiles to be produced rather than in terms of national product or income. It took quite some time also before parallel sets of physical and monetary figures were used in planning. One of the experiences which helped to give money a role was the tendency for factory directors to produce the simpler types of products rather than the more complex types because their production quotas were expressed in tons. As soon as the quotas are expressed in value terms and finer qualities are given higher prices, a counterclockwise is created which may remedy this attitude.

The use of money of course introduced the problem of correct pricing, which we have already discussed. Something may be added here about prices of finished products, as distinct from the prices of production factors discussed above. Prices of consumer goods at retail are now used in order to keep consumption within the limits of available production. But these prices are seldom used to the full here; queuing up still is a common activity in retail stores. Recently an interesting change in prices was introduced to stimulate production, namely the increase of meat and butter prices by about 25 per cent. There is an interesting difference here between Yugoslavia and the other Eastern countries. In Yugoslavia, as we said already, prices are free to fluctuate as under free competition. It is remarkable that there is so much resistance against this procedure in the Soviet Union. Many socialist authors in the West consider decisions about the ownership of capital goods and those about free pricing to be completely independent.

Again the point may be made that experiences in the field of money and prices have been absorbed by Soviet planners and administrators, but much less so by official economic science.
4.23 | An Optimum Degree of Centralization

A highly interesting development has taken place in the degree of centralization of economic decisionmaking. In principle the communists, of course, favor centralized decisionmaking. This puts such a tremendous burden on the shoulders of the administration that, almost as a matter of course, they have been buried under it from time to time. In various fields of decision-making adjustments have been made by trial and error. We have already mentioned some of these problems, such as the New Economic Policy [sub-section 2.11], the continual struggle with agriculture [2.14] and the institution of the sovmarkhоз [2.11]. The lesson to be learned is that if something is decentralized in the Soviet Union, it surely is sound! Other communist countries have gone quite a bit further. As we have also already observed [subsection 2.13], Yugoslavia decentralized its retail trade and agriculture in almost the same way as the West. Quite naturally the degree of decentralization in planning and production decisions in the Soviet Union is chosen differently for various types of commodities. In this respect new ground has been broken in the Soviet Union which it will be useful for the West to study. The complicated interplay between central and local and the various intermediate-level decisions may have reached an equilibrium worth being studied from various points of view of relevance to economic planning elsewhere. It is unknown to the author whether general principles have been elaborated by Soviet planning experts, such as the ratio between transportation and production costs and the possibility of shifting production units from one region to the other, which might be the correct principles on which to base the decision structure.

4.24 | A Trend Toward Less Dogmatic Views

If one tries to get a general impression of the lessons learned from experience in the communist countries one cannot help feeling that these countries and their leading experts are learning economics—and in the Western meaning of that phrase—at a high speed, just as much as we in the West are also learning much. Eastern propagandists love to speak of the unchangeable Marxist-Leninist principles, but this is just propaganda. Khrushchev made the extremely important statement in Bucharest, that even Marx and Lenin could not foresee some new forces [nuclear weapons] which are vital for today’s world and that in such cases we must think for ourselves. This is the only possible behaviour for responsible men and this attitude has been much more frequently practised in the Soviet Union than our own propaganda as well as theirs would have us believe. This is opening up possibilities for real discussion and perhaps even
for the solution of some vital issues. In the more modest realm of economics and planning it has already become abundantly clear that communist thinking is moving forward. The general truth behind this movement toward less doctrinaire thinking is that the latter most harms those who are doctrinaire themselves. To refuse to let the economy operate in the optimum way is a very stupid policy. Not to accept truths about the economic mechanism because they do not fit into a preconceived set of ideas is equally stupid.

4.3 / THE SOUTH: GRATITUDE FOR LIFE SAVERS?

4.3.1 / The Deeper Causes of Poverty

Let us now turn to the developing countries and try to discover the main lessons which their past experience can teach us. We saw that their history is a sad one, which only recently has received the attention it is entitled to. We will try to summarize both the results of recent thinking and some main facts of their recent evolution.

The phenomenon of poverty in the South is not new. On the contrary, in the light of history it is much more normal than the rapid elimination of poverty which we have observed in the West and the East. The danger we face is that the difference between average well-being or real income per head throughout the world is increasing so quickly, even in the last decade.

Many observers have asked themselves what the reasons are for the persistence of poverty in the South. Perhaps this poverty is incurable, it is suggested. Several «theories» have been forwarded, if the word theory can be used. Almost all the newly developing countries are tropical countries: is it the climate? Certainly a hot climate does not encourage hard work and it makes a primitive way of life bearable in many respects. Another «theory» is that the underdeveloped areas of the world are those of oldest settlement and that the more energetic among these peoples are the ones which have migrated to other regions, leaving at home a relatively less energetic selection. A third «theory» is the one that makes colonialism the source of poverty. While all three «theories» just briefly indicated have some elements of truth in them, one must doubt whether they supply the most important explanation. Thus, for instance, in older times the great cultures were in the warm countries while primitive people such as the Germanic tribes lived in the temperate zone. Or, for example, former colonies, in general, are not poorer than countries in the same region which remained independent.

Moreover, the problem is more complicated. Perhaps the more promising
approach to development is the one now followed by most authors. To begin with, they rightly invert the problem and ask for the reasons for development rather than for those for under-development. Then they try to sum up the various attitudes required in order that a developed society, using durable means of production in large enterprises and an orderly environment, can operate. These attitudes need not, of course, be those of all members of such a society, but of its leading circles. People playing a role in such a society should:

[i] be interested in material wealth
[ii] be interested in the future
[iii] be willing to take risk
[iv] be interested in technology
[v] show persistency
[vi] be able to work hard
[vii] be able to co-operate with many people
[viii] be open to new ideas
[ix] be able to make logical analyses of complex phenomena.

Different authors offer somewhat different lists of attitudes or qualities, but in the essence they all try to analyse the various types of decisions which must be taken by the individuals involved in a modern process of production. In order to be scientifically meaningful and practically useful, the list should contain only mutually independent features. We have not yet arrived at a clear understanding of the possible interdependencies of the attitudes and propensities listed. It must be hoped that scientific techniques such as factor analysis – as known from statistical psychology – will some day contribute to our knowledge in this field.

One further question to be posed is whether the qualifications listed are innate or can be learned, and whether important differences in learning ability exist between races and peoples. This whole area is still in the process of being investigated and it is too soon to try to give results. But at the moment there are no clear indications that the attitudes needed are the monopoly of the developed nations. On the contrary, there are several examples in the last two decades of very different peoples in developing countries showing an ability to absorb quickly attitudes of technical interest and skill. Western observers who take a human rather than a material interest in the development of «southern» countries are concerned by a lack of civic spirit of part of the privileged classes. This shows up in tax evasion, striving for easy and quick profits and a harsh attitude to the under-privileged co-citizens. It may well be
that these attitudes will vanish when a younger generation takes over and when economic circumstances change. How did this change when Western countries took off? Social scientists are trying to find out. Questions such as these illustrate the complexities of the subject.

4.32 / The Consequences of Medical Improvements

After this general analysis of the problem of development we will now take up the lessons the factual evidence can teach us about the economics of the South. One fact stands out in importance: that of the accelerated population increase. The slight economic improvement of the last decade and the rapid improvement of health conditions have worked together to bring about a rise in the rate of population increase which is changing the structure of the problem of development. In Latin America, with relatively somewhat more favourable living conditions than Asia and Africa, the rate of increase is now around 3 per cent per annum. India, with its 400 million population, estimated its population increase at less than 1½ per cent in the First Five Year Plan and now must cope with an increase above 2 per cent.

These increases are appalling. With a capital-output ratio of 3, each increase in national income by 1 per cent per year requires a previous investment of 3 per cent of national income. In order just to maintain the living level of a population increasing by 2½ per cent per annum an investment volume of 7½ per cent is needed. This is a figure which absorbs practically all the savings which most Asian and African countries are making. The optimistic ideas about the increase in savings which will accompany the increase in population, spread by some economists, are based on misunderstandings.

Quite rightly some governments, especially the government of India, have come to understand the necessity to spread information about the possibilities of family planning. The difficulties encountered are tremendous: many of the very simple people involved do not know anything about physiology or economics and misinterpret even the simplest rules suggested to them. Anyhow this action deserves all our understanding and sympathy.

A cynical way of posing the problem involved here is the economist's contention that the cost of medical improvement is much higher than most administrators think. The relatively low amounts directly needed in order to keep people alive must be increased by the amount needed to let this life be worthy the name, that is, the capital needed by the individual to produce his future consumption. This capital, as we just indicated, is about equal to three years' income, or, at a low minimum such as that for India, $210. Looked at in
this way, medical improvements are not so cheap anymore. Can we conclude that, as a consequence, these improvements must be stopped? We cannot. But then the inescapable conclusion is that we must help the South to obtain enough capital to create decent conditions for those whose lives have been saved.

4.33 | The Result of Development Policy

Do we have sufficient evidence yet to appraise the results of a deliberate development policy? As we already observed in sub-section 3.45, we are not yet able to learn this most important of all conceivable lessons for the simple reason that deliberate development policies outside the Soviet area are still too young to permit a well-founded judgement. Development planning has been practised in India for slightly more than ten years, and India was among the first countries to apply it. More time must elapse before we can disentangle the various influences at work. Yet it is natural that we should try at least to get some impression. Perhaps the most important point to be made in this: the average rate of increase in real income per head of the Indian population over the last ten years has amounted to 14 per cent. In the light of our present aspirations this is not an impressive figure. We must be aware, however, that the foreign assistance given to India during the Second Five Year Plan fell short by a considerable amount of what was reasonably hoped for. This was mainly as a consequence of the lack of cooperation from the biggest Western countries. Under the Third Five Year Plan this understanding has improved as far as the United States is concerned. Even though the figure of 14 per cent is not impressive, we may repeat that it is the figure which for decades was the normal average growth in income per head of the biggest industrial countries. This may give us some encouragement.

Perhaps it is also appropriate to remind the reader of the remarkable growth of the Japanese economy during the last decades. To be sure, nobody considers Japan to be a country of the «South», an underdeveloped country. But at the beginning of the period under review, in 1912, Japan had not yet joined the group of developed countries. For a long time it was contended that Japan was able to «copy» Western technology, but her ability to make original contributions was doubted, at least by a number of Western «experts». Now Japan has shown the highest ten year increase in national income of the world. Her industries have been diversified so as to include the production of a whole range of new goods in which they are competitive. Among other things, Japan is the biggest shipbuilder of the world. Perhaps we may consider this another encouraging example for Asian development.
§/ WHERE ARE WE GOING?

§.1 / PROSPERITY FOR TROPICAL REGIONS?

§.1.1 / Increased Contacts

Now that we have the present situation and recent trends of the world’s economies in mind and are aware of the lessons about their operation learned from the past, let us ask the main question of this part: where are we going? What will be the future path of economic and social development if we do not fundamentally change our policies?

This time we shall start our explorations by looking at the South. We do so because the most pressing problems in the fields discussed are no doubt those of the South. Here humanity is still struggling for existence. Will their struggle be successful?

Since World War II we have gradually accustomed ourselves to a new look at these questions. We now recognize the right of these countries to improve their economic conditions in the way which serves their interests best. We do not consider them to be countries which by nature have to concentrate on raw material production and which are not so much interested in wellbeing. The nature of contacts between countries has changed and more efforts have been made to co-operate internationally for the purpose of development. Increased contacts between the peoples of the earth have made the peoples of the South more aware of the level of wellbeing of other regions. Increased contacts have also brought doubts into the minds of the peoples of underdeveloped countries about the necessity of remaining poor. The ancient social problem repeats itself at a world level. Those who were under colonial rule are now politically independent for the most part, and have formulated their own programs: programs of economic development.

§.1.2 / Development Plans Everywhere

The change cannot be illustrated in a better way than by the experience of the author at the Conference of Asian Planners, organized by the United Nations
Economic Commission for Asia and the Far East in September 1961. Without a single exception all the governments represented there declared that they were utilizing development planning and that industrialization was one of the main aims of their development policy. We have already mentioned India, which is now in her Third Five Year Plan. But Pakistan, Ceylon and Indonesia have also made development plans; in fact all Asian countries have done so.

In Iran and the Arab region of Asia rapid development as a consequence of oil production has induced governments to study the conditions for balanced growth.

Latin America has been very active too under the inspiring guidance of the Economic Commission for Latin America. Very careful studies have been made of the possible industrial development of Mexico, Brazil, Peru, Venezuela and other countries. Moreover, some problems of the development of the heavy industries have been studied for the continent as a whole. In addition, as we mentioned, the possibility of integration of the individual economies of the region has been studied, both for Latin America as a whole and for Central America. More recently the African continent has followed. North Africa had already set an example: the United Arab Republic started planning right after the revolution and Morocco and Tunisia followed in the same period. Now, after the colonial ties have been cut or transformed, development plans are mushrooming all over Africa.

The development plans now in operation or under construction show one considerable improvement over the programs made up earlier by the International Bank for Reconstruction and Development: they try to be «complete», that is, in principle to cover the economy as a whole. More particularly this means that they try to determine what volume of investment is necessary for national income to rise sufficiently in order to increase the standard of life. Indeed some of the older programs fell short of this criterion and might have resulted in a fall in income per head.

Even so the plans now available only are plans. What matters most, of course, is their execution. This requires investment in material assets as well as in human beings, as discussed before [sub-section 2.32] and both are difficult to carry out in countries suffering from low incomes [3.41]. This has been understood by the countries of the West and the East and assistance is being given on an increasing scale. Development requires markets and trade also. A forecast of development must be based mainly on the expectations with regard to the factors just enumerated. We are going to discuss them in the next few sub-sections.
5.13 | Capital Aid and Trade

Development programmes require imports of capital goods, which must be paid for by foreign exchange. Foreign exchange therefore is highly important for most developing countries. It can be obtained either from capital aid or from trade proceeds.

Capital aid has been provided under various forms since World War II. To begin with it came from public and private sources. Public capital aid has been given under bilateral as well as under multilateral schemes. The former were given by France and Britain to the countries of their Commonwealths, by the United States to a large number of countries and by smaller countries in different ways. A considerable portion of this aid was given in the form of grants. The changes over the last ten years are shown in the table below.

| TABLE 5.13 |
| Summary of Flow of Financial Resources from OECD Member Countries and Japan to Developing Countries and Multilateral Agencies [Annual Averages], $bln. |

<table>
<thead>
<tr>
<th>Period</th>
<th>Official</th>
<th>Private</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bilateral</td>
<td>Multilateral</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grants</td>
<td>Net Lending</td>
<td></td>
</tr>
<tr>
<td>1950–55</td>
<td>1.2</td>
<td>0.6</td>
<td>0.1</td>
</tr>
<tr>
<td>1956–59</td>
<td>2.4</td>
<td>1.3</td>
<td>0.3</td>
</tr>
<tr>
<td>1960</td>
<td>2.7</td>
<td>1.5</td>
<td>0.7</td>
</tr>
</tbody>
</table>


The increase has been considerable and there is pressure for a further increase. Thus, the General Assembly of the United Nations has recommended that 1 per cent of the developed countries' income should be made available for assistance to the developing countries. In 1961, official assistance amounted to $6 billion [in the American meaning of this word], whereas 1 per cent amounts to $8 billion and will increase, in all probability, in ten years to about $12 billion. If, however, the present political tendencies in the developed countries do not change rapidly, it must be feared that these amounts will not be forthcoming.

Total imports of developing countries are of the order of magnitude of
$30 billion and the overwhelming part of this amount is financed out of export revenues. The prospects for these to increase at the rate needed for more rapid development are gloomy. This is mainly due to the slow rate of increase in demand for the primary commodities which still make up by far the largest part of the exports of the South. In addition, protective policies of such important customers as the European Economic Community may even slow down the rate of increase in demand. Various estimates have been made in the last few years, by GATT as well as by ECE, and considerable margins of error remain, but the conclusions are the same. It is doubtful whether the exports of developing countries to developed countries will rise sufficiently.

5.1.4 | Educational Aid and Technical Assistance

Another bottleneck in the development of developing countries consists of the limited supply of qualified and skilled manpower. In recent years the nature of this bottleneck has gradually become clearer and it is now considered the main bottleneck. While its elimination does require financial means as well, the human effort needed is even more impressive. A particular difficulty of this problem is the long time lag involved in the process of education, even if so-called accelerated training is applied. The solution of the problem must be found in educational aid by developed countries as well as technical assistance, that is, the supply of qualified labour from these countries. Another complication results from the fact that in developed countries qualified men are scarce too, as a consequence of accelerated growth and the increased significance of research.

Some figures illustrating the situation are found below.

<table>
<thead>
<tr>
<th>TABLE 5.14</th>
<th>Numbers of Students and Teachers in 1958 and Needed in 1970 in Developing Countries, in Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Years</strong></td>
<td><strong>1958</strong></td>
</tr>
<tr>
<td>Total Number of Students in Higher Education</td>
<td>2,190</td>
</tr>
<tr>
<td>of Which: Science and Technology</td>
<td>531</td>
</tr>
<tr>
<td>Number of Students in Secondary Education</td>
<td>16,890</td>
</tr>
<tr>
<td>Number of Teachers in Higher Education</td>
<td>84</td>
</tr>
<tr>
<td>Number of Teachers in Secondary Schools</td>
<td>840</td>
</tr>
</tbody>
</table>

At present a considerable number of foreign teachers are taking part in the education process of a number of developing countries, especially in Africa. The trends in these numbers do not show increases of the size needed according to the estimates just given. While countries with a longer span of independence may be able to cope with the needs just illustrated, there are serious doubts whether, without a change in policy on either side—South and West—, the needs will be met in countries which only recently became independent. Even in the countries with a more adequate educational system the tasks ahead are considerable.

Similar difficulties are encountered in the field of technical assistance. At present a programme of the order of magnitude of $100 million per annum is carried out. For the development targets set by the Development Decade an immediate increase to some $150 million and a further increase up till 1970 to some $300 million is necessary. If the willingness to contribute to this program goes on to develop as slowly as it did in recent years, it is clear that these figures will not be met.

5.15 / Continuing Divergence

Without a clear change in policy, especially in the contributions to be made by the West to the development process of the South, the forecast must be that the present trends in development will not be accelerated sufficiently to reduce the gap between the incomes in developed and underdeveloped countries. The present trend is not uniform, to be sure. Some developed countries, such as the United States and Britain, are not developing quickly. Some underdeveloped countries, such as the oil countries, are developing quite rapidly. But the main trends are probably brought out better by a comparison between India with its 400 million population and the United States and Europe, which together have about the same population. The average rate of increase of real income per head in India over the last ten years amounted to 1\% per cent, as already mentioned [sub-section 4.33]. That rate was 2 per cent for the West. The rate therefore is higher in the West than in India and the absolute amount in the West by far surpasses that for India. This means that there will be a continuing divergence in living conditions. The serious psychological and political implications of such a continuing divergence can only be guessed. Suffice it to say that in a period when a world order is the most necessary aim of all our endeavours no responsible politician should

accept the fact that over half of the world population should remain on the border of starvation while the most prosperous countries are accumulating additional wealth.

5.2 / MORAL DEFICIENCIES IN A TECHNICAL PARADISE

5.2.1 / Technical Marvels and Increasing Prosperity

After having considered the South let us have a look at the rest of the world, both East and West. Strange though it may seem at first sight, there is not so much need to make a distinction between the two. Quite a few features of their prospective development seem to be common to both.

To begin with, a more or less regular increase in production can be expected, without dramatic economic interruptions, such as depressions comparable with the Great Depression. Both regions have the means to avoid such interruptions. Production will rise more quickly in the East than in the West, and this will make their incomes comparable. Technology will go on developing quickly and in many respects life in the developed countries will be a technical marvel, as described by such far-looking authors as Jules Verne and Aldous Huxley. The necessities of life will be available anyway and the part they play will steadily decrease: the economic aspects of life will become uninteresting. There will be a problem of the relatively large numbers of old-aged, but not a serious problem.

In the West the problem of creeping inflation will continue to require attention, but it is soluble. The solution is intimately connected with the main problems in the socio-economic field which require more serious attention. These are the problems of income distribution and industrial democracy. Both of them lead us to the border line of economic and human problems, to be discussed below. The economic systems of both East and West will go on moving toward a common optimum, a mixed system: more elements of socialism will be added to the Western system and elements of efficiency to the Eastern system. With increasing prosperity the interest shown in such problems may, however, dwindle down before the systems have met and some leeway for doctrinaire deviations to either side may remain. International integration will continue, and a more rational organization of larger units will result.

5.2.2 / How Will We Use Our Potentialities?

With the economic problems in West and East becoming less important
some of the other human problems come into the forefront. We are already becoming increasingly concerned, in western countries, about the use made of the new freedoms given to us by prosperity. Again some of these problems are common to West and East, although there are huge differences in the starting points. Let us, however, first discuss some western problems. In a general way what we observe is a disproportionality between economic potentialities and cultural and human development, and disproportions within the latter. The nature of the forces at work – as far as we understand them at all – makes it probable that these disproportionalities will continue and grow.

Before going on, the author should apologize for trying to make a few points on a subject outside his own field. His performance may well look like the famous Punch cartoon «Venice by One Who Has Never Been There». The intimate connection between economic and cultural problems may be the official excuse.

The disproportion between economic potentialities on the one hand and the cultural and human use made of them can perhaps best be illustrated by asking the following question: how those who stood for socio-economic development did around 1912 imagine the future consequences in the human and cultural field. Beauty and harmony, then a privilege of few, could be brought to many. There would be means for making many more beautiful and elegant things and time to enjoy them. Relieved of some of the pressures of poverty, people could be more relaxed and develop their better feelings and taste. Human relations would display more mutual understanding; the fruits of further thought given to the social and human sciences would help to find the best ways.

The period under review has brought a number of the most terrible negations of all these dreams. Instead of using our increased economic potentialities to clear slums or to open the gates of education to the many, we have driven our young generation to death and mutilation and converted towns and villages into ruins. We have observed that some of the most elementary passions and cruelties were released by the events and intensified horror. Now for the third time in fifty years we are offered the opportunity to try again – for the last time?

In an immense effort to see things as they are and to look for the positive possibilities we must now concentrate all positive forces. We must not see things black only. These awful things were not all that happened. We also built beautiful houses, and not only for the happy few. We did develop our social and human sciences, we did open a number of gates of schools and
academies to many more than before. The question is, whether the proportions are as they should be. For the time being they certainly are not. If we base our forecast on present-day trends, then we must fear that our technical marvels will be accompanied by such phenomena of degeneration as hooliganism, fostered by the lack of responsibility of the grown-ups, fostered again by the absence of ideals. We must fear that the empty ways of using our freedom and the lack of understanding of what makes for real happiness will continue. We must fear that the queer disproportionality goes on between the utmost refinement in elegance and taste for personal satisfaction and glory and an absence of the simplest feelings of human solidarity.

5.23 | Have Morals Fallen?

In the East, so the West feels, a terrible set-back in moral standards in public life has occurred with the introduction of totalitarian communist regimes. Opinions, both political and cultural, are suppressed; cruelties have been used by official institutions, ranging from forced labour to arbitrary death sentences. The most cynical and brutal methods have been applied in international policy. Even though a number of clearly constructive things have been accomplished, some fundamental human rights have been violated and eliminated. For western socialists these elements are sufficient to make communist regimes unacceptable.

The appraisal of the situation created by the communist parties and of the future tendencies is not as simple as these western ideas suggest. We must be aware of the fact that the regimes in Russia and China – to take the two giants – in existence before the communists took over, were not democratic in our sense [disregarding the temporary Menshevik regime]. Although they had more refined outer forms, they hide – and so did even western societies in some respects – much suppression. Recent experiences in a number of underdeveloped countries have thrown some doubt on the thesis that democratic regimes in the western sense can solve their problems. Even in France democracy has not been able to work in its pure form. Democracy necessarily implies considerable amounts of narrow-mindedness and inertia – two well-known qualities of average human beings, which are sometimes dangerous, as in the case of France vis-à-vis Algeria. It is an old question whether or not wise men instead of democratically elected representatives would do a better job of governing. Even the West has accepted temporary dictatorships in emergency situations.

These points are not made in order to suggest that dictatorship is better than
democracy. This simply does not follow. But for an appraisal of today’s situation and the prospects for change, we must be aware of the fundamentally more complicated nature of the problem than simplified slogans can ever suggest. We must, in addition, keep in mind two other things. First of all, these regimes exist, they are there and they are extremely powerful. We simply have to live with them and have to understand them. Next, there is a trend towards more humane treatment. Some of the rights of individuals, such as treatment in court of any accusation made by official or political instances, have been reintroduced. The position of the churches has changed. There is a tendency from personal to more collective dictatorship. More freedom in scientific discussions and more contacts with the outside world have been introduced.

The author feels, like most westerners, that morals have fallen; but that there is a reverse movement now.

5.24 / A Moral Shortage

The picture of the human side in our forecast is not a cheerful one. In both West and East we find currents of moral degeneration on the personal level. In the East we feel that fundamentally the regime has some serious moral shortcomings and the trend in a positive direction is slow. Perhaps the most serious element in the situation, however, is independent of our appraisal of the trends indicated. Even if we are more optimistic about them, there is another problem before us now. The present juncture in world affairs has suddenly introduced an absolute yardstick for our moral strength. A problem has been put to us by the technological development in armament, by the «bomb». Shall we have the moral power to organize our international community so as to make it safe against this threat? This problem is a problem of human co-operation in the most complicated sense of that word, at the highest international levels. In that sense it is a moral question. To a very high degree it is also intellectual, since very complicated relationships play a role in it.

We are now confronted with the fact that our international public life, which has always been recognized to be at a much lower moral level than national public life which again in various respects is at a lower level than personal life, must cope with this challenge. There is an absolute standard now: will we be able to solve this extremely difficult problem? As things are now, according to this absolute standard, there is a definite shortage of moral strength. To eliminate this shortage is the challenge common to East, South and West.
5.3 / THE BIG THREAT

5.31 / Era of Nuclear Arms

Technological development, increasingly brought about deliberately, has become quicker and quicker. Military purposes have been served to an increasing degree as a consequence of the development of "total war" which is itself one form of the increasing purposefulness with which everything in life is being done. The rapid development of nuclear physics has now led us to a point where the destructive power of weapons has become the greatest single problem of today, changing the structure and the nature of the problem of war. Some of its features are summarized below.

Today's world is characterized by two great poles of power with a large number of smaller ones. The two poles have nuclear weapons in quantities sufficient to kill hundreds of millions of people and to make large parts of the world uninhabitable. There is, for the time being, some sort of equilibrium, because each can cause decisive damage to the other. There is no equilibrium between the nuclear weapons of these two in the sense of equal destructive power. As far as experts know, the American potential is many times higher than the Russian. In conventional forces the Soviet Union surpasses the United States. In some respects the equilibrium is more or less stable. Since the intercontinental missiles are invulnerable, for the time being, the retaliation force available to both is irresistible, which compensates for the advantages of a potential aggressor. In other respects the equilibrium is unstable. The strategy of the opponent is unknown, which is an inducement to forestall the other and think of a "preventive war". The reaction velocities needed in a possible situation of conflict or of only the impression of a conflict are very high: it may be a question of a few quarters of an hour. Technological development is very fast still and may at any time change the stability. This applies to any method to destroy missiles during their flight. Finally, it is in the nature of the problem that much is kept secret and that much information is of an uncertain character. In addition to this, pressure groups sometimes spread information which is intentionally biased of wrong. The propaganda campaign in the United States a few years ago that by 1962 the Soviet Union would be leading in the proportion of four to one in long-range missiles is now considered to have been of that nature.

As is well known, immediately after the Second World War, the United States had a monopoly of nuclear weapons. After some years, the Soviet Union also developed such arms, and a major change in American policy was
the consequence. Around 1954 the idea of «rolling back» the frontier of the communist area was given up. Still, as already observed, the lead of the United States in nuclear potential is very considerable. The Soviet Union is fully aware of the completely changed character of war and Khrushchev even made it clear that some Marxist and Leninist ideas might have to be adapted to the new situation [cf. 4.4]. The Soviet Union is also aware of the heavy economic burden which armaments impose. She reduced her forces from 1.8 million in 1955/56 to 3.6 million in 1959.

Both powers have formulated disarmament proposals, but the results so far obtained are very discouraging. An immense mistrust of the other side seems to prevent either party from taking the risks necessary for an agreement. We will analyse some of the dangerous tendencies in the present situation in the next few sub-sections.

5.32 / Possible Mutilation of Human Life

First, the physical and biological facts on the destructive power of nuclear arms may be stated. While the bombs used in the Second World War against British and German cities were able to destroy surfaces in the order of acres or hectares with all the horror this implies when residential quarters are hit, the new bombs destroy areas of many square miles or kilometers and cause radiation within areas over tens of miles or kilometers and contaminate the atmosphere over medium-sized provinces or regions. A new fact, now well known, gives another character to the whole problem. Not only is the number of direct victims incomparably larger, but radiation will impair and mutilate the organisms of future generations. Not only are we threatened by the multiplication of all the horrors of previous wars but also by a lasting effect on the physical and mental health of the children and the grandchildren of those who «survive». To put it in other words, we may transform the present population of predominantly normal and healthy men, women and children into an ailing hospital population, suffering from irreparable diseases and deviations. This is, in the soberest terms, the new element.

5.33 / Obsolete Approaches

The politicians whose country is threatened by aggression are now faced by a choice several degrees more monstrous. The question they will have to answer is: what do we risk by not fighting? The modern western citizen feels that he and his country risk occupation and rule by a communist regime; that opinions on politics and culture will be suppressed and those who express
them, imprisoned or even killed; that the incomes and property of certain groups of the population will be taken away from them; that soldiers may be compelled to help or fight revolutions elsewhere. The modern communist will see other risks. His country may risk becoming «capitalist» again, where some will make profits at the expense of others, where there may be unemployment for some and where schools may not be accessible to some. He may also fear, if he is a leading communist, that he will be tried for some of his political activities and may be imprisoned for years.

When we try to rethink these questions we are reminded of the doubtful wisdom of the decisions in favour of war made in the last decades. But if we try to compare the alternatives of war and peace today, even a peace with oppression as seen by one side or the other, only fools or criminals can choose in favour of nuclear war.

This, then, makes it clear that everything must be done to eliminate the possibility of nuclear war. This brings us to the next, more subtle, problem of how to organize this. The choices are different now. We hope to find a road to a disarmed world which involves no change in the relative power of the two power poles; or, looked at from another angle, which guarantees that the other regime will not penetrate into our own region and with a hope that the other regime will lose influence. Discussing the process of disarmament, both parties look mainly at the danger of giving too much power to the other. They often prefer, in their minds, the continuation of the present equilibrium to accepting the unknown risks of exposing themselves to a reduction of their armament which is not balanced by an equivalent reduction on the other side. The strong distrust prevailing on both sides reinforces this tendency. This approach might have been wise policy a century or even half a century ago. At present it is obsolete; it dangerously underestimates the other risk, namely that the present state of armament will become disequilibrated as a consequence of a new invention or may lead to a war by accident. Even if the best experts involved in the negotiations do not make this mistake, the members of the parliament tend to yield to it and even more so the public at large. Information on these problems remains very inadequate.

5.34 | Incompatible Rigidities

The risks just discussed do leave us with no choice but to reach an agreement, whatever its content. Without an agreement sooner or later all hell will burst out. This simple but extremely important truth is incompatible with the present-day tendencies of both parties to refuse to change their standpoint an
inch. No solution will be found if this remains the attitude of both sides. Concessions to the other’s point of view will be necessary. Of course it is more reasonable for concessions to be made on both sides. It is also understandable that both should try to arrive at the «best» conceivable agreement, but an agreement, however unattractive, is better, in the end, than no agreement. This implies that both parties must give serious thought to what may be acceptable and to what cannot be acceptable to the other. Just as much as the successful conclusion of a military war requires a proper insight in the other party’s intentions, the successful organization of peace is impossible without this knowledge. Thinking about a possible agreement we must be aware of the interdependency between the balance of military and political power and the economic, social and political controversies. Whoever exercises power will not only decide the questions of military security but also the questions of economic, social and political order. In this train of thought we cannot permit ourselves to pronounce taboos too easily on all the points that keep East and West divided. To be willing to accept an agreement only if the East accepts «democracy» in the western sense is as rigid as to require from the West that they accept eastern «socialism». If we cannot become sufficiently imaginative to find new forms of political and economic organization, we, that is East as well as West, are guilty of this unproductive rigidity.

5.35 | Will One Vanish?

Unfortunately this rigidity of mind prevails on both sides at the moment, adding to the explosiveness of the situation. To a considerable extent this rigidity is based, it seems, on the easy argument that one of the two will soon vanish and that in the meantime we can go on incurring the risks of the situation. Both West and East for a long time held this view. For a few decades the Russian economic system was considered to be so bad that it would collapse automatically. It had been shown scientifically by such respected authors as are united in the Mont Pelerin Society that centrally planned societies are impossible. If not impossible, then at least extremely inefficient. Nowadays many Westerners feel that since good things «in the end» always win out, the western brand of democracy will necessarily show up finally at the Red Square. The communists also were and still say they are certain that «capitalism will succumb». For quite some time it was believed that it would die from another Great Depression fairly soon after the Second World War. With its usual flexibility communist propaganda has given up this prediction of a special way of dying for the West, but even yet the ideas about Western
society, still branded as capitalism, are remarkably distorted, causing surprise to the Eastern visitors of Western countries.

For these reasons probably the best service we can render to peace is to convince the diehards on both sides that they will not be alone so soon. Certainly not as soon as today's situation requires in order to avoid the bad risks discussed in this section. We had better use what little imagination we have to find forms of coexistence deserving of that name and to specify them. There is a notorious vacuum here, again on both sides.