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# THE CONDITIONS FOR ECONOMIC GROWTH AND DEVELOPMENT : THEIR RELATIVE IMPORTANCE AND TIMING\*

KARL BRANDT

**ANY** topic is anything but new. In fact it has been the main concern of leaders in civic affairs, statesmen, philosophers, and clergymen since antiquity. Yet, if anything is certain about the future of world affairs it is the prospect that this topic will retain its challenge to constructive thinking so long as people live consciously as a civilized society, determined not only to survive but to improve man's lot on this earth.

In my view the scope of what is relevant to this enormous range of human action that we designate as economic pursuits does not primarily involve econometric techniques. Indeed I doubt that any analytical quantifying procedures or the application of their results in the form of prescriptions belong on the docket of serious discussion so long as the much broader problems of ends and the permissible means and taboos have not been fully explored. In other words, before the crew of the Ship of State may lift anchor, the skipper, the other officers, and the whole complement of sailors must know where they are going and have the navigator and the maps aboard.

Our academic procedures, originating with the French philosopher Descartes, from his *Discours de la Methode*, consist of analysis within the compartment of one academic discipline. So we have special compartments of economics, political science, sociology, anthropology, and others. However, in the actual life of a person, a family, or a nation there is only one consolidated entity. Compartmentalization of foreign or domestic policies is therefore doomed to failure.

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\* Paper presented at the 22nd Annual Institute on World Affairs, San Diego State College, on August 12, 1964.

Perhaps in times when ideas of optimal economic progress were discussed only in a few leading Western countries there was less need to inquire what conditions are essential for economic progress to occur. In those times there was not only unanimous agreement on the political and social foundations of economic progress, but in a monistic society with its accepted values and its culture there were no alternative political, social, and moral philosophies that deserved consideration.

Today the situation is decidedly different. Since the end of World War II the political map of the world has undergone a most radical revision, and this process is not yet at an end. The industrially advanced countries of Europe as well as Japan have ceased to administer large dependent overseas areas. The people in those areas have obtained political independence. This applies to over 800 million people. Their share in the world's political geography amounts to over 50 new countries. One speaks even of that many new "nations." It is in many instances most doubtful whether the boundary line of former colonial administrative jurisdiction necessarily makes what can legitimately be called a "nation." This is true particularly where no common language exists and the people have to use the foreign language of the former colonial power for communication in their parliament. An enormously wide range of differences characterizes those newly independent and a large number of other countries that have in common only that their industrial development is retarded and therefore agricultural or mining activities occupy the majority of their population. Some of these countries have populations of European origin, adhering to one religious creed, others have multi-racial populations with multiple religious orientations, and still others have a homogeneous single-race coloured population. Some of the less developed countries belong to the world's oldest civilizations, others to ancient but stagnant primitive cultures, either still in or just out of tribal coherence. And politically some are extremely well-organized, advanced political democracies while others have unconcealed and unmitigated autocratic dictatorial rule by powerful demagogues or military strongmen. In fact, in some countries patriotic military leaders are the only temporary preservers of peace until civilian executives can function. Economically, too, extreme diversity prevails from very high to very low average per capita incomes.

Bearing in mind this kaleidoscopic panorama of contrast and diversity in change in the developing countries, we must consider with similar care the fact that the leading industrial countries have also undergone significant change. Nearly all of them are in the process of becoming pluralistic societies, although in most of them the harmonious set of values inherited from a monistic culture still exerts its unifying influence.

If widely-held theories about cause and effect in economic history had any element of truth in them the end of colonial empire, with its system of expanding economic development from highly advanced industrial centres toward the most distant outlying parts of the world via the medium of trade, should mark the beginning of the Golden Age of newly independent countries. Marxians, Neo-Marxians, and those more moderate liberals among economists who basically adhere to the doctrine of colonial exploitation by imperialist powers have always taken it for granted that the main cause of rapid growth was—aside from paying

an unfair return to labour at home—the illicit transfer of wealth from colonies to the industrial centre of empire. Of course, it was always a mystery how, without doing anything for them, one could take away such bonanzas from countries which were, according to the judgement of anti-colonialists, so utterly poor that no wealth existed at all. But now, since this has stopped, the other even greater mystery must be explained: why, with the cessation of the asserted plunder, economic growth in the industrial countries does not decline and why the economy of the former colonial areas does not advance much faster than in industrial countries.

I mention this because the entire process of former colonial expansion is so generally misunderstood, particularly in the United States, where anti-colonialism reaches an almost religious fervour. This derives from a totally defective analogy—as well as the most charitable emotions to be found anywhere, but simultaneously from unrealistic and erroneous assumptions about economic processes.

In the newly created turbulent, revolutionary, and emotionally-charged international atmosphere, two features are outstanding:

(a) The advanced industrial countries of Western Europe, North America and the Pacific Northwest with their well-developed and socially responsible system of competitive private enterprise and sovereignty of the consumer have gained extraordinary strength and dynamic growth far beyond keenest expectations. These countries have discovered and developed unlimited sources of energy and have opened with it entirely new frontiers in lowering costs of transportation.

These countries have even succeeded in rapidly expanding their agricultural output of food, feed, and fibres per capita.

(b) In most of the less industrialized still primarily rural countries the most pressing social and political problem and the requirement for some sort of stability and domestic peace is to improve the per capita income of the broad mass of rural people at the village level. Whether there will be chaos, bloodshed, disease and pestilence, despair and revolution followed by dictatorial rule under martial law or some continuity of sane progress in lifting the social pyramid at the base depends entirely upon whether or not healthy and continuous economic progress can be attained. Unfortunately a large number of these countries have wasted substantial quantities of capital (which in part had been expropriated from former owners and investors and in part received as grants or loans from governments of industrial countries). Such deplorable mismanagement of their own domestic and foreign economic policies has approached the point of insolvency and spoliation of their status as reliable debtors. Yet, such default in some of the most populous as well as the most scantily populated countries is in contrast to dynamic and sound development in other developing countries.

Since the welfare of advanced industrial exporting countries and the welfare of the developing, primarily raw materials exporting countries are mutually interdependent, it is mandatory for both types of countries to recognize and deal with the causes of the ominous, disturbing and potentially calamitous drift into decline,

insolvency, and political and social chaos occurring in so many under-developed countries.

The fact that there have been prolonged boom conditions in the phase of business expansion on both sides of the North Atlantic and in Japan may make the end of such prosperity phase even more painful if, in the wake of such contraction in industrial countries, the under-developed countries run into a real crisis. The possibility of cumulative recessive effects is far from being purely academic.

Unfortunately the enormously complex task of overcoming the combination of depressive factors in many of those countries defies any attempt to correct their effect simply by magnanimous further transfer of capital from the leading industrial countries. In fact, such hasty emergency transfer of capital is bound to delay in many instances the cure of the multiple conditions causing the disastrous drift inside those countries and thus can only contribute to more permanent waste of existing assets and resources. We may remind ourselves at this point that even in this wealthiest of all countries of ours, capital happens still to be a scarce resource that demands good husbandry. What is needed in those emergency cases, of which there are uncomfortably many, is the courage of the industrially advanced nations to diagnose in a candid, fearless and helpful fashion the causes which undermine sound and stable economic growth, even at the risk of some delay in a resumption of a greater pace of development.

Before we can enumerate the major conditions favourable to economic development we must clarify a few conceptual caveats in order to avoid unnecessary confusion, particularly in this age of total ideological warfare and the concealed guerilla weapons of a sort of judo-semantics. This is the most powerful secret weapon of our times.

When we agree that the main goal must be to get in the industrially retarded countries more purchasing power into the pockets of the average consumer, which will give him the opportunity to obtain better food, clothing, shelter, and such services as transportation, medical care, and some social security, we must be cautious not to fall into the trap of unconditional surrender to such goals. Even this end does not justify all and every means to achieve it. There must be assurance of the limiting condition that the choice of means is guided at all times by the overall rule of a minimum of coercion, respect for an optimum of freedom and civil liberties. In other words, the goal is not purely materialistic one of say "x" units of goods and services per capita irrespective of what they cost in terms of human dignity and the pursuit of happiness in a humane society. On the contrary, any planning for economic progress which treats suffering and loss of freedom and human dignity as outside the equations should be considered as a plot to enslave the people.

When we come next to the question of an equitable remuneration for hired work we must carefully realize that nobody has ever invented or devised a method of determining by an objective formula the equitable setting of an hourly wage for the least desirable as well as the most convenient or attractive types of work, say garbage removal, watch repairing, milking cows in a split shift, surgery, playing in an orchestra, or academic teaching. The only equitable device to set wage



rates objectively is the bidding by employers in a competitive free labour market. The wage rate is being adapted to the effective supply of labour and the effective demand in the free labour market. In other words, the wage rate for garbage removal is being raised more and more up to the point at which the needed workers are available. This may set the rate much higher than what is to be paid for much more refined types of work with higher educational requirements.

*The humane society's economy rests on the right to say good-bye—namely the right of a worker to say good-bye to an employer and to work for another one. Similarly, the employer must have the right to say good-bye to a worker if he does not perform according to expectations. Of course this does not mean that either side can just break a contract while it is in force, but if and when the contract comes to an end. The humane society's economy works with reward and penalty, not by coercion. Since free people are far more productive and creative in their work than are slaves, particularly in the specialized modern economy, the humane society can afford to grant freedom to loaf and say good-bye, but it cannot afford the coercion of the state-operated *economie dirigée*.*

This brings us to the question of the resources that are needed in a developing economy, or, at that, in any economy. Unfortunately, the public, even in the most advanced countries, has many erroneous ideas about the concept of resources. A number of people—including many who ought to know better and many who are responsible for the public regulation of resource use—believe that resources as such are identical with wealth that by itself yields a physical output of valuable products or even a flow of income. This is a grievous error. Another popular but equally erroneous idea is that the potentiality of a part of the natural environment to be a natural resource is static and unchanging. In reality the importance, utility, and value of such resources is a function of the changing specific needs and wants of the people at a certain time, a function of the technology, skills, and equipment at the command of a society at that time, and finally a function of alternative sources of supply. What is crude oil? In 1850 it was a nuisance to American Indians and white farmers. In 1870 it was a source of kerosene for lamps, but explosive gasoline was dumped in rivers. By 1900 gasoline was valuable and kerosene less so, but natural gas was a nuisance. By 1940 diesel oil, fuel oil, asphalt lubricants, and natural gas were all precious materials. Yet, to a Berber tribesman in the Sahara all of it is still a nuisance.

Resources are factors required in the production of wealth in the form of a flow of goods and services and, in the exchange economy, in income. Most economic processes require a co-operation of several resources. We distinguish three types of resources:

A. *Human Resources*—means the capacity of people to utilise their physical, intellectual, and moral initiative and ability to render service individually or in co-operation with others to create wealth. This sort of resource is ultimately the only genuine prime moving factor in an economy. This resource has an unlimited range of potential growth and its capacity determines first and last of all what a nation can achieve and what level of consumption, living, leisure and security it can afford at the price of how much sweat and toil.

Among the physical conditions which have a decisive impact on the capacity of this resource are the state of health, the average diet, the stamina and endurance of members of the labour force of both sexes and different ages. But even the best-fed strong healthy physical specimens of the human race do not necessarily constitute an effective labour force. Innumerable variables are at play and they are far more important in their influence than training of body, hand, and mind and application of knowledge through education—despite the extraordinary opportunities these afford to increase the utility of a labour force. Such variables are attitudes toward work and leisure, sense of obligation and duty to make a contribution, self-discipline and pride of fending for oneself, motivation for any action or choice, response to different kinds of incentives, tenacity and persistence of effort, resistance to addiction to narcotics or alcohol, work and living morale, and ethical concepts. Any one of these variables may enhance the effects of others or may invalidate them. All these attitudes and traits in a labour force result from the performance of the nuclear cell of any society, the family. But they are also formed by formal education or apprenticeship and by religious groups.

As important as the intellectual and moral equipment which entrants into the labour market bring with them is the interplay between people with different gifts and talents, such as the capacity for leadership in the few and the tendency in the many to respond to it. This ability to influence people, to organize, to inspire, and to manage is uniquely important and a demonstrably different quality from the capacity to work by taking orders. Yet while some of it can be developed by training, a critical ingredient is the temperamental disposition, a genetic rather than environmental factor. While decision-making is an art that can be developed by training, the talent for it probably has strong temperamental roots. Hence there is good reason for offering the greatest opportunity for this talent to prove itself and to recruit the optimal number of the work force from this managerial pool.

B. Next to man's creative mind and spirit as the Resource No. 1 are the so-called natural or environmental resources. They are:

1. land in all its environmental qualities—climatic conditions, topography, soil, sub-soil, underground. The uses of land comprise *first*, those for agriculture in its broadest sense, *i.e.*, for, the production of food, feed, and fibres, second, those of industrial sites, third, transportation, fourth, defense, fifth, residential use, and sixth, educational, religious, and recreational use.

2. water in all qualities, from saltwater to brackish, and to fresh water, or from drinking water to sewerage, and in all forms from ocean to lakes, or from stagnant pools to currents—arroyos, rivers, creeks.

The creative use of water resources ranges from use as drinking water for men and beast, to irrigation, transportation, power generation, and industrial use.

3. radiation, movement of wind, power of tides. All these are sources of energy.

4. energy-bearing mineral deposits like coal, lignite, oil, natural gas, uranium.

5. ores of metals and other chemicals.

This list may seem redundant and pedantic. Yet most pertinent to our discussion is the fact that all these resources by themselves constitute no value and yield nothing. Only in relation to man's specific needs and wants and only by the purposeful and intelligent application of management and labour do these environmental resources yield any goods or services, and only insofar as they yield a greater value than that of the input applied to them do they contribute to income. This holds particularly for agricultural use which involves mining of carbon from the air and takes only minute replenishable ingredients out of the soil. These natural resources are opportunities to apply man's ingenuity, inventiveness, skill, and decision-making. In general, their utilization requires, in addition to management and labour, the application of the third type of resources: capital.

The entire world-wide discussion of land reform or agrarian reform suffers from the immensely popular but grievous misconception that land as such is yielding income *per se* and that it thus has an autonomous quality of bestowing wealth on the occupant or owner. This is the sort of logic that reverses the sequence: "It has rained—hence the street is wet" by concluding: "The street is wet, therefore it must have rained." Some people own land and earn a good income. Hence if we give poor people land they will earn a good income.

C. The third type are man-made resources, *i.e.*, capital in the form of work and livestock, stocks of raw materials or manufactured products, means of transportation, machinery and tools, improvements on and to land, such as agricultural, industrial, or residential buildings, field inventories, drainage, and irrigation, pavements, bridges, wells, fences, or consumer goods, and producer or investment goods.

To summarize this analysis of the necessary combination of human, natural, and man-made resources, we may say that the degree of economic development that will actually take place in a particular part of the world depends far more on the attitude, behaviour, and achievements of individuals and families in their organized national society than on the natural endowment of what is so glibly called natural resources. Beyond this, the achievement that can be attained depends again far more on man-made and man-controlled conditions to be discussed than on any fixed set of geographic, ethnic, or other ratios of quantifiable factors of production. It is furthermore untrue that the economic performance of a nation is a function of a specifically definable rate of population growth. In other words, if the population did not grow in numbers at all this would be no assurance of economic growth. On the contrary !

These are, at least, gleanings from my travels and studies in many distant lands.

What pervades the history of Western civilization and its proud achievement in conquering the scourges of mankind—famine, pestilence, and poverty—and making large formerly uninhabitable parts of the earth habitable is the basic faith in the fundamental gift of intelligence of man, irrespective of his genetic, geographic, social, or environmental origin. The typical pioneering spirit of the West has its orientation and its optimism in this faith in the ability of man everywhere to act intelligently as economic man by responding with decisions of his own choice

to various incentives of reward and penalties, or to take the risk of choosing opportunity instead of security.

In other words, the non-coercive arrangement of optimal decentralization of will-power and decision-making as the driving force of economic development relies ultimately on the belief that the people as consumers are—despite all their potential faults and errors in judgement—still the best adjudicators of what is good for them in the context of their preferences. This is the essence of political democracy and the economy that is compatible with it. All “high-faluting” scientific planned economy systems, which subordinate the consumer to the state, are designed by men who know exactly—and for my taste far too well—what is good for other people. In all such systems the apparatchiks in the planning tower coerce all the consumers, except themselves, to obey order from above. The planners begin by rejecting the principle by which a free humane society exists, namely that the consumer must be sovereign in allocating resources according to his preference by the freedom to spend his earned income the way he wants.

However, having said that and thereby laying myself open to the outraged protest that what I have in mind is *laisse faire* “at its profiteering worst”—I shall disappoint my critics in many ways. First of all, I do not believe that there has ever been at any time in history an economic system in which no legal framework existed for the economy and where everything was left to libertinism and license for everybody to behave at his very selfish worst to the point of ruining himself and everybody else.

To give man in any country the chance to live and work in a social and political environment that grants and secures an optimal degree of freedom implies a number of basic general requirements or conditions.

Among them I would rate highest the requirement that the majority of the people are reasonable and realistic in their expectations as to timing and degree of what can be achieved in terms of economic betterment. If they are unreasonable, stubborn, and truculent in expecting and demanding in one year progress that may be attained at best in ten years they create a political crisis. Democracy presupposes citizens who act rationally. In the absence of such minimum of reasonableness only force can prevent chaos. In any nation the rational force is aided by the civic influence of people of more mature age and of housewives, who due to more experience tend to have more rationally balanced views than youth with its greater vigour, more radical emotions and more impatient tendencies. People must in their majority and in their actions as the body politic possess themselves and demand of others a certain minimum of self-discipline, a desire for peaceful and orderly economic conduct, which allows all those able and willing to work to make their contribution. In the absence of this attitude life can be preserved only by martial law and military rule. This begins with the abrogation of civil liberty, which interrupts sound economic procedures. Yet, even in a society in which the majority of adults display those necessary sober attitudes there is the priority need of *effective public administration*. This is discussed least, if at all, in most learned conferences on economic growth and its acceleration, although the greatest defects in development in many countries begin because of the absence of effective and decent public administration at the local level.

(1) Needed is a firm, law abiding, and patriotic police force that enforces basic criminal law, and protects life, civil rights and property, not only in some preferred parts of a big city but in villages, on roads and in the countryside. The police force must be incorruptible by bribery. It must be reliable, which means that its members must be willing to give their lives in defense of a prisoner rather than to surrender him to a mob of lynchers.

(2) The same force must protect and regulate the free and equitable access to traffic and transportation and thus shield the movement of people, animals, and goods on land, water, and in the air against theft, piracy, kidnapping, and injury. This does not safeguard the availability of transport services which must be rendered to the public by the enterprises that specialize in them.

(3) Public health administration must enforce sanitation, protection against contagious diseases, and pests. Safety of air, water for drinking and domestic use, control of rats, mice, rodents, birds, snakes, and beasts of prey are essential conditions for a sound performance of the economy.

(4) There must be an alert properly organized service for fire protection and service units for natural disasters and emergencies.

(5) For normal times as well as emergencies, maintenance of health calls for accessible medical care and hospital service.

(6) Public administration must protect private communication facilities and services or provide them as public utilities.

(7) In order to develop human resources, facilities and regulations for the broadest public and private education and extension are needed for children, young people, adolescents and adults, and education must be geared to the specific needs of economic progress. It must not be perfectionist in isolation from the actual situation. And it cannot have absolute priority in terms of appropriations of funds or rank of urgency. If no security of life, traffic, transportation, or health exists, parents will not send children to school. If at the same time higher education leads merely to an academic proletariat that fights with radicalism for its selfish interests, it is the opposite of a force that aids economic development.

I feel assured that this catalogue of necessary conditions will be considered by many advocates of acceleration of economic growth by capital aid as irrelevant or redundant observations. Yet, it is my considered opinion that what under otherwise equal circumstances makes the difference between economic prosperity and growth in one country and stagnation or deterioration in the other is often primarily the presence or absence of reliable and effective public administration performance.

Where life, health, physical fitness, the possession of goods or money, or the safety of capital in any form are subjected to daily and nightly hazards economic processes are inevitably jeopardized, interrupted, and unpredictable. Where all land and water is perennially polluted and infested by human faeces and urine and a good deal of all food is infected by parasites or pathogenic bacteria, where most

of the farm animals are disease-infested, sweeps of epidemics, pests and plagues act as powerful deterrents to economic progress. Unfortunately the transition from colonial to independent status has in many areas revived these hazards almost to pre-colonial state.

Economic development requires persistent strenuous effort for many years in all individual enterprises particularly in agriculture, forestry, mining, and in the auxiliary transport, processing, and storage facilities. The more uncertainty, hazard, and risk of losses accumulate the more any operator of a farm, any manager of a business must by necessity act on the shortest term with the least investment and the greatest liquidity and mobility of his means.

For all these reasons the most essential condition for economic progress is a legal institutional frame for the national economy which provides a system of reward and penalty, and of clearly defined opportunity as well as security for all activities. This legislative foundation of private property and capital, of contracts, of security of loans, bequeathing estates, exchange, and many other economic transactions should offer a maximum incentive for economic initiative of all parties concerned by assuring reward for successful performance. Here again the emphasis must be on continuity and stability. This is largely ignored by planners who have ingenious devices designed to correct all defects and imperfections of performance of capital owners, bankers, enterprisers, and workers.

In this connection I mention what is happening in so-called "land reform" or "agrarian reform." The asserted aim of the reformers is in most cases a redistribution of land among operators, usually with sharp antagonism toward large-scale operators. If agrarian reformers had the proper respect for the vital need of certainty in the rules for economic development they would choose improvement in longest term mortgage credit and short-term production credit to smaller operators, easier facilities for the sub-division of large tracts of private land, and an equitable land and farm income-tax style in order to achieve better land distribution. Or they would see to it that the government would permit settlers to bid for land out of the public domain. All this would not create a crisis of confidence in the stability of economic conditions.

However, agrarian reformers nearly everywhere are on the road to expropriation, if not plain confiscation, of land from large-scale operators and transfer of title to small farmers, or farm labourers, or any claimants at cut-rate prices or on subsidized easy credit terms or both. This, of course, is not "reform" but revolution. Worst of all, it is invariably years in the making, first in laws, then in administrative execution of such laws. The effect of this stage of many years of threatening expropriation or impending measures on an agricultural system is equivalent to sabotage of economic progress. While it whets the appetite of potential beneficiaries of such revolutionary schemes and thus is a device for political demagoguery it also forces every interested party in agriculture to live from hand to mouth and to behave like a farm tenant whose lease is expiring in a year with no provision for compensation for unexhausted improvements. He liquidates his investment.

While the farm population and the rural population in general in most of the developing countries should get a better chance to earn a better income and



while this calls for the use of more capital on farms, the threat of expropriation under agrarian reform creates such insecurity that the flow of capital into agriculture not only comes to a halt but is reversed. Typically in all countries that are playing the political game of promising agrarian reform indigenous capital is withdrawn from agriculture and takes refuge in metropolitan real estate or in foreign countries.

This is an absurd situation which leads to a weakening of even the most ideal endowment with agricultural assets, as, *e.g.*, in Argentina, Brazil, Colombia, to mention only a few countries.

To claim that this drift must be reversed by capital transfer from governments of industrial countries to governments of developing countries makes no sense. There is no question that the under-developed countries need investment capital for better development and that there must be a gradual movement of farm real estate into the hands of the ablest users of this resource. Part of this capital must necessarily be formed by savings of individuals and profits of enterprises in those countries. Additional funds must come from abroad. The free flow of both springs of capital requires first and last of all a favourable political and economic climate in which business can flourish.

To create this political-economic climate requires the fulfilment of one other vital condition by the authority of the government and with the endorsement of the people, a condition which most powerfully affects the economic action and behaviour of all the people in a country and all its foreign economic relations. Yet this condition is most difficult to fulfil in a democracy.

Every country needs—if it is to have rational economic behaviour by its people in the market—a medium of exchange and a generally accepted measure of value in the form of a national currency. If the currency is to serve all purposes well it must be freely convertible, be endorsed by ample reserves, and thus in a strong unassailable condition, and it must be safeguarded against deterioration of its purchasing power. The methods by which a government can maintain the purchasing power of the national currency are fiscal, monetary, and banking policies. Unfortunately many countries, particularly many of the developing group, are plagued by rapid inflation. Inflation arises from irresponsible fiscal policies. When governments spend far more than they earn in revenues they print money and inflate. But the people, particularly when organized in pressure groups can force inflation by wage demands that raise costs of production and distribution and by price demands that diminish consumer purchasing power. Cost push and price pull inflation usually are driving the same cost of living spiral.

Once this inflation is on its way it is not only hard to stop but it creates chaos in a hideous fashion. Capital no longer moves to spots where it earns the highest reward, but to safety, even if it should for some while earn no interest or yield no income at all. If an economy could function by decisions which would all be valid for only a week or at most one month, inflation would still leave a trail of wreckage because of uncertainty about the pace of further loss of purchasing power and because everybody would try to get rid of money as fast as possible and to hedge in goods. But, of course, no economy can even physically function

by such shortest term of decisions and obligations. Therefore the most damage is done by what inflation does to long-term obligations. It simply turns them into a fraud. Somebody owns a building, or a factory, or a farm. When he bought it he borrowed say 40 per cent of its value against a mortgage. After 10 years the mortgage is due. If the currency lost in the meantime 70 per cent of its purchasing power the creditor loses that much. If most of the people own life insurance so that they may be able to stop working at 65 years of age, inflation, even of more moderate degree will repay them in shrunken units of the currency. So they cannot retire, and take a job away from entrants into the labour force. Some people succeed in making big gains by inflation; the majority of them are the losers. This not only disorganizes an economy to the point of stagnation or worse but it convinces the people that there is neither equity nor justice in the economy. Hence political unrest brings radicals and conspirators to the fore.

Most Latin American countries have had a serious case of this virulent disease. It perverts a market economy by enforcing through the courts the formula that irrespective of its purchasing power one unit of the currency today is legally the equivalent of a unit ten years ago. Even two years ago the cost of living index compared with 1953 was in Bolivia 33 times, in Chile 12 times, in Argentina 6 times, in Brazil 4 times higher. Since 1962 Brazil has had a wild spurt, and Chile is in the throes of more inflation.

When there is inflation saving ends. Hand to mouth living prevails.

With this sad review I want to close my account of the conditions required for economic growth and stability. To stop inflation is the responsibility of national governments. They can get advice and some assistance from the International Monetary Fund. But ultimately it is the national government that has to balance the budget, to stop financing by monetary policy reckless cost-push and price-pull that ends in inflation and a faster growth of public and private indebtedness than real growth of gross national product.

Confiscation of capital invested by foreigners is never more than a brief stop gap which does not reduce the causes of inflation and cannot avoid discouraging additional capital to enter such countries. Only simpletons use the sledgehammer approach of confiscating *bona fide* investment capital.

In conclusion, I want to emphasize that there are many reasons why with the new era of national independence of more than 50 countries the age-old axiom that economic development and expansion is much faster in advanced industrial nations than in industrially retarded countries still holds. The causes of lagging development lie largely in the conditions I have reviewed. I anticipate that this will become apparent through bitter experience gradually gained in quite a number of those countries which are suffering from a combination of too many evil effects of unfulfilled conditions for economic growth.

So long as these conditions are not improved in those countries by their governments, it is a waste of scarce resources and an even more costly delay of reform and improvement to try to accelerate development by pumping capital into those countries from the outside, particularly from government to government. However, when and where those conditions I have enumerated are ful-



filled the attraction for investment of domestic and foreign capital will be so great that it will be difficult to put the brakes on economic development. It will grow from the grassroots up by decentralized initiative of farmers, craftsmen, industrialists, and business in general. Why is it that capital flows into Malaysia and out of Indonesia?

Economic affairs among industrially more advanced and less advanced nations are, to be sure, first and last of all affairs of a political economy. While it is perfectly obvious that all parties concerned would be best off with the freest mobility of goods, services, capital, technical knowledge, and skilled personnel, it is also obvious that demonic forces in the present day course of political events persuade too many political leaders to gamble on getting something for nothing, or something at half-price by using collective bargaining or coercion by majority vote. The much-needed successor organization to the League of Nations which carries the bold and challenging name of "United Nations" has left incredible disorder in the richly endowed and formerly well-developing area of the Congo, with its 14 or 15 million people. This debacle can only give us some wholesome respect for all that is involved in the development of industrially retarded countries.

To my mind the cause of peace and diminution of poverty can be advanced most by the closest possible co-operation among the leading industrial countries which are committed to upholding the cause of freedom and human dignity under government by law. Such co-operation should concentrate on fulfilment of the conditions I have discussed.

Professor Generales has chosen the *Leitmotiv* for this conference: "Freedom: Hope and Dilemma." I have been dealing primarily with the aggravating dilemma. I did this because to maintain the long-term hope for freedom one can hardly do enough by merely worrying about the dilemma in the short run. I also hope I made it clear that as a social scientist I do not believe in the "solution" of social problems. Engineers solve problems when they build a bridge or a tower. Totalitarian rulers solve problems because their image of society is one of a machine in which people are just parts. The humane society with its social conscience never solves social, economic, or political problems. We try to understand them, tackle them, struggle to our best ability and in the light of historical experience—and we alleviate grievances. But the problem shifts and changes as we have some success. Freedom is an achievement—not an institution.