6 / AIMS

6.1 / OLD DESIRES AND NEW: A PRIORITY FOR PEACE

6.11 / *Diverging Aims*

Our attempt to predict the future situation of our world from our understanding of its present operation and from the tendencies of current policy, has not resulted in a bright picture. Following the traditional practise of Finance ministers for their budgets and of economic planners for their plans we are certainly entitled to an alternative; a Plan as distinct from our Prognosis. It is the author's preference that economic science should be practised in this way, that is, is presented and developed in as operative a way as possible.

Such a Plan must start out by a statement of aims which we already know will diverge from our prognosis.

In the framework of this book, which is meant primarily as a book on economic and social policies, it is natural that we start out our exploration of mankind's aims at the economic and social end. The first statement to be made is that there is divergency in aims. Within each country, the various political groups – to the extent they are able to make themselves heard – hold different preferences as to the future economic and social situation. Aims diverge between countries too: East, South and West have different aspirations and within each region there are considerable differences in shades. Certainly the Soviet Union has in mind desires which do not completely coincide with the desires of China or Albania; the ambitions of India differ from those of Argentina; those of the Arab countries do not coincide with Israeli hopes, and those of the United States are different from the ones of Norway or Spain.

These divergencies are an expression of the partly autonomous character of the aims of economic policy. In many respects preferences differ between individuals and between groups and peoples, and they must be considered as given by the expert on economic policy. The goal of economic policy must be to bring as much fulfilment of preferences as possible. In some important respects, however, people's preferences may need correction: it is impossible

to fulfil mutually incompatible desires. Thus if the government of some country aims at a growth rate of the economy of 9 per cent and an opposition party aims at 10 per cent, these two aims cannot simultaneously be fulfilled.

There is even a further limitation: the aims of economic policy cannot be incompatible with the laws of production and with the initial stocks of goods which are available. Thus, a policy based on the assumption that the capital-output ratio is 3 for electricity production, whereas in reality it is 5, must be rejected. It is also obvious that a policy requiring an initial stock of 2 million tons of wheat, when in reality there is only 1 million tons, cannot be accepted.

The economist's valuable contribution to shaping an economic policy can be to point out these various limitations in choice. Even then, to be sure, there remain a large number of alternative possibilities. We can envisage one policy aiming at a 7 per cent increase in Europe's consumption and a 5 per cent in India's consumption, or another policy aiming a ta 6 per cent increase in Europe's and a 7 per cent in India's consumption and many more. It is the intention of the author to discuss the aims of a policy deserving the name of «the best conceivable policy». In the economist's jargon this must mean that something to be called «the general interest at a world-wide scale» would be maximized under all the physical restrictions we are subjected to. Such an attempt implies giving weights to the interests of various countries and groups. These weights are arbitrary within certain limits and in practice can only be agreed upon by negotiations such as the ones at the basis of the «Aid India Club», as long as we do not have better procedures.

6.12 / *The Differences Are Smaller Than is Believed*

Such an attempt might seem hopeless. The author is more optimistic and one of the reasons is that the divergencies between the aims of different countries and political groups are smaller than is often believed. Another is that the physical limitations, which must be kept in mind, eliminate so many possibilities which are impractical, in the shorter run, that the range of choice narrows down considerably.

The aims of economic policy which are nowadays being formulated by governments of countries in quite different circumstances and with different outlooks, do not really diverge as much as one might believe. Once it comes to thinking seriously about such aims, some general human desires are so preponderant that the range of differences reduces automatically. Qualitatively speaking, all have in mind the basic aims of development – a better distribution of income, and stability for the economy as a whole as well as for the

major unstable markets. In countries already sufficiently developed to have approached full employment of the labour force, this latter aim gets an importance of its own. Quantitatively, the rates of development aimed at have converged considerably these last years. There is less scope for developed countries to aim at high rates than there is for underdeveloped nations. Rates between 3 and 5 per cent for developed and between 5 and 8 per cent for less developed economies seem to be the rule for the setting of deliberate aims. Higher aims may be very attractive by themselves, but everybody knows that they are extremely difficult to attain and that they materialize only in rare cases like the one of Japan. The aims with regard to income distribution diverge very considerably between social groups, and for obvious reasons. But it has become abundantly clear from the experience of the most progressive countries – the Soviet Union, Israel, Poland, Norway, New Zealand – that changes in income distribution are far less easy to obtain than we might wish. Realists on all sides therefore know that the best one can hope for is a gradual improvement in the direction of the figures characteristic of the countries mentioned. As for stability, the fluctuations in general demand for the world at large have been quite modest and everybody wants to stay at this amplitude or to reduce it a bit further. The swings in individual markets have not been so satisfactory, but it does not seem difficult to agree on targets here. Most of the discussion will have to be on the means [cf. chapter 7].

For all the reasons mentioned, the formulation of reasonable aims for an international economic and social policy is not a hopeless undertaking. To be sure, anything can be made difficult if it is desired to do so for political reasons. It is always possible to start a fight to the death on one decimal place in a growth rate. The willingness to arrive at common aims must be present; but there is a very considerable advantage in coming to such common aims.

6.13 / *Varying Results*

Some guidance for the choice of proper aims for an international economic policy can be obtained from the aims of economic and social policies of the last fifty years and the varying degrees in which these have been achieved. An analysis of this kind informs us about unfulfilled desires and, sometimes, solutions found elsewhere. As everywhere in this book, we will consider only the main lines of the problem; we will neglect large numbers of interesting details. A comparison of the kind just suggested is particularly interesting when applied to East and West as a whole; different approaches have been looked for in these two areas. Sometimes the difference between the United

States and Europe is also instructive. Thus we find that the West has excelled in improving qualities of consumer goods, and this has contributed very substantially to human satisfaction. Production has risen but not as steeply as in the East. Social insurance schemes have also been developed with considerable success in Western countries and have practically reached their limits in the most advanced Western countries in North-western Europe.

Education has been made accessible to practically all in the United States, the Soviet Union, and a few European countries, but less so in other European countries.

From these comparisons we are inclined to conclude that there is scope for the Soviet Union to lay more emphasis on the improvement of consumer good qualities, for the United States to improve some social services and for Europe to improve access to education.

Of the other aims of economic and social policy which have played a role in several countries, two seem to have been fulfilled to a lesser degree than hoped for. Income distribution has not become as equal as many had hoped and industrial democracy has not made much progress. As we already pointed out, this may be indicative of inherent difficulties not sufficiently understood by those who formulated the aims. In a very general way we may say that we have touched the fact of the unequal qualities of individuals and that the reduction of these individual differences is less simple than it has been thought to be. Even so there seem to be possibilities which have not yet been used to the full. Processes of education take more time, moreover, than many processes of production and organization and some persistence is called for. This does not impair these aims of social policy as such; we do know that their value is felt to be considerable by many.

6.14 / *Common Goals*

After these introductory remarks we will try to summarize what we feel are the most important aims to be recommended for an international economic and social policy. In this section we will restrict ourselves to the aims for developed countries in the economic and social field. In the next section we will discuss the aims for developing countries, primarily those to be found in the economic and social field. In the last section of this chapter we will discuss security, which is becoming more and more so urgent that it must influence all other fields of policy.

Although we have expressed the opinion [see sub-section 5.21] that the economic problem will gradually become less relevant to developed coun-

tries, it would be premature to disregard it. For numerous people in the West and more even in the East there still is the fundamental problem of wanting a higher level of consumption. Economic development therefore remains an aim and, for the time being, an important aim. Quite a few legitimate desires are not yet satisfied, both individual and collective desires. By collective desires we mean desires formulated for groups by their leaders, who sometimes have a clearer understanding of what is «good for» their members; sometimes the leaders have expert advice – medical, educational or even cultural – from wise men. In the field of housing, of health, of education and of culture much remains to be done, and more production is required to begin with.

Such development towards higher production should be accompanied with the maximum possible level of employment, up to a limit of 98½ or 99 per cent of the working population. This is not only because unemployment means wasting the country's productive powers, but also because a healthy life requires work. The margin of 1½ to 1 per cent implied in our figure is needed to permit people to change jobs and to give a small amount of choice to the organizers of production. During such intermittent unemployment a benefit payment should be made to the worker, as a matter of course.

The development of production just indicated should also be stable, that is, without fluctuations around the trend of more than a few per cent for the nation as a whole. Production of agricultural goods cannot, for the time being, be stabilized because of fluctuations in natural factors, but incomes of nations should be stabilized by market regulations and insurance schemes. We apologize for already mentioning the means of policy here. It is done because they indicate the best possibilities so far known for stabilizing incomes, and seem to be the only way of indicating what degree of stabilization should be strived for.

Stability in the development of production should be accompanied by a constant general price level.

The distribution of consumption among groups within a nation as well as among nations must be made as equal as the other aims and the means permit. Perhaps informed readers will find this formulation strange, and planners will protest that no specific figure is mentioned as an aim. We have avoided mentioning a specific degree of equality because of the difficulties of a forced equalization of incomes [cf. sub-section 4.21]. On the other hand, we are impressed with the human importance of the aim. By our formula we are relegating the subject to the technicians of economic planning, who should study

alternative policies satisfying all the other aims and then choose the policy yielding the least unequal income distribution. In all probability one of the most appropriate means of bringing about a more equal income distribution will be taxes, to be discussed later [subsection 7.12] and education in the broadest sense. Access to education, however, should also be considered as an aim by itself, for cultural and general humanitarian reasons, and so we are now leaving economic and social aims in the narrower sense.

As we have already explained before [sub-section 5.22], we feel that cultural and general humanitarian aims become more important than economic aims whenever the level of well-being reaches the American or North-European levels. In a book primarily about economic policy a detailed discussion of the precise cultural aims cannot be given and still less the precise means of education. The author, while saving his face in this way, can only state that the means for general educational purposes should be considered of high priority, provided that, within that field, they are applied in the best known way.

Economists reading this book may wonder why, among the aims, the pet aim of so many among us, balance of payments equilibrium, has not been mentioned. This is because we have been discussing world aims and since one of our instruments will appear to be capital transfers, balance of payments equilibrium is reduced to a technical condition rather than an aim.

6.15 / *Peace as an Economic Goal*

But we all know that the threat of war in its new form is looming heavily over all our thinking about our goals of future well-being. All talk about cultural values appears futile if we cannot considerably reduce the danger of nuclear annihilation. In comparison to the possible economic and cultural gains this risk is now so overshadowing that it becomes a bit ridiculous, if not criminal, for each scientist to stick to the traditional frontiers of scientific thinking. In the author's opinion this situation already prevailed in 1912. Ever since that era, maybe even before, the risks of war damage have been more important than the economic values usually discussed in the planning of economic policy. Ever since that date economists should have been raising their voices in the name of their own discipline, against war preparation and in favour of the establishment of an international order. The habit of considering a number of political aims as given and simply elaborating economic policies to meet those aims, even if they meant the most terrible damage to the interests entrusted to the economist, should have been abandoned half a century ago. In other words, instead of accepting war as an extra-economic aim it should

have been considered an intra-economic means and a means immensely worse than the worst sins against traditional economics. In our text books it should have been shown what war means as a destructor of prosperity and economically speaking how effective are some devices for reducing the war danger.

Even though we have missed these changes in the past we may still correct our attitudes today. This book is a very modest attempt. In this sub-section we only want to make the point that peace should be mentioned and given high priority among the economic aims. Peace has always been an aim of much wider scope and its economic aspects do not cover the subject as a whole. Today, however, it has become an essential condition, which is more than an aim: it must be met; no solutions can be accepted in which this aim has been met only partly, as could be the case with an increase in production or an improvement of the distribution of income.

6.2 / SOCIAL JUSTICE FOR NATIONS

6.21 / *Internal Social Justice*

In our preceding discussions of the aims of economic and social policy we have had in mind primarily the situation in developed countries. For a long time this was the way economic policy was discussed. In the minds of many authorities the interests of the underdeveloped countries did not rank highly. Those which were colonies were considered an appendix to their «mother» countries. At any rate their «weight» in the world economy or in the general interest was considered to be small, perhaps because their national product is low in comparison to the national products of the industrialized countries. The interested theorist in economic science can even find a very curious expression of this state of affairs in the «social welfare function» used by some theorists in the field of international trade[1]. This social welfare or general interest function, supposed to express world welfare and supposed to be maximized by free international trade without income transfers, is a weighted sum of the welfare of the various nations and the weights are inversely proportional to marginal utility as experienced in each country.

We are now beginning to understand that things are different. The countries of the South are beginning to play an important role. In thinking about the aims of economic policy we can no longer neglect them. On the contrary,

1. Cf. H. UZAWA, «Prices of the Factors of Production in International Trade», *Econometrica* 27 [1959], p. 460.

according to the most natural standard the economist can conceive of, the interests of the developing nations must have higher weights than those of the other countries, because their marginal utility is higher and their needs are more pressing than in the developed countries.

The aims we found valid for the developed countries also apply to the developing countries. They also want a stable expansion of their production, and also they want to improve income distribution and to increase access to education. But there is reason to add a chapter, since they are still in a stage preceding the stage we are in. Many developing countries are still in a feudal state, in which the kinds of privileges and oppression prevail which have been eliminated more or less in industrialized countries. The aim which has to precede the economic aims we have discussed must be a land reform, with a view to reducing considerably the maximum surface of land which one family can own. Land ownership must be reduced to an optimum size determined in the context of each country's economy, holding in mind the number of the population and the land surface available. The first step towards internal social justice is clear. The other steps can only be set *pari passu* with economic development generally. Above all they will require the rapid formation of capital in order to provide employment.

6.22 / *The Social Problem Between Nations*

The formation of capital cannot be accomplished very easily at the desirable speed within the countries of the South without any aid from other countries. At this moment we must widen our horizons and look beyond the national frontiers. For too long a time these also have been considered sacred by economists, a view expressed in the general idea that each country must solve its own problems. This again, unconsciously perhaps, is expressed in the theory of international trade which considers as normal the situation in which each country's balance of payments is in equilibrium. This approach is comparable to the previously common view that each individual's balance of payments should be in equilibrium. Long ago we recognized the «social problem», and introduced income redistribution between individuals of one country. The time has come to understand that there is, at the moment, a social problem between nations. We have already recognized that within each country, one region may need the assistance of the nation as a whole to develop itself. Similarly, the international community must assist some nations, those of the South, in developing their economies.

What we discussed in this sub-section so far is a subject of means or economic

policy rather than of aims. We must be aware of the availability of these means, however, in order to know what aims we can set. The aims of increased income for the developing countries must be set with a view of fitting them in into a world picture. Just as personal happiness does not depend only on what a person has himself, a nation's satisfaction depends also on its comparative situation in the world. In today's world, the living conditions of large segments of the population in many Southern countries can no longer be considered humane. A rapid increase in production constitutes the only way out; by rapid we mean that there is hope for most of the people to reach humanly satisfactory standards within a meaningful span of time.

6.23 / *Goals for the South*

For the reasons discussed the goals for the South should be set, not simply be derived from what is possible with the means available from those countries themselves. They should not even be based on the means made available so far from outside sources. These aims must be set sufficiently high to open a perspective of a humane standard of life in a foreseeable future. To achieve this, rates of increase in income per head of some 4 or 5 per cent are a minimum, meaning that income is doubled in 15 years.

Together with increased production the aim of greater employment must be considered of the utmost importance. If life of many in these countries is miserable, certainly the unemployed or half-employed are the ones most miserable of all. Moreover, to help the rural areas, which are the poorest, people must be attracted to cities, and this requires the creation of industrial employment. The aim of employment has been taken too lightly by many, including communists as well as «capitalists». It is true that we cannot hope to create full employment in a few years. It is also true that sometimes the creation of capital-intensive industries will lead to higher employment later, but the urgency of creating employment is something not to be forgotten.

Stability in development, which we have already discussed as an aim for the developed countries, is vital to developing countries and should also be underlined here. A more equitable distribution of income over groups and regions ranks equally high. Because of bad transportation facilities the differences in well-being are very large between regions within the larger of the developing countries, especially those in Latin America. Because of the pressing needs in these countries all aims of economic policy are important. Their importance by far surpasses the importance of the same type of aims in developed countries.

6.3 / THE WORLD IS OUR HOME

6.31 / *More Indivisible than Ever*

The citizens of any country when thinking over the aims of their economic and social policy should be more aware than ever before that they cannot plan for the prosperity of their city, district, nation or even their continent in an isolated way. The house we are living in is the world; even if we are not immediately interested in the fortunes of nations outside our continent we should be so for our own sake. Our own level of well-being and that of our children and grandchildren can be maintained only if we try to make this world habitable. A lesson in thinking in world terms is needed. Discussions in terms of national interests almost always appear to display some kind of shortsightedness or narrowmindedness.

We must formulate the aims of economic and social policy in world terms, that is, with a view to co-operate in the construction of a prosperous and harmonious world. We must check the aims discussed so far by asking the question: what composition of the world economy is feasible, is stable, is optimal? Instead of being gradually driven by events to the realization of this necessity when it is too late, why don't we at once look at the problem this way? We must not ask at what rate of development in country A or B can we aim, but at what set of rates for all parts of the world is it wise to aim?

We must ask ourselves not how we can organize agricultural production in our country, but what is a reasonable division of labour all over the world to produce the necessary things? It may be more reasonable for Europe to leave sugar production to other continents, and perhaps textile production as well, while we concentrate on electronics. Not only should our own agricultural prices be reasonably stable, but also those elsewhere in the world. World markets require world aims. The same applies to distribution problems. It is very important that the income distribution should be equitable in our own country, but it is considerably more important that we have a proper understanding of the wisest distribution of shares in solving the most pressing problem, namely how to combat poverty in the nations of the South. To achieve our national goals, therefore, we need to formulate world aims.

6.32 / *The Convergence of Incomes*

With this concept of a healthy world in mind, let us reconsider the problem of increasing the rates of development of income and of equalizing income distribution. What set of aims can be chosen as a solid guide for policy which

will help to make the world structure healthier? We must definitely not choose a development in which the existing gap in life conditions between South and West will widen further. Our experience with internal economic trends inside our own countries points to the necessity of closing the gap rather than letting it widen. A major element therefore in a proper set of goals for international economic policy must be the convergence of incomes per head. The rate of increase in income per capita of developing countries must be set at a higher figure than the rate of increase in income per capita of developed countries.

Since, for the time being, the rates of increase in population of the countries of the South are higher than those of the West, the rates of increase in total incomes in the South should exceed those in the West by more than for the incomes per capita. The figures mentioned in sub-section 6.12 are the least we can accept as wise. These are a rate of increase in national incomes in developing countries between 5 and 8 per cent and in developed countries between 3 and 5; let us say about 7 per cent for the former and about 4 for the latter. In all probability the countries of the East will continue to develop at a rate close to 7 per cent.

6.33 / *Stabilization of Prices*

Several times in the preceding section we have touched on the subject of stability of the rate of development and of prices. This aim is already a definite world aim and has been recognized to be one because of world competition in the major markets. Not much needs to be added therefore to what we have already said.

There is one more aspect of the world picture which should be elaborated upon. This is the one of the ratio between agricultural and industrial prices or the prices of primary and secondary goods, also known as the terms of trade between agricultural [primary] and industrial [secondary] goods and countries. We hold that stabilization of this ratio should also be an aim of international policy. But it must be understood that such stabilization can be obtained only if the volumes of production develop at the same rate as demand. Very probably this means that the production mix of developing countries must be diversified, so as to produce progressively less primary goods relative to secondary goods.

6.34 / *The Need for Security*

Finally when we are thinking at the level of world terms, the aim of security

can be given its proper setting. It is directly connected with the concept of making the world a better place to live and with the deliberate and organized attempt to attain this goal. In order to stimulate constructive thinking about this aim we must not let it hang in the air. Nobody doubts that world government or anything approaching it is a workable solution, but the point is how we can get there and whether we can get there. Starting with the two main poles of power and their mutual distrust, how can we arrive at an agreement making for security? An agreement on the organization of world affairs must cover all important aspects of political life, since the exercise of power is at stake and whoever has power controls all relevant aspects of political life. In order for the two autonomous powers to make an agreement they must prefer the agreement over the present risky situation in which, however, they both have considerable freedom in various respects. The agreement must not block the roads which each of the parties considers vital to its own development. An acceptable agreement, therefore, must always cover the two main subjects at stake in the East-West controversy: political decision making and the social organization of economies. It must indicate the possibilities for peaceful change, both in the territories of nations and in their political and social system. Instead of speaking of security we must speak of the international order: no less than this will do.

7 / CYBERNETICS IN THE NUCLEAR ERA

7.1 / ORDER AT HOME: NECESSARY BUT INSUFFICIENT

7.11 / *Means in the Economic Oases*

After having summarized the main aims of an international economic and social policy, we shall take up in this last chapter the discussion of the possible means to be used to attain the aims. Our discussion will be implicitly based on the knowledge we have accumulated on the operation of economies, national and international, and more particularly on the characteristics of an optimum regime. We may repeat here that it is the combination of means which matters and that the whole set of means must be chosen so as to attain the desired set of aims. Because of the vital importance of peace we are also obliged to transgress the frontiers of economic science – with all the risks involved for the author – and to undertake a reconnaissance of an almost unexplored area of political science.

In the understanding that a considerable portion of the decisions about economic and social policy will continue to be the task of national and lower authorities we shall start out by discussing the means to be applied at home, which for this author means in developed western countries. Much of what must be done in these countries will have to be done eventually in developing countries, so far as they choose a mixed system. The author's views on things to be done in Eastern countries will be found in the next section.

In several respects Western countries are still comparable to oases in a world of poverty and compulsion. In these respects they are in the possession of institutions which may serve as examples to other parts of the world. It should immediately be added that in other respects the East has examples to offer also [cf. sub-section 7.23], just as in some cultural fields the South can offer us examples to follow.

Some of the institutions which the West has to offer or is in the process of improving are fundamental to healthy development. The two main poles are healthy government machinery and a healthy business sector. For govern-

ment and business – or the public and the private sector – health means efficiency. This is equivalent to a good organization and to correct personal attitudes of the manpower staffing it. Among such attitudes are a clear awareness of duty and integrity in the execution of one's task. For government officials, personal gain through illegal activities must be out of the question. The national interest must prevail, not only over personal interests but also over departmental and other partial interests. For business executives speculation must be more and more displaced by the organization of production. Taxes must be paid and bribery must be out of the question.

A healthy public sector includes an elaborate system of social insurance, applicable to all employees and sometimes to all citizens, as in the case of old-age pensions. Taxes should be direct taxes to a considerable extent. Further details will be discussed later [cf. sub-section 7.12].

Development must be furthered by various measures. The government must have an economic development plan. It must itself create the necessary infrastructure and those industries which are not forthcoming in the private sector. It must subsidize the use of labour whenever there is a surplus of labour; it must help and advise private enterprise, especially small-scale industries and agriculture, by pilot units, industrial estates or parks and a network of consultants. One of the objectives of this policy should be to arrive at units of optimum size so as to avoid wastage of production factors. For heavy industry, with their large optimum size, governments must enter into schemes of co-operation with other governments or supra-national agencies. The smaller the country the more necessary this is.

Financial and monetary policies must be directed toward attainment of cyclical stability and avoidance of inflation. For developing countries this is not simple, but it will become more possible if financial assistance from abroad is raised considerably, as we think it should be [cf. sub-section 7.33].

7.12 / *Further Improvement is Possible*

Institutions and economic policy in the West are changing along with everything else in this world. We have already suggested that they are bound to move in the direction of an optimum [cf. sub-section 4.12]. Welfare economics can help in finding improvements which can be made in our institutional setup. Moreover, we have seen that in the developed countries some aims in the no-man's land between economic and social policy require our attention. The means to be applied in this double attempt to improve Western society will be discussed in this sub-section. In the author's opinion they

constitute further elements of a socialistic nature. Their defence can be based, however, on an economic analysis of the requirements of a welfare optimum using some ethical principles acceptable to large numbers of politicians of different orientation. Thus, arguing about them should not and need not be done in terms of socialist or liberalist principles, but rather in terms of broad ethical principles and economic analysis.

Some of the improvements refer to the extent of the public sector. If we accept the principle developed in sub-section 4.12, that activities showing external effects and activities showing marginal costs lower than average costs should be carried out by the public sector, the boundaries between the public and the private sector may be set. Among the activities with external effects, the decision as to the national volume of savings should be mentioned.

Another set of improvements refers to the tax structure. As already argued in 4.12, wealth taxes should be emphasized more. These taxes are closer to the «lump-sum transfers» required by the welfare optimum than are most other kinds of taxes. This means that they do not distort decisions to increase production as much as do income and profit taxes. If an increase in production is being considered by a firm, the advantages may be underestimated because of the large marginal tax burden. This produces a bias against production increases. In the case of a wealth tax the bias is smaller. The usual argument used against a wealth tax of any kind is that it will reduce the willingness to save. We saw that the decision on savings must be taken anyway by the authorities, and that the lacking part can always be saved by the government. Therefore this argument is not convincing. Moreover, private savings can be stimulated by direct means, such as subsidies on investment, government premiums to savers, etc.

A last point which can be derived from welfare economics has been dealt with already in sub-section 4.12. It refers to the administration of two-part pricing systems. We saw that from the welfare optimum point of view this pricing system is superior to simple price systems but requires the allocation of the fixed payments among consumers. It seems efficient to combine all these payments with the direct tax administration. This may be an additional argument for having in the public sector all the industries for which two-part pricing is desirable, namely, those for which marginal costs are lower than average costs.

We will now discuss the means to be used – together with the means already discussed – to attain some of the aims at the borderline of economics, namely a better income distribution and industrial democracy. The most effective

means to improve the income distribution is to improve access to various types of education, raising thereby the numbers of skilled and qualified and reducing the number of unskilled workers. This will improve the bargaining position of the latter and hence increase their incomes. A more equal distribution of income will result. The access to education can be further facilitated by subsidizing the living cost of students.

Industrial democracy is still in its infancy. Accordingly we can only progress cautiously. The responsibilities of works councils, or whatever they are called, must be clearly defined and relevant, and they must not impair industrial efficiency. This probably means that they should be limited to some, but not to irrelevant, subjects. Questions of the dismission of workers and employees as well as questions of rules of conduct in the factory, furtherance of productivity, etc., probably are good examples. Tasks should be kept within the limits of what the available members can do well, and may be extended with increasing ability. There are wide differences between countries in what can be done.

There remain to be discussed the aims which are completely outside the economic field, but which show a growing importance for human well-being. These are in the field of culture, morals or simply human relations. In view of the excuses made earlier, the author might be permitted to make a few layman's suggestions. He wonders whether the screening of pictures, radio and television programmes should not be intensified with the explicit task to improve their average educative and cultural value, especially for the younger generation. An alternative is the nationalization of the picture production and importing. Isn't it a remarkable discrepancy that while academic education is under the strict control of authorities, moving pictures are completely free? The author also wonders whether, generally speaking, the improvement of education does not have to come primarily from the examples of the teachers, and of all adults as well. He wonders therefore, whether the only way of improving younger people is not to improve the older ones and whether open attacks on too easy living and on irresponsible conduct and stricter rules of conduct in general are not called for. The question remains whether our present generation is able to assume a more vigorous attitude in matters of morals. Only those who are aware of what is at stake will be able to do this. The survival of our cultural values will depend on their numbers and the example they set.

7.13 / *Isolationism is Outmoded*

Returning to the more restricted area of economic policy, we want to add a

few remarks on the degree of centralization in policy decisions to those in sub-sections 2.27, 4.15 and 6.31. As a consequence of the external effects [in the geographical sense] of many important policy decisions in economic matters, several of the means of economic policy must be handled no longer by national governments. This is certainly true for governments of countries under forty million population. Instead these decisions must be made by supra-national authorities of the kind now introduced in Western Europe. Especially the means of financial and trade policy, and of market regulations for primary commodities must be handled in this way. We must continue to build integrated blocks of countries, coinciding more or less with the continents, and should give explicit thought to the best pattern of organization. This implies a choice of the areas to be integrated and of the means of policy to be centralized.

As for the areas, the procedure of co-operation now used by the European Economic Community must be changed. Instead of negotiating the association of individual territories with EEC, the integration of Africa and of the Arab region should first be furthered and co-operation between integrated blocks then taken up. Of course it is entirely up to these regions themselves to choose their partners, but there may be an advantage in close co-operation between neighbouring areas[1].

As for the means, we already made the point that monetary and financial policy are not sufficiently centralized in the Rome Treaty. However trade policy, which has rightly been completely centralized in the EEC, is too protective. Further reductions of the outer tariff are called for in the future. This is an example of the necessity for a further centralization of international control already embodied in GATT. We will come back to this aspect below.

7.14 / *Order at Home is Insufficient*

The suggestions on economic regimes and economic policies given in the preceding sub-sections refer to the national economies and their governments, with emphasis on the western countries. They constitute the means to put order into our home affairs. To improve the economic and social order at home remains a necessity notwithstanding the progress we have already made. It will be mainly the task of the socialist parties in Western Europe and the Democratic Party in the United States to push these improvements, even when they are carried out by other parties. It will be an important task for

1. For a more detailed study of these problems, cf. J. TINBERGEN and Associates, *Shaping the World Economy*, The Twentieth Century Fund, New York, 1962.

these parties, which requires some rethinking of their programs. Important as this task appears, it is not enough that we put order into our home affairs. As already explained at some length, this era requires a wider approach. The most pressing needs are those of the developing countries; their aims must also influence the means of economic policy to be applied by other countries. In plain terms, western countries will have to devote considerable means and efforts to help the South attain its goals. They will have to do this as part of the world community, the weak spots of which are just as much our concern as they are the concern of the South. Increasingly we must accustom ourselves to discuss these matters for the world at large just as we do inside each country. The conclusion is unavoidable that considerable financial means and personal efforts must be made available for the development of the South. Calculations by various groups of experts have shown that the amount, now made available for this purpose by western countries, about $6 milliards (billions, in the American sense), must be raised in the near future to double this amount. One formula often referred to and mentioned in sub-section 5.13 is that one per cent of the developed western countries' national income should be made available. This one per cent now amounts to about $8 milliard and by 1970 may grow to $12 milliard. This is more or less what is required. It should be supplemented with human resources in the form of teachers and technical consultants, in greater numbers than at present. Some idea of the numbers of teachers needed have been given in sub-section 5.14. A tangible portion of the necessary increases may have to be supplied by western countries.

7.2 / WILL EAST AND WEST MEET?

7.21 / *Possible Changes in the East*

In chapter 6 we have stressed the predominant place that the aim of security has to take in the joint set of policy aims. The question must now be tackled, what means can be applied in order to approach a higher level of security. The search for such means must be based on an attempt to understand the nature of the controversy between East and West. There are two main components in this controversy: the economic system and the political system. In this section we will discuss the possibilities of mitigating the controversy about the economic system. In the next section we will discuss the possibilities of building a bridge over the political abyss.

In the preceding chapters we have tried to characterize the nature of the

economic systems of the East and the West. One of the main points we have tried to make is that the two conflicting systems are changing and, on a number of points, are converging. We have also tried to show that the optimum socio-economic regime or order is one of a mixed character, with a natural function for a public sector and a private sector. Finally we have argued that no system can afford to be much less efficient – in the broadest sense – than the optimum system, since that would mean deliberately to give up some economic power and resources. With increasing prosperity there will be some leeway, because the purely economic problems tend to become less relevant. We should not overestimate the tolerance which will be available however.

Can we derive some devices for a better understanding from all these features of the economic controversy? In the author's opinion we certainly can. This does not necessarily mean that they will be used. So far, the communist leaders have preferred to use black-and-white propaganda, and so have the rightist extremists in the West. Before trying to answer the question whether a change in official opinions in East and West will be possible let us discuss reality. Are further changes in the Eastern system to be expected?

On the basis of our preceding analysis we think there is some possibility of improving the efficiency of the system, and there is a fair chance that some ways will be discovered and applied. A few examples are listed below.

[i] In all probability the degree of detail in planning can be reduced without endangering the equilibria between industries.

[ii] The efficiency of production units can be increased by giving more freedom to managers, especially of small units.

[iii] The allocation of resources can be improved by eliminating price discrimination, for instance, in the field of capital allocation and in the field of trade between communist countries.

[iv] The adaptation of demand to supply of consumer goods can be accelerated by permitting prices to move freely between certain limits.

7.22 / *Possible Changes in the West*

But also the West will not stop developing its economic and social system. The West is not homogeneous and some countries have already progressed much further than others. But even in the most advanced Western countries further changes are due and the less progressive will follow. We have already formulated our own recommendations in the previous section. Most of the changes to be expected in both groups of Western countries, will constitute

further steps to the optimum welfare situation. Some of them show socialist features, simply because economic science has shown the justification of a number of deviations from pure *laissez-faire* and thereby made them acceptable to the uncommitted sections of western society, that is, uncommitted beforehand to either socialist or capitalist policy. Thus, in the West as a whole, we can expect the public sector to grow. We can expect social insurance and other forms of income redistribution to spread. We can and must push educational means to make the income distribution better, and we can and must push planning.

Many of the changes made on both sides, will reduce the differences between East and West and will increase the number of similarities and hence the exchange of experience. Serious discussions on the methods of planning, the methods of appraising investment projects and the methods of furthering international trade are already being held between economists of East and West. A willingness to take over certain features and devices of economic planning and policy can already be observed. All this will make it increasingly difficult to continue to use the simple black-and-white terminology and thereby to artificially keep the distance long and the understanding small.

7.23 | *The South is Looking to the East and the West*

Some readers will have doubts with regard to the last optimistic conclusions. They will point out that there is still considerable isolation of public opinion in the communist countries from outside influences, even from influences of the countries' own scientists, and that the control is powerful. There is some truth in this. Yet the indications are increasing that the younger generation is developing a new attitude and even that authorities can apply some degree of liberalization of debate. But far more important is the fact that a considerable portion of the East-West discussion is not going on in East or West itself, but in the South. It is in the developing, uncommitted countries that both East and West can freely present their systems and do so currently in advisory functions. It depends a good deal on the ability and the horizon of the Western advisers in developing countries whether they can force the discussion into a realistic and tolerant direction. Many politicians and economists in developing countries already see perfectly the similarities between the eastern and the western systems and realize that it is becoming more and more a question of degree and less one of black-white contrast. For other reasons, to be discussed later, it will be important if the Southern intelligentsia can develop its

own independent philosophy on such matters and can appreciate objective information more than biased presentations.

7.24 / *The Controversy on Decision Making*

Having attempted to indicate the nature of the conflict on socio-economic issues, we may now devote some remarks to the much more difficult controversy over political decision making. Here the differences are definitely more important and there is less evidence of a convergence. Interesting enough, the contrast is not accentuated by communist propaganda, but rather hidden and blurred. They call their political system democratic but are not proud to announce it overtly, as they are in the case of their economic system. They do not currently call their system a dictatorship – even if they do occasionally use the phrase dictatorship of the proletariat which is supposed to be better than democracy. They have a theory of the withering-away of the state, but the new programme does not make any precise proposals in this respect. It should be recognized, however, that they recently decided to limit the period of office of a single person. This is a very modest step indeed, which in no way reduces the power of the ruling party. Perhaps more important is the tendency towards substituting committees for single persons; but this also is a quite modest change.

In the West, some limitations of democratic procedures have recently been recognized. The changes in France are significant in this respect. Two features which we discussed in sub-section 5.23, are involved: indecision and conservatism of public opinion as a consequence of a lack of knowledge and of interested propaganda. No clear attempts at repairing these drawbacks have been made in the leading Western countries.

7.25 / *Conditions for Coexistence*

Against the background of the two main conflicts between East and West, we will now discuss some conditions which must be met in order that a stabler form of coexistence can be found.

A first condition is that both parties seriously believe that the other will survive. This belief can be strenghtened by evidence of strength of the other party and strength not only in the military sense.

Another condition is that rules of peaceful change can be agreed upon. These rules must refer to both changes in territories and changes in the political and social system. Clearly these rules cannot completely satisfy both parties. Concessions must be made, as was explained before [sub-section 5.34]. In making

concessions, each will seek to give up relatively less important points and to retain the most essential elements. This may be possible if the ultimate aims of both parties are not conflicting. It is the task of our analysis to point out such possibilities.

In the realm of the socio-economic system we may ask ourselves what are the elements of capitalist society which are most inacceptable to communists. In all probability these are the cases where exploitation can be proved to exist and most flagrant such as the large personal incomes derived from operations which are of no use to the community. This is true for large incomes from speculation or from land, not to speak of incomes from mere bribery. On the other hand one may ask what are the elements in private production which the West thinks most valuable. In all probability they are to be found in high efficiency, and a lack of red tape and unnecessary interference by authorities. This example shows where the best chances lie for reaching an agreement as to what changes in economic system must be accepted as desirable: changes eliminating what communists think are the worst features of capitalism, while maintaining what Westerners think are valuable elements. Of course, an agreement is possible only when the relative valuation of the elements mentioned does not differ between the two parties and when there is a willingness to reach an agreement.

Another example may be given with respect to the system of political decision making. Westerners think the worst features of dictatorship are its use of inhuman treatment, especially violence against human life. They think that dictatorship is more acceptable when exercised by able rulers rather than by narrow-minded rulers; that it is more acceptable when applied only temporarily in a well-defined emergency than if applied without any limitation; and that it is more acceptable if personal interests do not play a role. If communists could agree with the relative value judgements implied, and were interested in an agreement, there would be a possibility again for formulating some acceptable rules.

A final contribution which can be made is a search for systems of decision making in which some of the weaknesses of parliamentary democracy are avoided without resorting to dictatorship. They may be found in voting systems using weighted representation [in contradistinction to proportional representation] or reserving part of the votes for experts of various types.

7.31 / *Economics and Security Interwoven*

Can we now devise some institutional arrangements and means of policy for the world community with which we are likely to attain the aims formulated in chapter 6? The possibilities are only slight, but there is an urgent need for filling the vacuum. The most modest attempt may be worth while, even if it only stimulates discussion.

The arrangements we need must simultaneously fulfill the aims of security and the economic and social aims. As we have already argued [sub-section 6.34] the interconnections are too intimate to be disregarded. Security requires power; power is indivisible and whoever has the power will apply it in all areas of life. Moreover, economic wellbeing without security is inconceivable; and security will create some economic problems. This interdependency must be interpreted to imply, among other things, that it may be worth while to make some sacrifice in the purely economic sphere if security can be furthered. In other words, the value of an international order should be judged not only on its economic aspects but on its security aspects as well.

7.32 / *The Necessity of Social Strength in the West and the South*

From the list of aims in chapter 6, we can see that the improvement of living conditions in developing countries is the most pressing aim from the humanitarian point of view. From the analysis of the means given in this chapter we can conclude that this aim can be forcefully furthered by an intensive cooperation between the South and the West. While the pressing needs in the South are sufficient reason to make the increased effort proposed in subsection 7.14, there is another important argument in their favour. As we have explained before [5.35 and 7.25] it is highly important for world security that both main poles of power seriously believe in the persistence of the other. Nothing could contribute more to the conviction of the communist rulers that the West will not vanish than an imaginative joint policy of world development, and an important contribution made to this cause by Western governments and citizens. If, moreoever, the West would develop its own mixed system further so as to eliminate the worst features of capitalism which still exist in the less advanced Western economies, some of the suspicion existing, and not always unjustified, in the East may be eliminated. It is therefore an issue of top priority to increase the social strength of and further reform the economic system of West and South.

7.33 / *A World Development Policy*

The set of institutions and means required for world development can be derived from our previous discussion. The principal means of development policy under conditions of stability have been indicated [sub-sections 5.12–5.14]. The necessity to apply some of the means at the supra-national level has been stressed [sub-section 7.13] and the order of magnitudes of these means has been indicated [sub-section 7.14]. We must combine these elements and apply them at the world level. A brief summary may be given as an illustration.

A world development plan should be made up by the secretariat of the United Nations, indicating the main features, such as the rate of development of income in the various continents and the bigger countries, the rate of development of consumption and investment, and the level of financial contributions by developed countries, imports and exports and government expenditures. This plan, after having been discussed together with the Regional Commissions of the United Nations and the governments concerned, can be used as the basis for the future activities of governments and international agencies. In the annual discussions in the Economic and Social Council and the General Assembly, past performance can be compared with the goals of the plan and recommendations are formulated concerning the necessary changes in policies. The means made available to the international institutions, in particular the International Bank for Reconstruction and Development, the International Development Association, the Special Fund, the International Monetary Fund, UNESCO, F.A.O., I.L.O. and a few more can be brought into harmony with the policies recommended. A new institution must be added to those already in existence, namely, an International Treasury for the collecting, administering and disbursing of «ordinary» development expenditures, meant to supplement capital expenditures handled by IBRD and IDA. This Treasury may also carry out an Insurance scheme against declines in export revenues as has recently been suggested by a group of experts[1]. Under this scheme, member countries pay contributions proportional to their national incomes and are entitled to benefits whenever their export receipts fall more than 2½ per cent below the previous three-year moving average.

By the means indicated we believe that an imaginative international development policy under conditions of stability can be carried out which may contribute considerably to the world's well-being and security. Of course, much

1. International Compensation for Fluctuations in Commodity Trade, Report by a Committee of Experts, United Nations, New York, 1961.

will depend on the co-operation given by national governments, but if the international agencies mentioned are given more means and power, it will no longer depend only on national governments. We must hope, moreover, that the younger generation will be able to assume attitudes of a wider scope and develop the type of international civil servant that we need so much.

7·34 / *The Search for a System of Coexistence*

We are now going to discuss the security aspects of the international order. Security can be established only by an agreement between the two main poles of power, now in an uncertain equilibrium involving great risks [cf. sub-section 5.31]. Such an agreement, if it is to work, must imply rules of conduct in international policies to be followed in the important alternative situations likely to occur, and the use to be made of force. The ideal situation of real stability would be one in which a strong United Nations Force would maintain order and security and, if necessary, enforce compliance with the agreement. Although it is very difficult to see, at the moment, how such an ideal situation could be reached, the extreme urgency of the problem makes it desirable to study the possibilities. In communist propaganda the concept of coexistence is being used but its meaning is far from clear. Western students of the situation can make a contribution by trying to give content to the concept as they see it and by inviting discussion.

Rules are needed for the use of the United Nations Force or for the conduct required from member governments and United Nations agencies in order to avoid use of the Force. In well-known terms these rules must define what is to be considered legal and peaceful change. As we have argued in sub-section 7.25, these rules can be agreed upon only if both parties in today's controversy make concessions. As the examples discussed in that sub-section illustrate, a set of reforms can be defined which both parties consider acceptable and changes falling within this list can be considered legal. If the armed forces of any party or government were to oppose such changes, they would expose themselves to countermeasures by the United Nations Force.

The rules of conduct must also contain a decision-making system for the United Nations Assembly, in particular for the use of the United Nations Force. Questions may be dealt with such as the membership of the United Nations and the composition of the United Nations Force, the number of votes to be given to each member country and the possible voting rights given to some types of experts. Among other possibilities this author wants to mention the following: it seems reasonable that China [mainland] should be-

come a member of the United Nations. It seems reasonable also that small countries should have less voting power than big countries and that some weight should be given to the economic size of the countries. Consideration should be given to the possibility of equal influence in a number of decisions for the three regions indicated as East, South and West in this book.

The ideal situation referred to so far is not the only alternative to the existing one. Other power configurations might be somewhat more stable than the two-power system. Thus, as long as no complete agreement on the rules of conduct is possible, a three-pole system consisting of the existing two poles – preferably with reduced strength – and a United Nations Force of comparable strength may be envisaged. Perhaps even a four-pole system may be conceived with some «Southern» force entering into the game.

No matter what solution is attempted, there is a point in giving more weight to the group of neutral countries than has been the case so far. One of the reasons is that if East and West are not able or willing to reach agreement, this is a *testimonium paupertatis* which gives a moral right to the South to represent the world's interests. Another reason is that the problems of the South are the most pressing world problems of all, and a last reason is that the South maintains better relations with both East and West than the latter with each other.

7.35 | *The Road towards greater Security: Disarmament*

The attempts made so far by the governments of the Soviet Union and the United States to arrive at a situation of more stable international equilibrium have been directed mainly at disarmament. In the discussions on disarmament little attention has been paid to the international order to be substituted for the present situation. The progress which had been made up to the summer of 1963 was not impressive.

It is not easy to give a correct picture of the negotiations and the problems involved. Information about them is scanty. Moreover, the subject is blurred by the intensive propaganda of both sides, and the biased information spread by some organizations with vested interests.

After lengthy and unsuccessful negotiations among a smaller group of countries, the discussions were started again in a committee representing countries from the East, the South and the West. As a basis for discussion a joint declaration of the governments of the Soviet Union and the United States on principles for disarmament negotiations of 20 September 1961 was made available. Among these principles the following stand out:

[i] the programme for disarmament shall contain the necessary provisions for five groups of actions characterizing the disarmament process [including, *inter alia,* disbanding of armed forces, dismantling of military establishments, cessation of production of armaments, elimination of stockpiles, elimination of all means of delivery and so on].

[ii] the programme should be implemented in an agreed sequence and transition to a subsequent stage should take place only upon a review of the implementation of measures included in the preceding stage.

[iii] all measures should be balanced so that no military advantage is given to any state.

[iv] they should be implemented under strict and effective international control; an International Disarmament Organization should be created, whose inspectors should be assured unrestricted access without veto to all necessary places.

[v] during and after the implementation of the programme the necessary measures to maintain international peace and security should be taken, including the obligation of States to provide manpower for an international peace force; arrangements for the use of this force should ensure that the United Nations can effectively deter or suppress any threat or use of arms in violation of the purposes and principles of the United Nations.

The discussions have been based mainly on two concrete proposals made before the meeting, one formulated by the Soviet Union and one by the United States.

Among the questions which so far have created difficulties in the negotiations the following stand out:

[a] do the proposals for the concrete steps to be taken maintain the balance between the two main poles of power – a balance consisting of a clear advantage in geographical situation and conventional weapons on the side of the Soviet Union and a large advantage in nuclear armament on the American side?

[b] what powers must be given to the inspectors of disarmament?

For the time being the latter problem has created unsurmountable difficulties because of opposition by the Soviet Union to almost any inspection in their territory. One of the explanations given is that the Russian defence system rests on a limited number of secret bases from which missiles can be launched.

Because of the scarcity of information it is extremely difficult to comment on

the prospects for and the nature of a solution. It is highly unsatisfactory that this question of life and death for the world at large is in the hands of a very small number of experts and politicians, part of whom have, in one way or another, vested interests. On some occasions the impression has existed that scientific experts are able to reach agreement in problems where the politicians are unable to do so. One therefore wonders whether it is not advisable to give a real influence to scientists as such. The tendency to broaden the group of countries involved, especially to include representatives of the South, must be welcomed and supported for the reasons explained before in sub-section 7.34. It seems necessary to include in the list of subjects to be discussed the main elements of a new international order, covered in sub-section 7.25. It is not quite clear how the arrangements for the use of the peace force can be established without prior agreement about these elements. Greater clarity about the shape of the future international order, expressing the common interest in peaceful coexistence, also seems to be one way of reducing the strong distrust between the two poles. The author hopes that a few of the suggestions contained in the preceding sections and chapters may prove of some use in this respect.

For a considerable period many people have held the opinion that one of the major problems of disarmament is the economic consequences. This is not really a problem. It is true that a reduction in military expenditure will change the pattern of demand, and that production will have to be adapted to the changed pattern. This requires adaptations which may be painful to some groups of the population. These groups should be assisted in an endeavour to re-orient themselves. But both the Eastern and the Western system are able to organize the necessary changes. The means for such assistance and changes can be easily raised, since basically the nations will become more prosperous when the heavy burden of armament will have been taken off from them. No argument can be derived therefore from alleged «unfavourable» economic consequences of disarmament: the reverse is true.

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