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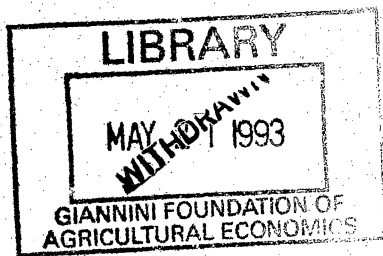
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SOME THOUGHTS ON HOW RECENT EVENTS
BEAR ON THE WORLD ECONOMIC SCENE

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Speaking demographically, I am of the cohort that found itself in college during the years of the Great Depression. The whole Western world was in flux, dangerously so. A brief 12-year post-war (World War I) prosperity had collapsed. In the United States unemployment reached 25 percent. People were not merely insecure, but frightened.

Europe experienced equally as much turmoil as we did. It was wracked by political agitations. A fascist movement in England was no idle threat. Mussolini in Italy was demonstrating that his way was the secure one. And Hitler was exploiting Germany's intense distress to advance the cause of National Socialism.

Here at home a dozen radical ideologies conflicted sharply with the conservatism of Andrew Mellon that had been the hallmark of the Hoover Administration.

Academic (and other) economists responded in wildly mixed ways. Some buried their heads in the standard Taussig "principles" text. Others, including a number of my professors at Ohio State University, invited students to study what was called "comparative economic systems." No one could be sure what direction our own system would or should go. It was therefore useful to learn about the writings of various European socialists, for example. But what was more significant is that we developed a global outlook as to systems of government and the economy. We caught a glimpse of the waves of intellectual thought and national experience that for many centuries have accounted for the course of nations and even the world.

I regard that training as fortunate, and far superior to economists' preoccupation with abstruse mathematical models today. Some economic theorizing in our time is little more than an updating of medieval churchmen's speculation about how many angels can dance on the head of a pin.

Moreover, during my early professional years I read historians of broad scope. I regret that I did not read much Toynbee but to learn U.S. history I studied Arthur Schlesinger, Senior, and the gifted Edward Channing. I pored over Ivar Spector to learn about Russia. Andre Maurois told me about England. Robinson and Breasted were the popular European historians.

So it is that with that background, although now almost ancient, I dare to search for clues to what is happening in the world today. It should be clear, by inference, that I put zero stock in simplistic explanations such as that the

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several countries in Eastern Europe will now turn, happily and lucratively, to market capitalism. That's what a friend of mine used to call pusillanimous thinking. She loved the word.

I was pleased to read recently the comments of two agricultural economists, Lyle Schertz and Vernon Ruttan, as they addressed the problems of Poland. "There is danger," they said, "that both the Polish and American leaders will be so imbued with the euphoria of 'free markets' rhetoric" as to forget what is required to make markets both free and stable. Yea, verily; a lot is required.

Systems of Mutual Support

Surely a couple of basic tenets are hardly contestable. One is that a common trait of human beings is their incapacity to survive in other than a social setting. Therefore some system or pattern for mutual support is essential. A choice must be made from among available systems; and the making of that choice goes far to characterize the economic and political arrangements that have come into being.

There is a long nomenclature for the world's social and political systems. One dichotomy I find useful applies to the place of the individual person in a system. It distinguishes between contractual and status relationships. For most of the world's peoples during most of human history, status has been the pervasive gripping force. One of the grandest features of the 5-century Enlightenment in our Western World is that status gave way progressively to a widening of the contractual privilege in human relationships.

Almost 20 years ago I struggled with the topic of systems of economic organization. I now regard my article as one of the better intentioned but least lucid of all my writings (Breimyer 1973).

I dare not dig into that fascinating field of inquiry here, except to anticipate some of my later observations by suggesting that open-market trading is of the nature of contractual relationships and therefore, according to our mores, appealing. But only free trading is of that category. In our world of nation-states today, most trading within nations is relatively free but that between nations is by no means free. This is, in my judgment, a highly relevant fact of contemporary economic life. I will come back to this point later.

I now change direction and remind that human beings establish their means of mutual support in units formed along both horizontal and vertical axes. In the world of business, enterprises vary from the proprietary small business to the international conglomerate. More germane to my assigned topic, however, is the layer cake of political units beginning with the local town or township and extending to the giant confederations that are so much in the news today such as those of the Soviet Union or Europe's contemplated Europe 1992. It follows that economic and political systems are defined, in large measure, according to the nature and extent of the horizontal and vertical connections.

Perhaps the next empirical datum to be recognized is that all political units are inherently competitive, one with the other. To suggest or to assume that the cost of conflict is so frightfully great that peace will reign

everywhere until some ogre such as Stalin or Hitler comes along is a benighted view of the world. I propose as a more valid generalization that rivalry is endemic and that peoples therefore more or less willingly accept binding political ties in exchange for economic or military shelter.

It is defensible to suggest, I think, that world history can be described in terms of first the formation and then the decomposition, successively, of aggregations for mutual support or defense. I call this the accordion thesis of history. Theorizing about global cyclical patterns is in vogue just now. Mancur Olson, Paul Kennedy, and Arthur Schlesinger, Jr., are among authors who have written best-selling books declaring that the United States, or the developed world, is in a specified phase of some sort of cycle. I am not unsympathetic. My own version is that we are in an emerging or threatened breakup of empire.

The word empire is not in vogue just now but I regard it as relevant. I allege that the highest level of international aggregation prevailing at any given time can be regarded as that of empire. The Soviet Union as extended to the Iron Curtain was an empire; the Soviet Union without the beleaguered countries of Eastern Europe is only a moderately shrunken empire.

Before I ask where we stand I examine the concept briefly. For that purpose I draw on an article by Ernest Barker in my dog-eared Encyclopedia Britannica. Alexander the Great is sometimes credited with establishing the world's first empire, says Barker. Not so, he counters. Alexander only set the pattern for the first true empire, that of Rome. The terms Alexander set were, first, that all constituent peoples be ruled as equals, and second, that there be a universal religion.

Surely Rome struggled with the second of those conditions. The encyclopedist did not let that bother him because he was more interested in the confederation that he regards as more meaningful to our time, namely, the Holy Roman Empire. Every literate American remembers the quip that the Holy Roman Empire was not holy, nor Roman, nor an empire. The encyclopedia author insists, nevertheless, that Charlemagne's entity met the two tests for empire. It got its unity among constituent peoples from the Roman Empire; and it had the Christian religion as a second unifying force.

Manifestly, the Empire was not strong enough to suppress all conflicts among its constituent states. On the other hand, the successive, and generally successful, defenses (or, sometimes, aggressions) against the Muhammadan world are not a minor or insignificant part of medieval history.

In later history, empire-building became difficult. England's sinking of the Armada checked Spain's ambitions. Later, Napoleon was repulsed twice. It is fair to say that for a while empires were in retrogression in the Western world. Europe became a mosaic of independent states. The so-called British Empire was formed primarily from remote countries, as colonialism had its day. Then there began a new cycle of coalitions. In the last century Italy and Germany, notably, became nations. The Russian czars continued to incorporate new peoples. Did the United States ever get the empire urge? I would say we came close to meeting the terms of that word in our relationships with countries of this hemisphere, particularly those of Central America and the Caribbean.

But more recently have we had, or do we still have, something close to an empire relationship with Western Europe? Our dominating influence in NATO, and our stationing of thousands of troops there, suggest a tie bordering on the concept. The Iron Curtain that was the demarkation of an extended Russian Empire was also the limit to U.S. influence. It is obvious to everyone that we are being pushed gradually out of our European role. It may come close to an end within this decade. This may help explain why we have recently shown more concern for events in our own hemisphere.

As a parenthetical remark -- or defense of my argument -- it may be asked whether the second condition for defining an empire, that of universal religion, has been met in today's empires or quasi-empires. I suggest that religion and ideology are nearly synonymous and that within the Soviet orbit Marxism has been as much symbolically ideological as operational. Democracy has served a similar purpose in our zone.

Did the Iron Curtain Reduce Conflicts?

Now I venture onto softer ground, possibly quicksand. I draw on a book review by John Lewis Gaddis to suggest that the sharp division between Soviet and American spheres of influence may have helped preserve peace. Gaddis quotes an acknowledgement by the author he reviews, Robert Schaeffer, that "the Russians and the Americans did well to divide Germany and Korea after the Second World War: that kind of partition provided a way for the superpowers 'to contain their disagreements and avoid a third world war'." ¹ Moreover, Schaeffer thinks "self-determination is dangerous because it leads to the proliferation of quarreling microstates" (p. 112).

This amounts to verification of the philosophy -- operational philosophy -- of the makers of our post-war foreign policy, and of Nikita Khrushchev too, that a highly visible confrontation between superpowers is not the greatest threat to peace. It is true that Soviet repressions of Hungarians, Czechs, and others were bloody. But their cost was small in comparison with the grand total of contests among African tribes and between Iran and Iraq, plus the bloodletting in Lebanon, and, of course, the war in Vietnam.

It may be surmised that I am dubious that the countries of Eastern Europe, following their release from the suppressive influence of the Soviet government, will avoid conflict among or within themselves -- especially if NATO nations do not buy reconciliation with enormous aid punctuated by a few low level flights of the latest-model armed French or U.S. aircraft.

Adding to instability will be a partial void as to economic organization. I shudder every time I read an admonition that the countries should switch

¹Charles Krauthammer has expressed the same idea. "In this era, Europe has enjoyed a historically unprecedented period of peace largely because the sovereignty of its warring nations was suppressed, brutally in the East and benignly in the West, by the advent of two great empires...the cold war division of Europe into a pax Sovietica and pax Americana did have the virtue of suppressing internecine European conflict" (p. 19).

entirely to private property, abandon the welfare state, and so on. What is overlooked is that the principal tenet of socialism relates to land and capital goods, not the distribution of consumer goods. In a capitalist economy power rests in the holding of capital, and there exists a wide range of choice as to social versus anti-social exercise of that power. In most modern capitalist nations, the effect of capital-holding on concentration of income and wealth is counterbalanced by progressive income and estate taxes. We, of course, have receded from that policy in the last 10 years. Countries of Eastern Europe face a dilemma as to what system they will convert to, and their problems could be highly destabilizing in the absence of generous sheltering aid from NATO nations.

Terms of International Trade

My final comment relates to the terms of international trade. It is easy to believe that nations accept political tethering for the sole purpose of military protection. Nay, not so. One of the attractions of any political confederation in a world of mercantilistically managed international trade is that its constituent peoples can trade freely among themselves while being protected against trade-competitive invaders from outside. In this respect, I suggest the Soviets made a mistake in their relations with countries of Eastern Europe, for they did not fully meet Alexander's test of equality as applied to trade. Their COMECON went partway in that direction but was not free of considerable Soviet distortion of trade relationships.

Against this backdrop we can look at two contemporary events. One is the fervent plea by the United States to the major trading nations of the world, meeting in GATT sessions at Geneva, that they abandon all their ingenious devices to manipulate the terms of international trade. That is, we want them to abolish all obstructions to free and open trading. Clayton Yeutter, the Secretary of Agriculture and former Special Trade Representative, is my good friend and has my respect. He holds passionately to the goals of a barrier-free trading world. It is with some whimsy that I see his vision as a throwback to the liberalism of two centuries ago. It is an attractive vision. One hundred and fifty or more unfettered proudly sovereign nations would buy and sell their goods and services without any restraints or contrived inducements whatever. Trade relations would hold independent nations in orbit just as gravity does the planets circling the sun.

I wish Dr. Yeutter and Carla Hills well but hold little hope for them. Their vision is too much at variance with the state of the world in our day.

The second contemporary event is the planning going forward for a Europe 1992. This is nothing more than an advanced version of the old regional trading bloc. It has antecedents in Europe's Zollverein of a century and a half ago and, in a sense, of the even earlier Hanseatic League. Countries within the bloc will be as friendly to each other as they are hostile to outsiders. Relative to Europe 1992, we will be an outsider. But will Czechoslovakia and Poland (and other refugees from the COMECON) be outsiders? I think that is the dominating question in Europe, and indeed in the Western trading world, today.

The answer has a great deal to do with the prospects for Eastern Europe. It is conceivable that those countries will form their own bloc, COMECON without

the USSR, which will then seek to negotiate a bloc-trading relationship with Europe 1992. I am only speculating, but the idea is interesting.

If Europe 1992 sets the pattern for the future, we will be driven to form our own counterpart. Our bloc will almost certainly include all the Western hemisphere and probably Australia and New Zealand; the big question is whether it will reach to Japan.

In my language of this paper, what all this amounts to can be phrased in the question whether trading empires, rather than militaristic empires, will be the principal lock-weave among the world's nations in the future. All I can say for certain is that contemporary events give the question a great deal of validity.

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