

ECONOMIC ISSUES IN INTERNATIONAL CONFLICT*

I

International conflict, particularly in its most extreme form, war, has become not merely the major political issue but the major economic issue of our time. It absorbs an ever-increasing proportion of national incomes everywhere. It creates a sense of insecurity so profound as to put civilization itself in danger. In every city of the world those who are sensitive to the present world situation have constantly at the back of their minds the nightmare question "when?"—how long will it be before this thriving city, with all its monuments of culture, will be laid waste and thousands of its inhabitants subjected to death or injury.

For the mass of men this situation may not be a new one. Civilizations have always been built on the edge of social and political volcanoes and time after time throughout the course of history they have been swept away in eruptions of violence. Tyre and Carthage, Babylon and Rome all repeat the pattern of rise and fall. After reading any book on the history or archeology of the Middle East, for instance, one goes around America in amazement, saying to oneself "Astounding! This is the first city ever built on this site!" If there were nine Troys why should we expect there to be only one New York? Nevertheless, for Americans especially, the feeling of utter insecurity which has characterized most human lives and human history is a strange one. For most Americans, war has always been a peripheral rather than a central experience, something which could be regarded as an accident of history, to be dealt with by *ad hoc* measures, rather than as a permanent and deep-rooted element in the life of society. Until the twentieth century this was also true of Great Britain and of many parts of Europe.

Today, however, we seem to be entering upon a period in which war has become the central institution around which all our lives revolve. All over the world young men are condemned to spend the formative years of early manhood in the acquisition or the practice

* The substance of this article was given as a lecture in Vanderbilt University, Nashville, Tennessee (USA) in December 1951.

of the arts of killing their fellows. War now reaches down into every family and threatens the security of every home, either by the claims it makes upon the individual members or by aerial destruction. Nobody who has seen the ruins of the German cities, once so beautiful, can avoid picturing, in every city he visits, the dreadful vision of a possible, even a probable, future of rubble and ruins.

It is important to inquire into the reasons for this strange worsening of man's position. Paradoxically, the basic reason lies in the very increase in man's power which the technical revolution has brought about. The immense improvement in the techniques of production and social organization which has been accomplished in the past two hundred years, and which has in so large a measure lifted the curse of Adam from those societies that have benefited by it, and has showered us with refrigerators, automobiles, telephones, television, central heating and the other luxuries and conveniences of modern life, has also created the overshadowing fear of destruction. The technical revolution has not been and could not be, confined to the production of more abundant life; it inevitably spills over into the production of more abundant death. It is the profound change in the techniques of warfare resulting from the scientific and technical revolution—a change of which the atom bomb is merely a culminating and perhaps overemphasised symbol—that has produced this total insecurity of man, and the transfer of the institution of war from the periphery to the centre of man's activity.

II

The economist can offer considerable clues to the reasons for this deplorable turn of events. The theory of economic conflict, as it has been developed, for instance, in the theory of oligopoly (competition among the few), throws a great deal of light on the theory of the competition of states (war). Similarly the theory of the "viability" (the conditions of survival) of firms is relevant to the theory of the viability of states. I do not propose to give in this place a detailed exposition of these theories: their conclusions, however, may be summarised in the following series of propositions.

1. The first proposition may be expressed simply as "the further the weaker": that is, the further from the home base any organiza-

tion is operating, the weaker will be its competitive position. In the case of the firm, this is reflected in increasing transportation costs as it sells its products further and further from the point of production. In the case of the state, its power of destruction is an inverse function of the distance from the source of supplies of both men and materials.

2. The second proposition follows from the first. It is that, if there are two competing organizations located at different points, there will be a "boundary of indifference" between them, the location of which depends on what might be called the "home strength" of the two organizations. In the case of the firm the "home strength" may be conveniently measured by the lowest price of the product—reckoned at the point of production—at which the firm can survive. Thus a firm which lowers the cost of production of its product is increasing its "home strength". If we have two firms located at different points but possessing equal home strengths, the boundary of indifference will be half-way between them. As one firm increases its home strength *relative to the other*, the boundary of indifference moves towards the weaker firm and away from the stronger firm. In the case of the nation-state the "home strength" is determined by the absolute amount of resources which it can devote to defence, and also by the efficiency of their use. The boundary of indifference between two states is that point at which their military power is approximately equal. Thus, when the German armies advanced into Russia in 1942, they became progressively weaker as their lines of communication became more extended, while the Russian armies became progressively stronger as they were pushed back towards their home bases. At Stalingrad the boundary of indifference was temporarily reached. In military situations the boundary of indifference may be subject to a good deal of instability during the course of time, owing to the fluctuating efficiency of military operations. Apart from these dynamic qualifications, however, the principle of the boundary of indifference applies as much to the competition of states as to the competition of firms.

3. The third proposition is that the distance of the boundary of indifference from the centre of an organization (which is in some sense a measure of its "security") depends not on its absolute strength but on its relative strength, relative, that is, to its competitors. Thus, if a firm lowers its home price in the hope of pushing its boundary

of indifference further away from it and thereby attracting customers and expanding its operations, the advantage remains only as long as the competing firms keep their prices up. If the competing firms retaliate by cutting their prices, the boundary of indifference shifts back towards its original position. The same phenomenon may be observed in the competition of states: an increase in the armaments of one state contributes to its security only as long as the other states do not reply in kind. The "illusion of absolute strength" is one of the most widespread popular illusions concerning national defence. There is no meaning whatever in a nation's "being strong": the only meaningful phrase is "being stronger than potential enemies".

4. The fourth proposition follows from the third: that the competitive equilibrium of a *few* competitors, and especially of two competitors, is highly unstable if the competitors are close together. If the competitors are far apart, and if there is no great concentration of population in the neighbourhood of the boundary of indifference, a system of competition, whether of firms or of states, can be stable simply because neither competitor has any particular inducement to attempt to shift the boundary of indifference, either by cutting prices in the case of the firm or by increasing armaments in the case of the state. Each competitor is "secure", because each is stronger than the other in his home territory (from proposition one), and neither feels any obligation to challenge the existing boundary of indifference. If, however, the competitors are close together, and if the neighbourhood of the boundary of indifference matters for them, in the sense that it contains a large number of customers in the case of the firm, or important strategic resources in the case of the state, then the equilibrium will be unstable, and a price war or an armaments race will result. One of the organizations will try to improve its position (security) at the expense of the other, and this will force the other to follow suit in order to restore the old position of the boundary of indifference. The only answer to such a situation is "monopoly", *i.e.* the establishment of a super-organization which replaces the direct competitive relationship by an organic relationship of some kind. The super-organization may be extremely tenuous; it may be a "gentlemen's agreement" like the Concert of Europe; it may be a loose cartel like the League of Nations or the United Nations. Gentlemen's agreements and cartels, however, are notoriously unstable, and

there seems to be a considerable tendency for super-organizations to grow into fully-fledged organisms (the merger or Federal Union).

5. The fifth proposition is that the home strength of organizations is a function of their size; up to some optimum magnitude, strength increases with size: there are economies of scale. Beyond a certain point, however, what might be called the "Brontosaurus principle" (named after its most distinguished victim) begins to operate, and increasing size brings clumsiness, lack of adaptability, and other weaknesses. In the case of states the optimum size for defence probably exceeds the optimum size for governmental efficiency, as it is not the per capita efficiency of defence that is the competitive factor, but the absolute amount of defence "output". Thus sheer size gives large states a competitive advantage in defence, in spite of the fact that their per capita efficiency, in defence as in other functions of government, may be lower than that of smaller states. One has a general impression, which it is difficult to verify, that for governmental efficiency the optimum size of the modern state is from five to twenty million people: countries like Switzerland, Canada, Sweden and Uruguay seem to make a better technical job of governing themselves than their more Brontosaurian neighbours. Even in the field of defence, however, the Brontosaurus principle eventually triumphs, and history is strewn with the wrecks of great empires which fell apart from mere size.

6. The sixth proposition is that the optimum size from the point of view of defence (or survival) is itself a function of the "state of the arts", and that, as an empirical fact, economic development has resulted in a great growth in the optimum size of the unit of defence. This is a reflection of the fact that one of the main results of technological improvement is the diminution of the obstacle of space. It is not merely that we can now span the earth in less time than it used to take to go thirty miles—with the result that the earth has shrunk to the size of a neighbourhood. The more subtle obstacles of "social distance" have also been whittled away by progress in the skills of organization and communication, so that we can now contemplate a state comprising hundreds of millions of people, whereas Plato could not conceive of a state larger than a few thousand. In the days of the bow and the spear, a city-state was a viable unit of defence; the city could be walled and the basic condition of defence estab-

lished—the creation of an area of internal peace surrounded by a “skin” of war. Even as early as Alexander’s time, however, the defensibility of the city-state had become dubious, and the invention of gunpowder made that unit wholly indefensible. Walls were useless against the new weapons, and defence had to be made so deep, that it absorbed the whole body of the city state—much as if the skin that defends the living body against invasion should itself become a cancerous growth invading the whole body. The Roman Empire was clearly too big for the techniques of its day: it grew and survived for a time merely because of its uniqueness—because there was no other empire of like magnitude to challenge it. Its size made for instability, however, and in the ensuing collapse the city-state reappeared, as it always tends to do if techniques fall back to a certain level. Gunpowder created the eighteenth-century state—states of the size of France, Britain, Germany and Italy, though some of these only appeared at a moment in history when their type was already becoming obsolete. The airplane and high explosives have clearly made the typical European state as obsolete as the city-state. This was probably the case even at the beginning of the twentieth century, though it took two world wars to demonstrate it beyond doubt. Consequently we are now left with only two “viable” centres of power—the two giant states of America and Russia. The disturbing question now arises whether the amazing rush of technical development has not rendered even these states obsolete, just as gunpowder made the city-state obsolete. In the days of the H-bomb and the rocket plane there is real doubt as to whether even countries as big as the United States and Russia can be defended in the traditional sense, unless, like the Roman Empire, they exist in an environment without rivals.

7. My seventh proposition is that, in the case of the rivalry of two close and approximately equal powers, the demands of national defence are inherently insatiable, and hence the proportion of national income devoted to defence rises until it absorbs most or all of the “economic surplus”. In primitive economies the economic surplus is a small proportion of the total output of the society—almost the whole manpower and equipment capacity of the society have to be devoted to the task of keeping the economy running. On the other hand, a society in which the technical revolution has enabled men

to produce the necessities of life with the labour of a quarter of the population might conceivably be able to devote three-quarters of its resources to defence, and under a condition of political duopoly it may be forced to do so. It is for this reason that war has been reaching further and further down into the lives of the mass of the people. It is doubtful whether any of the wars of the eighteenth century absorbed as much as five per cent of any nation's income. Indeed, Adam Smith says, "Among the civilised nations of modern Europe, it is commonly computed that not more than one hundredth part of the inhabitants of any country can be employed as soldiers without ruin to the country which pays the expense of their service"¹. In the second world war the United States and Britain put at least 50 % of their national incomes into the war effort, and it is clear that the United States, at any rate, did not even then exhaust her economic surplus—people could have had their consumption squeezed much further and would still have produced about as much. It is the rise in the economic surplus, therefore, coupled with the tendency for an unstable system of national defence to absorb a large proportion of this surplus, that has changed war from a peripheral to a central activity of our society.

The *sociological effects* of this change are profound. Its economic impact is perhaps less important—it simply involves a sacrifice of the potential benefits of the technical revolution, consumed in the insatiable maw of national defence; but it may still allow a substantial increase in standards of personal consumption, as has been the case so far in the United States. The Germans, however, through their reliance on national defence in a period when, for countries as small as Germany, it has essentially become obsolete, have succeeded in reducing their standard of living very substantially, in spite of great technical progress. After a third world war the same may be true even of the United States, hitherto immune from this disadvantage. More serious than the economic effects, however, are the effects on the internal order and fabric of society. This is a topic about which we actually know very little, and any propositions are highly tentative. Nevertheless, it seems reasonable to suppose that

1. ADAM SMITH, *The Wealth of Nations*, Book 5, ch. I, Pt.I (p.678, Modern Library Edition).

a society for which war is a peripheral phenomenon, carried on for the most part by specialists under the ultimate control of civilian authority, will be less subject to internal violence, disorder and break up than a society for which war has become a central phenomenon, participated in by the mass of the population. The rise of Marxism, for instance—a religion of internal violence, seeking to disrupt existing society from within—seems to me not unconnected with the rise of conscription. When the whole youth of a nation is trained in the techniques of violence, we must not be surprised if some confusion arises as to the potential victims, and if the violence is applied within as well as without. When war becomes central, therefore, the state itself is in danger of disintegrating. Democracy, with its reliance on discussion and communication rather than on violence, is in grave danger, and the acids of national defence, which are intended to protect the delicate structure of the state against the outside invader, turn inward and eat away the moral and psychological tissues which hold society together².

It is no exaggeration therefore to say that we are facing an acute crisis of national defence, perhaps the most acute which mankind has ever faced. Not even the largest countries now possess enough depth in defence to protect their civilians. On the other hand, our skills of organization do not seem yet to permit us to construct the world state which is the only adequate answer to the problem of defence. For the remainder of this paper, therefore, I propose to look at the old problem of the *economic causes of war*, in order to see whether anything can be learned from the economist which may help in alleviating the intensity of international conflict.

III

1. At the very outset we find a divergence of view which abruptly symbolizes the basic conflict of our age. The “classical” view of the matter, of which the principal earlier exponent was Mill, and which is represented today by Robbins, is that economic conflict is un-

2. Switzerland and the Scandinavian countries may appear at first sight, to be an exception to this rule. If they are, in fact, an exception, this seems to be due to their unique situation as weak powers in strong geographical positions. Because of this circumstance, war is still peripheral in the lives of these nations.

important as a cause of war, and that trade is everywhere a prelude to peace. By contrast we have the Marxist-Leninist view, which is that economic conflict or exploitation is the fundamental cause of war and imperialism, and that war cannot be eradicated except in a socialized world.

The classical view is based primarily on the observation that free exchange is always of mutual benefit to the parties, for unless both parties benefit the exchange will not take place. Thus trade is the very antithesis of war. In the language of the Theory of Games, war is a "negative-sum game". Because the resources devoted to it must be withdrawn from other uses, war, unless it is to be regarded as desirable in itself, reduces the total available for distribution between the two parties. Even if it were a zero-sum game one party could only benefit at the expense of the other; since it is a negative-sum game this tendency is accentuated, and if the winning party is not to lose by the war, he must take a large amount from the loser to compensate him for the cost of winning. There may have been times in history when the sporting aspect of war more than counter-balanced its economic cost, and so turned it into a positive-sum game. Nobody, I imagine, would contend that such is the case today. Trade, on the other hand, as long as compulsion is not involved, is of necessity a positive-sum game in which the result of the activity is that there is more to be divided than before. This is true not only because a simple exchange shifts commodities towards parties who value them most highly, so that there is a net gain in utility even though the exchange itself merely redistributes an existing quantity of physical goods. It is true also because trade facilitates and encourages specialization, which in turn increases the total productivity of human endeavour in the production of goods. Thus trade is thrice blessed: it not only blesses him who buys and him who sells, but it results in an actual increase in the product which is bought and sold. It is not, therefore, a game of beggar-my-neighbour, in which what I gain you lose, but an occupation which binds us all together into a comprehensive system of increasing mutual benefit. In the classical view these propositions are as true of international trade as of individual trade, and the theory of comparative advantage is an elaborate exercise on this theme of mutual benefit, even where one party is "strong" and the other "weak". And just

as the robber-baron eventually saw the error of his ways and became the Improving Landlord, to the benefit of all, so the extension of trade should lead to the abandonment of the beggar-my-neighbour type of behaviour on the part of nations—represented by wars of varying degrees of coldness and heat, from protectionist commercial policy to the murder of cities—in favour of a general free-trade paradise in which competition takes the benevolent form of rivalry in the promotion of mutual benefit and in service to mankind.

At the other extreme we have the Marxist-Leninist view, in which economic life is regarded almost as a Hobbesian war of all against all, and the class struggle, expressed largely in economic terms, is the principal feature of all historical landscapes. Labour produces everything, but the capitalist takes away most of what the labourer produces and reduces him to a level of bare subsistence. As capital accumulates, however, the capitalist finds it more and more difficult to dispose of the ever-increasing product (the consumption of the proletariat being kept at subsistence level, and the consumption of the capitalist class not rising in proportion to its income). If capitalism is to be kept going, therefore, there must be an ever-increasing amount of investment. When opportunities for investment in the capitalist's homeland are no longer adequate, it becomes necessary to seek them overseas. Hence the scramble for colonies and the clash of rival imperialisms, which is the principal cause of modern war. This tenet is Lenin's special contribution to Marxist theory.

Neither the bland optimism of the extreme classical position nor the self-righteous pessimism of Marxism stands up very well under examination. Of the two the Marxist position is by far the weaker, based as it is upon a naive moralistic view of social science and an interpretation of history so oversimplified as to be almost useless, except as a corrective to earlier still more oversimplified views. Nobody is going to deny that conflicts of economic interest exist. As an explanation of war, however, they are for the most part irrelevant. The web of economic conflict nowhere coincides with national boundaries, still less with the lines of international conflict.

2. War, whether cold or hot, represents a breakdown in the body politic, a breakdown in the processes of communication and adjustment. A break may occur either because the strain is great or be-

cause the link is weak. International conflict is much more readily explainable in terms of the weakness of the links than in terms of the magnitude of the strains. Within the body of a nation the links are strong and there are political processes for the resolution of conflict; hence the internal conflicts—although equalling, if not exceeding, in severity the conflicts which happen to cross national boundaries—seldom result in war. Where political bonds are weak or non-existent, as between vigorously independent nations alien in thought and culture, even very small conflicts can lead to political rupture. It is only a slight exaggeration, therefore, to say that war is not a function of conflicts but of independence or, to use its grander but less shocking name, sovereignty. Even if we admit that conflicts of interest are of some importance among the causes of war, conflicts of economic interest probably must take a place far down the list. War, like marriage, does not belong to the “economic” aspect of man’s activity but to the “romantic” sphere. It is not something we enter into with cool calculation, carefully balancing the chance of gain against the chance of loss. We enter into it because of sentiment, because of love and hate, because some symbol dear to our emotional security has been outraged. It is the ideational and symbological conflicts, therefore, much more than the economic conflicts, that are important for an assessment of the strains put on the tenuous cords of international relationships.

Nevertheless there is a certain sting in the tail of the Marxist scorpion. A United States Senator has been reported as saying that the American economy would not last sixty days without war, or war preparations. If the Senator believes this, then he is as good as a Marxist, and should be denounced as such. The fact that it apparently took a war to pull the American economy out of the doldrums of the 'thirties, and that we have apparently kept the economy at approximately full employment since 1942 by means of extensive war preparations, seems to support the Marxist hypothesis that capitalism will seek war in a desperate attempt to save itself from unemployment. If this is indeed true we might as well all go off and join the communist party. Fortunately it is not *necessarily* true. The Marxists have mistaken a political accident for an economic necessity. Nevertheless there are conditions under which it might be true. Marxism is best understood as a highly special case of a more general

social science. The conditions under which the Marxist system corresponds in its entirety to reality are fortunately very rare, though they can conceivably exist. For the most part these conditions do not exist in the western world—capital is not becoming more concentrated, the proletariat is not becoming worse and worse off, the middle class is not disappearing, and so on. Where Marxist conditions do not exist, however, it is frequently because they have been deliberately done away with as a matter of social policy, through anti-trust laws, inheritance taxes, social-security measures and the like.

The drive of capitalism towards armaments and war as a remedy for unemployment is likewise one of the conditions that can be done away with. This is not the place to elaborate, or even to outline, a full-employment policy which shall be independent of war and war preparations. It must suffice to say that there is a reasonable consensus among economists that within rather broad limits a peaceful full-employment policy is possible. A “governed capitalism” in which the excessive instability of ungoverned capitalism is replaced by orderly progress, with the minimal loss of personal liberty and freedom of enterprise, is clearly conceivable, and what is both conceivable and desirable should not, in an intelligent democracy, be politically impossible!

With the instability of the market economy removed, the optimism of the classical school would rest on a much firmer foundation. With the threat of deflation removed, the case for protective and restrictive economic policies practically falls to the ground. Protection, whether by tariffs, cartels, agricultural policy or valorization schemes, is essentially a child of deflation and depression. It is mainly an attempt to insulate some sector of the world economy, whether a nation or an industry, from the tides of world deflation. If these tides can be abolished, we may hope that the protective dykes will fall from sheer neglect. This is not to overlook the possibility of genuine monopolistic exploitation. Monopoly and protection, however, must be sanctioned by the general interest before they can be made presentable, and outright, barefaced monopoly is notoriously unstable unless it is supported by the authority of the state.

3. There is, however, a further limitation on the classical optimism, and one which is of peculiar importance in the world of to-

day. This is the problem of short-run versus long-run interests in regard to economic development. There may be a real conflict of economic interest between industrially developed areas and their sources of food and raw materials, especially if these sources are in politically independent but socially backward countries which benefit from internal redistributions of income (for example, by progressive taxation) on the part of the industrial power. The problem here is one of economic development from a low-level equilibrium towards a high-level equilibrium. It is related to what economists have called "external economies"—a term denoting a situation in which development in one part of an economy improves the other parts, through the increasing specialization which it permits and through the cultural change which development of any kind encourages. Thus, as Adam Smith himself observed, "the commerce of the towns contributed to the improvement of the country"³. An undeveloped area, therefore, which is an outlying part of a world economy, and which supplies raw materials and foodstuffs to distant industrial areas, may find it immediately profitable to continue in that condition, having a present comparative advantage in raw produce. In the longer run, however, such an area would do better by encouraging industry, even at the cost of denying itself some of the immediate benefits of international specialization. At first sight, therefore, it might seem as if there is a serious conflict of interest between the developed and the underdeveloped parts of the world, in that it would be to the advantage of the developed areas to keep the underdeveloped areas in their present position as suppliers of cheap raw materials and food, and hence to prevent their development. If this were true the relation of the developed to the underdeveloped areas would be one of exploitation indeed, and the appeal of communism to these areas would be based on more than blind emotion.

Fortunately, further analysis reveals that the conflict is more apparent than real. It can safely be asserted that, in the long run, economic development anywhere benefits, if not everybody, at least all reasonably heterogeneous groups everywhere. Rich countries do not, in general, get poorer as poor countries get richer. Indeed, quite the reverse is the case. By far the greatest volume of world trade, for instance, is not between the developed and the under-

3. *op. cit.*, p. 13.

developed countries, but among the developed countries. We find, furthermore, that even when we come to consider the long-run specialization between industry and agriculture, the world is not divided into "industrial" and "agricultural" regions so much as into "productive" and "unproductive" regions. It is the industrial (i. e. productive) regions that are *also* the agricultural regions. By far the largest proportion of the food supply of the industrial areas comes from industrialised regions or from areas immediately adjacent to industrialised regions. This is because it is, for the most part, only industrialised agriculture that can produce much in the way of an agricultural surplus. The agriculturalist of the underdeveloped areas produces barely enough to keep himself and his family alive, and has little to spare for trade with anyone else. Thus it is certain that the long-run interest of the developed areas will be served by a rise in productivity in the underdeveloped areas.

A strong case can be made out also for the contention that it is to the short-run interest of the developed areas to participate actively, by means of investment, in the development of the rest of the world, not only as a means of raising the world economic level, but also as a means of maintaining full-employment at home. This may seem to give some support to the Marxist criticism. If, however, an adequate domestic full-employment policy can create a situation in which foreign investment is auxiliary to, but not a necessary part of, such policy, much of the sting of the Marxist criticism is removed. What foreign investment means in real terms is a surplus of exports from the investing region and a surplus of imports in the recipient region. Such a surplus of imports may be a critical factor in getting economic development *started*. The problem of economic development is twofold: it involves reorganization of resources, and it also involves accumulation of capital. If a region is very poor, internal capital accumulation may be almost impossible, for consumption continually presses on the heels of the scanty production. The region, therefore, is caught in a trap—poverty preventing accumulation, and the lack of accumulation perpetuating poverty. I include in accumulation here not only the building-up of physical capital, but what is even more important, the acquisition of skills and character. If the poor region is, for a period, in a position to import more than it exports, it will be able to accumulate without lowering its level of

consumption. Even a few years of such accumulation may give it sufficient impetus to get off the dead-centre of stagnation, and, once economic development has begun to run its course, the process of accumulation will become easier and easier.

IV

Economic development is such a central problem in the present world situation that some further comments may be justified. It has a critical character not only because it is by far the most important strictly economic problem in the world today, but also because it is the most acute problem of international relations. The difficulty of creating a two-power equilibrium, noted in the first part of this paper, is intensified enormously in the case of the United States and Russia by the fact that the "boundary of indifference"—if such a boundary actually exists—runs, for almost all its course, through underdeveloped areas: Eastern Europe, the Near East, India, Burma, Indo-China, China, and Korea. In this vast perimeter of conflict, containing well over half the population of the globe, the political alignment may well be ultimately determined by the ability of the two great competing systems to satisfy the desperate need for economic development. I propose, therefore, to conclude this paper, by considering briefly the nature of the task to be accomplished, and the relative abilities of the American and the Russian system to assist in its accomplishment.

The task is gigantic. It is that of creating a whole new culture. It involves setting more than a billion people on the upward path from their present low-level economy towards a stable high-level economy. The low-level economy is characterized by high birth and death rates, low expectation of life, dense population, low levels of literacy and mechanical skills, and only minute quantities of capital equipment per head. What all this adds up to is a population held in check only by starvation, the vast majority of people at or below the physical subsistence level, and a small ruling group, minute in size compared with the mass of the people, and separated from them by a vast cultural gulf. At the other extreme is the high-level economy, characterized by low birth and death rates, high expectation of life, a population not too great for the resource base, high levels

of literacy and skill and large quantities of capital equipment per head—all of which adds up to average levels of income high enough to destroy poverty, to give every family at least adequate diet, housing, and convenience, and to create a highly mobile society, without sharp class distinctions, enjoying a highly integrated and widely diffused culture based on rational rather than on traditional patterns of behaviour. The terminus is clear enough: the question is, where is the railroad that runs to it? A universal high-level economy is conceivable. It is a long-term goal towards which rational steps can be taken. Nevertheless, the almost insoluble problem is that of the first step. This is perhaps the most critical point at issue between the West and the East today.

Communism says, in effect, to the underdeveloped areas: "You will never get anywhere until you dispose of the present effete, ineffective, idle, pleasure-loving ruling class and replace it by an elite of hard-working communists, devoting their lives to the task of economic development. If this involves violent revolution, so be it: if it involves the suppression of individual liberties and the establishment of a police state, one cannot make an omelette without breaking eggs. Economic development cannot take place without breaking up the old culture—based as it is on superstition and ignorance—with a new culture based on technology. And the break-up of an old culture requires ruthlessness, requires a police state, requires the suppression of individual liberties, requires, too, that you pull yourself up with your own bootstraps by internal reorganization and without foreign investment, which will involve you in political subservience to the investing power." I have deliberately put the best face possible on the communist claims. The actual level of communist propaganda is, of course, much below the above argument. In Asia communist success is due to a very simple "Robin Hood" appeal to the poor peasant: "You are poor; you see the landlord, the banker and moneylender are rich, and have become rich off your labours; take away from them what is rightfully yours, and you will be rich too!" The speciousness of this claim is immediately apparent. The dividing up of the land and the murder or exile of the tiny landowning or moneylending class does practically nothing to relieve the poverty of Asia. Indeed, it usually intensifies it through the decline in productivity which so frequently accompanies the division of land into

uneconomically small holdings. The more astute communists of course know this; land reform is just a bait to catch the peasant, and once he is caught it is not long before he is collectivized and finds the state a harder taskmaster than any old landlord, bent, as it is, on extracting the last ounce of food from him and giving him as little as possible for it in the desperate endeavour to build industrial capital. It is not the bait, however, but the catch that is going to be important in the long pull. If, in fact, communism can set off a real program of economic development in the underdeveloped areas which it touches, it may capture the allegiance of the people in spite of the terror, the chicanery, the dictatorship, the nightmare of untruth and the sabotage of all simple, decent, friendly human relations which it represents.

What is the answer of the West to these claims? It is not as clear as one could wish. The main lines are something like this: "You underdeveloped areas should establish stable political regimes friendly to us; then we will undertake foreign investment in your areas. We will build dams and roads, set up factories, establish plantations. Send your young people to us and we will educate them, so that they can expand your own educational facilities. New ideas and new products will seep down towards your masses: a middle class will develop under the incentives of private property and will form a bridge between your old aristocracy and the masses, at the same time undermining the aristocracy's exclusive privileges. Develop your free labour movements, and they will take care of incidental exploitation. Be patient with inequalities: they are part of the price of progress; some among you will rise more quickly the higher levels of income, but they will not depress the rest; rather will they pull all the rest of you after them." This may not sound too convincing on paper. The best argument of the West, however, is simply that of example: look at us; we are the pioneers of economic development. We must know how it is done, for after all we did it! Follow our example, imitate our constitutions and our institutions, allow freedom of enterprise, minimize government intervention, make property secure, and watch your national income grow!

Here again I have put the best face on the claims of the West. In practice, we, like the communists, fall short of our best insight. In practice, all too often we use the threat of superior force: we say, in

effect, "stay with us, or you will become another Korea; we will bomb your homes to pieces, destroy your cities, desolate your country, roast you and blast you!" The threat is a potent one, but it is likely to exact an unwilling compliance, and bodes ill for future relationships. We may find that the policy of ruthless aerial warfare in Korea has lost us Asia.

It is the great tragedy of the present situation that neither of the present solutions offered is really satisfactory. The communist solution has the virtue that it recognizes the problem with some clarity, in spite of the handicap of a thoroughly obsolete social science. But the taboos and inhibitions of Marxist social science are a great handicap indeed to realistic programs of economic betterment; its materialism, its labour theory of value, its "gigantomania", its obsession with the grandiose and the spectacular, and above all its absurd definition of exploitation are immense handicaps to realistic appraisal of the true springs of desirable social change. The great test here is China: Russia was a semi-developed country, with a fair transportation system and the beginnings of an industrial system when the communists took over. The "forced draft" economic development of Russia under the communists is not, therefore, a decisive case; for once economic development is well under way it takes a great deal to stop it! I shall be surprised, however, if communism is as successful in developing China, with its much more difficult problem, with immense pressure of population, without a frontier to expand beyond, and without an adequate social science to counteract the inevitable urge to take the short cuts of violence, which in fact lead nowhere.

On the other hand, what the West has to offer makes economic sense, but it is neither psychologically nor politically adequate. The communists offer the people bread, and in fact give them a stone. We, with bread—at least long-run bread!—to give, offer the people who are crying out for it abstractions like liberty and democracy. There is a curious illusion abroad that communism offers economic security whereas we offer political liberty. Nothing could in reality be further from the truth. In fact, the West is a thundering economic success and a resounding political failure. As a method of conducting economic life, communism is a grotesque brontosaurus with one paw tied behind its back. As an instrument of political strategy,

communism is as wise as serpents, without, alas, being as harmless as doves. As a method of conducting economic life, capitalism, properly tempered by charity and control, results in a rapid rate of economic development towards a high-level economy. By comparison with our originality and inventiveness in the economic sphere, however, our military and political ideas and practices are primitive and unimaginative, and our philosophical basis is unorganized and unconvincing.

The *conclusion* of this argument is that the economic issues in international conflict, while important, are not fundamental, in that it is not economic conflict which prevents a solution of the present world crisis. In the technical language of welfare economics, we do not lie on a "contract curve" in which every movement makes one party better off and one party worse off. There are large numbers of conceivable positions in which *everybody* is better off than they are today. The trouble is that all the lines of dynamics of the world society lead *away* from betterment, towards arms races, world war, and universal catastrophe. We are not far from the top of the mountain of betterment; indeed, the summit can be seen fairly plainly. But, from where we are, all the roads run downhill.

The University of Michigan
Ann Arbor, Mich. (U.S.A.)

KENNETH E. BOULDING

SUMMARY

1. International conflict has become a major issue of our time. Hitherto for Americans especially war has been a somewhat peripheral experience. Now war is increasingly becoming the dominant institution in our society.

2. The basic reasons for this change lie in the technical revolution in the past 200 years. In the first place the change in the techniques of war seems to have greatly increased the minimum size of the independently defensible nation. This has led to a situation similar to oligopoly or even to duopoly in economic relations. The inherent instability of a system of national defense, particularly under conditions of oligopoly, leads to an increasing absorption of the national product by defense, up to the limit of the economic surplus. The increase in the economic surplus, as a result of technical revolution has therefore led to a great increase in the proportion of the resources devoted to defense. The sociological and political consequences of this change have been profound.

3. In view of this situation the old problem of the economic causes of war takes on a new interest. There are two sharply contrasting views: the «classical» view

that trade and especially free trade is an instrument of peace leading nations to work together in a community of economic interest. The second is the Marxist-Leninist view that war is caused by imperialism which is in turn caused by the need of capitalism for new markets and fields for investment.

4. The situation has been sharpened in our own day by the existence of two competing philosophies of economic life and by the existence of a vast area of unstable allegiance—the underdeveloped areas. Here there is a great demand for revolutionary change of some sort and the question is which revolution offers the most hope of progress. The problem of these areas is how to change from a low level economy to a high level economy. The Communist solution is the displacement and liquidation of the obstructionist ruling class, plus rigid economic planning. The West's solution is that of slow progress under the security of existing property rights plus technical aid and foreign investment. Neither of these solutions may be particularly satisfactory. The Communist world suffers from a hard and unrealistic economic dogma, the West suffers from lack of understanding of its own philosophy and of the reasons for its economic success.

ZUSAMMENFASSUNG

1. Internationale Konflikte sind zu einem bedeutenden Kennzeichen unserer Zeit geworden. Der Krieg war bisher besonders für die Amerikaner eine ziemlich periphere Angelegenheit. Heute hingegen wird er immer mehr zur herrschenden Einrichtung in unserer Gesellschaft.

2. Der Hauptgrund für diese Veränderung liegt in der technischen Revolution der letzten 200 Jahre. Vor allem scheint der Wandel in der Kriegstechnik die zur selbständigen Verteidigung erforderliche Minimalgröße des Staates beträchtlich ausgeweitet zu haben. Dies hat zu einer Situation geführt ähnlich jener des Oligopols oder sogar des Duopols auf wirtschaftlichem Gebiet. Die Unstabilität, die einem System nationaler Verteidigung namentlich unter oligopolistischen Bedingungen anhaftet, hat zur Folge, daß ein wachsender Teil des Sozialprodukts für die Verteidigung beansprucht wird – bis zu der durch die Subsistenzanforderungen gezogenen Grenze. Die durch die technische Revolution herbeigeführte Erhöhung des Lebensstandards hat die Inanspruchnahme einer viel größeren Quote des Sozialprodukts für Verteidigungszwecke ermöglicht. Daraus haben sich tiefgreifende soziologische und politische Konsequenzen ergeben.

3. Angesichts dieser Situation gewinnt das alte Problem der wirtschaftlichen Ursachen des Krieges neues Interesse. Es gibt zwei gegensätzliche Auffassungen: Die «klassische» Ansicht, wonach der internationale Handel, insbesondere der Freihandel, ein Instrument des Friedens ist und die Nationen auf Grund der gemeinsamen wirtschaftlichen Interessen zur Zusammenarbeit führt. Demgegenüber steht die marxistisch-leninistische Auffassung, wonach der Krieg durch den Imperialismus verursacht ist und dieser seinerseits durch die Notwendigkeit des Kapitalismus, neue Märkte und Investitionsgelegenheiten zu schaffen.

4. Die Lage hat sich in unseren Tagen durch das Bestehen zweier konkurrierender wirtschaftlicher Dogmen sowie von großen Gebieten instabiler Herrschaftsverhältnisse – die unterentwickelten Gebiete – noch verschärft. Hier be-

steht ein starkes Verlangen nach einer umwälzenden Änderung, und die Frage ist, welche der möglichen Umgestaltungen mehr Aussichten für eine fortschrittliche Entwicklung bietet. Wie soll die Wirtschaft von ihrem tiefen Niveau auf ein höheres gehoben werden? Das ist das Problem, das sich diesen Gebieten stellt. Die kommunistische Lösung besteht in der Verdrängung und Beseitigung der im Weg stehenden herrschenden Schicht und strenger Planwirtschaft. Der Westen andererseits sieht die Lösung im allmählichen Fortschritt unter dem Schutz der bestehenden Eigentumsrechte sowie in technischer Hilfe und Auslandsinvestitionen. Keine dieser beiden Lösungen erscheint sehr befriedigend. Die kommunistische Welt krankt an einem strengen und unrealistischen wirtschaftlichen Dogma, der Westen an einem Mangel an Verständnis seiner eigenen Doktrin und der Ursachen seines wirtschaftlichen Erfolgs.

RÉSUMÉ

1. Les conflits internationaux sont devenus une caractéristique importante de notre époque. Jusqu'ici, la guerre était, en particulier pour les Américains, une expérience en quelque sorte périphérique. Aujourd'hui, en revanche, la guerre est en passe de devenir toujours davantage le facteur dominant dans notre société.

2. La raison fondamentale de ce changement réside dans la révolution technique de ces deux derniers siècles. En premier lieu, la transformation dans la technique de la guerre paraît avoir fortement élargi l'espace minimum nécessaire à une nation pour se défendre par ses propres moyens. Cela a engendré un état de choses pareil à celui de l'oligopole ou même du duopole dans le domaine économique. L'instabilité inhérente à un système de défense nationale, particulièrement dans les conditions de l'oligopole, a pour conséquence une absorption croissante du revenu national par la défense, jusqu'à la limite du minimum vital. L'élévation du niveau de vie, résultant de la révolution technique, a ainsi conduit à une forte augmentation des ressources consacrées à la défense nationale. Les conséquences sociologiques et politiques de ce changement ont été profondes.

3. Vu cette situation, l'ancien problème des causes économiques des guerres prend un regain d'intérêt. Il y a deux conceptions nettement distinctes: premièrement, la conception «classique» selon laquelle le commerce international, et tout particulièrement le libre échange, est un instrument de paix conduisant les nations à collaborer dans une communauté d'intérêts économiques. Secondement, la conception marxiste-léniniste selon laquelle la guerre est causée par l'impérialisme, ce dernier étant à son tour provoqué par la nécessité pour le capitalisme de trouver de nouveaux marchés et de nouveaux domaines pour ses investissements.

4. La situation s'est encore aggravée de nos jours par l'existence de deux doctrines économiques opposées et par l'existence de vastes territoires à souveraineté instable – les régions sous-développées. C'est là qu'il y a une grande aspiration à un changement révolutionnaire, quel qu'il soit, et la question est de savoir quelle est la révolution offrant les plus grandes perspectives de progrès. Comment élever le niveau économique? Tel est le problème qui se pose à ces territoires. La solution communiste consiste à écarter et à supprimer la classe dirigeante faisant

obstruction et à introduire une stricte économie dirigée. Le monde occidental voit la solution dans une lente progression sauvegardant les droits de propriété existants ainsi que dans l'aide technique et les investissements de l'étranger. Aucune de ces solutions n'est satisfaisante. Le monde communiste souffre d'un dogme économique sévère et non réaliste; l'occident souffre du manque de compréhension de sa propre philosophie et des causes de son succès économique.