The Mont Pèlerin Quarterly

The Journal of
The Mont Pèlerin Society
Zürich, Münstergasse 9
Switzerland

Volume I	
April	1959
No. 1	

THE MONT PELERIN QUARTERLY

Editor: Albert Hunold

Vol. 1 | Contents for April 1959 | No. 1

The Mont Pèlerin Quarterly is published four times a year, in April, July, October and December, by the Mont Pèlerin Society and copies are sent to all members of the society. The subscription for libraries and non-members is $6 a year.

Communications relating to subscriptions to the journal and to the editorial content of the journal should be addressed to the Secretary of the Society, Dr. Albert Hunold, Swiss Institute of International Studies, Münstergasse 9, Zürich 1, Switzerland.

INTRODUCTION

The suggested issue of a regular QUARTERLY BULLETIN of the Mont Pèlerin Society to which I referred in my last circular has been delayed because it appeared that without systematic discussion of its scope there did not exist agreement among the members of the Council as to which form it should take. Though the general idea seems to have been widely welcomed, opinion about its character ranged from a regular journal of opinion to a mere newsletter on the affairs of the Society. My personal view is still, that the Society as such, should not express opinions and that without more explicit authorization by the Council and perhaps even the General Meeting we cannot do more than provide in more systematic and regular form what we always have attempted to do, to inform members about publications by other members of the Society, about changes in membership and to communicate to all members, papers presented at the meeting.

The present attempt is a first experiment in this direction, as usual due to the efforts of Dr. Hunold. We hope to send out before the summer a second similar communication and this should provide the basis for a careful consideration of the whole issue at the Oxford meeting of the Society. I believe that a regular Quarterly Bulletin of the character indicated would be very useful. I seriously doubt, however, whether we ought to attempt anything more ambitious. This raises problems of responsible editorship and policy which we have never systematically examined and concerning which I am not at all sure of the wishes of the majority of our members. They will have to be carefully considered at our next meeting.

Chicago, April 1, 1959

F. A. Hayek,
President

EDITORIAL:

When the first number of this quarterly journal is mailed to our members it will be exactly twelve years since our society had its first meeting on the top of the Mont Pèlerin, above Vevey, on the Lake of Geneva in Switzerland. On several occasions the Council of the Society has discussed the possibility of obtaining more publicity for the ideas developed in the meetings we have had in Europe and in the United States. The main reasons why we declined proposals such as the promotion of a journal or any other sort of publication, were primarily the following: First, the economists, historians, philosophers and other students of public affairs, members of the Society from both sides of the Atlantic, numbering approximately three hundred, form a rather small minority. We therefore considered it preferable for our individual members to render more service to the free world by publishing their articles in already existing journals, this in order to establish a counteraction to the growth of views and developments of ideas expressed in most of these medias. Second, we found it dangerous, if not impossible, to express collectively a view of the Society as such, although the members agreed, in a Statement of Aims, on the same principles and were unanimous in their criticism of current ideological movements and theories threatening the free world. We believe it is essential not to fall into the tendency of our opponents by sponsoring a dogma, but to preserve individual freedom of thought.

This modest quarterly to be sent to our members and to the friends of the Society does not intend to break with this tradition. It is intended to serve purely as an informative and communicative media and expresses exclusively the views of contributing members. As such, its sole aim is to bring the members and friends of the Society, dispersed all over the world, into close touch and to facilitate their fight against current collectivistic tendencies. We therefore thought it would be best to publish in this first number, the most interesting discussions we had at the Princeton Meeting in September, 1958, on the problems of the undeveloped countries and the extremely lucid impressions formed by Dr. Gideonse during his tour of Soviet Russia.

When the Society meets again in September 1959 at Oxford, England, two numbers of the journal will have been published and it can then be decided whether the publication is to be continued in its existing form or whether changes should be made. The Editor, however, would welcome suggestions and criticisms at any time so that an opinion may be formed in advance about the future of the Journal with which we endeavour to make a first step in the direction of widening the actions of the Society which seems to us as necessary and urgent as it was twelve years ago.

Zürich, 1st April, 1959 Albert Hunold

UNDEVELOPED COUNTRIES

Discussions at the 9th Meeting of the Mont Pèlerin Society at Princeton, New Jersey, USA, September 13, 1958, on two papers submitted by P. T. Bauer, Cambridge, England, on "Regulated Wages in under-developed Countries" and "The New Orthodoxy of Economic Development", the discussions being opened by John Davenport, New York.

CHAIR: A. A. Shenfield, London

John Davenport, New York:

Mr. Chairman, Ladies and Gentlemen,

This assignment to summarize Dr. Bauer's important papers on economic development encourages me to hope that in your journeys around Princeton you have not only visited Nassau Hall, which was hallowed and hollowed by the footsteps of Madison, but that you have also paid a little attention to Palmer Stadium where, in the fall, we hold our annual football games. It is a curious part of those games that, when it is clear that Yale has defeated Princeton - as we hope - or more often, when Princeton has defeated Yale, there is an unseemly rush of substitutes onto the field in the last two minutes of play to earn what we call their "major letter." I feel, gentlemen, very much like one of those substitutes coming onto the field, and it is indeed a misfortune for all of us that Dr. Bauer is now in Pakistan. I could not agree with you more, however, Mr. Chairman, that what is our loss may well be Pakistan's gain.

It seems to me that the great contribution which Dr. Bauer has made is to take on, and expose the fallacies of what he calls "the new orthodoxy of economic development." This orthodoxy starts from the proposition that there are in the world developed and rich nations such as the United States and Britain and also underdeveloped nations, which include most of the rest; that these underdeveloped nations are caught in what is called a "vicious circle of poverty", and that this circle can only be broken: 1) by adoption by the underdeveloped countries of elaborate planning measures with respect to their domestic economies; and 2) by their receiving large injections of government help from the richer countries.

One curious implication of this new orthodoxy will probably immediately occur to you. At various times in this society we have noted the unfortunate consequences of over-specialization in the economic discipline. As a result of this specialization, we don't seem to have just plain economists anymore. We have "labor economists," "business economists," "agricultural economists," and so forth. And now we apparently have a new breed - namely, the "underdeveloped" economist, who has invented the orthodoxy I have just outlined to you. Well, Dr. Bauer is not an "underdeveloped" economist, and out of his profound grasp of theory, as well as out of his wide observation and travel, he has done a rather devastating job of refuting the new orthodoxy. Let me briefly run over his points, as I understand them, interpolating certain remarks of my own, which I hope will not detract from his thoughts.

In the first place, Dr. Bauer points out that when the new orthodoxy speaks of "underdeveloped nations" it is really talking about two-thirds of the world - about every nation, that is, except the United States, Canada, Western Europe, Australia, New Zealand and possibly Japan. All the rest are "underdeveloped" if you use per capita real income figures. Yet actually, these underdeveloped nations are not homogeneous but exhibit wide differences in character. It is also improbable, to say the least, that their development should be wholly unrelated to economic principles which hold good in the case of the West and the richer nations.

Dr. Bauer's second point is that, mirabile dictu, economic progress has

occurred, and how poor nations have actually become rich. There was a time when our ancestors came to America, and they were not very rich people - except, of course, the Virginians, who were rich; but the other erring sisters of the north were not rich men, mostly Puritans. Yet out of this sprang the American development on this colossal scale, without central planning, without any government aid, with only normal private investment. Needless to say, this does not apply only to the United States. Western Europe itself is an example of normal development through market means over a number of centuries.

Then, too, Bauer has done a great deal of work on Malaya, for instance, showing its enormous advance in the early part of the century through the normal processes of the market, and a good deal of work on West Africa - where, incidentally, he has made, it seems to me, an interesting side point: that in many cases of tribal communities it is far more important for the society to begin to pass to a market economy on an exchange basis than it is for it to undertake huge industrial projects. That simple sociological turn to where money comes into the society may be the decisive factor. But, in any case, development has occurred on a colossal scale long before this new orthodoxy appeared.

Dr. Bauer's third and collateral point - to go swiftly - is that out of the new orthodoxy has come a totally false emphasis on big and heavy industry versus agriculture. Most of the so-called "underdeveloped nations" are heavily agricultural. That is their mainstay. But now nothing will do but for them to have steel mills at once. This totally overlooks the fact that if you take a community like Pittsburgh, which today has steel mills, you find that before, there was the blacksmith shop, and, after the blacksmith shop came a slow building up of small - very small - industrial units. But to believe that countries advance simply by putting up vast industrial units is one of the fallacies of the times.

And how far this is carried, partly for national pride! I was in the Far East recently, and there had been a long debate between Formosa and the Philippines about the location of a mill. If my memory serves me, Formosa has a little coal, the Philippines have some iron ore; this obviously might be a fruitful exchange, but the problem is, who will have the steel mill? This had gone on and on in argument, and finally, as I left Taipeh two years ago, it was settled: there would be two steel mills; there would be a steel mill in Taipeh to do certain rolling of sheets, and there would be a steel mill in Manilla to perform other operations. Anyway, they both have steel mills. Whether Japan could have produced all the steel much more cheaply than either was, needless to say, not at issue.

Finally, I think that we owe it to Dr. Bauer, and it again must be obvious to us, that this whole theory of underdevelopment leads to extraordinary results on both sides of the equation of this inter-government transfer of capital. On the one hand, it imposes, shall I say, a considerable strain on the givers of capital. Capital by definition is a scarce good, and yet we are now asked to give sums of rather large magnitude in our Foreign Aid Program - even excluding the military side. I would hazard that if you put together the work of the Export-Import Bank, the economic development part of Foreign Aid, and the Food Program, you get up into magnitudes of four and five billions a year. This is what we are being asked to give. But on the receiving side I think we should also look at the result. On the receiving side, it must increase the power of the bureaucracies which receive this money as a government transfer, and almost always as a mandate for planning. It is profoundly significant and discouraging that two economists from M.I.T., Rostov and Millikan, in their book titled "A Proposal for U.S. Policy", made only two conditions for our giving of economic aid: 1) that the receiving government should impose a system of forced savings, and 2) that the receiving government must have an economic development plan.

What this means, in effect, is that U.S. foreign economic aid is made into an instrumentality of socializing the rest of the world. This is a real danger. In the last session of Congress, Senator Cooper, our former

ambassador to India, and Senator Kennedy, our great liberal from Massachusetts, got together on a resulution which read substantially as follows: "It is the sense of the Congress of the United States that the United States will give India aid in the amount, of the kind, and for the duration necessary to allow India to carry through its present programe of economic development." Although this resolution was finally defeated, it is, in Mr. Morley's terms, "a fairly frightening phenomena." If passed, the resolution would have given India a complete blank check on the U.S. Treasury. But the really extraordinary thing is that we should contemplate a vast planning venture of this type.

For certainly, both Dr. Bauer and ourselves can suggest obvious alternatives. The first is of course to depend on trade and to expand private trade, and I mention this because if you attack the orthodoxy, you are always told that you are putting nothing in its place, you are just being negative, etc. Again, we should not belittle the role of private investment abroad, which, incidentally, is considerable. In 1957 this country invested, privately, some three billion dollars net abroad, and if you count in what is contributed by Britain, and if you count what France puts into her colonial possessions, you do come to a considerable capital transfer figure, which is somehow always forgotten. People talk as if nothing was going on in the private sector.

On the other hand, I do not think we should delude ourselves that just trade and foreign investment will do this whole job. The real advance has to come from the so-called "underdeveloped countries" themselves; trade and foreign investment are marginal to what they can do. And perhaps the greatest task is to persuade them that they can develop normally and naturally by sticking to well-tested economic principles - the principle of sound money, for instance, and the principle of limited versus unlimited government. For what they need most is not more gigantic Five-Year or Ten-Year Plans, but rather, renewed faith in the efficacy of the market economy and a system which allows individuals to go to work, and so to contribute to the general welfare. And this is one reason, perhaps, why we are glad that men like Dr. Bauer go to the Far East.

Now that, Mr. Chairman, practically winds up my remarks on Dr.Bauer's papers and their implication for us, except to make one point: in terms of U.S. policy, all this would obviously argue for our cutting down on the amount of government economic help which we are giving. Not only rationalizing it and bringing some of these agencies together, but cutting down the sheer magnitude. On the other hand, I would like to be very clear in conclusion that it does not mean cutting down on something quite different, which is our necessary expenditures for defense. By those expenditures I do not mean the transfer of arms to other nations. That is a point which may be debated. But I do mean our basic defense budget, which now runs, as you know, to, say, fifty billion out of the seventy billion we spend.

I make this point in conclusion because I think it is all too easy in attacking - and if you wish, eliminating - foreign aid, to then conclude all will be well. Of course, all will not be well so long as the massive expenditures we make for defense have to go on; and they must go on because, unless we can maintain a military shield in the present situation - for as long as I can see ahead - then all talk of restoring normal international trade, or reconstructing an international order outside the Soviet Union, is indeed vain. We can well debate whether in different circumstances America should be involved in Matzu or Quemoy. I doubt if it is profitable to debate whether we should hold Formosa, and I am sure you would agree that there is no debate at all as to whether Berlin should be held. Now that is a very costly undertaking which, unfortunately, in our time has fallen largely on this country.

I was very touched by the statement which our European members put out giving due recognition to the part the U.S. is playing in this matter. And certainly, to maintain the shield does strain our resources. It accounts

for at least half of the problems of inflation which we have talked about. It gives rise to the most difficult problem which Mr. Morley has explained - how can an American Commonwealth, founded on checks and balances - how can it maintain this world position? My answer is, that so far as we can see ahead, and given the nature of the communist menace, we will have to maintain the position.

Now, I cannot say I take comfort from that, but let's say we can take a modicum of comfort from it if only in this sense: this whole theory of economic development which is being talked about is part and parcel of the theory of the Welfare State, which we discussed on our first days here. In other times, under other circumstances - were it a peaceful world, were it not necessary for us to maintain the shield of military power which allows us to meet here - it might well have been possible to be a little more indulgent toward the Welfare State and some of its experiments, and say, "Well, let us try a few. They are not very costly, initially at least." I think, however, that in the grim situation in which we stand we can go much further. We can say, "The Welfare State is not only wrong in principle. It is, in this setting of the need to maintain a firm military position, a complete impertinence."

David McCord Wright, Montreal:

Mr. Chairman, Ladies and Gentlemen,

John Davenport has already summarized Bauer's arguments so well that I do not think there is any need for me to do it again. He has stressed particularly, the foreign policy aspects, the military aid. Well, I should like to go one better - or one worse - and say that I do not think we can stop just with maintaining the "power shield". It seems to me that the cold war has two aspects, the military and the ideological, and that over the long pull, that side will win which can persuade the rest of the world that it offers the best hope. I do not believe, under present conditions, that we should confront the aspirations of the underdeveloped countries, simply with a bare negative, in other words, I do think that we will have to give some direct aid in addition to the military aid, as a diplomatic move more than anything else. I do not think that is going to do either the receiving country or ourselves much good one way or the other unless much education goes with it, but in the present state of world opinion, there we are. The question is now therefore, how to make this a constructive force. There I think, the problem is one of education.

First of all, let me make one point which bothers me. If we make these loans saying that we are going to make the world have an "American standard of living", in the first place it is impossible, in the second place,

The Proclamation signed by about twenty European members of the Mont Pèlerin Society on 10th September, 1958 and mentioned by Mr. Davenport in his introductory speech, is the following:

"The Annual World Conference of the Mont Pèlerin Society is now in session at the Graduate School of Princeton University. The occasion provides a group of its non-American members with an opportunity to appreciate fully the historical role of the United States in the present struggle for the survival of liberty and human dignity against the forces of Communist tyranny, aggression and subversion.

At the present critical moment, these members of an international society of scholars, statesmen and leaders of public opinion, wish to point out that the Mont Pèlerin Society was founded eleven years ago in Switzerland to study the full meaning of the ideals of liberty and human dignity, and to unite people ready and able to defend these ideals.

Now that the society is meeting for the first time in America, the undersigned find it only natural to emphasize the debt which the free world owes to the people and the government of the United States and to stress the vital solidarity and interdependence of the old and new worlds in stemming the tide of collectivism and tyranny everywhere."

we are getting ourselves into one of the most wonderful diplomatic booby-traps possible to conceive. First because we raise all sorts of expectations and next because we may believe that in order to get these expectations realised we must direct the aid. If we direct it then instantly we are accused of interfering in other peoples' concerns, colonialism and so on. But, on the other hand if we do not interfere and the money is wasted then we disappoint the expectations. I would say, therefore, that such aid as we do give should have absolutely no strings on it at all, because we want to take no responsibility for mismanagement by the receiving country. If we undertake to say, "you build a dam here" or, "you prepare to plan this", or do that, or anything else, immediately the responsibility comes on us for seeing that thing through. It is much better if we just say, "we are giving your government X billion dollars and there you are."

In other words, I cannot see any attempt on our part to direct the receiving government as to the form of expenditure of the money which it is receiving. But, secondly, where we ought to put our main emphasis, is on an accompanying programme of information and instruction in the means of economic growth, so that we can say "This is how our society grew and here are some of the main principles of economic growth." In other words, "we are willing to offer advice and education and a small amount of direct subsidy, but we are not going to tell you how to use this money, this is the way we think it ought to be used, but it is your business."

Now that comes to the real key of the question - why is it that it is so difficult now to give the main requirements of economic growth, what are the principle obstacles ? Why - to put it bluntly - is American instruction and propaganda on this question so very ineffective? I think that the whole basis of Bauer's argument and of the various points that I have tried to make in some of my papers, is to combat the modern superstition, the modern danger - "controlism". This is something much more insidious than mere socialism, it is something which is compatible with faked capitalism. It is an emphasis on a smooth, well administered "secure", co-ordinated society. And a great many business people fall for it. There is a confusion of the smooth implementation of ideas with basic creative discovery. And I think many people now sincerely feel - I doubt very many in this room - but many people generally feel that there has to be some central guiding hand to co-ordinate discovery and co-ordinate total investment so that the total advance must go smoothly.

This line has particular influence in those countries in which the Latin tradition of Caesarism remains very strong. Julius Caesar and Plato have been the curse of many and many a country if you ask me. The emphasis is on the great man who is going to bale you out and who will have a corps of experts around him who will fix everything up very nicely. One thing which is being used today to press this controller point of view is the prestige of Soviet Russia. Listening to Dr. Gideonse last night, I could just imagine what some of my colleagues at McGill would do with that speech in the way of arguing for immense grants for the central government for more education, more teachers salaries, more of everything, all planned through the state.

Now I think we ought to do a little clear thinking. There are two points to remember. First there is the short-run efficiency of the centralized despotism: it is a tolerably good implementor of ideas which have already been thought up. It can shoot the subordinate pressure group. But don't forget that it, itself, becomes a pressure group so that over the long run, the creativity - the possible creativity - of centralised force is more than negative and by the progressive conceptional narrowing that it implies.

The other point is something I tried to bring out in an article about three years ago in a Harvard business review, on "adventure or routine", and that is, that very often a society succeeds in spite of its theory rather

than because of it. I would be inclined to think that most of the growth of Soviet Russia was because it was too big a country to be effectively administered. In other words, because of its huge size and variety, the central government, with the best intentions in the world - or from my point of view, the worse intentions in the world - simply cannot control all those universities and all those factories and all those people.

So, grace of the inefficiency and ineffectiveness of the implementation of their theory, they are actually able to get along pretty well, in spite of their theory, not because of it. One just cannot fit that great mass into one single control, so that what they have done, is revive to a considerable extent, inequality and competition under a different name, thus you have many of the capitalistic institutions brought in under different names and thanks to the - as I say - to the inability to run the whole thing in the tightness that the theory calls for, you have a great deal of development. On the other hand you have here now in our country, a good basic theory - at least I thought we did - a good basic theory that calls for decentralisation of power and the non-imposition of uniformity by force "pluribus unum", one out of many, emphasis on change and so on. Our theory is - at least I thought it was - pretty good. On the other hand our practice is becoming increasingly "routinist" and "controlist", so increasingly you have emphasis on smooth uninterrupted routine, efficient coordination, log rolling nicely into a tidy stagnant system. So you have the curious situation of a country with a good theory but declining practice, and on the other hand a country with a bad theory, but moderately effective practice in spite of itself. That is the way the things seem to me to shape up. I wonder whether any country can long hope to survive which has forgotton the source of its own greatness and does not know its own basic logic. That seems to me the present state of the United States.

This speech was made before Khrushchev launched his education reorganisation scheme which seems intended to break up much of the independence and freedom spoken of by Dr. Gideonse in his speech "The Academic Challenge of Soviet Russia".

Gustavo R. Velasco, Mexico City:

Mr. Chairman, Ladies and Gentlemen,

At present in economics, there is no subject so popular as the plight of the underdeveloped countries, if one is to judge by the number of studies and books about it.

I am not at all sure, however, that this interest is a healthy one. I mean, that it will turn out to be beneficial to the underdeveloped countries. This doubt stems from my belief that, from an economic point of view, underdeveloped countries are fundamentally similar to developed ones. According to my definition, an underdeveloped country is a poor country considered to have a possibility of becoming less poor.

Now, a poor man wishing to make his way up in the economic scale does not have to follow rules different from those followed by a man who is already well-off, but wants to become richer. If there is any difference in these rules, it is only that the poor man will have to work harder, to be more careful in his conduct, and to be thriftier.

Similarly, I find that underdeveloped countries are not subject to a set of economic principles different from those to which the advanced countries are subject. The problems of the former are fundamentally similar to those of the latter. Certainly, these problems are very much like those affecting Great Britain, the United States and France, a century and a half or two centuries ago, before the Industrial Revolution took place.

It is by no means my intention to play down the differences of all kinds - economic, political and social - which exist between Mexico and the United States, for instance. But I believe the scientist should look far deeper than the tourist into the real situation, discerning the similarities as well as the true differences.

To cite a simple illustration: Two years ago, when my good friend Professor Louis Baudin of Paris, France, visited us in Mexico City, and he and I were driving from the airport to a hotel, he saw lines of people waiting to go into movie-houses and asked whether we had price control over admission tickets. Indeed, the municipal authorities have imposed a maximum price of $4.00 (32 cents in United States money). Of course, this control has increased the demand for seats. Incidentally, it also forces us Mexicans to travel to the United States to see our movie star Cantinflas in "Around the World in 80 Days", because this picture cannot be shown in our country at our official price.

There may indeed be a special problem for underdeveloped countries in international politics. But on the economic plane, I believe their problem is a general one and that it applies to all nations, poor and rich alike.

I am loathe to speak in the currently fashionable way of "economic growth" or "economic development" because - as Professor S. Herbert Frankel of Oxford University rightly said in a recent lecture in Mexico City - there is a tendency in our underdeveloped countries to think that our problems will be solved if we grow physically, i.e., if we just build enough new factories or engage in new activities, regardless of whether they will be profitable or whether they are being created artificially through protective duties or subsidies, and thereby in reality decreasing instead of increasing the income and well-being of the people.

I therefore prefer to use the term "economic progress." And if critics assert that this term is neither special nor new, I would reply that this is an advantage and not a disadvantage.

On concrete grounds, I would say that the similarity between the underdeveloped and advanced nations is made greater by the tendency to follow social and economic theories fashionable at a given moment. Perhaps because the capacity of underdeveloped countries to develop original thinkers is still limited, we imitate the more prosperous nations, not only in their many good features but also in their dubious and even frankly bad ones.

To me, this is conclusive proof that it is not facts, not realities, which determine the actions of men, but rather the ideas which they form of things, the theories which they fancifully elaborate in order to guide their conduct and to be supposedly "better off."

Mexico is beset by each and every one of these fanciful theories. We have the Welfare State. It is growing daily and creating all sorts of difficulties. For instance, there is resistance to a bus fare increase of five centavos (two-fifths of a cent in United States money) in Mexico City. The people have become accustomed to not paying for economic goods and services, or to paying less than their cost, so that the inevitable rise in fares becomes a political instead of an economic question. This leads to a very serious political situation because the government, victim of the same mentality, neither speaks out clearly nor acts forcibly.

We have inflation - not yet a hyper-inflation such as we had in 1916 when our money system was completely wrecked - but sufficient to have multiplied the money supply by 17 times and to create almost an eight-fold rise in prices during the last 22 years. This inflation (perhaps because we, like the Germans, were once badly burnt) has led to widespread dissatisfaction and to lack of confidence in the Mexican peso.

In our country, we have labor unions with special privileges and exemptions from ordinary legislation. We have corrupt labor leaders, partici-

pation of unions in politics, minimum wages and continuous pressure by unions and government to raise what are, nominally speaking, "wage rates to improve workers' living conditions" and make a "more just" distribution of national income.

Finally, we have had land reform with the disappearance of the old "haciendas," and the revival of the semi-communal system of land ownership that existed during colonial times. Of course this tremendous change - I would almost say "upheaval" - resulted in a sharp drop in agricultural production from which we have been emerging only in the last twelve years, but which has left us with a heritage of very difficult problems.

As you can see, underdeveloped countries may be poorer and weaker from an economic point of view than the developed ones, but the painful symptoms from which they suffer are the same, and the disease is the same, no matter whether it is called "interventionism" or "statism" or "collectivism."

In the problem of inflation, I would say that we occupy a middle position; we are not among the worst offenders. We do not belong among the better group of nations. In spite of this, we have had continuous inflation since 1936, with prices steadily going up although lagging behind the increase in the supply of money according to the official price indices.

Our inflation has sometimes proceeded at a more rapid pace, as it did between 1937 and 1946; sometimes more slowly, as it did between 1946 and 1952 (I cite the years coinciding with the changes of our government administration); or still more slowly, as it has since 1952. Nevertheless, the fact is that we have been unable either to stop inflation or even to approach a rate of "merely three per cent a year" which is looked on as not too harmful by some economists.

Worse still, the effects of this long inflation have been cumulative, especially the psychological ones. Although I believe the job can be done, few people think that the trend will be reversed, that prices will cease to rise, and that the government will succeed in preventing another devaluation of the peso.

Generally and basically, I believe that Mexico has had and still has inflation because it has lived beyond its means. More specifically, I find that the underlying causes of our inflation are:

1. The Welfare State.

2. The desire for economic betterment.

3. The desire for economic development.

Permit me to comment briefly on the foregoing causes of inflation:

Our budget, i. e., our traditional budget has been balanced over the last six years. But outside this budget we now have dozens of independent establishments and economic agencies providing economic goods or services free or at less than cost. Some of these agencies have deficits because of inefficient management; others must be subsidized to make ends meet; most of these agencies or establishments go in for extensive development and investment plans. In many cases, the Bank of Mexico has had to grant loans, or to absorb their issues of securities either directly or through a development bank called Nacional Financiera. Naturally, it also helps to sustain them by pegging their prices and buying them when offered for sale.

In relation to the desire for economic betterment, the labor unions exert constant pressure- and so does the government- toward the raising of money wage rates. In Mexico, collective labor agreements have to be revised every two years. In general, unions succeed in securing approximately a 15% rise every time. Of course I do not believe that this is the only direct cause of inflation. It is still necessary for the monetary authorities to add

to the money supply. But this wage increase has created the climate in which the money authorities have made the increase and have relaxed their measures against credit expansion.

The desire for economic development does not, I believe, per se, produce inflation, and it does not have to be accompanied by inflation, as has sometimes been said in our underdeveloped countries. (Incidentally, I must here remark that we in the underdeveloped countries accept all the bad theories propounded in the advanced countries and even add some of our own!) Inflation arises from economic development as the result of a tendency to over-invest both on the part of the government and of private enterprise. As I pointed out, the building of new plants -whether profitable or not - is confused with real economic progress.

There is a plain connection between the Welfare State and inflation. It is interesting to note that in Mexico they appeared simultaneously, or more exactly, synchronously.

We began to try out Socialistic measures in 1935 under President Cardenas. The next year, the budget had a large deficit and the only way to cover it was through an overdraft in the amount that the Bank of Mexico was authorized to lend to the government. Over the years, budget deficits were the most important cause of our inflation. And though during the present Administration, the traditional budget has been balanced, it is a fact that the so-called social and government banks and economic agencies are still being helped by the Bank of Mexico.

Often, discussion of the Welfare State centers around the subjects of social insurance and medical services. However, the concept of the Welfare State, at least as I understand it, embraces much wider subjects. I think we have this admirable scheme (admirable, of course, if the government could be a sort of third-dimensional Santa Claus) whenever the government provides some goods or services free- in whole or in part -or when it forces some members of the community, such as property owners of housing, to provide services and goods free to others, such as tenants.

If this concept is correct, then in Mexico we have not only general social insurance and medical services for those persons embraced by the Welfare State (up to now, artisans, domestics and agricultural workers are not covered by the insurance system), but also a multitude of other "protestations sociales", as the French say rather elegantly, or of "handouts" as in American slang.

There is a particular point about the Welfare State that I, as a lawyer, am greatly interested in bringing out. I believe that the Welfare State is incompatible with the Rule of Law, or, to use the European expression as it is written in French, with "L'Etat de Droit et le Principe de Legalité."

Unfortunately in our century, the legal profession and teachers of law have failed miserably - as Professor F. A. Hayek has stressed - in their duty to defend this prized feature of Western Civilization.

I can bear witness to this. Last year, I attended a meeting of the International Association for Juridical Science - held under the auspices of UNESCO at the University of Chicago - which dealt with the Rule of Law. One of the subjects discussed there was "The Welfare State and the Rule of Law." The official conclusion -set forth in a report - was that there is no conflict, no incompatibility, between the two ideas. Among the distinguished gathering of leading professors of constitutional and administrative law at the UNESCO conference, I was the only one to speak out publicly against the report, though several of the persons present told me privately that they were in agreement with my view. Perhaps I spoke up because, even though I am not an economist, I am proud to be counted among "the ignorant and vociferous minority" - as the delegate from Poland called some economists who, he said, are the only ones to oppose the Welfare State.

It has been said very rightly that free enterprise can take an awful lot of punishments. I believe it was Benedetto Croce who wrote that the spirit of freedom is always reviving and assuming new forms despite all obstacles.

Permit me to point out that a healthy strong man can indulge in a great deal of alcoholism or lead a most dissolute life before the ill effects finally get the better of him; but a frailer man, or an adolescent beginning development, can take no such liberties without suffering from immediate bad results.

Such is the case with the underdeveloped countries. Measures causing only some inconvenience or harm to giants like the United States or Great Britain may well prove fatal for us. The advanced, well developed countries have more social and political stability, and even stronger traditions, than we; although even in Great Britain, (as Mr. Allan G. A. Fisher of Washington, D.C. reported to the Mont Pèlerin Society), which is the motherland of constitutional government and of the Rule of Law, we have seen the weakening effects of socialism and of the Welfare State.

As a final point in considering the economic progress of our underdeveloped countries, permit me to say that it is up to the developed countries to set good examples for us. Parents should not lead disorderly lives and then blame their children for imitating them.

We have already one bad enough example wherein the State was going to wither away and the people would rise to unheard-of stages of prosperity and happiness. Surely if India has a Socialistic development plant and if Egypt expropriates the Suez Canal, it is not solely because of this single bad example.

I am aware that the task before us is a common one, and that it devolves on us all - great or small, developed or underdeveloped - to preserve and perfect our civilization. But I also believe that if the greater nations of the West wish to regain their leadership, they must first of all be our spiritual and intellectual guides. They must again believe sincerely and practice wholeheartedly the principles of freedom under which they led the world until a generation ago.

The way to achieve economic progress, for poor and rich nations alike, is to follow the principles of economic freedom.

Nobutane Kiuchi, Tokyo:

Mr. Chairman, Ladies and Gentlemen,

Owing to the limitation of the time at my disposal, I should like to confine my subject to one thing, namely Japanese Five-Year-Plans. We have had two of them and the fate of those two plans would be the most tell-tale story of the present Japan.

Before entering into the story, however, I want to mention a few things which may serve, I think, as a general background on which the points I am going to raise should be assessed. One; the post-war economic recovery of Japan was a very fine one, comparable to that of Germany. This is the basic fact you should remember. Two; as to the reasons why the recovery was so rapid, no good explanation has ever been given so far as I know. The majority of the people do not realize that their recovery is just as rapid as that of Germany and, even if they were told so, they would not take it. Instead, they like to be told that Japan is an economically weak country, vulnerable in many ways and always facing crises of some sort. Because of the journalism based on such a sentiment, Japanese as well as outsiders tend to acquire erroneous notions as to Japan's actual ability and standing.

Now, let me proceed to my story. The first Five-Year-Plan was designed to cover 1955 to 1959. But the fate of it was very hard on the planners. It was only two years after the start of that plan that the Government had to scrap it because of the fact that most of the objectives had been attained within almost one and a half years. That was the fate of the first Five-Year-Plan.

Then the planners - the government officials, I mean, had a long thinking time of full one year and they came out with what they called their "Second Five-Year-Plan", designed to cover 1958-1962. As we are now in the first year of this second Five-Year-Plan, it is still too early to say what will happen to it. But to my mind, it is already increasingly clear that the Government will have to scrap it for the second time, maybe again within two years. The reason will be different. The underlying theories of the new plan will prove to be unsustainable.

The basic theory on which the second Five-Year-Plan is based is that the volume of our exports will decide everything, because Japan must import foodstuffs and almost all raw materials needed for home consumption and export purposes, and in order to import we must export. They made elaborate calculations and came out with the conclusion that the minimum visible export we had to attain in the fiscal year 1958 was US$ 3,150 million; if unattained we will get into trouble.

It is almost quite certain at this moment that we would never have that much export this year. It is very likely that it will be around US$ 2,800 million. It seems to me quite certain, however, that we will not get into trouble with only that much export. Not only that, as it has been already the case in the past few months, we will have some unused foreign exchange balance remaining in the Government's pocket, that is to say, the considerably smaller export than the amount the plan-makers said was necessary is going to be not only sufficient to keep us out of trouble, but good enough to enable the Government to add something to their reserves. If things turn out in this way, it should become a case that will undermine the foremost basic theory of the new Five-Year-Plan.

To give you another illustration, the planners maintained that in the coming five years our GNP growth should be 6.5%, excepting the first year, in which it should be 3%. The reason they gave for this statement was that if that growth rate would be lower we would fail to create enough jobs for the annual addition to our labor population.

In passing I would like to tell you one thing. Our population growth will stop very soon, in about ten years' time. At present our rate of growth is lower than that of USA and France, just a little higher than some of the Scandinavian countries. Therefore, the so-called "rapid population growth" of Japan no longer exists. You may be amazed, but this is the fact. In the present Japan, things change so quickly.

Coming back to the story of GNP growth, it is a very tricky issue. To start with, in the past seven years or so, excluding the first few years after the war, which could have been very abnormal, the average GNP growth was as high as 9%. It should be asked, why it should suddenly come down to 6.5%. It is true that 6.5% is still a very high figure compared to world standards. I, personally, am inclined to think - I believe almost - that there must be some grave statistical mistake in our GNP figures. To mention one thing, according to the present figures Japanese per-capita national income is as low as $200 - comparable to that of Greece, Turkey, Mexico etc., - which, to my mind, is certainly much too low for the present day Japan.

But the point where the underlying theory would prove to be wrong, is that the planners link this debatable figure of GNP growth rate directly to the job creation for those to be added to the labor population each year and make it the primary objective of the whole plan.

First, the job creation does not have to be the foremost objective of Governmental planning. Secondly, even if it is, the more important group for which jobs must be created should be that of "the under-employed". There are still millions of such people in Japan whereas the so-called "new addition" is just over one million. Thirdly, the job creation should be dealt with with other factors of economy in addition to that of the rate of GNP growth. At any rate, the actual course of events, it seems to me, will show that the "primary" objective of the Second Five-Year-Plan was very much out of place, if not ridiculous. This is another point where the basic theory of the new plan will become unsustainable, and that is another reason why I think the new plan will also have to be scrapped.

Now I want to conclude my story of the two Five-Year-Plans of Japan. In one word, the above story indicated that there are lots of erroneous economic concepts and false assumptions in Japan, that we Japanese do not know our country very well and that Japan must be "restudied", so to speak.

As I find there are still a few minutes more left for me, I should like to tell you one or two things in connection with the points I skipped off. I gave no reason why Japan's post-war recovery was so quick. There are many reasons but here is one which people usually miss. We no longer possess Korea and Manchuria. People were so annoyed when those territories, which actually were a great burden for the Japanese economy, were taken away from us. The loss of these territories has enabled our post-war economy to progress at its present rate. Previously, there was a need for Japan to retain those territories but now there is no longer such a necessity. I believe that for such an industrialized country as Japan, the present degree of free trade in the world is sufficient to let her grow at a considerably high speed.

Another brief remark on the reason why there is so much misconception in the economic thinking of the present Japanese. It is a very deep-seated one, due to the peculiar circumstance in which our social sciences in general have developed. The in-take of Western culture started at Meiji Restoration. The objective was to make Japan strong enough to protect her independence. In came all sorts of things European as a package deal, among them European social sciences. Japanese adopted them without necessarily liking or admiring them. Of course they have occupied an important place in the post-Meiji cultural life of Japan. But they were not exactly regarded as a scientific means to explain things Japanese for one thing, and hence, they have never been properly handled. This peculiar feature of the Japanese social sciences should constitute one of the items in that re-study of Japan which I mentioned above.

S. Herbert Frankel, Oxford:

Mr. Chairman, Ladies and Gentlemen,

As this is the last meeting, I should like to take the opportunity of expressing the thanks which I think we owe to Mr. Bauer for his two very excellent papers. He has really put on the map an analysis of the function of the ordinary trader in underdeveloped societies. He has filled a very serious gap in economic literature. He has shown what obstacles there are in large parts of Africa to the ordinary fellow getting on with the job he wants to do. I think that is a very great achievement, and I think we should learn a lesson from it. The lesson that flows from it is that it does pay to go to these remote areas and find out what the problem is, instead of assuming that one knows the problem before one begins. Until recent years, people have simply assumed in many of these territories in Africa, that there were no real, positive signs of enterprise among the indigenous population, which was supposed to be so uninstructed or inert that it was not able to fend for itself, experiment for itself, or improve itself. It was not realised that a reason why there was this apparent lack of initiative in the population was

that there were serious customary or legal obstacles to the exercise of ordinary enterprise, even on a small scale. For example, in East Africa, there has been, as you know, very much discussion about problems of over-population. It was assumed that this over-population was really due to inadequate amounts of land, whereas in fact, it was found to be largely due to the inability to farm land in a modern manner on the basis of an appropriate modern legal framework: on the old customary communal basis of land ownership, the African cannot get the consolidation of land that is necessary, he cannot develope modern enterprises, he cannot borrow in order to obtain capital, he cannot mortgage the land, and he cannot buy and sell it. There is no incentive, in fact, to improve the land. It is only by introducing a system of free land ownership that one can spur individuals on to new effort by ensuring that the individuals who want to undertake new enterprise get an opportunity to do so. I do not know if many people realize how difficult it has been in the past and still frequently is in Africa for the African individual to escape from the tyranny of the community. The characteristic feature of Africa for as long as we have known it is the predominence of small subsistence communities embedded in a tight tribal structure, some of it almost on a "communistic" basis. That is not quite the right term to apply, "communal" might be a better term - but at any rate, this results in the fact that any man who gets ahead of his fellows is regarded with very great suspicion. It is a bit like the extreme egalitarianism in some of our more developed countries, where anyone who is more efficient or hard-working is regarded as being the kind of chap who is not very desirable to have about! I remember an example of how difficult it is for a progressive individual to escape from tribal society with its different institutional and ideological background and different beliefs. A very important Chief with whom I became friendly in Ghana, was a man who worked as a clerk for various European export companies about thirty years ago. He knew that the only way to attain political power was to increase his stock of money savings to spend on political organisation. Now it was extremely difficult for him to save any money. Whenever he was suspected of having any he had to meet obligations to a vast extended family. If you go to any West African Bank you will see people outside the bank waiting for their relatives who draw money, and ready to pounce on them like vultures, because they have the "right" to be supported or assisted by a relative who has some wealth. So what the Chief did was this: he had a banking account in one bank but he transferred most of the savings into another bank, then he even took it out of that, because the bank clerks disclosed information, and put the money into a private account with a commercial company. He even built a house which he deliberately did not finish. When he did not finish the house, he said to his relatives: "You see I have no more money, I am a poor man." Then at last they believed him, and left him alone, and he was able to save and prosper! Now I mention this because it is the same with land. Land ownership in most of these areas is determined by similar communal beliefs and traditions. British colonial policy was paternalistic and tried to preserve these customs and institutions in order to protect the African against the land falling into the hands of immigrants: Europeans, Indians, Syrians etc., in order that the African land should not be lost to him. The result of this has been to keep a system intact which was an enemy of modern advance, because, if one cannot buy and sell the land, or legally consolidate it under some form of modern enterprise, most of the incentives to improvement are lost. The lesson from all this is that there must be a freeing of the individual from outworn institutions. But in saying this, I do also want to utter a word of warning. It is no use jumping from the frying pan into the fire. Freedom - as Professor Hayek has so rightly emphasised over and over again - depends on the rule-of-law. I recently had the good fortune to visit some of the Latin American countries. What struck me most, was that in contrast to them, Africa so far, that is until the new national independence movements, (we do not know where they are going to lead to in regard to the matter which I am now going to discuss) had one very great advantage. It had the rule of modern law and order as far as contracts, administration and financial transactions were concerned. From Cape Town to the borders of the Sahara, both a local cheque and an international obligation would alike be honoured, and there was an independent

Auditor-General who audited public accounts! Moreover, public contracts awarded throughout these vast territories under British rule or administration, were based on objective criteria determined by officials with a dependable sense of duty. The work of government must be done in an objective and incorruptible manner. Capital investment in Africa from abroad was very considerable because of the certainty of the legal framework and notwithstanding difficult circumstances and often very great risks. I would like to mention to you that from 1870 to 1936, I calculated in my book on "Capital Investment in Africa" that roughly £500 to £600 million pounds was invested in the Union of South Africa, South West Africa, Basutoland and Bechuanaland. The total investment from abroad of the main European Powers in Africa for the same period exceeded £1,221 million. In 1956, there was a special census in South Africa and I see that the figure of foreign investment in South Africa alone exceeds £1,250 million. These figures are not strictly comparable but they do indicate the large amounts of foreign capital, much of it private investment, which flowed into these African territories. They were "safe" from the contractual point of view and because there was no inflation exceeding the common extent of the disease in the sterling area as a whole. If now you look at many other underdeveloped countries from the view point of law and order, political security for contractual obligations, and the absence of extreme inflation, you will find an extraordinary situation. You will find an absence of reliable government, you will find a situation which is, from an economic point of view, near-chaos. Recently at a conference, an American expert was heard to say "the trouble about the underdeveloped countries is not only, that we do not know how much to make out the cheque for, but we do not even know to whom to pay the cheque." This is a very serious matter. The cheques get paid, as has been rightly emphasized here this morning, to governments which are often very unstable governments, which often have very peculiar notions as to how the money should be spent. There is of course a tendency, in any case, if you pay cheques to people freely, for them to waste the money. Not long ago I was in a country - a well known underdeveloped country - and I asked a taxi driver what the fare would be from point A to B, he replied, "I should worry". I said, "what do you mean by saying 'I should worry.' He replied, "it is not my worry what the fare is, that's your worry." Perhaps nations are a little like that taxi-driver and when they receive indiscriminate monetary aid they think -well it is your worry what happens to the money, not ours.

But what is really wrong?. I think possibly it is this. In this work we are in a hurry and we overlook that good government, as well as other institutions must have time to grow. To put up a plan of development, whether it is a plan made by the International Bank, or a plan by the United Nations, or a plan made hurridly by the recipients of the money, as a result of a request from an international agency, is a relatively simple matter. You take all the plans that have been made before and you knock off here and you knock off a bit there, then you say "we need so much." But real government involves administration, and that means having people who are really there to do the job. The extraordinary thing is, that apart from some of the technical assistance programmes, the western world has shirked giving real assistance in the development of appropriate government institutions. The free world is quite unaware of the fact that dependable government is very seriously threatened in Africa. Once you get to a stage where you have not got the fundamental texture of institutions suitable for free enterprise, or in fact, for any enterprise, you get chaos, as in some parts of the Far East, and chaos suits our enemies very well. I fear very much that in some of the new African States we may wake up one morning and find that it is just as difficult to invest capital, to get public services, to get railways built or maintained, as it has been in some Latin American and other countries. This is very serious because population is increasing rapidly and the pressure of population breeds very grave discontent in circumstances where economic change and growth is inhibited.

In all underdeveloped countries there is a great need for guidance in the art of responsible modern administration. This requires the kind of professional dedication by those who can impart this knowledge which characterised

the British Colonial Service in Africa. Many of those civil servants were dedicated to their tasks. They went out among the people of remote regions and worked at salaries which nobody would sneeze at today. I will give you just one example: I was in Central Africa in a place called Dodoma which is hot and arid. Forty miles from Dodoma, in the bush, I came across a District Commissioner who had a wife suffering from tuberculosis. One of the reasons she went there was because the air is so dry and they thought it a good place for her health. This woman was not only looking after her own family and children, but she was also holding sewing classes for African women three times a week - a sick woman. The total salary which that man received was about £750 per annum. Now you see we can talk a lot about paying over money to governments for economic aid and all the rest of it. If we have got something in us in the West we have got to do more than merely pay over large sums. We have to gain the confidence of the developing nations on the basis of new co-operant forms of action.

Ludwig von Mises, New York:

Mr. Chairman, Ladies and Gentlemen,

Two days ago I made some remarks about a terminological problem and pointed out how the linguistic usages of our contemporaries are tainted by bias against all the ideas for which we stand. From the point of view of the ideas dominating our age all that has been said today in this discussion is to be qualified as merely negative. One of the oldest and most popular criticisms levelled against liberalism and freedom is that it is purely negative. If somebody says "we need censorship," his opinion is called positive because he is in favor of an institution to be established by the government, an institution that will necessitate the appointment of more government employees. But if you are against censorship, your attitude is called a purely negative one. You are negative because you oppose an extension of government activities.

People will call us negative because we do not consider the plight of the so-called underdeveloped countries as a problem to be solved by the governments. The governments want to solve it by spending the taxpayers' money for the execution of some spurious plans, of plans that are badly designed and, as a rule, even more poorly put into effect. The popularity of this mode of speech is reflected in the way in which the words plan and planning are employed today. Planning, as our contemporaries use the term, means always planning by the government. The plans of the individuals do not count; they are just no planning. A short time ago the newspapers reported that the present British government (which, I think, is styled a Conservative government) appointed as one of the first female members of the House of Lords a lady who wrote a book under the title "Plan or no Plan." The author takes it for granted that only what the government plans is a plan and what all other people may plan is simply no plan.

What a government plans is, of course, always to spend the tax-payers' money. It never occurs to the governments and to the various agencies of the United Nations that the best way to solve the problem of capital shortage in the underdeveloped countries is private saving, private capital accumulation and private investment. They behave and talk as if there had never been such a thing as private foreign investment or as if the experience with private foreign investment had been unfavorable. They do not realize that the greatest and most important event in world affairs in the nineteenth century was foreign investment. Writing in 1817, Ricardo still assumed that there is no such thing as capital investment abroad. A few decades later the face of Asia, Africa, and a great part of America was radically transformed by great foreign investments. European and later also American capital built railroads in all parts of the world. Only in England and Western Europe were the railroads financed by domestic capitalists. Also the Russian railroads, including the famous Trans-Siberian railroad, were

built with the aid of foreign capital, with the gigantic French loans that cemented the friendship between the French Republic and the autocracy of the Tsars. All parts of the world were in the nineteenth century benefitted by British foreign investment. When Matthew Arnold censured the alleged backwardness and intellectual sterility of his fellow-citizens, Herbert Spencer proudly pointed to the work done by British entrepreneurial initiative in foreign countries. The most important cities of continental Europe, he said, are lighted by British gas companies; even Berlin, the head-quarters of "Geist", had to wait for light until a British company supplied it.

The later history of foreign investment, of course, was very sad. Economically it succeeded everywhere and contributed conspicuously to the improvement of the standard of living in the countries in which the investments were made. But politically it succeeded only in a few civilized countries of Europe and America. The citizens of the United States did not confiscate or expropriate the foreign capitalists. They bought back, they repatriated as one used to say, the securities from the West European capitalists. But in most countries of the world the history of foreign investment ended in expropriation and confiscation. Some governments did it openly without shame, others deviously, by means of discriminatory taxation and foreign exchange control. If one says today that private foreign investment cannot do the job, what one has in mind is precisely these anti-capitalistic policies of the receiving countries. All that these governments of the underdeveloped nations know is to sabotage both the accumulation of domestic capital and the investment of foreign capital. When the government of Egypt expropriated the Suez Canal, this most marvellous achievement of foreign investment, the history of private foreign investment came virtually to an end. All that the governments of these underdeveloped nations know today is to receive gifts and to waste the money received.

I do not want to mention all the methods which the modern welfare state uses in order to hinder economic development by making domestic capital accumulation impossible. As Professor Ferrero mentioned a few days ago, the rapidly progressing inflation that is the standard policy of Latin American governments, makes it impossible to establish a domestic bond market and to develop a working system of savings banks. This means that in these countries of Latin America the greater part of the population, all the people who are not engaged in business for themselves, are virtually prevented from saving. There is no way in which they could hedge their savings against the deleterious consequences of progressing inflation. Savings deposits, bonds, insurance policies and so on, are melting into thin air with the progress of inflation. The result is that the industries of these countries lack the capital that could be accumulated by the savings of their own nationals. We have only to figure out what the conditions of American industries would be if it had been impossible for them to float corporate bonds and to borrow large sums from banks, savings banks and insurance companies. The first condition for an improvement of economic affairs in the so-called underdeveloped countries is a sound monetary policy, the radical abandonment of inflationary measures. What is going on today is really paradoxical. The inflationary system of the underdeveloped countries prevents the common man of these countries from contributing by saving to the accumulation of domestic capital. The government of the United States tries to fill the gap by spending billions for foreign aid, and it collects these billions by inflationary measures that cannot but finally jeopardize the American saver too. Thus in undermining the market economy in the underdeveloped countries by financially supporting their socialist schemes, we are also undermining the market economy at home.

Most of the economic advisers of the various governments and the United Nations make a show of their contempt for economic theory and pretend that what they are doing is justified by experience. Now what experience teaches is that the highest standard of living was not reached in the countries of the blatantly advertised five-year and four-year plans, but in the countries in which no governmental plan put obstacles in the way of enter-

prising business men and prevented the common man from contributing to economic progress by saving.

Let the harbingers of government omnipotence call us negative. We are negative in the same sense in which all the founders of modern civilisation were negative. We reject the fashionable semantics that changes the meaning of all terms into their opposite. It was not government planning, but the actions of individual citizens that created all that well-being of the West that the underdeveloped nations want to duplicate for their own citizens. What these poor nations lack, is not more government interference with business and not government planning, but spontaneous action and initiative on the part of individual citizens.

Eugenio Gudin, Rio de Janiero:

Mr. Chairman, Ladies and Gentlemen,

I think the best thing I can promise you is that at this late hour I will not be more than fifteen minutes at the most.....the Chairman restricts me to ten!

I am very glad to have heard the most useful remarks concerning the report by Professor Bauer although I am not acquainted with some of the books and references he makes such as the MIT recent publication of a "proposal." I would offer one remark that I would not include Professor Nurkse's book and theories among those which have been mentioned by Bauer as the "planifactor sort of people". The question of the possibility of government interference, depends upon and can only be judged by, the political development of every country. Government intervention in Scandinavia or in Switzerland certainly is much less harmful than government intervention say in Latin America, because political education is a tremendous asset.

In underdeveloped countries, government interference is generally advocated by four kinds of people. First, the politicians who desire to increase their power; second, the bureaucracy which seeks both more power and sometimes more money, third, the vested interests which sometimes call themselves "private enterprise" but really are trying to get government protection in the way of tariffs, monopolies and so forth; and fourth, the communists, who are quite ready to work for anything which has a tendency towards destroying the existing order of society. These four groups of people are the ones which, I think, advocate government intervention.

Now I think - in Latin America at least - government intervention has always been highly inefficient for two reasons. Political interference in the management, instead of letting the management choose the men who are most fitted for the job by their merits and capability, they choose political people. Secondly, the bureaucratic methods and big machinery of a government cannot run without serious control. Otherwise it may get out of hand. I do not think anybody spoke more strongly against bureaucracy than Mr. Stalin at the 17th Communist Congress. So the trouble is, political interference in management and bureaucratic methods (as we have seen in Brazil so many times). You have a railway run by private enterprise; the government takes it over and the surplus becomes a deficit, the employees begin to have lots of privileges and no duties and so forth.

Some of those who are in favour of government administration, or government interference, try to prove their thesis by saying that experience has proved that private enterprise is incapable and only by nationalising the railways and electric power can the services be put in order. However, what has been done in a good many countries is this: the government refuse to raise the railway rates, (and to some extent I understand this is the case also in this country). In spite of inflation and depreciation of the currency

the rates are not adjusted. Private enterprise cannot function. The government refuses the higher rates and at the same time pushes the wages up. Private enterprise has got to give in. Then comes the government, doubles the rates, or supports a large deficit and proclaims the failure of private enterprise. Same for electric power. Higher rates are refused and remuneration established on the basis of the historic cost, when the monetary unit was worth five or ten times more.

Mr. Davenport said, that the foreign capital comes in as a marginal contribution to the development of the country. That is true, but the marginal contribution is extremely important on the "per capita" product, becoming say, minus one or plus two.

In the 19th century until the Great War, we had the leadership of Great Britain which has now been handed over to the United States. Well, Great Britain was what I used to call, an extrovert country, a country interested in the outside world. At times, Great Britain used to invest half of her annual savings abroad. In the United States the picture is very different. In 1954, I was one of the four Finance Ministers speaking at a panel arranged by the International Bank in Washington, and I took the figures then (I am sorry not to have them now, this was in 1954), and I had the opportunity to show that in the 1880's, at a time when Great Britain was a country of about thirty million people and the United States about fifty million, the amount of foreign investment granted by Great Britain to the outside world, expressed in the present-day dollar value, was practically the same as it is today, when Great Britain is a large country and the United States has 150 million inhabitants and when the size of national incomes has increased considerably.

Mr. Davenport referred to large private investments. But let us remember that from this large figure of private investment we must deduct oil, which may or may not be called an investment in the country, depends which way you look at it, which greatly reduces the amount. In 1954 I showed the panel that the inflow of funds into the United States was higher than the outflow. In other words, interests and amortization brought into the United States were more than the flow of capital away from the United States. According to the well-known Domar formula, a country could extend or increase its borrowings according to the growth of its national product and a country such as the United States could also lend in proportion to the growth of its national product. I think it can be claimed that the inflow of funds into the leader country like the United States, should not be more than the outflow.

So far as Latin America is concerned, one of the speakers referred to "blank cheques" written to underdeveloped countries. I have heard of them being written in favour of Europe - and with good reason - but never, not once, of Latin America. In fact the policy of lending in the United States is very erratic. The situation in the United States, I think, is that history does not register a country so generous, which has been able to give as much as the United States has given out to the rest of the world, but what I said at that panel is that the United States has proved itself to be much better at giving than at lending. Of course, it is most regrettable that the portfolio investments have disappeared since the 1930's. As to the International Bank, I said at the 1955 meeting, that whereas the bank had lent to the whole of the world 278 million dollars during the year, France alone, (according to M. Pflimlin's statement at that same meeting) had invested in North Africa alone almost a thousand million dollars, that means that France alone had invested in North Africa, almost four times as much as the Bank had done in the whole world.

Romulo A. Ferre

As a member of an underdeveloped country, I would prefer to go to the market instead of to the Import/Export Bank. Some say there have been failures in the portfolio loans in the past. The question is why? Most of them were due to the Great Depression and are perfectly understandable. Great Britain used to lend largely on portfolios. Now Great Britain and the United States are much more mature countries than they were then. A provision should be inserted in these loans to the effect that amortizations could be suspended in case of a serious depression.

Brazil in 1929 was selling coffee at 23 cents a pound, then two years later, it was selling the same coffee at 7 cents a pound. It was evidently unable, at least, to amortise its loans - pay the interest, but prorogue the amortisation. This is a clause which could be fairly inserted in a good many contracts so long as the problems of cyclical fluctuations are not solved.

In principle, there is no doubt that economic development depends much more on the country itself than on its borrowing abroad. It depends on its exchange policy, its fiscal policy, its monetary policy, its wage policy and its international trade policy, even to the compulsory saving such as we have in Brazil. Nevertheless, foreign capital for economic development is very important and the best way to do it would be a gradual return to the portfolio investment and to private investment. Sometimes, private investment should be examined more closely, Professor Lundberg in speaking before the Congress of International Economic Association, held in Rome in 1956, said that sometimes it is very costly to the country which receives it. Sometimes these direct investments consist of bringing the "know-how", borrowing the money from local banks for local expenditure, taking a few second hand machines and amortizing the capital in three years and paying back the local banks, with a profit of 30, 40, 50 and sometimes 100%. I am quoting Professor Lundberg who is not biased as I might be accused of being. The market in which securities can again be floated should be revived. I do not see why it cannot be, because most of the underdeveloped countries are a great deal more mature now than they were fifty years ago when Great Britain made so many of these loans. Great Britain at these times - I remember a friend of mine, one of the most outstanding men in the City of London saying that if you make a loan to an underdeveloped country, that if at the end of twenty years, the loan is not paid back, it does not matter much because after the loan, Great Britain used to sell the material, build the railways, sell the rails and locomotives, employ their men and get the benefits from the cheaper transportation of exports to Great Britain. Add all the commissions, discounts of bills, acceptances etc., and you will see that the benefits for the lending country are appreciable. This system which gave such good results in the past, could I think, be tried again - at least a beginning should be made - with the good will and desire of the private bankers to take the place which is today occupied by government institutions.

Romulo A. Ferrero, Lima:

Mr. Chairman, Ladies and Gentlemen,

I regret very much that I shall have to inflict upon you another one of my speeches. I am doing so because I was very much interested when I saw that the agenda included some discussions of the underdeveloped countries, and I do hope that at some future meeting of the Mont Pèlerin Society we shall have more time to discuss this topic. Just a few days before I left my country, the Economic Commission for Latin America (ECLA) produced a report on the economic development of my country in which I found expounded at rather great length what has been aptly described by Professor Bauer as "the new orthodoxy of economic development". I should like to set up some of the main principles because I believe it would be very convenient for the society to discuss the question at some future meeting. At the same time I shall try to give a very short answer to them. To finish my speech I shall take Professor Mises' advice in order to try to be more positive than negative in offering some advice to our underdeveloped countries.

The main contents of this new orthodoxy as developed by the ECLA are these: first, that agriculture is implicitly considered to be inferior to industry. This I believe is quite fallacious, as Professor Viner said in a lecture several years ago in Brazil. There is some confusion in this

because it is not necessary that all agricultural countries are poor because they are agricultural. (There are, of course, poor agricultural countries like the underdeveloped countries), but because their agriculture is poor, and is poor mainly on account of the scarcity of natural resources and backward techniques. To give you an example which I know very well and which I pointed out some twenty years ago, 60% of the population of Peru is devoted to agriculture. Yet the cultivated land is only half an acre per head, most of it yielding a very low return.

The second contention is, that agriculture cannot absorb all the increasing population, so the development of industry is necessary. I think nobody can argue with this. We all know that the development of a country takes an increasing proportion of the population from agriculture to other activities like industry and service. The question is only, how are you going to bring about this change? Through a natural process of a balanced growth, or by trying to force the process? I believe that history shows us how it has been done in countries better equipped with natural resources, as for instance, the United States, Argentine, and Canada. They have developed comparatively quickly from an agricultural stage, in which they were rich with a vast amount of land, through an industrial stage because they had an internal market formed by the agricultural population which had purchasing power enough to absorb the products of industry and services. So it is a question of being able to get a balanced growth, and especially of bringing about, in the first instance, the raising of the productivity of agriculture, as was said in a report by the United Nations on "Processes and Problems of Industrialization" put up by a commission under the chairmanship of Sir Dennis Robertson. The underdeveloped countries seem to ignore or to underestimate the importance of the Agricultural Revolution, which in Europe, preceded the Industrial Revolution.

The third contention of this new orthodoxy is that there is in underdeveloped countries a great deal of disguised unemployment. I believe this to be very doubtful. A great agricultural authority of this country, who is also a member of this society, Professor Schultz has said that he does not know of any underdeveloped countries, particularly any Latin American countries, in which you could take any considerable proportion of the population from agriculture to other activities without bringing about some diminution of agricultural production. Only a few days ago, Professor Gudin said more or less the same thing, and he pointed to the fact that it was not the same thing to speak about "disguised unemployment", or to say that the productivity of labor in agriculture was very low or, I would add, that employment has a seasonal pattern in agriculture.

The fourth contention is that it is possible to employ these "disguised unemployed" in industry although the cost of the production of goods would be greater than the imports, because really it is an addition to the national income, so what matters is not, let us say, the monetary cost of this production, but the so-called "social cost". Again as Professor Gudin pointed out yesterday, they seem to ignore the cost for the rest of the population through higher prices which mean lower real income, and they do not consider the possibilities of giving new opportunities of work to these people and of raising their standard of living through some improvement in agriculture, let us say through some irrigation works in order to extend the amount of cultivated land; this happens in my country. We have a very good example: after 15 years we have set up a new steel mill which has cost us more than 50 million dollars at the present rate of exchange. As it has been built during a period of 15 years, the real cost must have been more or less twice as high as that. The same amount of money, spent on expanding agricultural cultivated land and raising, through education - agricultural education - and other means, the productivity of agriculture, would have given us much better results.

The fifth principle of this orthodoxy is that terms of trade have an unfavourable tendency against primary producing countries. To begin with, this question has been argued again and again for many many years. It is a very complicated one, it depends very much on which period or which year you take as a basis, as Professor Gudin said, it depends also on the composition

of the industrial products you are speaking of, which are very different to what they were years ago. Besides, I feel this is transplanting to the field of International Trade, to a great extent, the same question that has been argued here in this country with regard to the so-called "parity price" for agricultural products. So even accepting that the terms of trade are going to be poor for agricultural products, then it could be compensated to a great extent by an increase in agricultural productivity in those countries and by reallocating the productive resources to other kinds of activit ies, so I do not see what is the graveness of this problem. Only a few weeks ago, I read a bibliographical note of a new book written in the United States about the problem of the outlook for imports in which it was said just the opposite thing. I believe the name of the author is Mr. Aubrey. Under some studies he had made, he reached the opposite conclusion, namely that the terms of trade were going to be against the United States. Some of the members of GATT have conducted some studies in order to prove that the increase in the prices of agricultural imports in the United States has been of the same degree as the increase in prices of industrial products in the United States, which fact tends to disapprove this theory.

The sixth contention is that all gains in agricultural productivity are profited only by industrial countries on account of the low elasticity of demand for agricultural products, but the increase in industrial productivity are not profited by the agricultural countries. I believe this is in part true, but not wholly true, because as I have just said, if agricultural productivity increases in our countries, we still can get more from our exports than we did before, and we can reallocate our resources to other activities. Again, many of the underdeveloped countries are not only producers of agricultural products, but also they are producers and exporters of mineral products. In our country 50% of our exports are agricultural products, but the other 50% are mining or mineral products, and it is not the same to speak about the elasticity of the demand of agricultural products as it is of the demand for mineral products.

The seventh contention is that the economic development is bound to produce a pressure on the balance of payment, and this ECLA report about Peru goes on to even calculate how great the pressure will be. I believe that the most important source of pressure in the balance of payment does not come from economic development; it comes from internal inflation, not only in underdeveloped countries but in all countries but it is especially difficult for our countries. The real answer to this question is that if you let the rate of exchange be free to readjust (I do not mean only a floating rate of exchange but to have free and not controlled exchange rates) then if some inflationary pressure develops, on account not of the development itself, but on account of inflation, the exchange rate will take care of this and will reallocate resources in order to make more profitable production for export and less profitable to import. As a consequence of this, this orthodoxy says that it is necessary they do not speak of "control" of exports - they say it is necessary to "substitute" imports, and they mean by that, to develop industry in order to be able to restrict the amount of imported goods. I believe this again to be another misconception because the exchange rate should be free to move in order to allocate our productive resources, either to industrial production, or to agricultural production, either to the internal market or to the external market.

In all this report, there is no mention whatsoever of the function either of a rate of exchange adjustment or a monetary policy, as a way of coping with this pressure on the balance of payment.

Nine, there is the contention that this control of imports will have no depressive effect on international trade, because total imports are always the same. I believe this is also wrong, because as long as you keep an artificial rate of exchange, then you are keeping the level of your exports and of your exchange income at a lower level than it could be. So at the same time, and for that very reason, you are also keeping the level of your imports at a lower point, and so in fact you are restricting international trade.

The tenth contention is that we have a great need of foreign capital. I do not deny this but I believe strongly, first, that international or foreign capital is only complementary, and second, that there seems to be a great deal of misunderstanding about this question because what we need is not money from abroad; what we need is to have command of more physical resources that we produce and we mean by that, capital goods which we have to mainly import. Very often we need to import more food on account of a greater activity, but what we need, above all, for greater economic development, is more labor, more physical activity on the part of our population. This cannot be given by any amount of foreign investment.

So to finish this talk I will give all my conclusions in a kind of positive advice, as Professor Mises suggested. I believe that what underdeveloped countries need most are the following three things: first, to fight against inflation, because inflation is very bad for savings, for foreign investment, for a correct investment policy, for the depreciation of fixed assets, for it brings about price control and also exchange control.

The second piece of advice would be to keep exchange rates free of control. I am not going to enter into a discussion of whether these rates should be fixed or floating. I personally am in favor of floating exchange rates, and I have said that in our country. The fact that we have been able to keep free exchange rates has made us inflate rather less than we should have otherwise done.

The third advice is that we should promote a balanced economic growth and not try to develop industry at any cost whatsoever.

EDITOR'S NOTE:

P. T. Bauer's paper "The New Orthodoxy of Economic Development" on which the discussions on the undeveloped countries were based, is a substantially revised version of an article which appeared in Fortune Magazine, May, 1958. We would like to draw the attention of the reader to another article by the same author, published in "Economic Journal", March, 1959, entitled "International Economic Development". This is a splendidly written critical analysis of the ideas expressed in three books recently published by Gunnar Myrdal, who entered into the field of the economics of undeveloped countries in a way which was not only a surprise but also a disappointment even to many friends of this Swedish economist. The scholarly way in which P. T. Bauer deals with the arguments of Myrdal is most refreshing and the members of the Society should be grateful to the author of this analysis for having refuted Myrdal's ideas.

THE ACADEMIC CH

by Harry D. Gideon

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THE ACADEMIC CHALLENGE OF THE SOVIET UNION

by Harry D. Gideonse, President of Brooklyn College

Dr. Gideonse was one of the six American college presidents who was invited to Russia to visit the educational system in the European and Asiatic parts of Soviet Russia in summer 1958. The following article is based on the tape recording of an informal oral report to the conference of the Mont Pèlerin Society at the Graduate College of Princeton University on Saturday, 13th September, 1958.

This is a report based on observations by a team of seven American college and university presidents who were invited to visit universities and research institutions in the Soviet Union. This visit was one of the first arranged under the new cultural exchange agreement between the United States and the Soviet governments, and in the course of the current year a group of seven U. S. S. R. university rectors will come to visit American universities.

My report of this visit will follow closely the actual path of our trip: the institutions and the regions which we visited, the programs we observed, our conversations with Soviet officials and professors, and here and there I shall make some comparative remarks about American conditions and equivalents.

First of all, let me say something about the nature of our assignment. It was heavily focused on universities, professional and technical institutions, and scientific research institutions. When we arrived in Moscow we had quite a little struggle to make clear what we wanted to see. And I want to add immediately that we finally succeeded in getting to see everything we had listed, with one exception - the educational institutions of the Communist party itself - and our request in this respect was "for the record" since we did not expect it to be granted. The resistance we seemed to meet was largely based on the feeling that, typical of Americans, we were trying to overdo it. We wanted to see too many things, which, judging by our travel schedule, was perhaps a legitimate objection. But when we insisted that we wanted to see not only Moscow and Leningrad, but also the southern part of European Russia and Central Asia, where we hoped to visit two universities that had been created since the revolution, those arrangements all came through, even if it meant rearranging airplane schedules and making privately chartered plane trips possible in areas "East of Samarkand."

The result, of course, was a very strenuous, typically American schedule, with plane shifts and transfers at two o'clock in the morning in places such as Tashkent in Uzbekistan. The Soviet government went to considerable trouble to make this possible, and an almost compulsive sense of hospitality seems to be characteristic of the way Russians treat foreign visitors.

There is an impressive emphasis by the Soviet government on hospitality. The hospitality takes in the whole range of the world. All of Asia is with you all the time in the Soviet Union. In all your hotels you find Burmese and Indians and Chinese and Indonesians and East Germans - East Germans, by the way, in very impressive numbers. There seems to be a very comprehensive campaign to build East Germany into the structure of the Soviet Union as a whole - reaching into all occupations including lawyers, production engineers, social workers and doctors. The visitors seem to travel typically in groups, known as "delegations." There is a special ceremony or ritual about the treatment of foreign delegations, and they seem to be drawn from the entire world. Very many of them have all their expenses paid by the Soviet Union. Many of them, of course, are also Intourist visitors who pay their own way, or they are Soviet workers who are rewarded for some type of competitive or "incentive" achievement by a variety of "all expenses paid" travel. The typical official delegation gets the clear green light on transportation on hotel accommodation,

on the available recreational opportunities - the choicest seats in the opera or in the symphony orchestra are reserved for the foreign visitor.

I spoke a moment ago of the "ritual" or the "ceremony" of the Russian treatment of the visiting "delegation". The story of the Russian banquet with its toasts has often been told. The reality lives up to the most colorful descriptions. In travel arrangements the Russians do not favor the individual adjustment. In general, they like to keep people in groups. The need for interpreters and for automobile transportation are two strong arguments in favor of group travel, and the foreigner's typical inability to speak Russian is, of course, another factor that explains the emphasis on guides.

I must say for myself, however, and for my colleagues, that if any one of our group wished to depart from the pattern set for the delegation and desired to drop out of the delegation to pursue some individual interest - even in cities hundreds of miles away - we were accommodated. We were not followed on our individual trips in the various cities. I was entirely on my own several times in departures from the official visit. Sometimes embarrassingly so, because I have never felt as deficient linguistically as in the Soviet Union. My joy would be to find a Russian professor who knew French or German - and, in the professorial generation, German a little more frequently than any other Western language. With the discovery of a common language, all other barriers seemed to disappear simultaneously. So much can be said in direct communication that somehow fails to "come through" when you have to pass through an interpreter's mind. Also, the interpreters sometimes "edit" remarks.

I was reminded a number of times by our own interpreter that my remarks in our professional exchanges were a little more frequently "edited" than those of my colleagues. That didn't surprise me too much, first of all, because of my own professional contacts in public education. After all, I was with a delegation that included the president of Cornell University, the chancellor of the University of Pittsburgh, and the president of the University of Pennsylvania - a rather heavy representation of our large, so-called "private" universities. As we discussed Russian and American higher education, my experience in public education would sometimes be more directly relevant to Russian conditions. Brooklyn College is a part of the College of the City of New York, which has been tuition-free for more than a hundred years, and Russian universities have only recently become tuition-free. Some of the challenge in my remarks was "edited out." This was one small warning of the dangers in communication which a linguistically illiterate America will face in the future when it competes for the world's attention with the present younger generation in the Soviet Union which will be proficient in our language while we will continue to depend on Russian interpreters if we wish to reach their minds.

Now let me return to the eighteen institutions which we visited and to the eight thousand miles which we "covered." Let me first give you the traject: from Stockholm to Moscow, from Moscow to Leningrad, from Leningrad to below the Caucasus to Tiflis in Georgia, then to Baku, and Samarkand - for sentimental and romantic reasons; there is no big university there. Then to Tashkent and the big University of Uzbekistan, and to Alma-Ata, the University of Kazakistan. If your geography skips a bit - mine did before I made the trip - the University of Uzbekistan at Tashkent is north of Afghanistan, and the University of Kazakistan at Alma-Ata is directly north of New Delhi. From the university at Alma-Ata you can see the mountain range, snow-capped like the Alps in Switzerland, that separates you from Mongolia and China.

Incidentally, that reference to China touches on one of the important facts in the Soviet Union's academic and industrial development of that part of Central Asia. I couldn't document this, and this is just intuition - but it is hard to escape the impression that a very large part of the feverish urgency in the development of Kazakistan and Uzbekistan is based on the

desire to fill that area with population before over-crowded China gets ideas about it. Kazakistan is five times as large as France and has a population of eight million. These simple facts give you the picture: Kazakistan is just the other side of the Chinese borderline and it is virginal territory with untouched and rich geological resources. Now with modern power development and our new technical knowledge of irrigation, it has a potential for development that matches the old American "West."

There is a great deal of diversity in higher education in the Soviet Union, more than we had expected to find. There are very high standards of academic and research work at the top. My physics colleagues - and there were two in our group who were professional physicists - tell me that the equipment in the best institutions is at least comparable to the best in the United States. In some cases they said - I don't quite appreciate what that would mean - that it was perhaps a little "over-designed." Perhaps they mean by that that the Russians, like Americans, are rather gadget-minded, that is to say, that they like gadgets for the gadgets' sake as distinguished from the function which the gadget is supposed to serve.

Incidentally, it would be a very interesting subject to philosophize on the extent to which Americans and Russians are alike, because this has astonishing ramifications. When I say alike, I mean good, bad and indifferent qualities, not just the good ones or just the bad ones. There are astonishing resemblances in many respects in the material and technical values and attitudes of the people you meet in both countries. There are also, of course, profound differences but they receive sufficient attention elsewhere. Perhaps we do not stress enough the differences among the various peoples in the Soviet Union. After all, only forty-eight percent of the people in the Soviet Union speak Russian as their native language, and a Russian in the "national" sense does not speak Georgian or Uzbek any more than a citizen of Chicago. With the development of the national cultures of the constituent Soviet republics, the dominant language of the universities in the various republics tends to become Georgian, or Uzbek, or Kazak - with corresponding difficulties in the transfer and exchange of Soviet academic personnel. There are interesting perspectives for the future here, especially in view of the tendency to decentralize the Soviet Union's economic development.

If the level of academic achievement is high in the strong institutions, we received the distinct impression that Soviet standards are higher than ours in the lowest grade of school or university. They are higher because the central pattern is imposed by Moscow, and certain minima are achieved because of this central pattern. By contrast, of course, our "bottom category," which is a large part of the American educational system, has standards which are set locally in accordance with our dogma of local control in education. In the United States, if a local school board - or a local college administration - feels that the basketball coach is more important than the mathematics teacher or the foreign language teacher, this determines where the money goes, and that is why a large number of our high schools do not teach mathematics or do not teach foreign languages. In the Soviet Union there is no "local control" and, therefore, minimum standards at the bottom are set that are determined in Moscow, and these minimum standards are constantly checked by competitive and comparative examinations which are centrally administered.

Central control is exercised through the Ministry of Higher Education in Moscow. This Ministry is to be distinguished from the Ministry of Education which controls elementary and secondary education in the constituent republics. University textbooks are centrally chosen and determined. Syllabi are centrally selected and determined, and changes have to clear with the Ministry. Central control governs examinations for admissions. Quotas for admissions are set from year to year by the Ministry for all the institutions, and only about twenty-five to thirty percent of the applicants are given the opportunity for further study.

But offsetting that - and in Russia you have to constantly say "offsetting

that" - the Ministry of Higher Education controls only two hundred out of over seven hundred institutions working in higher education because many institutions of higher education are assigned to cabinet officers in accordance with their specialized function. Medical schools are, for instance, not operated under the Minister of Higher Education, but under the Minister of Health. Agricultural colleges are run by the Ministry of Agriculture, not by the Ministry of Higher Education. Many schools are run by ministries that are charged with the industry involved - metallurgy, for instance - and they are not related directly to educational administration. Sometimes they are financed by the industry and they do not even appear in the education budget. There is in consequence an enormous diversity within the centralized structure of Soviet higher education.

Thereby hangs a tale, by the way, of a possible future weakness in the Soviet system that is perhaps not as apparent now as it will be in the future. They are now concerned with immediate acceleration of achievements - with crash programs in the training of medical men, for instance- and they have certainly achieved some impressive results. The future weakness lies in the fact that the staffs are all decentralized. There is little of what we call cross-fertilization.

Let me give you an example. Examples are much more meaningful than generalities. Medical schools operate apart from the universities. They are not only administered by a different ministry but medical research work is under yet another set of institutions, under so-called academies of medical research. The result is that you do not have the constant fruitful interaction of the professors of chemistry, biology, physiology and psychology with the professors of medicine. We know from our experience with medical schools that, in general, medical schools tend to degenerate when the professors of medicine control the institution, that is, to say, when the biologists, the chemists, and the psychologists are under the orders of the doctors. We know that medical progress depends on a built-in professional challenge of received ways of thinking in medical practice by independent professors of the various sciences that are directly related to medical practice and medical research. Administrative organization which insures closeness of contact is as important as the autonomy of the professional position of the supporting scientists - and both are missing in the Soviet administrative organization.

In the United States we sometimes suffer from the excessive size of our huge administrative units, but in the Soviet Union these specialists work in different institutions, and sometimes under separate ministries. The by-products over time do not look too good if our experience has any predictive value. This holds, incidentally, in a wide range of other kinds of professional training too. They have an enormous and exaggerated faith in specialization.

Basically all the educational and scientific objectives are formulated as a part of national economic planning. The crucial principle is "from the top down," and not "from the bottom up." We know the unfortunate by-products in inertia and lethargy in over-centralized bureaucratic organization in the United States, and it is hard to believe that similar results will not follow in the Soviet Union.

While educational objectives are frequently formulated by professors, by universities and by the Ministry of Higher Education, their basic approval takes place in the making of the economic plan for the country for the next five or seven years. There it is decided that these resources are going to be developed; that this industry is going to be enlarged; that these areas will need so many more doctors, so many more engineers, and so many more interpreters. Those quotas are referred to the Ministry of Higher Education, which then percolates them down to the institutions, and the corresponding quotas for student admissions and staff appointments are then digested in terms of several ministries, and hundreds of institutions.

The whole is a little like prescription filling in a drug store. It is not an

operation in which the momentum is generated in the course of the pursuit of professional objectives by scholars and teachers on a university campus. It is an operation that consists of doing what the quota said had to be done for the next five or seven years, and then training people to fit that particular set of specifications. The dominant value is service to the state as contrasted with our conception that service to the community is best realized through the maximum development of the potential of the individual.

There is one other major weakness from our standpoint, and that lies in the very far-going separation of research and teaching. Theoretically, our higher education insists on the fruitfulness of a process of togetherness of teaching and research. We believe that teaching suffers if we do not have a good percentage of people engaged in research and the students with them, and we believe that research workers are stimulated by continuous exposure to the compelling discipline of a teaching relationship with advanced students. In wide ranges of the present American college and university system we may fail to live up to our ideal view of the fruitfulness of combining research and instructional functions, but there is hardly any difference of opinion as to the theoretical objective.

In the Soviet Union there is a firmly held belief that the best results in teaching and in research are achieved by separating those activities. This is a logical consequence of their faith in specialization and in a very far-going division of labor. Our experience would seem to indicate that in the long run this will not pay off.

Now let us look at some of the strong qualities of the Soviet structure in higher education. In every one of the republics we found a structure of universities, and professional schools. In every one of the republics we found a corresponding structure of research organization, all of them grouped under the general administrative organization of the Moscow Academy of Science. "Science" is here used in the general European sense of knowledge, including not merely the pure sciences, but also the humanistic disciplines, such as literature and archaeology. The Academy of Science budget, we found as we went from one Soviet Republic to another, varies a good deal, but the lowest figure we found was that it was six times as large as the university budget. The highest we found was that it was sixteen times as large. These are proportions that dwarf anything we have in the United States in that respect and they may present serious implications for the future, unless we manage in some way or another to catch up dramatically.

There is a surprising amount of autonomy in many features of the individual universities. The staffs have preserved a good deal of freedom of a sort, as, for instance, in the selections of people for the lower ranks for academic appointment and in the right to nominate people for the highest rank. Nominations for the rank of full professor have to be approved centrally, but the record seems to be, from what we were told in a variety of places, that typically the nominations are accepted - except, of course, in the case of people who go flagrantly against the party line in one way or another.

Academic life seemed to be in the main rather indifferent and casual as far as the party line was concerned. Large numbers of the faculty personnel - a large majority - did not appear to be members of the party. We were told that the university "trade union" had the lowest party membership - thirteen percent - in contrast with the engineer who had the highest percentage with thirty-eight percent. The atmosphere with regard to the required courses in party indoctrination that every student in any academic program has to take had a peculiarly stale flavor. A course in philosophy which is really a 'history of the working class' - this every student has to take, and it appears to be straight party-line indoctrination. But the attitudes with regard to these courses have become attitudes of rather stereotyped compliance, a bored kind of acquiescence. Nowhere did we encounter any enthusiastic defense of these requirements. They were just described, and that's that. When we asked questions about the

materials, we encountered an attitude of rather passive indifference with regard to what was being taught in them. Perhaps this accounts for some of the scepticism with regard to "university attitudes" which is reflected in some of Mr. Khrushchev's statements.

In general we must visualize the Russian university and the research world as a world of exceptional privilege. The Russian full professor gets the highest salary paid in the Soviet Union; if he has the rank of Academician he receives the salary of the grade one, top industrial plant manager. The only salaries that are higher are those of ballerinas and popular artists, and here and there some popular authors.

In addition to his salary, the Russian full professor "Academician" gets the big black car that is the symbol of the highest status and prestige. There are three cars in Russia; and their assignments carry prestige connotations. The "Academician" gets the big black car and chauffeur, in addition to salary, and a summer home as well. He has three times the normal housing allowance. That also is the maximum housing allowance given to any privileged class, including ministers. You can see that the motives for getting into academic and scientific life are overwhelmingly strong. The motives are strengthened by the methods of recruiting students. Students are paid for competitive academic achievement, that is to say, they are paid for being students. They call it the stipend system.

More than eighty percent of the Soviet Union's students receive stipends. The stipend is roughly about four hundred roubles a month during the first year, and as the recipients demonstrate their ability to pass the grade and do well, the stipend may increase to about six hundred roubles a month. In other words, the pay increases as the grades go up. There is, therefore, competitive motivation in the student years backed by substantial material motivation in the choice of the subsequent academic achievement, we have a measure, again, of a very important differential in the atmosphere of the Russian university.

The twenty percent or less that do not receive stipends are partly students whose parents receive incomes sufficiently high to remove the need for stipends, and they are partly students on their way out.

Incidentally, while I am on that point, let me push it just a bit further. This combination of paying students for the quality of their academic work, paying them better if it improves in academic achievement, accompanied by the prospect of a career (if they are good enough to get into it), of scholarship and research that is the most highly paid career in the country, insures that Russia gets the full potential in science and in scholarship, and in teaching ability, which may be available in a given age group - and that, of course, is very different from what we get.

As you know, it is still true in the United States that roughly about one-third of the ablest quarter of our students in high school do not go on to college. This is not so much a question of economic means as of motivation. We have a very large amount of waste there. The difference lies in the "motivation." This is deeply embedded in our culture, in "motivation" as it is reflected in our attitudes toward scholarship, and in "motivation" as it is reflected in the choice of post-graduate careers, in salary expectations, family attitudes toward the choice of a career, and so forth.

From the standpoint of the retention of intellectual ability for academic purposes, we must add to the fact that they are getting a larger share of the potential ability in the age group trained and developed, and that they retain them in scholarly and research work, the fact that if Russian students graduate with the equivalent of our Ph.D. degree, industry can only hire them at a lower salary rate than they could get in academic life. This is a matter of law. It is set for the Soviet Union so there is no seepage or loss to industrial occupations from the training and the

research apparatus.

There is one other aspect that is probably overwhelmingly important, although one would want to have more time to study it in all of its ramifying detail, and that is the use of women. They make very much more use of women in scholarly research and academic work. The figures on that are very impressive. Fifty-one percent of the university students and one-third of the members of the faculties are women. There are no teacher shortages, on any level, in the Soviet Union. In agricultural schools the student body is about fifty percent women. Even in the engineering schools feminine enrollment is thirty-nine percent; in the United States of America it is less than one percent. In an area like medicine, feminine enrollment is sixty-nine percent of the total, which is more than ten times as high as the American figure. Medicine is a woman's profession in Russia. Incidentally, that is not wholly a Soviet idea. I am told by colleagues that in European universities before 1917 feminine students of medicine from Russia were very common under the Czarist regime.

The full use of female "manpower" is, of course, a general characteristic of the Soviet economy. There are very unpleasant aspects to this, too. Women do physical labor of the crudest sort in Russia, including street cleaning and bricklaying, as well as some of the roughest physical labor in the fields of agriculture and construction. In Moscow all you had to do is to turn into a construction job - and no one stopped you if you wanted to do that - and you could see that the overwhelming majority of the people working on the big new skyscraper were women. Many of them, I am told, are married women. The educational system is adjusted to take care of children after they have reached the age of six months, and the children are therefore removed from the mother's care during the hours the woman is on the job, doing a job which, by our standards, would be altogether too demanding for a woman of almost any kind of physical stamina.

To an outsider the general role played by women - the crude one in industry and in agriculture, the more specialized and qualitative one in academic and research work - is one of the most characteristic traits of the Soviet social system, and it could all by itself be a determining factor in a struggle for survival between two social systems, if the differences in that respect remained as striking as they are now.

My allotted time is running out. But I must say something about the teaching of foreign languages. The older generation Russians, my age group, the ones who are now the full professors and the rectors, are, I would say, linguistically as illiterate as their American equivalents. It is amazing how few of them can understand or speak English, German or French. We found one university rector, the one in Leningrad, who spoke an admirable English. We found several administrative officers who were reputed to have training in one or more languages but I couldn't find many who could respond to any conversational efforts on my part in English, German or French.

With the younger generation, of course, it is stunningly different. The twenty-year-olds are getting five years of a foreign language in their secondary school and, no matter what they specialize in, four more years on what we would call the university, college, and fifth-year level. Much of that, however, is reading knowledge. They do not have acquaintance with people who speak these languages. They are not allowed to travel nor are foreigners allowed to enter the country in sufficiently large numbers to share linguistic skills with them.

But the figures are impressive. For instance, in Moscow a huge Foreign Language Institute of university grade shows a forty-eight percent English specialization, with thirty percent in German, and twenty-two percent in French, and in the Pedagogical Institute in Moscow the percentage enrolled in English was eighty percent. The future is predictably going to be a situation in which when Americans and Russians meet one another and meet

the rest of the world, Americans are going to be dependent on interpreters while the Russians will be "on their own" in direct linguistic communication with us, and with the rest of the world. There is no more debilitating weakness than to be dependent on the other fellow's linguistic skills in cultural exchanges, in political negotiations or in competitive propaganda. He can dance circles around you and your objectives, unless you have the ability to meet him on his own ground. It strikes me as one of the most dramatic and one of the dangerous potentials in the present differentials between our system on the one hand and the Soviet system on the other.

Before I attempt to summarize these rambling remarks, I should say something about the quality and adequacy of Soviet secondary school preparation. Because we have heard so much in the United States - from the Admiral Rickovers, from the editors of Life Magazine, and from other comparable amateur "experts" - about the superiority of the Russian secondary school, we were always very much concerned to enquire wherever we went about the attitude of the Russian university professor toward the products of the secondary school. In that respect, we are not nearly as disturbed as some of our amateur critics of American education.

Attitudes in the Russian university with regard to the quality of pre-university preparation are amazingly like American attitudes, perhaps because of comparable problems in dealing with huge enrollment increases. They think ten years is not enough for academic preparation, and everywhere they are experimenting with eleven years for the secondary school, and the twelfth year is in sight. They complain about textbooks, about the parrot-like instruction. One Russian professor when asked the question, "Are you satisfied with the preparation of the secondary school graduate as he comes to you?" said, "Satisfied? They know no mathematics, their physics is parrot-like repetition of a secondary school textbook, and their Russian is abominable!" This was said in the presence of the rector and other high academic officials, and he was apparently expressing a generally shared attitude. He was quite surprised when we all laughed, and he didn't think it was funny. We had to explain that we laughed because we had heard this in the United States again and again, too. That was news to him.

Let me try to summarize. There have been astonishing achievements in the Soviet Union in a short period of years. There are weaknesses in their form of academic organization, weaknesses in their excessive faith in specialization, and in their neglect of what we call general or liberal education. I also see weaknesses in their stereotyped ideological formula of always wanting one book, one course, one syllabus - in fact, their ideological inability to understand that truth can sometimes be plural. They want one solution for every problem. They do not understand that we feel that provision for the presence of choice is a desirable method of seeking and teaching the truth. They do not understand choice. They always want the argument narrowed down to one formula and one solution.

I have spoken of the strengths of their system in the fields of student motivation and in the choice of academic careers. They are to be found particularly in the field of physical science. Geology and metallurgy are overwhelmingly much more important than they are with us, in addition to the fields I mentioned. We found more interest in humanistic disciplines than we had been led to anticipate. The academies of science pursue historical and archaeological research. Expeditions are digging out the past. At Samarkand some of them were digging out the Moslem past and reconstructing, with Soviet public money, big Moslem temples with the political objective of making Arabs turn to Samarkand rather than to Mecca or Medina, sometime in the future when they have been rebuilt. The humanistic interest in religion was pleasantly merged with political objectives in that particular connection.

Our impression is not that they have superiority. But the impression of almost everyone in the delegation was that if you measured the dynamic, the speed and the direction of change, if you looked at the overwhelmingly big capital outlay budgets for new buildings now going up and projected for

the future, if you looked at the qualitative emphasis in achievement, and if you compared all these things with our complacency and inertia, there were crucial weaknesses in our corresponding institutions and procedures which called for a major breakthrough in our effort if we were to avoid losing out merely by staying where we are.

As an economist, I constantly asked questions about the percentage of the national income that is going to education and research. It is hard enough to get reliable American data in answer to that question. It is even more difficult to secure reliable data in Russia because in their system all these things are buried in a wide variety of ministerial and production budgets. In the United States we know that the percentage of our gross national product allocated to education has roughly remained at the same level for the last thirty years. In other words, it has not increased with the increasing burdens, with the increasing numbers of pupils and students, and with the increasing costs of diversifying programs.

My rough impression would be that in Russia the percentage of the national income allocated to education is about twice as high as ours. In the United States if we were to allow for the depreciation of the dollar and increasing enrollments, we could only match this by a tripling of the actual number of dollars spent for education. You will remember the shock there was in Washington when we talked about doubling budgets for education beyond the high school level, in spite of the fact that everyone should know that the doubled budgets by 1970 were supposed to provide for doubled college and university enrollments. Under those circumstances doubled budgets would simply mean that we were merely keeping up with ourselves, and not getting better at all. If we desire to improve our dynamic, that is to say, if we wish to improve our achievement, we will have to provide for more than double our present budgets. This will be mandatory in order to counteract the present deterioration in our standards, but a comparison with the direction of change in the Russian system seems to indicate that we must do a good deal better than this if our provision for trained intelligence is to be adequate to insure our national survival.

There is one danger against which I would like to warn, in closing. It is rather easy to understand the weaknesses of an excessively specialized system of education. We can see the weaknesses of our present programs in foreign language instruction, too. The danger is that as we try to overcome these weaknesses, we shall begin to teach subjects, and languages included, as tools with which to acquire direct power in the achievement of national purposes. If we do that we will be selling our own birthright down the river, because we should not be concerned with languages as a tool for the successful achievement of state power objectives. If we are true to our own values in a free society, we should be interested in language and cultural education as a method of understanding the diversified richness of human cultural potentials in all these fields.

I would hope that if we are to summon up the moral and material energy to restore our dynamic, and to match and surpass theirs, we would be mindful of Woodrow Wilson's emphasis on liberal education as power in the understanding of the values and objectives of a free society in all its cultural ramifications, and not as mere ornament, or as a tool to achieve political purposes. It is only in that way that we can match their success in the achievement of our purposes. In the competitive struggle we do not wish to become as they are. We must be as good in the achievement of our purposes as they are in achieving their purposes and this means that we should think of this challenge, not merely in terms of budgets - although we need to do that too- but we need to think in terms of a restoration of the cutting edge of our own values, an understanding of their value not as tired words to be used rhetorically in conventional patriotic speeches, but as the living spring of human behavior in the context of the modern world, our present-day society. To understand, for instance, that love as a Christian ideal is not just something soft, sweet and sentimental, but that love can be understood as the cutting edge on a surgeon's knife because that, too, is love if it is properly motivated and supported by trained intelligence.

If we merely stress the financial and the technical side of the Russian challenge, we might eventually end up by being as good as they are in the achievement of their, and not of our purposes. This is a qualitative challenge and it is, first of all, a challenge to the values of American life. Even in the limited field of technology, it is not a question of more engineers, but of better engineers. We can restore the cutting edge of our values only by emphasizing the moral and the value side in our cultural life. If we do that, the budgets will take care of themselves.