Carnegie Briefing

Technology- harness for the greater good ; most powerful force shaping institution's domestically and internationally

- Communications, genetic engineering
- "Killer Technology"- totally transform an industry or society
  -microchip
  -space technology
  -molecular biology

GOAL OF U.S.

- how do we prosper in a global economy that is technologically driven?
- massive job shifts occur in short periods of time.
- only in service industry has employment increased.
- job creation actually overwhelms the jobs loss category
- technology is the key to globalization
- international companies control a huge percentage of production in the world
- individual and corporate interests clash because of technology
  -downsizing
  -attenuation of firm loyalty
- "workers need to look at themselves as self-employed"
- society may be jobless not workless
- there is an enormous pool of labor around the world that is ***cheap.***
- "don't have to do engineering in the United States- can go elsewhere."
- everything is mobile but labor

POLICIES:

- We are prospering in this global economy.
- We need to recognize the power of science in technology
- We need to adopt incentives for science and technology
- We need trade and economic policies that encourage *two way* flow of labor

- Protect intellectual property rights
- There is a large number of economically disadvantaged
- Point to tremendous job growth in United States (for China MFN and Nafta)
- Economically, it can't be proven that open trade provides more jobs
- Openness needs the strength of the safety nets
- Need to include labor, environment and human rights concerns. In the end we'll all be better off.
  (Social insecurity/ Fear of technology)

- Larger number of economically disadvantaged requires a greater stress on education

****

** We can't have growing inequities and sustain democracy

1) Stress the relationship between broadly shared prosperity and democracy.

2) Globalization is eroding institutions that gave us prosperity in earlier times. Globalization puts things beyond reach of government. It will change all the rules. Market needs to be kept in its place or it takes over everything.

3) How do we get more broad participation in economic growth?

4) Inflation is a myth, especially in the new global setting

5) Create a demand for skilled people -broadly shared prosperity,
-Plantation mentality
**Some don't believe they have a stake in this system*
**With growing inequality can develop plantation neutrality*
**Family is less important than it used to be*

6) Need a willingness to train new workers, collective bargaining and social safety net.

Strengthening of Safety Nets:

Pressure for:

- health insurance
- low wages incentive
- more and more unequal wages
- need to have greater worker participation
- massive effort to improve education
  bankrupting children- *debt clock*- we need an *"asset clock"*
- full employment for targeting inflation
- public investments pays high dividends

****

Governance- Government is interacting with private sector and nonprofits to organize our lives

Why anti-government?
-decline in most institutions
-end of Cold War
(starts in 64'(Vietnam, Watergate))

****

Why people don't trust government:

1) -economy- anxiety over transformation
2) -sociologically-post material values- *community vs. individual*
3) -shift in party structure
   -increased role of TV
   -not use of party structure gap between political and elites and local party structure
      * polarization of elites more- gap filled with cynicism
4) -media change- how they cover institutions- more negative and conflict ridden
5) -campaign- "demarketing of government" through media and political structure.
   -views come through media: 72% experience gap/ anti-politics view
6) -culturally driven

Government growth during New Deal
Narrow costing in media
Not liberal media
Anti-political media

But military and Post Office are two institutions that don't fit view of anti-government framework. Why? They advertise...brought closer to the people.

Radcliffe College

RADCLIFFE EDUCATIONAL PROGRAMS

RADCLIFFE INSTITUTES FOR ADVANCED STUDY

RADCLIFFE PUBLIC POLICY INSTITUTE

January 12, 1998

President William Clinton
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President,

I would like to thank you for the wonderful dinner you and Mrs. Clinton hosted on January 7th. The conversation was thoughtful, at moments far-reaching and consistently stimulating. Hopefully the interdisciplinary discourse was helpful to you and the Vice President as you think about the state of the nation from past, present and future perspectives. And, the delicious dinner complimented the intellectual smorgasbord.

I would like to respond to your request to send you additional ideas as a next step. During our dinner discussion, three principal themes struck me as having greatest significance:

1. **The importance of creating a Human Face for the Global Economy**

As I reported, we learned from our focus groups around the nation that there is deep and persistent anxiety about the future. The "walking on jello" experience cuts across race, class, gender, age and political persuasions. Americans, even those doing well under the present economic prosperity, are concerned about their own future and the future of their children and grandchildren.

The good news is that there is much common ground, if not solid ground, in this "jello" experience. The challenge, however, is that most people fail to see political leadership addressing the causes of their anxiety or formulating solutions that may bring about more lasting security and confidence.

Mr. President, we need a coherent, clearly-presented analysis of the challenges confronting us as we approach the next century, placed in the context of our history since the Industrial Revolution. The average American needs clarity on the benefits that result from global connections, both as a nation and in terms of how typical families gain from these often invisible, macro-level transformations. There needs to be an honest discussion about the fact that while a substantial expansion of global markets and capital has occurred, there has been a lag in creating social institutions to sustain such development. The institutions that most deeply affect our lives - the family, the workplace, schools, local and federal government, religious and civic associations - do not seem to provide the safety necessary to sustain us in these times. Each of the institutions that compose the foundation for our national common ground seem under attack and increasingly fragile.

In short, we need a vision – a story that we all can believe in – that provides for a win-win solution: that we can find common secure ground close to home AND still benefit from global markets and connecting to our global neighbors. (e.g.Why should John and Mary living in Atlanta feel a sense of bonding with Jose and Maria in Mexico City or Jean and Marianne in Quebec?)

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2. **Building Work-Family-Community Connection**

As others have suggested, every society needs shared values and shared institutions if there is to be social cohesion. Continuing from the section above, we have failed since the Industrial Revolution to configure the institutions of work, family and community in ways that sustain us, knit us together, and meet the turbulence of changes locally and globally. In particular, women have felt the costs of these changes in the dramatic rise in labor force participation, the continuing gender inequity in pay and care-giving responsibilities, and the resistance of work, educational and civic institutions to re-organize to enhance family well-being. Mr. President , as I pointed out at the dinner, you and Mrs. Clinton have helped the nation correct this failure through your landmark FMLA legislation, your extension of the Peace Corps Service, your recent child care, Medicare expansion and education proposals. These are being applauded by people of all generations and I congratulate you!

Yet these are just the first strands of the fabric that must be woven.

I would like to offer a specific proposal in the spirit of creating a viable institutional quilt for our nation's future: **A Presidential Commission on Work-Family-Community Alliance for the 21st Century**. The Commission's overall mission would be to aid our nation in formulating work, family and civic life in ways that enhance social cohesion and recognize the economic, workplace, and demographic changes that are occurring. The Commission would bring together outstanding representatives from business, labor, government and civic society for a specific period (one year perhaps) with the objectives of educating the public, spotlighting best practices and producing policy initiatives for the public and private domains. The conceptual basis of the Commission would be that we need to structure work, family and community institutions to mutually support each other rather than undermine the quality of life Americans seek.

The response to the idea for such a Commission I think would be very positive, gathering much support from women's organizations, religious and civic groups, health and educational leaders as well as forging bipartisan efforts. I would welcome the opportunity to discuss this proposal with you and your staff.

3. **Overcoming Inequity**

One of the most powerful exchanges during our dinner concerned racial inequity. I agree with Sam Beer that you and Vice President Gore, as white Southern males, may have a unique role to play in keeping "our eyes on the prize" of racial harmony. I also agree with Randall Kennedy that this is exceedingly difficult to do and that the Town Meeting approach, while good, is not sufficient. Our society contains people with many different customs, traditions and outlooks. More than ever we need to remain clear that the only way democracy will survive is if we can each hold dear to us the respect for human rights. I think the costs of widening inequity need to be made crystal clear. Americans measure what they value. If we value human rights, equal access, and equal opportunity, then we must measure what the costs are - for the individual, for the community, for the nation - if they do not exist.

I very much appreciate the opportunity to share my "after dinner" thoughts and ideas with you. I hope we can continue the exchange.

A final thought. Each Sabbath a designated portion or "parshah" of the Old Testament is read in temples around the globe. In the next weeks leading up to your State of the Union Address, the readings will move from the end of Genesis and the death of Joseph to the beginning of Exodus and the birth of Moses. The sages tell us that this marks the passage from death of the patriarchs (and matriarchs) to the birth of a new leader. It also marks the coming to fruition of the people, the nation of Israel, who reach freedom and redemption in the Exodus story. May the Exodus story inspire you at this important moment and provide a sense of blessing.

Sincerely,

Paula

Paula M. Rayman, Ph.D.
Director

Journal of Democracy 6:1, Jan 1995, 65-78

As featured on National Public Radio, The New York Times, and in other major media, we offer this sold-out, much-discussed Journal of Democracy *article by Robert Putnam, "Bowling Alone." The* Journal of Democracy *is at present scheduled to go online in full text in the third year of Project Muse (1997). You can also find information at DemocracyNet about the* Journal of Democracy *and its sponsor, the National Endowment for Democracy.*

Bowling Alone: America's Declining Social Capital

Robert D. Putnam

An Interview with Robert Putnam

Many students of the new democracies that have emerged over the past decade and a half have emphasized the importance of a strong and active civil society to the consolidation of democracy. Especially with regard to the postcommunist countries, scholars and democratic activists alike have lamented the absence or obliteration of traditions of independent civic engagement and a widespread tendency toward passive reliance on the state. To those concerned with the weakness of civil societies in the developing or postcommunist world, the advanced Western democracies and above all the United States have typically been taken as models to be emulated. There is striking evidence, however, that the vibrancy of American civil society has notably declined over the past several decades.

Ever since the publication of Alexis de Tocqueville's *Democracy in America*, the United States has played a central role in systematic studies of the links between democracy and civil society. Although this is in part because trends in American life are often regarded as harbingers of social modernization, it is also because America has traditionally been considered unusually "civic" (a reputation that, as we shall later see, has not been entirely unjustified).

When Tocqueville visited the United States in the 1830s, it was the Americans' propensity for civic association that most impressed him as the key to their unprecedented ability to make democracy work. "Americans of all ages, all stations in life, and all types of disposition," **[End Page 65]** he observed, "are forever forming associations. There are not only commercial and industrial associations in which all take part, but others of a thousand different types--religious, moral, serious, futile, very general and very limited, immensely large and very minute. . . . Nothing, in my view, deserves more attention than the intellectual and moral associations in America." 1

Recently, American social scientists of a neo-Tocquevillean bent have unearthed a wide range of empirical evidence that the quality of public life and the performance of social institutions (and not only in America) are indeed powerfully influenced by norms and networks of civic engagement. Researchers in such fields as education, urban poverty, unemployment, the control of crime and drug abuse, and even health have discovered that successful outcomes are more likely in civically engaged communities. Similarly, research on the varying economic attainments of different ethnic groups in the United States has demonstrated the importance of social bonds within each group. These results are consistent with research in a wide range of settings that demonstrates the vital importance of social networks for job placement and many other economic outcomes.

Meanwhile, a seemingly unrelated body of research on the sociology of economic development has also focused attention on the role of social networks. Some of this work is situated in the developing countries, and some of it elucidates the peculiarly successful "network capitalism" of East Asia. [2] Even in less exotic Western economies, however, researchers have discovered highly efficient, highly flexible "industrial districts" based on networks of collaboration among workers and small entrepreneurs. Far from being paleoindustrial anachronisms, these dense interpersonal and interorganizational networks undergird ultramodern industries, from the high tech of Silicon Valley to the high fashion of Benetton.

The norms and networks of civic engagement also powerfully affect the performance of representative government. That, at least, was the central conclusion of my own 20-year, quasi-experimental study of subnational governments in different regions of Italy. [3] Although all these regional governments seemed identical on paper, their levels of effectiveness varied dramatically. Systematic inquiry showed that the quality of governance was determined by longstanding traditions of civic engagement (or its absence). Voter turnout, newspaper readership, membership in choral societies and football clubs--these were the hallmarks of a successful region. In fact, historical analysis suggested that these networks of organized reciprocity and civic solidarity, far from being an epiphenomenon of socioeconomic modernization, were a precondition for it.

No doubt the mechanisms through which civic engagement and social connectedness produce such results--better schools, faster economic **[End Page 66]** development, lower crime, and more effective government--are multiple and complex. While these briefly recounted findings require further confirmation and perhaps qualification, the parallels across hundreds of empirical studies in a dozen disparate disciplines and subfields are striking. Social scientists in several fields have recently suggested a common framework for understanding these phenomena, a framework that rests on the concept of *social capital.* [4] By analogy with notions of physical capital and human capital--tools and training that enhance individual productivity--"social capital" refers to features of social organization such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit.

For a variety of reasons, life is easier in a community blessed with a substantial stock of social capital. In the first place, networks of civic engagement foster sturdy norms of generalized reciprocity and encourage the emergence of social trust. Such networks facilitate coordination and communication, amplify reputations, and thus allow dilemmas of collective action to be resolved. When economic and political negotiation is embedded in dense networks of social interaction, incentives for opportunism are reduced. At the same time, networks of civic engagement embody past success at collaboration, which can serve as a cultural template for future collaboration. Finally, dense networks of interaction probably broaden the participants' sense of self, developing the "I" into the "we," or (in the language of rational-choice theorists) enhancing the participants' "taste" for collective benefits.

I do not intend here to survey (much less contribute to) the development of the theory of social capital. Instead, I use the central premise of that rapidly growing body of work--that social connections and civic engagement pervasively influence our public life, as well as our private prospects--as the starting point for an empirical survey of trends in social capital in contemporary America. I concentrate here entirely on the American case, although the developments I portray may in some measure characterize many contemporary societies.

Whatever Happened to Civic Engagement?

We begin with familiar evidence on changing patterns of political participation, not least because it is immediately relevant to issues of democracy in the narrow sense. Consider the well-known decline in turnout in national elections over the last three decades. From a relative high point in the early 1960s, voter turnout had by 1990 declined by nearly a quarter; tens of millions of Americans had forsaken their parents' habitual readiness to engage in the simplest act of citizenship. Broadly similar trends also characterize participation in state and local elections.

It is not just the voting booth that has been increasingly deserted by **[End Page 67]** Americans. A series of identical questions posed by the Roper Organization to national samples ten times each year over the last two decades reveals that since 1973 the number of Americans who report that "in the past year" they have "attended a public meeting on town or school affairs" has fallen by more than a third (from 22 percent in 1973 to 13 percent in 1993). Similar (or even greater) relative declines are evident in responses to questions about attending a political rally or speech, serving on a committee of some local organization, and working for a political party. By almost every measure, Americans' direct engagement in politics and government has fallen steadily and sharply over the last generation, despite the fact that average levels of education--the best individual-level predictor of political participation--have risen sharply throughout this period. Every year over the last decade or two, millions more have withdrawn from the affairs of their communities.

Not coincidentally, Americans have also disengaged psychologically from politics and government over this era. The proportion of Americans who reply that they "trust the government in Washington" only "some of the time" or "almost never" has risen steadily from 30 percent in 1966 to 75 percent in 1992.

These trends are well known, of course, and taken by themselves would seem amenable to a strictly political explanation. Perhaps the long litany of political tragedies and scandals since the 1960s (assassinations, Vietnam, Watergate, Irangate, and so on) has triggered an understandable disgust for politics and government among Americans, and that in turn has motivated their withdrawal. I do not doubt that this common interpretation has some merit, but its limitations become plain when we examine trends in civic engagement of a wider sort.

Our survey of organizational membership among Americans can usefully begin with a glance at the aggregate results of the General Social Survey, a scientifically conducted, national-sample survey that has been repeated 14 times over the last two decades. Church-related groups constitute the most common type of organization joined by Americans; they are especially popular with women. Other types of organizations frequently joined by women include school-service groups (mostly parent-teacher associations), sports groups, professional societies, and literary societies. Among men, sports clubs, labor unions, professional societies, fraternal groups, veterans' groups, and service clubs are all relatively popular.

Religious affiliation is by far the most common associational **[End Page 68]** membership among Americans. Indeed, by many measures America continues to be (even more than in Tocqueville's time) an astonishingly "churched" society. For example, the United States has more houses of worship per capita than any other nation on Earth. Yet religious sentiment in America seems to be becoming somewhat less tied to institutions and more self-defined.

How have these complex crosscurrents played out over the last three or four decades in terms of Americans' engagement with organized religion? The general pattern is clear: The 1960s witnessed a significant drop in reported weekly churchgoing--from roughly 48 percent in the late 1950s to roughly 41 percent in the early 1970s. Since then, it has stagnated or (according to some surveys) declined still further. Meanwhile, data from the General Social Survey show a modest decline in membership in all "church-related groups" over the last 20 years. It would seem, then, that net participation by Americans, both in religious services and in church-related groups, has declined modestly (by perhaps a sixth) since the 1960s.

For many years, labor unions provided one of the most common organizational affiliations among American workers. Yet union membership has been falling for nearly four decades, with the steepest decline occurring between 1975 and 1985. Since the mid-1950s, when union membership peaked, the unionized portion of the nonagricultural work force in America has dropped by more than half, falling from 32.5 percent in 1953 to 15.8 percent in 1992. By now, virtually all of the explosive growth in union membership that was associated with the New Deal has been erased. The solidarity of union halls is now mostly a fading memory of aging men. [5]

The parent-teacher association (PTA) has been an especially important form of civic engagement in twentieth-century America because parental involvement in the educational process represents a particularly productive form of social capital. It is, therefore, dismaying to discover that participation in parent-teacher organizations has dropped drastically over the last generation, from more than 12 million in 1964 to barely 5 million in 1982 before recovering to approximately 7 million now.

Next, we turn to evidence on membership in (and volunteering for) civic and fraternal organizations. These data show some striking patterns. First, membership in traditional women's groups has declined more or less steadily since the mid-1960s. For example, membership in the national Federation of Women's Clubs is down by more than half (59 percent) since 1964, while membership in the League of Women Voters (LWV) is off 42 percent since 1969. [6]

Similar reductions are apparent in the numbers of volunteers for mainline civic organizations, such as the Boy Scouts (off by 26 percent since 1970) and the Red Cross (off by 61 percent since 1970). But what about the possibility that volunteers have simply switched their loyalties **[End Page 69]** to other organizations? Evidence on "regular" (as opposed to occasional or "drop-by") volunteering is available from the Labor Department's Current Population Surveys of 1974 and 1989. These estimates suggest that serious volunteering declined by roughly one-sixth over these 15 years, from 24 percent of adults in 1974 to 20 percent in 1989. The multitudes of Red Cross aides and Boy Scout troop leaders now missing in action have apparently not been offset by equal numbers of new recruits elsewhere.

Fraternal organizations have also witnessed a substantial drop in membership during the 1980s and 1990s. Membership is down significantly in such groups as the Lions (off 12 percent since 1983), the Elks (off 18 percent since 1979), the Shriners (off 27 percent since 1979), the Jaycees (off 44 percent since 1979), and the Masons (down 39 percent since 1959). In sum, after expanding steadily throughout most of this century, many major civic organizations have experienced a sudden, substantial, and nearly simultaneous decline in membership over the last decade or two.

The most whimsical yet discomfiting bit of evidence of social disengagement in contemporary America that I have discovered is this: more Americans are bowling today than ever before, but bowling in organized leagues has plummeted in the last decade or so. Between 1980 and 1993 the total number of bowlers in America increased by 10 percent, while league bowling decreased by 40 percent. (Lest this be thought a wholly trivial example, I should note that nearly 80 million Americans went bowling at least once during 1993, *nearly a third more than voted in the 1994 congressional elections* and roughly the same number as claim to attend church regularly. Even after the 1980s' plunge in league bowling, nearly 3 percent of American adults regularly bowl in leagues.) The rise of solo bowling threatens the livelihood of bowling-lane proprietors because those who bowl as members of leagues consume three times as much beer and pizza as solo bowlers, and the money in bowling is in the beer and pizza, not the balls and shoes. The broader social significance, however, lies in the social interaction and even occasionally civic conversations over beer and pizza that solo bowlers forgo. Whether or not bowling beats balloting in the eyes of most Americans, bowling teams illustrate yet another vanishing form of social capital.

Countertrends

At this point, however, we must confront a serious counterargument. Perhaps the traditional forms of civic organization whose decay we have been tracing have been replaced by vibrant new organizations. For example, national environmental organizations (like the Sierra Club) and feminist groups (like the National Organization for Women) grew rapidly **[End Page 70]** during the 1970s and 1980s and now count hundreds of thousands of dues-paying members. An even more dramatic example is the American Association of Retired Persons (AARP), which grew exponentially from 400,000 card-carrying members in 1960 to 33 million in 1993, becoming (after the Catholic Church) the largest private organization in the world. The national administrators of these organizations are among the most feared lobbyists in Washington, in large part because of their massive mailing lists of presumably loyal members.

These new mass-membership organizations are plainly of great political importance. From the point of view of social connectedness, however, they are sufficiently different from classic "secondary associations" that we need to invent a new label--perhaps "tertiary associations." For the vast majority of their members, the only act of membership consists in writing a check for dues or perhaps occasionally reading a newsletter. Few ever attend any meetings of such organizations, and most are unlikely ever (knowingly) to encounter any other member. The bond between any two members of the Sierra Club is less like the bond between any two members of a gardening club and more like the bond between any two Red Sox fans (or perhaps any two devoted Honda owners): they root for the same team and they share some of the same interests, but they are unaware of each other's existence. Their ties, in short, are to common symbols, common leaders, and perhaps common ideals, but not to one another. The theory of social capital argues that associational membership should, for example, increase social trust, but this prediction is much less straightforward with regard to membership in tertiary associations. From the point of view of social connectedness, the Environmental Defense Fund and a bowling league are just not in the same category.

If the growth of tertiary organizations represents one potential (but probably not real) counterexample to my thesis, a second countertrend is represented by the growing prominence of nonprofit organizations, especially nonprofit service agencies. This so-called third sector includes everything from Oxfam and the Metropolitan Museum of Art to the Ford Foundation and the Mayo Clinic. In other words, although most secondary associations are nonprofits, most nonprofit agencies are not secondary associations. To identify trends in the size of the nonprofit sector with trends in social connectedness would be another fundamental conceptual mistake. [7]

A third potential countertrend is much more relevant to an assessment of social capital and civic engagement. Some able researchers have argued that the last few decades have witnessed a rapid expansion in "support groups" of various sorts. Robert Wuthnow reports that fully 40 percent of all Americans claim to be "currently involved in [a] small group that meets regularly and provides support or caring for those who participate in it." [8] Many of these groups are religiously affiliated, but **[End Page 71]** many others are not. For example, nearly 5 percent of Wuthnow's national sample claim to participate regularly in a "self-help" group, such as Alcoholics Anonymous, and nearly as many say they belong to book-discussion groups and hobby clubs.

The groups described by Wuthnow's respondents unquestionably represent an important form of social capital, and they need to be accounted for in any serious reckoning of trends in social connectedness. On the other hand, they do not typically play the same role as traditional civic associations. As Wuthnow emphasizes,

> Small groups may not be fostering community as effectively as many of their proponents would like. Some small groups merely provide occasions for individuals to focus on themselves in the presence of others. The social contract binding members together asserts only the weakest of obligations. Come if you have time. Talk if you feel like it. Respect everyone's opinion. Never criticize. Leave quietly if you become dissatisfied. . . . We can imagine that [these small groups] really substitute for families, neighborhoods, and broader community attachments that may demand lifelong commitments, when, in fact, they do not. [9]

All three of these potential countertrends--tertiary organizations, nonprofit organizations, and support groups--need somehow to be weighed against the erosion of conventional civic organizations. One way of doing so is to consult the General Social Survey.

Within all educational categories, total associational membership declined significantly between 1967 and 1993. Among the college-educated, the average number of group memberships per person fell from 2.8 to 2.0 (a 26-percent decline); among high-school graduates, the number fell from 1.8 to 1.2 (32 percent); and among those with fewer than 12 years of education, the number fell from 1.4 to 1.1 (25 percent). In other words, at *all* educational (and hence social) levels of American society, and counting *all* sorts of group memberships, *the average number of associational memberships has fallen by about a fourth over the last quarter-century.* Without controls for educational levels, the trend is not nearly so clear, but the central point is this: *more Americans than ever before are in social circumstances that foster associational involvement (higher education, middle age, and so on), but nevertheless aggregate* *associational membership appears to be stagnant or declining.*

Broken down by type of group, the downward trend is most marked for church-related groups, for labor unions, for fraternal and veterans' organizations, and for school-service groups. Conversely, membership in professional associations has risen over these years, although less than might have been predicted, given sharply rising educational and occupational levels. Essentially the same trends are evident for both men and women in the sample. In short, the available survey evidence **[End Page 72]** confirms our earlier conclusion: American social capital in the form of civic associations has significantly eroded over the last generation.

Good Neighborliness and Social Trust

I noted earlier that most readily available quantitative evidence on trends in social connectedness involves formal settings, such as the voting booth, the union hall, or the PTA. One glaring exception is so widely discussed as to require little comment here: the most fundamental form of social capital is the family, and the massive evidence of the loosening of bonds within the family (both extended and nuclear) is well known. This trend, of course, is quite consistent with--and may help to explain--our theme of social decapitalization.

A second aspect of informal social capital on which we happen to have reasonably reliable time-series data involves neighborliness. In each General Social Survey since 1974 respondents have been asked, "How often do you spend a social evening with a neighbor?" The proportion of Americans who socialize with their neighbors more than once a year has slowly but steadily declined over the last two decades, from 72 percent in 1974 to 61 percent in 1993. (On the other hand, socializing with "friends who do not live in your neighborhood" appears to be on the increase, a trend that may reflect the growth of workplace-based social connections.)

Americans are also less trusting. The proportion of Americans saying that most people can be trusted fell by more than a third between 1960, when 58 percent chose that alternative, and 1993, when only 37 percent did. The same trend is apparent in all educational groups; indeed, because social trust is also correlated with education and because educational levels have risen sharply, the overall decrease in social trust is even more apparent if we control for education.

Our discussion of trends in social connectedness and civic engagement has tacitly assumed that all the forms of social capital that we have discussed are themselves coherently correlated across individuals. This is in fact true. Members of associations are much more likely than nonmembers to participate in politics, to spend time with neighbors, to express social trust, and so on.

The close correlation between social trust and associational membership is true not only across time and across individuals, but also across countries. Evidence from the 1991 World Values Survey demonstrates the following: [10]

1. Across the 35 countries in this survey, social trust and civic engagement are strongly correlated; the greater the density of associational membership in a society, the more trusting its citizens. Trust and engagement are two facets of the same underlying factor--social capital.**[End Page 73]**
2. America still ranks relatively high by cross-national standards on both these dimensions of social capital. Even in the 1990s, after several decades' erosion, Americans are more trusting and more engaged than people in most other countries of the world.
3. The trends of the past quarter-century, however, have apparently moved the United States significantly lower in the international rankings of social capital. The recent deterioration in American social capital has been sufficiently great that (if no other country changed its position in the meantime) another quarter-century of change at the same rate would bring the United States, roughly speaking, to the midpoint among all these countries, roughly equivalent to South Korea, Belgium, or Estonia today. Two generations' decline at the same rate would leave the United States at the level of today's Chile, Portugal, and Slovenia.

Why Is U.S. Social Capital Eroding?

As we have seen, something has happened in America in the last two or three decades to diminish civic engagement and social connectedness. What could that "something" be? Here are several possible explanations, along with some initial evidence on each.

The movement of women into the labor force. Over these same two or three decades, many millions of American women have moved out of the home into paid employment. This is the primary, though not the sole, reason why the weekly working hours of the average American have increased significantly during these years. It seems highly plausible that this social revolution should have reduced the time and energy available for building social capital. For certain organizations, such as the PTA, the League of Women Voters, the Federation of Women's Clubs, and the Red Cross, this is almost certainly an important part of the story. The sharpest decline in women's civic participation seems to have come in the 1970s; membership in such "women's" organizations as these has been virtually halved since the late 1960s. By contrast, most of the decline in participation in men's organizations occurred about ten years later; the total decline to date has been approximately 25 percent for the typical organization. On the other hand, the survey data imply that the aggregate declines for men are virtually as great as those for women. It is logically possible, of course, that the male declines might represent the knock-on effect of women's liberation, as dishwashing crowded out the lodge, but time-budget studies suggest that most husbands of working wives have assumed only a minor part of the housework. In short, something besides the women's revolution seems to lie behind the erosion of social capital.

Mobility: The "re-potting" hypothesis. Numerous studies of organizational involvement have shown that residential stability and such related phenomena as homeownership are clearly associated with greater **[End Page 74]** civic engagement. Mobility, like frequent re-potting of plants, tends to disrupt root systems, and it takes time for an uprooted individual to put down new roots. It seems plausible that the automobile, suburbanization, and the movement to the Sun Belt have reduced the social rootedness of the average American, but one fundamental difficulty with this hypothesis is apparent: the best evidence shows that residential stability and homeownership in America have risen modestly since 1965, and are surely higher now than during the 1950s, when civic engagement and social connectedness by our measures was definitely higher.

Other demographic transformations. A range of additional changes have transformed the American family since the 1960s--fewer marriages, more divorces, fewer children, lower real wages, and so on. Each of these changes might account for some of the slackening of civic engagement, since married, middle-class parents are generally more socially involved than other people. Moreover, the changes in scale that have swept over the American economy in these years--illustrated by the replacement of the corner grocery by the supermarket and now perhaps of the supermarket by electronic shopping at home, or the replacement of community-based enterprises by outposts of distant multinational firms--may perhaps have undermined the material and even physical basis for civic engagement.

The technological transformation of leisure. There is reason to believe that deep-seated technological trends are radically "privatizing" or "individualizing" our use of leisure time and thus disrupting many opportunities for social-capital formation. The most obvious and probably the most powerful instrument of this revolution is television. Time-budget studies in the 1960s showed that the growth in time spent watching television dwarfed all other changes in the way Americans passed their days and nights. Television has made our communities (or, rather, what we experience as our communities) wider and shallower. In the language of economics, electronic technology enables individual tastes to be satisfied more fully, but at the cost of the positive social externalities associated with more primitive forms of entertainment. The same logic applies to the replacement of vaudeville by the movies and now of movies by the VCR. The new "virtual reality" helmets that we will soon don to be entertained in total isolation are merely the latest extension of this trend. Is technology thus driving a wedge between our individual interests and our collective interests? It is a question that seems worth exploring more systematically.

What Is to Be Done?

The last refuge of a social-scientific scoundrel is to call for more research. Nevertheless, I cannot forbear from suggesting some further lines of inquiry. **[End Page 75]**

- We must sort out the dimensions of social capital, which clearly is not a unidimensional concept, despite language (even in this essay) that implies the contrary. What types of organizations and networks most effectively embody--or generate--social capital, in the sense of mutual reciprocity, the resolution of dilemmas of collective action, and the broadening of social identities? In this essay I have emphasized the density of associational life. In earlier work I stressed the structure of networks, arguing that "horizontal" ties represented more productive social capital than vertical ties. 11

- Another set of important issues involves macrosociological crosscurrents that might intersect with the trends described here. What will be the impact, for example, of electronic networks on social capital? My hunch is that meeting in an electronic forum is not the equivalent of meeting in a bowling alley--or even in a saloon--but hard empirical research is needed. What about the development of social capital in the workplace? Is it growing in counterpoint to the decline of civic engagement, reflecting some social analogue of the first law of thermodynamics--social capital is neither created nor destroyed, merely redistributed? Or do the trends described in this essay represent a deadweight loss?

- A rounded assessment of changes in American social capital over the last quarter-century needs to count the costs as well as the benefits of community engagement. We must not romanticize small-town, middle-class civic life in the America of the 1950s. In addition to the deleterious trends emphasized in this essay, recent decades have witnessed a substantial decline in intolerance and probably also in overt discrimination, and those beneficent trends may be related in complex ways to the erosion of traditional social capital. Moreover, a balanced accounting of the social-capital books would need to reconcile the insights of this approach with the undoubted insights offered by Mancur Olson and others who stress that closely knit social, economic, and political organizations are prone to inefficient cartelization and to what political economists term "rent seeking" and ordinary men and women call corruption. 12

- Finally, and perhaps most urgently, we need to explore creatively how public policy impinges on (or might impinge on) social-capital formation. In some well-known instances, public policy has destroyed highly effective social networks and norms. American slum-clearance policy of the 1950s and 1960s, for example, renovated physical capital, **[End Page 76]** but at a very high cost to existing social capital. The consolidation of country post offices and small school districts has promised administrative and financial efficiencies, but full-cost accounting for the effects of these policies on social capital might produce a more negative verdict. On the other hand, such past initiatives as the county agricultural-agent system, community colleges, and tax deductions for charitable contributions illustrate that government can encourage social-capital formation. Even a recent proposal in San Luis Obispo, California, to require that all new houses have front porches illustrates the power of government to influence where and how networks are formed.

The concept of "civil society" has played a central role in the recent global debate about the preconditions for democracy and democratization. In the newer democracies this phrase has properly focused attention on the need to foster a vibrant civic life in soils traditionally inhospitable to self-government. In the established democracies, ironically, growing numbers of citizens are questioning the effectiveness of their public institutions at the very moment when liberal democracy has swept the battlefield, both ideologically and geopolitically. In America, at least, there is reason to suspect that this democratic disarray may be linked to a broad and continuing erosion of civic engagement that began a quarter-century ago. High on our scholarly agenda should be the question of whether a comparable erosion of social capital may be under way in other advanced democracies, perhaps in different institutional and behavioral guises. High on America's agenda should be the question of how to reverse these adverse trends in social connectedness, thus restoring civic engagement and civic trust.

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Italy (1993), which is reviewed elsewhere in this issue. He is now completing a study of the revitalization of American democracy.

Commentary and writings on related topics:

- Nicholas Lemann, Kicking in Groups, *The Atlantic Monthly* (April 1996).
- Mary Ann Zehr, Getting Involved in Civic Life, *Foundation News and Commentary* (May/June 1996). *The* Foundation News and Commentary *is a publication of The Council on Foundations.*

Notes

1. Alexis de Tocqueville, *Democracy in America*, ed. J.P. Maier, trans. George Lawrence (Garden City, N.Y.: Anchor Books, 1969), 513-17.

2. On social networks and economic growth in the developing world, see Milton J. Esman and Norman Uphoff, *Local Organizations: Intermediaries in Rural Development* (Ithaca: Cornell University Press, 1984), esp. 15-42 and 99-180; and Albert O. Hirschman, *Getting Ahead Collectively: Grassroots Experiences in Latin America* (Elmsford, N.Y.: Pergamon Press, 1984), esp. 42-77. On East Asia, see Gustav Papanek, "The New Asian Capitalism: An Economic Portrait," in Peter L. Berger and Hsin-Huang Michael Hsiao, eds., *In Search of an East Asian Development Model* (New Brunswick, N.J.: Transaction, 1987), 27-80; Peter B. Evans, "The State as Problem and Solution: Predation, Embedded Autonomy and Structural Change," in Stephan Haggard and Robert R. Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992), 139-81; and Gary G. Hamilton, William Zeile, and Wan-Jin Kim, "Network Structure of East Asian Economies," in Stewart R. Clegg and S. Gordon Redding, eds., *Capitalism in Contrasting Cultures* (Hawthorne, N.Y.: De Gruyter, 1990), 105-29. See also Gary G. Hamilton and Nicole Woolsey Biggart, "Market, Culture, and Authority: A Comparative Analysis of Management and Organization in the Far East," *American Journal of Sociology* (Supplement) 94 (1988): S52-S94; and Susan Greenhalgh, "Families and Networks in Taiwan's Economic Development," in Edwin Winckler and Susan Greenhalgh, eds., *Contending Approaches to the Political Economy of Taiwan* (Armonk, N.Y.: M.E. Sharpe, 1987), 224-45.

3. Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993).

4. James S. Coleman deserves primary credit for developing the "social capital" theoretical framework. See his "Social Capital in the Creation of Human Capital," *American Journal of Sociology* (Supplement) 94 (1988): S95-S120, as well as his *The Foundations of Social Theory* (Cambridge: Harvard University Press, 1990), 300-21. See also Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91 (1985): 481-510; Glenn C. Loury, "Why Should We Care About Group Inequality?" *Social Philosophy and Policy* 5 (1987): 249-71; and Robert D. Putnam, "The Prosperous Community: Social Capital and Public Life," *American Prospect* 13 (1993): 35-42. To my knowledge, the first scholar to use the term "social capital" in its current sense was Jane Jacobs, in *The Death and Life of Great American Cities* (New York: Random House, 1961), 138.

5. Any simplistically political interpretation of the collapse of American unionism would need to confront the fact that the steepest decline began more than six years before the Reagan administration's attack on PATCO. Data from the General Social Survey show a roughly 40-percent decline in reported union membership between 1975 and 1991.

6. Data for the LWV are available over a longer time span and show an interesting pattern: a sharp slump during the Depression, a strong and sustained rise after World War II that more than tripled membership between 1945 and 1969, and then the post-1969 decline, which has already erased virtually all the postwar gains and continues still. This same historical pattern applies to those men's fraternal organizations for which comparable data are available--steady increases for the first seven decades of the century, interrupted only by the Great Depression, followed by a collapse in the 1970s and 1980s that has already wiped out most of the postwar expansion and continues apace.

7. Cf. Lester M. Salamon, "The Rise of the Nonprofit Sector," *Foreign Affairs* 73 (July-August 1994): 109-22. See also Salamon, "Partners in Public Service: The Scope and Theory of Government-Nonprofit Relations," in Walter W. Powell, ed., *The Nonprofit Sector: A Research Handbook* (New Haven: Yale University Press, 1987), 99-117. Salamon's empirical evidence does not sustain his broad claims about a global "associational revolution" comparable in significance to the rise of the nation-state several centuries ago.

8. Robert Wuthnow, *Sharing the Journey: Support Groups and America's New Quest for Community* (New York: The Free Press, 1994), 45.

9. Ibid., 3-6.

10. I am grateful to Ronald Inglehart, who directs this unique cross-national project, for sharing these highly useful data with me. See his "The Impact of Culture on Economic Development: Theory, Hypotheses, and Some Empirical Tests" (unpublished manuscript, University of Michigan, 1994).

11. See my *Making Democracy Work*, esp. ch. 6.

12. See Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982), 2.

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TWENTY-FIVE years ago, the two founding editors of this magazine published important essays on the cultural and moral status of capitalism.* Irving Kristol worried that the most intelligent contemporary defenders of capitalism were now mostly libertarians who praised the market because it produced material benefits and enhanced human freedom but who denied that markets had anything to do with morality. Friedrich Hayek, for example, had written that "in a free society it is neither desirable nor practicable that material rewards should be made generally to correspond to what men recognize as merit." It is not practicable because no one can supply a non-arbitrary definition of merit (or justice); it is not desirable because any attempt to impose such a definition would create a despotism. Kristol worried that people would not support any economic order in which "the will to success and privilege was severed from its moral moorings."

Capitalism could not survive if, quoting George Fitzhugh, "none but the selfish virtues are in repute" because in such a society "virtue loses all her loveliness" and social order becomes impossible.

In the same issue, Daniel Bell published his famous essay on "The Cultural Contradictions of Capitalism" in which he suggested that the bourgeois culture--rational, pragmatic, and moral--that had created capitalism was now being destroyed by the success of capitalism. As capitalism replaced feudal stagnation with material success, it replaced tradition with materialism; as privation was supplanted by abundance, prudence was displaced by prodigality. Capitalism created both a parvenu class of rich plutocrats and corporate climbers and a counterculture of critical intellectuals and disaffected youth. The latter began to have a field day exposing what they took to be the greed, hypocrisy, and Philistinism of the former.

Capitalism's great test

Both Kristol and Bell were amplifying on a theme first developed by Joseph Schumpeter: Contrary to what Marx had taught, capitalism would be destroyed not by its failures but by its successes. Their views did not go unchallenged; a decade later George Gilder, in Wealth and Poverty, launched a frontal attack on the Schumpeterian theory (and its development by Kristol and Bell) by arguing that capitalism was, in fact, a highly moral enterprise because it "begins with giving" and requires "faith."

However one judges that debate, it is striking that in 1970--at a time when socialism still had many defenders, when certain American economists (and the

CIA!) were suggesting that the Soviet economy was growing faster than the American, when books were being written explaining how Fidel Castro could achieve by the use of "moral incentives" what other nations achieved by employing material ones--Kristol and Bell saw that the great test of capitalism would not be economic but moral. Time has proved them right. Except for a handful of American professors, everyone here and abroad now recognizes that capitalism produces greater material abundance for more people than any other economic system ever invented. The evidence is not in dispute. A series of natural experiments were conducted on a scale that every social scientist must envy: Several nations--China, Germany, Korea, and Vietnam--were sawed in two, and capitalism was installed in one part and "socialism" in the other. In every case, the capitalist part out-produced, by a vast margin, the non-capitalist one.

Moreover, it has become clear during the last half century that democratic regimes only flourish in capitalist societies. Not every nation with something approximating capitalism is democratic, but every nation that is democratic is, to some significant degree, capitalist. (By "capitalist," I mean that production is chiefly organized on the basis of privately owned enterprises, and exchange takes place primarily through voluntary markets.)

If capitalism is an economic success and the necessary (but not sufficient) precondition for democracy, it only remains vulnerable on cultural and moral grounds. That is, of course, why today's radical intellectuals have embraced the more extreme forms of multiculturalism and postmodernism. These doctrines are an attack on the hegemony of bourgeois society and the legitimacy of bourgeois values. The attack takes various forms--denying the existence of any foundation for morality, asserting the incommensurability of cultural forms, rejecting the possibility of textual meaning, or elevating the claims of non-Western (or non-white or non-Anglo) traditions. By whatever route it travels, contemporary radicalism ends with a rejection of the moral claims of capitalism: Because morality is meaningless, because capitalism is mere power, or because markets and corporations destroy culture, capitalism is arbitrary, oppressive, or corrupting.

Most critics of capitalism, of course, are not radicals. Liberal critics recognize, as postmodernists pretend not to, that, if you are going to offer a moral criticism of capitalism, you had better believe that moral judgments are possible and can be made persuasive. To liberals, the failure of capitalism lies in its production of unjustifiable inequalities of wealth and its reckless destruction of the natural environment. Capitalism may produce material abundance, the argument goes, but at too high a price in human suffering and social injustice.

I do not deny that capitalism has costs; every human activity has them. (It was a defender of capitalism, after all, who reminded us that there is no such thing as a free lunch.) For people worried about inequality or environmental degradation, the question is not whether capitalism has consequences but whether its consequences are better or worse than those of some feasible economic alternative. (I stress "feasible" because I tire of hearing critics compare capitalist reality to socialist--or communitarian or cooperative--ideals. When ideals are converted into reality, they tend not to look so ideal.) And, in evaluating consequences, one must reckon up not simply the costs but the costs set against the benefits. In addition, one must count as benefits the tendency of an economic system to produce beliefs and actions that support a prudent concern for mitigating the unreasonable costs of the system.

Capitalism and public policy

By these tests, practical alternatives to capitalism do not seem very appealing. Inequality is a feature of every modern society; Adam Smith expected that it would be a particular feature of what we call capitalism. Indeed, he began The Wealth of Nations by setting forth a puzzle that he hoped to solve. It was this: in "the savage nations of hunters and fishers" (what we later learned to call euphemistically "native cultures" or "less-developed nations"), everyone works and almost everyone acquires the essentials of human sustenance, but they tend to be "so miserably poor" that they are reduced, on occasion, to killing babies and abandoning the elderly and the infirm. Among prosperous nations, by contrast, many people do not work at all and many more live lives of great luxury, yet the general level of prosperity is so high that even the poorest people are better off than the richest person in a primitive society. His book was an effort to explain why "the system of natural liberty" would produce both prosperity and inequality and to defend as tolerable the inequality that was the inevitable (and perhaps necessary) corollary of prosperity.

Smith certainly succeeded in the first task but was less successful in the second, at least to judge by the number of people who believe that inequality can be eliminated without sacrificing prosperity. Many nations have claimed to eliminate market-based inequalities, but they have done so only by creating non-market inequalities--a Soviet nomenklatura, a ruling military elite, an elaborate black market, or a set of non-cash perks. Between unconstrained market inequality and the lesser inequality achieved by some redistribution, there is much to discuss and decide, and so the welfare-state debate proceeds. Participants in this debate sometimes forget that the only societies in which such a debate can have much meaning are those that have produced wealth that can be redistributed and that have acquired a government that will do so democratically--in short, capitalist societies.

Similarly with respect to the environment: Only rich (that is, capitalist) nations can afford to worry much about the environment, and only democratic (that is, capitalist) nations have governments that will listen to environmentalists. As with inequality, environmental policies in capitalist systems will vary greatly--from the inconsequential through the prudent to the loony--but they will scarcely exist in non-capitalist ones. If anyone doubted this, they were surely convinced when the Iron Curtain was torn down in 1989, giving the West its first real look at what had been hidden behind the Berlin Wall. Eastern Europe had been turned into a vast toxic waste dump. Vaclav Havel explained why: A government that commands the economy will inevitably command the polity; given a commanding position, a government will distort or destroy the former and corrupt or oppress the latter.

To compel people engaged in production and exchange to internalize all of the costs of production and exchange without destroying production and exchange, one must be able to make proposals to people who do not want to hear such proposals, induce action among people who do not want to act, and monitor performance by people who do not like monitors, and do all of this only to the extent that the gains in human welfare are purchased at acceptable costs. No regime will make this result certain, but only democratic capitalist regimes make it at all possible.

Capitalism creates what are often called "post-material values" that lead some private parties to make environment-protecting proposals. Capitalism, because it requires private property, sustains a distinction between the public and the private sphere and thereby provides a protected place for people to stand who wish to make controversial proposals. And capitalism permits (but does not require) the emergence of democratic institutions that can (but may not) respond to such proposals. Or to put it simply: environmental action arises out of the demands of journalists, professors, foundation executives, and private-sector activists who, for the most part, would not exist in a non-capitalist regime.

Capitalism and the good life

Many readers may accept the view that capitalism permits, or possibly even facilitates, the making of desirable public policies but reject the idea that this is because there is anything moral about it. At best, it is amoral, a tool for the achievement of human wants that is neither good nor bad. At worst, it is an immoral system that glorifies greed but, by happy accident, occasionally makes possible popular government and pays the bills of some public-interest lobbies that can get on with the business of doing good. Hardly anyone regards it as moral.

People with these views can find much support in The Wealth of Nations. They will recall the famous passage in which Smith points out that it is from the "interest," not the "benevolence," of the butcher, the brewer, or the baker that we expect our dinner. An "invisible hand" leads him to promote the public good, though this is "no part of his intention." Should they study the book more carefully, they will come across passages predicting the degradation of the human spirit that is likely to occur from the division of labor, the incessant seeking after monopoly benefits and political privilege that will follow from the expansion of manufacturing, and the "low profligacy and vice" that will attend upon the growth of large cities. The average worker employed in repetitive tasks will become "stupid and ignorant," the successful merchant living in a big city will become personally licentious and politically advantaged.

Karl Marx, a close student of Smith's writings, had these passages in mind (and, indeed, referred to them) when he drew his picture of the alienation man would suffer as a consequence of private property and capitalism. But Marx (and, in some careless passages, even Smith) had made an error. They had confused the consequences of modernization (that is, of industrialization and urbanization) with the consequences of capitalism. The division of labor can be furthered and large industrial enterprises created by statist regimes as well as by free ones; people will flock to cities to seek opportunities conferred by socialist as well as capitalist economies; a profligate and self-serving elite will spring up to seize the benefits supplied by aristocratic or socialist or authoritarian or free-market systems. Show people the road to wealth, status, or power, and they will rush down that road; many will do some rather unattractive things along the way.

Among the feasible systems of political economy, capitalism offers the best possibility for checking some, but not all, of these tendencies toward degradation and depravity. When Smith suggested that the increased division of labor would turn most workers into unhappy copies of Charlie Chaplin in Modern Times, he thought that only public education could provide a remedy. Because he wrote long before the advent of modern technology, he can be forgiven for not having foreseen the tendency of free markets to substitute capital for labor in ways that relieve many workers of precisely those mindlessly repetitive tasks that Smith supposed would destroy the human spirit.

Urbanization is the result of modernity--that is, of the weakening of village ties, the advent of large-scale enterprise, the rise of mass markets, and an improvement in transportation--and modernity may have non-capitalist as well as capitalist sources. Mexico City, Sao Paulo, Rio de Janeiro, and Moscow have long been among the dozen largest cities in the world, but, until quite recently (and still quite uncertainly), none of these was located in a nation that could be fairly described as capitalist. They were state-dominated economies, either socialist or mercantilist, and Smith would have had no use for any of them. And, being non-capitalist, most of these states were barely democratic (the USSR not at all). Lacking either a truly private sector or a truly democratic regime, reformist and meliorist tendencies designed to counteract the adverse consequences of massive urbanization were not much in evidence. Americans who rightly think that high rates of crime are characteristic of big cities, but wrongly suppose that this is especially true of capitalist cities, need to spend some time in Moscow, Rio, and Mexico City.

Capitalism creates privilege; socialism creates privilege; mercantilism creates privilege; primitivism creates privilege. Men and women everywhere will seek advantage, grasp power, and create hierarchies. But to the extent that a society is capitalist, it is more likely than its alternatives to sustain challenges to privilege. These arise from economic rivals, privately financed voluntary associations, and democratically elected power-holders; they operate through market competition, government regulation, legal action, and moral suasion. But they operate clumsily and imperfectly, and, in the routine aspects of ordinary morality, they may not operate well enough.

Capitalism and the morality of everyday life

By this point, I may have persuaded a few readers that a system of rival interests has some beneficial moral effects, at least in comparison to statist economies in which the playing field is tilted by one set of greedy actors having decisive power over another. But nothing I have said is inconsistent with the view that capitalism rests on greed and therefore with the view that, at best, capitalism is amoral.

This was not, I think, the view of either Smith or many of the other earlier defenders of capitalism. In The Wealth of Nations, he certainly gives an unflinchingly honest account of how self-interest drives economic decisions. But, as Albert Hirschman has suggested, eighteenth-century thinkers did not divide human motives into reason and interests, they divided them into reason, passions, and interests. Having seen the failures of unaided reason and the perils of unguided passions, they hoped that calm interests would inform reason and temper passion.

This was the argument about the beneficial effects of doux commerce--sweet (or gentle) commerce--and it was implicitly taken up by the American Founders when they made their case for a commercial republic. It has been repeated of late by the British anthropologist and philosopher Ernest Gellner who, in reflecting on the failure of European communism, observes that no society can avoid finding a way to channel the desire men have to advance themselves. In traditional and in statist societies, the way to attain wealth is first to attain power, usually by force. But, in market societies, "production becomes a better path to wealth than domination."

Critics of capitalism argue that wealth confers power, and indeed it does, up to a point. But this is not a decisive criticism unless one supposes, fancifully, that there is some way to arrange human affairs so that the desire for wealth vanishes. The real choice is between becoming wealthy by first acquiring political or military power or by getting money directly without bothering with conquest or domination. Max Weber put it this way: All economic systems rest on greed, but capitalism, because it depends on profit, is the one that disciplines greed.

In the process of imposing that discipline, capitalism contributes to self-discipline. It encourages civility, trust, self-command, and cosmopolitanism by first making these traits useful and then making them habitual.

Smith alluded to this when he observed that "commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals ...who had before lived almost in a continual state of war with their neighbours and of servile dependency upon their superiors." Lest Smith be interpreted as arguing in favor of central government, he makes clear in other places that the beneficial effects of free and orderly commerce operate chiefly on the character of individuals, especially would-be lords and conquerors now converted into merchants. Nor is he, in the passage quoted above, contradicting his account of the baleful effects on ordinary people of an extreme division of labor; capitalism may bring liberty and security, but it also brings temerity, narrowness, and profligacy. To Smith, sweet commerce was sweet-and-sour.

Smith's ambivalence reflected his analysis of the class structure of society. Commerce would create a middle class whose new members would mostly be decent people. "In the middling and inferior stations of life," he wrote, "the road to virtue and that to fortune...are, happily, very nearly the same." Among people engaged in middle-class occupations, "real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success." In this circumstance, the proverb that "honesty is the best policy" proves true. But matters are very different in "the superior stations of life," in part, because the rich and well-born live in a self-constructed world of privilege that isolates them from the effective judgment of ordinary (and ordinarily decent) men, and, in part, because merchants and manufacturers will move to cities where they will have countless opportunities to acquire political privileges--monopolies, loop-holes, and subsidies--that insulate them from fair market judgments about their products, services, and practices.

Smith's worries, so often quoted, about the affluent few detract, I think, from the much more important impact of capitalism on the not-so-affluent many. An economic system that provides many alternative suppliers for any desired product or service creates an incentive for each supplier to act as if he or she cared about the interests of the customer. Everyone has heard enough stories about surly waiters in Soviet restaurants to acknowledge that communist managers never took customers as seriously as they took commissars, but perhaps this was simply the extreme result of doing business in a pathological society. I doubt that. There has been comparable evidence available in the United States for many years. Until recently, most big airports supplied food to travelers by giving an exclusive franchise to a single vendor. Of late, many airports are giving franchises to several rival vendors--McDonald's, Burger King, Taco Bell, and the like--to offer food competitively in airports. Without question, the quality of food and service has gone up.

A skeptic will rejoin that competition merely requires suppliers to act as if they cared about the customer. But, as any economist will note, a firm's reputation has a capital value (it is sometimes measured on the balance sheet as good will) and so business executives who wish to maximize that value will devote a great deal of effort to inculcating a service ethic in their employees. One cannot do that cynically. "If you can fake sincerity, you've got it made," someone once said. That may be true for a few individuals, but organizing such fakery on a large scale is impossible--the teaching will be unconvincing, and the lesson will be ignored.

But acting as if one cared has more than economic significance. Our characters are formed, as Aristotle observed, by the process of habituation. Any process that makes a personal disposition habitual is character forming. Parents know this, which is why they teach good manners to their children by means of constant small reminders and an insistence on routine observances. Though I am aware of no evidence bearing on it, there is little reason to suppose that habituation ends with adulthood or cannot occur outside the family. Are young people who have worked for three years at McDonald's and been taught to parrot learned phrases ("How may I serve you?" "Will that be all?" "Thank you.") more likely on leaving for better jobs to be civil than are similar youngsters who worked in a company that attached no value to civility? I don't know, but I think so.

When Smith wrote that the "understandings of the greater part of men are necessarily formed by their ordinary employments," he was worrying about the harmful effect on the mind of dull and exhausting labor. But the shortened work day and the use of machinery have made this effect much less likely than it was in the eighteenth century. Today, it may be that it is the manners of people that are formed in part by their daily employment.

Capitalist virtues

Capitalism requires some measure of trust. In any economic system, buying and selling occurs, but voluntary buying and selling on a large scale among strangers requires confidence in fair dealing that cannot depend on one party having much detailed knowledge about the other. Routinized exchanges present some of the same problems as a "Prisoner's Dilemma" in which both participants have an incentive to cheat if they assume they will only play the game--or engage in the exchange--once. The solution to the dilemma lies in repeating the game in conformity with this rule: do to the other party what he has just done to you ("tit for tat," in political scientist Robert Axelrod's phrase), but make your first move a "nice" one in order to encourage the other party to do the same. In some societies, mainly Western ones, this rule is enforced by contract law; in others, notably Eastern ones, by group affiliations. Capitalism takes advantage of this rule in order to create large, permanent markets among strangers that can operate without incessant recourse to retribution. In so doing, it strengthens conformity to the premise on which it depends: some minimum level of trust. This is a moralizing activity even though every customer knows that another rule--caveat emptor--also operates.

In a recent paper, John Mueller of the University of Rochester has observed that price haggling--once a common feature of most markets and still characteristic of some--has been abandoned even though it conferred short-term advantages on the seller. (This was true because sellers, knowing more about their wares than customers, had an advantage over most casual shoppers.) But some sellers discovered that, in the long run, they did more business by setting attractive, fixed prices. This practice lowered transaction costs for customers, thereby enlarging the number of customers.(1) Mueller notes that, as early as 1727, businessman-turned-novelist Daniel Defoe argued against haggling because it encouraged both parties to lie. The rise of fixed-price dealing has shifted misrepresentation from price to quality (or at least to advertising about quality).

Another premise on which capitalism depends is self-command. Smith understood that investment was required for capital to be accumulated and that investment, in turn, required that some people be willing to postpone immediate gratification for later (and larger) benefits. Smith did not explain why we should assume that the number of savers will be sufficient to produce the necessary investment. He observed that "prodigality," the result of a "passion for present enjoyment," will diminish the capital available for economic growth, and so it will be necessary for the "frugal man" to save enough to spare the rest of us from the consequences of our own prodigality. But will this occur? Smith predicts that "the profusion or imprudence of some" will be "always more than compensated for by the frugality and good conduct of others." Why? Well, the desire to save comes from an innate desire to better our condition. But, since only a few save a lot, the desire must be limited to a few. Will they be too few?

People differ in their degree of self-command but are alike in the high regard in which they hold people who display self-command (provided the display is not excessive, as it is with personalities that are miserly or rigid). Self-command is, in short, regarded (up to a point) as a virtue, one that is essential to capitalism and that capitalism strengthens to the extent that it induces more and more people to think about the future. (Indeed, economic growth requires that people have a concept of a secular future, a notion that may well have been absent or meaningless in feudal Europe.) The recent decline in the rate of American private savings corresponds to a period in which self-indulgence has been conspicuous. I have no idea what to make of this parallel except to suggest that a complete understanding will almost surely require a cultural, as well as economic, analysis. If all that mattered were net yields on savings, the Japanese would not be saving anything. Their banks pay very low interest rates, yet their customers save at world-record rates.

Finally, capitalism contributes to cosmopolitanism. This remark will be laughable to any reader who, when hearing the word "capitalist," conjures up an image of George Babbitt or Henry Ford. Capitalism, having been linked by artists to bourgeois culture, has forever been linked to narrow Philistinism. But, long ago, Gary Becker explained why markets are the enemy of racial or ethnic discrimination. Prejudice is costly: It cuts a supplier off from potential customers and an employer off from potential workers, thus reducing sales and raising factor costs.

Embedded in a thoroughly racist community, capitalism can easily exist side by side with prejudice because there are no competitive disadvantages to acting on the basis of prejudice: Since white workers and customers will not mingle with black workers and customers, all employers are on the same footing. But let a crack develop in the unanimity of racist sentiment; let some workers and some customers become indifferent to the racial identity of their colleagues; let nationwide enterprises discover that some customers dislike racism and will make their purchasing decisions on that basis; let this happen, and market pressures will swiftly penalize employers who think that they can, without cost, cater to prejudice.

None of this is to deny the important role played by law, court order, and the example of desegregated government agencies. But imagine rapid desegregation occurring if only law, order, and example were operating. It would be slow, uneven, and painful. Public schools desegregated more slowly than hotels and restaurants not only because white parents cared more about who their children went to school with than about who was in the next: hotel room or at the next cafe table but also because school authorities lacked any market incentive to admit more or different pupils. Indeed, a statist economy would not only resist desegregation, it would allocate economic benefits--franchises, licenses, credit--precisely on the basis of political, class, ethnic, or racial status.

Capitalism against slavery

In a remarkable essay, historian Thomas L. Haskell of Rice University has connected capitalism to the attack on slavery in a bold and new way. The conventional view among historians of the social-control school has been that reform efforts, including the attack on slavery, were intended to further the hegemonic interests of the bourgeoisie. When abolishing slavery was the most rational way to insure the docility of the workers and enhance the legitimacy of the bourgeoisie, slavery was abolished.

This argument is not crudely Marxist; sophisticated control theorists do not necessarily say that businessmen stood to benefit immediately and materially from an end to slavery. They are even prepared to concede that the business classes deceived themselves about what they were doing. But, what they insist upon is that the bourgeoisie could not really have acted out of altruistic motives. And it does seem strange to think that they might have done so. After all, British capitalists were practicing profitable large-scale agriculture in the West Indies. They had many allies, including customers, in London. Then, all of a sudden, slavery was ended after a public debate that rested almost entirely, as far as I can tell, on humanitarian principles. Control theorists suggest that it came about because the capitalists wanted to enhance their legitimacy by abolishing slave labor so that labor for slave wages would not be suspect. As David Brion Davis put it, the abolitionist movement "helped clear an ideological path for British industrialists" that, by exaggerating the harshness of slavery, "gave sanction to less barbarous modes of social discipline."

Haskell finds this a somewhat tortured argument. Can capitalist opponents of slavery, notably the successful Quaker businessmen of the late eighteenth century, really have thought that their "ideological hegemony" (whatever they thought that might be) would be enhanced by attacking the slave system, and that this was more important to them than what they repeatedly and eloquently said was their motive--namely, the horror they felt toward involuntary servitude?

In place of the social-control theory, Haskell suggests that capitalism supported, and was wholly consistent with, the religious convictions of the Quaker abolitionists. As capitalism spread, it carried with it a universalistic message. An important part was the new, high value attached to keeping promises and the concordant development and enforcement of contract law. As commerce spread, promise keeping and contract writing were increasingly carried on with strangers and foreigners, including Jews, heathens, and Levantines. Capitalism sharpened one's sense of, and commitment to, the future, and it equipped its more skillful practitioners with experience in dealing with contingencies. Successful capitalists learned to deal fairly with distant strangers and thus learned to attach greater importance to individual reliability than to group membership.

Commerce across cultures can be profitable, but it is risky. In coping with the risks, capitalists learned ways of dealing with remote circumstances. They acquired, in Haskell's phrase, "recipes for intervention," or what a social scientist would call a sense of efficacy. By this route, some came to believe that it was possible, as well as desirable, to challenge slavery. Haskell does not argue that capitalism was inherently a moral argument against slavery, only that it was a cultural, as well as economic, movement that contained within its assumptions and practices certain preconditions--beliefs, experiences, recipes-for expanding the humanitarian sensibility to strangers. This cultural change made possible, in about the length of one man's life, the abolition of a practice supported by custom, profits, argument, and property rights.

Capitalism and bureaucracy

Capitalism is a system of action, but it is also one in which large-scale institutions operate. Like politics, economics creates bureaucracies, and bureaucracies have a logic different from that of either markets or politics. A large enterprise, whether private or public, tends to generate commitments to co-workers and subunits rather than to the enterprise as a whole, to separate employees from the customers or citizens affected by employee actions, and to operate on the basis of standard operating procedures that seem instrumentally rational even when they are substantively irrational. In short, bureaucracy diffuses or displaces the sense of personal responsibility. Firms differ from government agencies in many important respects, but this does not mean that they are free from the vices attendant on large-scale organization. There may be economic returns to scale, but not moral ones.

With all the talk about white-collar crime, we have remarkably little information about what kinds of organizational arrangements stimulate or impede misconduct. Big firms probably are more likely than smaller ones to obey certain laws and regulations because they have a more visible reputation to protect and the financial resources to hire specialists to do the protecting (for example, by discovering and complying with government rules). But big firms may be less inclined to right conduct of a different sort--that is, fair play in the most general sense.

One meaning of fairness is the Golden Rule: Treat customers, workers, and suppliers as you would wish to be treated under the same circumstances. That rule, however, will operate differently when the other party is dealt with at second or third hand, invisibly and impersonally, than when he is confronted personally. Even when we deal with a person face to face, we often find it quite easy to invent rationales for discounting their interests or rejecting their claims: "This guy is (take your pick) different, insincere, or unworthy." But it is much easier to conceive of other people as convenient abstractions when they are known only by labels, words, or numbers, as is likely the case when we are members of a large organization.

Fairness can also be defined as receiving rewards proportional to effort. In face-to-face transactions, effort is the product delivered or the service rendered, and rewards are the cash received or the thanks expressed. In impersonal transactions, effort may be the skill displayed at currying favor from one's superiors and rewards the promotions and preferment that result from successful currying. Bureaucratization not only insulates some parts of a firm from market forces but also isolates them from human forces. Bureaucratization involves specialization that often implies encapsulation, reducing the proportion of workers who deal intimately and regularly with other specialists. (In sociological jargon, there is a decline in boundary-spanning roles.)

Bureaucratization also requires measures of employee achievement that are poor proxies for market success. In a firm, a successful accountant, lawyer, or personnel officer is rarely the one who has increased profits or sales for the enterprise (managers rarely can know whether these people have materially helped or hurt profits); it is the person who has best conformed with higher-level expectations as to how an accountant, lawyer, or personnel officer is supposed to behave (and these may be reasonable, unreasonable, or self-serving expectations).

Robert Jackall, in his book Moral Mazes, explores how managers in two large corporations define the rules, and thus implicitly the moral requirements, of their jobs. In both firms, he found struggles for status and dominance, perceived gaps between reward and merit, and a preoccupation with the maintenance of good public relations over sound policy. Managers seeking advancement had to keep their eye out for "the main chance," and that, in turn, meant, among other things, "unrelenting attentiveness to the social intricacies of one's organization." The tone of Jackall's book suggests that he is no friend of corporations, but his detailed observations cannot for that reason be ignored.

Corporate executives are aware that they live at a time when great attention is paid to "corporate responsibility" and "business ethics." Observers who are well-disposed toward capitalism and suspicious of elite fads may dismiss these preoccupations as mere catering to a hostile media. That would be a mistake. Though much of this talk may be fatuous or superficial, the problem of imbuing large-scale enterprise with a decent moral life is fundamental. Chester Barnard made this clear nearly 60 years ago in The Functions of the Executive. However ready people are to comply with the self-regarding demands of a group and conform to the narrow culture of an organization, most people know the difference between doing things they are proud to tell their children about and things they hope their children never find out about.

Serious executives know this and worry about it. The emergence of codes of corporate ethics and the emphasis on fashioning a defensible corporate culture are not, I think, merely public relations (though they are sometimes just that). They are, at their best, a recognition that people want to believe that they live and work in a reasonably just and decent world. Americans are gloomy about the decency of their culture and the justice of their politics; it may be one of the supreme ironies of our time that they are often more satisfied with their employer than with their community. If true, Marx has been stood squarely on his head: Life has become more alienating than work.

As Michael Novak has observed, the corporation is an important mediating structure that stands, like the family and the church, between the individual and the state. It constitutes not simply a utilitarian arrangement but a community of sorts that shapes human conduct. People, of course, know the difference between a profit-making firm, on the one hand, and a child-rearing family or a soul-comforting church, on the other. They have different expectations from each. But no economist should suppose that since firms are about profits, that is all they are about, anymore than he should imagine that because families are about sex, that is all they are about. Corporations are not vehicles for realizing the ideal society; one of their good features, as Paul Johnson has noted, is that they attach little value to Utopian causes. But they are systems of human action that cannot for long command the loyalty of their members if their standards of collective action are materially lower than those of their individual members.

Capitalism is not irrelevant to morality: It assumes the existence of certain moral dispositions, strengthens some of these, and threatens still others. The problem for capitalists is to recognize that, while free markets will ruthlessly eliminate inefficient firms, the moral sentiments of man will only gradually and uncertainly penalize immoral ones. But, while the quick destruction of inefficient corporations threatens only individual firms, the slow anger at immoral ones threatens capitalism--and thus freedom--itself.

1 Why, then, does price haggling still occur in the sale of automobiles? In part, it is because the purchaser, as well as the dealer, has something to sell. The purchaser usually has a used car to trade in and has little incentive to set a fixed price for it. He bargains over what the trade-in is worth and so the dealer must bargain over what the new car is worth. Even here, however, some dealers are experimenting with fixed-price sales.

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Association

February 1997

SECTION: Vol. 31, No. 1 Pg. 190-191; ISSN: 0038-0385; CODEN: OPRQAK

LENGTH: 643 words

HEADLINE: From Post-Industrial to Post-Modern Society: New Theories of the Contemporary World

BYLINE: Levitas, Ruth

BODY:

Krishan Kumar, From Post-Industrial to Post-Modern Society: New Theories of the Contemporary World, Oxford: Blackwell, 1996, 40.00 & 11.99, 253+viii pp.

In 1978, Kumar discussed theories of post-industrial society in Prophecy and Progress: The Sociology of Industrial and Post-Industrial Society. This book is a sequel to that earlier account, examining revived ideas of 'the information society', as well as post-Fordism and postmodernism. Reflecting Kumar's abiding interest in utopianism, the utopian and anti-utopian inflections of contemporary theories are again a recurrent theme. The different accounts of the peculiarities of (post)modern times are presented with clarity and lucidity. The book undoubtedly succeeds in its primary aims, which are firstly to describe the different ways in which theorists have tried to make sense of the sense that there is something qualitatively new about the present age, whether that be called late modernity, postmodernity, the information age, late capitalism or new times, and secondly to note the objections that have been levelled at these various accounts. Kumar writes much better than most sociologists; students and teachers will find this book a relief. So will anyone wanting an overview of current theories.

In 1978, I reviewed Prophecy and Progress for an in-house review journal at the institution where I then worked; I can't find the review, but I remember how exciting I found it. This book moved me less. Perhaps this in itself is a symptom of the times. But I think it is also because in the end Kumar adopts rather a non-committal position in relation to the theories he is discussing, and is insufficiently attentive to the implications of the different terms which they deploy. He says that he aims only to give a clear account of and to raise critical questions about the theories under discussion, not to engage in a thorough critique. There are of course points in the discussion which go beyond this. Among these is the discussion of the distinction between postmodernism and postmodernity-collapsing in the end because of the way in which even those theorists like Jameson who seek to separate them have grave difficulty in preventing the material and the discursive from collapsing into each other. Kumar's sympathies appear to rest more with Jameson and Harvey than with some others. But his general evaluation of all the theories is that they are commendable in their ambition, that they do speak to our condition, but they are one-sided and exaggerated. A more definite, more provocative stance would have given the book an overall argument and an added edge.

4TH STORY of Level 1 printed in FULL format.

The Daily Yomiuri

September 10, 1997, Wednesday

SECTION: Pg. 7

LENGTH: 1094 words

HEADLINE: Havel expresses hope for global future

BYLINE: Toshiaki Arai ; Yomiuri

DATELINE: PRAGUE

BODY:

World figures convened here for a three-day international forum last week to discuss a variety of issues of concern to the global community, including human rights, religion, the environment, poverty and national sovereignty.

Forum 2000, which concluded on Sept. 6, was initiated by Czech President Vaclav Havel and involved debates by 60 prominent scholars and experts.

Participants agreed to hold the conference periodically in upcoming years.

In his opening address, Havel offered some solutions to the problems of poverty, pollution, human rights abuses and other issues discussed at the conference.

In a question-and-answer session with The Yomiuri Shimbun, he recounted his country's achievements since the bloodless 1989 "Velvet Revolution" and offered his opinions on the likely state of the world in the 21st century.

Can you briefly recount events in your country in the eight years since the end of Communist rule?

Havel: As far as the main issues are concerned, our country has taken the course that we all hoped it would when we fought for the fall of communism. That is to say, we have built democratic institutions, we enjoy freedom of the press and we have introduced a market economy.

However, it is happening in a slower and more complex way than we had anticipated in the early post-revolution months, which were filled with enthusiasm. Many problems surfaced, problems which are a legacy of the Communist era, and have manifested themselves as a general demoralization (of the populace).

On the other hand, a number of things have been accomplished. For instance, we have functional democratic institutions, we have held several free elections and we have privatized most of the economy There have been some difficulties transforming the economy--which was formerly state-controlled--into a pluralistic economy based on market principles.

What importance will joining the North Atlantic Treaty Organization and the European Union have for the Czech Republic and the Czech people?

I believe it is an issue of enormous importance, however, one that is not instantly visible. The importance lies in the long-term nature of the matter.

We have learned a lesson from the dramatic and complex history of our country, a nation that lies in the heart of Europe. That history teaches us how important it is for us to be firmly and equitably anchored in the Pan-European order, and to be an integral part of its collective defense structures. From this perspective, I believe this is a truly historic opportunity, even though at this point in time--and I am speaking about not only hours, days or months, but years--it will cost us rather than bring us instant reward. But it is necessary to take this path for the benefit of future generations.

At the Forum 2000 conference, you said that the world was becoming increasingly atheistic. Can you elaborate on that?

When I spoke about the atheistic character of our civilization, I did not mean the number of people who do or do not believe in God. I was referring to what links the entire globe: banking systems, economic principles, communications networks, fashion, forms of popular culture, advertising and so on--items that you can find anywhere in the world and they will be the same. This is something that is, in my opinion, based on materialistic principles and ideas, and what I refer to as atheistic.

What I am referring to is like a peel or a shell around the globe that creates the atmosphere of our lives. I was not talking about what is happening in individuals' souls. I dare say that the increased stress of religion on peoples' individuality and originality that we witness today is perhaps brought on by contemporary society and an attempt to oppose its unifying pressure.

What about the purported clash of the world's civilizations?

This is part of a theme that I have been contemplating, which is also a topic of this conference.

I would not call it a clash of civilizations, since I believe we live in one single, common civilization. I would refer to it as a clash between different religious, cultural and even societal traditions. Since the end of colonial rule and the bipolar division of the globe, our world has certainly become bipolar in the cultural sense.

If we consider the enormous growth of the global population, we come to understand that one of the threats we are facing in today's world is the one you ask about.

However, I do not think it is unavoidable. One way of fighting it is to emphasize whatever themes the various religions have in common, and dismiss their differences. I think the various cultures have a great deal in common, but it is necessary to look at their roots. But that in itself may not be enough, we need to do a lot more to avert such a conflict or at least to resist it.

In your opinion, are the ideas of democracy and market economics interpreted the same universally, or are they defined differently in Asia and Europe?

Of course, there are major differences according to history and tradition. Nevertheless, it seems to me that we are heading toward a world that is going to adopt both a democratic political establishment--with natural variants--and a market economy. To a great extent, a market economy has already been adopted by the entire world, with a few exceptions.

I believe the right thing to do is to build and develop a democratic political establishment, while trying to respect customs, rules, ethical norms and the traditions of different countries and continents. Nowhere in the world should democracy be perceived as an import from Europe or America. Instead, it should be viewed as the fairest form of political establishment available.

Do you think mankind will be able to cope with the problems that we face in the next century?

Of course, I am not clairvoyant and I do not know what is going to happen. What I do know is that we must do all we can to first, recognize, describe and understand a situation, and second, to find its cause and look for ways to avert future threats.

I have not lost hope that things are going to turn out well, and toward that, I would like to make a small contribution. The conference I have organized here in Prague is a small contribution.

What about your health and home life--two items that are of interest to the entire world?

I am not sure they are of interest to the entire world, but I will answer you and with good news. Several examinations recently have shown that I am healthy. And my marriage is a happy one.

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The New York Times

December 15, 1997, Monday, Late Edition - Final

SECTION: Section A; Page 23; Column 2; Editorial Desk

LENGTH: 890 words

HEADLINE: It's Immoral to Buy the Right to Pollute

BYLINE: By Michael J. Sandel; Michael J. Sandel, a professor of government at Harvard, is the author of "Democracy's Discontent: America in Search of a Public Philosophy."

DATELINE: CAMBRIDGE, Mass.

BODY:

At the conference on global warming in Kyoto, Japan, the United States found itself at loggerheads with developing nations on two important issues: The United States wanted those countries to commit themselves to restraints on emissions, and it wanted any agreement to include a trading scheme that would let countries buy and sell the right to pollute.

The Administration was right on the first point, but wrong on the second. Creating an international market in emission credits would make it easier for us to meet our obligations under the treaty but undermine the ethic we should be trying to foster on the environment.

Indeed, China and India threatened to torpedo the talks over the issue. They were afraid that such trading would enable rich countries to buy their way out of commitments to reduce greenhouse gases. In the end, the developing nations agreed to allow some emissions trading among developed countries, with details to be negotiated next year.

The Clinton Administration has made emission trading a centerpiece of its environmental policy. Creating an international market for emissions, it argues, is a more efficient way to reduce pollution than imposing fixed levels for each country.

Trading in greenhouse gases could also make compliance cheaper and less painful for the United States, which could pay to reduce some other country's carbon dioxide emissions rather than reduce its own. For example, the United States might find it cheaper (and more politically palatable) to pay to update an old coal-burning factory in a developing country than to tax gas-guzzling sports utility vehicles at home.

Since the aim is to limit the global level of these gases, one might ask, what difference does it make which places on the planet send less carbon to the sky?

It may make no difference from the standpoint of the heavens, but it does make a political difference. Despite the efficiency of international emissions trading, such a system is objectionable for three reasons.

The New York Times, December 15, 1997

First, it creates loopholes that could enable wealthy countries to evade their obligations. Under the Kyoto formula, for example, the United States could take advantage of the fact that Russia has already reduced its emissions 30 percent since 1990, not through energy efficiencies but through economic decline. The United States could buy excess credits from Russia, and count them toward meeting our obligations under the treaty.

Second, turning pollution into a commodity to be bought and sold removes the moral stigma that is properly associated with it. If a company or a country is fined for spewing excessive pollutants into the air, the community conveys its judgment that the polluter has done something wrong. A fee, on the other hand, makes pollution just another cost of doing business, like wages, benefits and rent.

The distinction between a fine and a fee for despoiling the environment is not one we should give up too easily. Suppose there were a $100 fine for throwing a beer can into the Grand Canyon, and a wealthy hiker decided to pay $100 for the convenience. Would there be nothing wrong in his treating the fine as if it were simply an expensive dumping charge?

Or consider the fine for parking in a place reserved for the disabled. If a busy contractor needs to park near his building site and is willing to pay the fine, is there nothing wrong with his treating that space as an expensive parking lot?

In effacing the distinction between a fine and a fee, emission trading is like a recent proposal to open carpool lanes on Los Angeles freeways to drivers without passengers who are willing to pay a fee. Such drivers are now fined for slipping into carpool lanes; under the market proposal, they would enjoy a quicker commute without opprobrium.

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A third objection to emission trading among countries is that it may undermine the sense of shared responsibility that increased global cooperation requires.

Consider an illustration drawn from an autumn ritual: raking fallen leaves into great piles and lighting bonfires. Imagine a neighborhood where each family agrees to have only one small bonfire a year. But they also agree that families can buy and sell their bonfire permits as they choose.

The family in the mansion on the hill buys permits from its neighbors -- paying them, in effect, to lug their leaves to the town compost heap. The market works, and pollution is reduced, but without the spirit of shared sacrifice that might have been produced had no market intervened.

Those who have sold their permits, and those who have bought them, come to regard the bonfires less as an offense against clean air than as a luxury, a status symbol that can be bought and sold. And the resentment against the family in the mansion makes future, more demanding forms of cooperation more difficult to achieve.

Of course, many countries that attended the Kyoto conference have already made cooperation elusive. They have not yet agreed to restrict their emissions at all. Their refusal undermines the prospect of a global environmental ethic as surely as does our pollution trading scheme.

But the United States would have more suasion if these developing countries could not rightly complain that trading in emissions allows wealthy nations to buy their way out of global obligations.

GRAPHIC: Drawing (Wesley Bedrosian)

LANGUAGE: ENGLISH

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National Review

September 1, 1997

SECTION: VOL. 49; No. 16; Pg. 38

LENGTH: 2755 words

HEADLINE: Reinventing Socialism: The triumph of neosocialism is the defining characteristic of politics today.

BYLINE: MURDOCH, RUPERT

BODY:

THE 1990s increasingly reminds me of the 1890s -- that decade, exactly one hundred years ago, when Joseph Pulitzer was directing the New York World from his yacht and Lord Northcliffe was founding the Daily Mail. That, too, was an era of new technology and new markets when peace seemed universal and everything seemed possible. The French still call it la Belle Epoque.That world was mostly divided between the great European powers. But they were, after all, liberal powers. They generally operated according to a rule of law, certainly more so than most of their subjects had seen before -- or, in all too many cases, have seen since.

The other day, someone showed me this quotation from a book called The History of the Freedom of Thought by the great Cambridge historian J. B. Bury, published at the tail end of that era, in 1913: "The struggle of reason against authority has ended in what appears to be a decisive and permanent victory for liberty."

Sound familiar? How about this?

"Less than 75 years after it officially began, the contest between socialism and capitalism is over: capitalism has won." That's from Robert Heilbroner, the author and economist at New York's New School, writing in The New Yorker in 1989.

Or this?

"The century that began full of self-confidence in the ultimate triumph of Western liberal democracy seems at its close to be returning full circle to where it started: not to an 'end of ideology' or a convergence between capitalism and socialism, as earlier predicted, but to an unabashed victory of economic and political liberalism. The triumph of the West, of the Western idea, is evident first of all in the total exhaustion of viable systematic alternatives to Western liberalism." That comes from Francis Fukuyama's much-discussed essay "The End of History."

The note of liberal capitalist triumphalism is identical in all three quotations. And, frankly, it's chilling. Because look what happened last time.

In 1914, the year after Bury's book appeared, the First World War broke out in Europe. It was followed by the Russian Revolution, the invention of totalitarianism, Hitler's rise to power, the Second World War, the Cold War, the Chinese Cultural Revolution -- all this entailing tens of millions of deaths.

Let's be clear about this. The first half of this century at least, was an unspeakable tragedy.

We naturally hope that today's liberal capitalist triumphalists are right. Indeed, many of us have contributed to that triumphalism. But you have to wonder. Could anything unforeseen, unexpected, be coming at us today?

Caspar Weinberger's book The Next War, published last year, sketched out several alarming scenarios for a sudden collapse in world order over the next few years. Some of these scenarios are triggered by rogue countries that acquire nuclear weapons. But all of them are made possible by an American military and intelligence build-down that is, of course, already under way.

It is easy enough to shrug off this sort of exercise as far-fetched and alarmist. But, of course, practically no one in 1913 had heard of Sarajevo -- or would have thought that a political murder there could plunge the world into fifty years of devastation.

(Incidentally, a foreign-policy scenario that everyone does seem to have heard of is the idea that China is going to be our enemy in the twenty-first century. To be sure, it is theoretically possible that any two countries might come into conflict. But it seems to me that to have a serious rivalry, you have to have serious, ineluctable conflicts of interest. Where are these ineluctable conflicts of interest with the Chinese? Are they showing any real interest in the world beyond their immediate environs -- other than to trade with it?

Not that trade will solve everything. It was President Reagan's military build-up, rather than President Ford's detente, that broke the will of the Soviet Union. But China is not the Soviet Union. It is not the country that went into Czechoslovakia, Afghanistan, and Angola, that built a worldwide navy, that strove for nuclear parity.

So I say, give trade a chance and give the Chinese credit for the almost unimaginable progress they have made in the last twenty years.)

NO, the danger that I want to discuss is not external, not foreign, and not military. It is operating within our own societies, right under our noses. Let me put it in this way: If socialism is dead, why won't it lie down?

Or, in terms of my own petty preoccupations: If we're living in such a paradise of free enterprise, why can't I get my Fox TV news service onto more American cable systems and compete?

Well, the answer in both cases is the same. Socialism is not dead, but alive and well and living in the regulatory agencies. It is because of regulation -- and the monopolies and oligopolies it inevitably fosters -- that there are such formidable barriers to entry in the TV news business.

The classical definition of socialism, of course, is that contained in clause four of the old British Labour Party's constitution: public ownership of the means of production, distribution, and exchange. Socialism in that sense is dead. No one talks about nationalizing industries any more.

But then no one has to nationalize industries -- because the extraordinary growth of regulation has given effective control of them to the government without its having to assume the hassle of ownership. Socialism has effectively reinvented itself. We can call it "Neosocialism." And it's right here.

Anyone who owns or manages a business must be aware of this neosocialism. They find hiring, firing, buying, selling, just trying to operate, vastly more complicated than they were fifteen or twenty years ago.

We can even see it in our hobbies. I have been involved in a small way with ranching cattle virtually all my adult life, first in Australia and now also in California. In that time, the change in what you can do and what you can't do has been simply extraordinary -- whether it is digging a well or trying to get rid of a gopher. Farmers, whether they be in the United States, Europe, or Australia, now spend a day a week in their offices filling in forms.

Farmers in the U.S. are now outnumbered by employees of the Department of Agriculture. (Sure, they have computers to help them cope. But are they any further ahead? And are we as a society further ahead? Maybe this is part of the answer to the Great Computer Conundrum that you hear economists discussing: why the spread of computers does not seem to have increased service-sector productivity very much.)

Here in the U.S., of course, we have a characteristically American touch: regulation through litigation. Trial lawyers (with a little help from the way legislators write the laws) become in effect private vigilantes, enforcing neosocialist writ. It takes a lawyer -- a whole village of lawyers -- to create the ludicrous situations we now see in employment law.

For example: "In January, a former truck driver for Ryder Systems Inc. won a $ 5.5-million jury verdict after claiming under the Americans with Disabilities Act that Ryder unfairly removed him from his position after he suffered an epileptic seizure, saying that his health condition could be a safety hazard. During the time he was blocked from his job at Ryder, the driver was hired by another firm, had a seizure behind the wheel, and crashed into a tree."

(I am not making this up. It was a front-page story in the Washington Post on April 8 of this year.)

Maybe 30 or 40 per cent of that $ 5.5 million will go to the lawyers in expenses and contingent fees. So the profit motive is in good shape, but private enterprise less so.

Why do we hear so little about this surging neosocialism? One reason is that it is quite new. The regulatory revolution in the United States really only began in the 1960s. Many people now prominent in the media and public life were already adults when it started. Yet it may take a new generation to discern the pattern beneath a phenomenon as important as neosocialism.

Socialism was advanced the first time under the banner of efficiency. It was supposed to be scientific. Planning was supposed to be rational. The waste of capitalism -- epitomized by the Great Depression -- was to be eliminated.

Today, neosocialism is being advanced, under the banner not of efficiency, but of equity. It is supposed to make things fairer, more just, according to some non-economic scheme of values, as in the case of the environment. And this turns out to be an argument that is very difficult to resist.

The common thread, of course, is that the government still gets to tell the rest of us what to do. It has just changed its rationale and wrapped itself in a new all-embracing doctrine of political correctness. But it still asserts that individuals cannot be relied on to make their own decisions. Or as Chairman Mao said, "Put politics in command."

What is the underlying pattern behind this neosocialism?

It seems to me that the central sociological fact about modern societies is the rise of what Irving Kristol has called "the New Class" -- that group that makes its living from running the government and its ancillary manifestations. In Kristol's view, the New Class includes career professional politicians, who are a relatively recent development in democracies. It includes the government bureaucracy, which in most countries is now large enough to constitute a special-interest group of its own . . . perhaps the largest group of all.

(For the record, there were more people employed in the federal regulatory apparatus at the end of President Bush's term than at the end of President Carter's. President Reagan's efforts had simply been erased. Today, of course, the number is higher.)

The New Class also extends to most of the educational establishment, which is in the business of extracting tax money from the rest of us. It has a strategic alliance with groups like the trial bar and other lawyers, who need legislative support and patronage. And it embraces members of the media, both for cultural reasons and because there is a constant interchange of personnel.

Significantly, the New Class is beginning to be noticed as the force behind neosocialism. There is a phenomenon in the history of science called synchronicity in which several researchers independently stumble on a new discovery. I have cited Irving Kristol already. Also, while I was writing this, John O'Sullivan in NATIONAL REVIEW April 21, 1997 explained the GOP's current troubles as a result of its servitude to New Class orthodoxy. Synchronicity is usually a sign that the discoverers are really onto something -- like seconding a motion.

How does the New Class get its way? Sometimes you see the groups making it up acting together dramatically. For example, the two main funders of the so-called Taxpayers Against 187, which tried to stop Californians from voting to deny illegal immigrants certain government benefits, were the California Teachers Association and the California Public Employees Union. To both unions, of course, illegal immigrants mean more clients -- and more reasons to demand more money from taxpayers.

They lost in the ballot box. Significantly, though, Prop. 187 has since been tied up in the courts. Whatever you think of the measure itself, that is a striking expression of the government's (and the New Class's) power to frustrate the popular will.

It is the self-interest of this bureaucratic class that drives neosocialism. These are the people who benefit from proliferating regulations because they administer them. They want to see the nanny state, because they are the nannies. They want to see "politics in command," because they are the commanders -- elected and unelected.

If we had been having this conversation in the 1890s, we would probably have been talking about the Rise of the Proletariat, the labor unions, and the Socialist parties. Today, the rise of the New Class is just as ominous. As in the 1890s, we don't really know where it will take us. But we can see reason for real concern.

To begin with, the New Class is an international phenomenon. Take the European Union -- this is a quintessential New Class creation. It is basically a supra-national bureaucracy built above the heads of the national legislatures. It is constantly having to circumvent national insurrections. But its impact on everyday life in those national communities is tremendous through ubiquitous and detailed regulation.

For example, EU regulations dictate that British farmers not allow their fields to be used as parking lots for country fairs because land "set aside" under an EU program to reduce production cannot be used for commercial purposes. This applies even if the car park is free.

British commercial growers of oak -- a patriotic symbol in England -- can't use British acorns because Brussels says they're not pure enough. Caerphilly cheese is no longer made in Caerphilly because EU rules required uneconomic production changes. It is illegal to sell small Cox's orange pippin apples -- Britain's most famous apple -- because EU regulations require apples to be more than 55 millimeters in diameter.

All Wellington boots sold in Britain must come with a user's manual which includes this advice: "Each boot should be tried for fitting before use."

Now, 18,000 European Union officials spend their time on this sort of invasive nonsense. They, incidentally, were not tried for fitting before use.

The New Class is also a party political phenomenon. Many commentators are puzzled by the success of Center - Left parties -- in Britain, the United States, Canada -- at a time when capitalism was supposed to have triumphed. Well, one answer is that capitalism has not triumphed. Neosocialism is triumphing. And the parties that are most firmly based on the new social force that underlies it are reaping the benefits.

In fact, one of the interesting things about recent politics is how completely the traditional parties of the Center - Right -- which are also, after all, run by professional politicians -- have been subverted by the New Class and its values.

George Bush, who used to say, "I'm a government guy," presided over a vast rebound in regulation.

I guess he wasn't joking.

In Britain you see the utter inability of the Conservative Party, at least until now, to handle the gulf between the grass roots' and the elite's views of the European Union.

Some of you may have noticed that our London Sun endorsed the Labour Party in the recent election. One reason is that Prime Minister Tony Blair is a much-needed new broom. The Blair party repositioned itself brilliantly as the voice not of the old working class, but of the frustrated lower middle class which Margaret Thatcher had captured and John Major abandoned. The Conservative government was simply not giving us -- and more to the point our readers -- much to get excited about.

What, then, is to be done?

The current situation is not particularly stable. Neosocialism is prone to economic breakdown, just as the old model was. It confronts an inexorable reality. If the farmer is filling out forms, he cannot be raising cattle -- let alone getting rid of gophers.

For another thing, there are obvious signs that New Class monopolization of politics causes the party structure to break down, as people look for new vehicles to express their discontents. New parties are making waves in Australia, New Zealand, Canada, Austria, Italy, and France. In Britain -- unnoticed over here, and indeed over there amid the carnage of the last election -- a small anti - European Union party cost the Conservatives perhaps twenty seats. And in the U.S., of course, we have seen Ross Perot.

Not all these parties will amount to anything, and no doubt some are led by undesirables of one type or another. But, as a head of a mass-media business, I tell you: something is stirring out there.

Still -- what is to be done?

Let me put it this way. As a boy in Australia during World War II, I dimly remember the headlines about the fall of Singapore where the great guns notoriously faced out to sea. Nobody had ever imagined an attack could come overland. Nobody imagined this new neosocialist attack on life, liberty, and the pursuit of happiness, either.

Let me suggest that, as a first step, all of us who believe in private enterprise and individual responsibility make sure our guns are facing the right way.

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HEADLINE: Has Democracy a Future?

BYLINE: Arthur Schlesinger, Jr.; ARTHUR SCHLESINGER, JR., is a writer, historian, and former Special Assistant to President Kennedy. This article is based on the James Bryce Lecture on the American Commonwealth, to be delivered at the Institute of United States Studies of the University of London in September.

BODY:

THROUGH A GLASS DARKLY

THE TWENTIETH century has no doubt been, as Isaiah Berlin has said, "the most terrible century in Western history." But this terrible century has -- or appears to be having -- a happy ending. As in melodramas of old, the maiden democracy, bound by villains to the railroad track, is rescued in the nick of time from the onrushing train. As the century draws to a close, both major villains have perished, fascism with a bang, communism with a whimper.

A season of triumphalism has followed. Two centuries ago Kant argued in his Idea for a Universal History that the republican form of government was destined to supersede all others. At last the prophecy seemed on the way to fulfillment. Savants hailed "the end of history." "For the first time in all history," President Clinton declared in his second inaugural address, "more people on this planet live under democracy than dictatorship." The New York Times, after careful checking, approved: 3.1 billion people live in democracies, 2.66 billion do not. According to end-of-history doctrine as expounded by its prophet, the minority can look forward to "the universalization of Western liberal democracy as the final form of human government."

For historians, this euphoria rang a bell of memory. Did not the same radiant hope accompany the transition from the nineteenth to the twentieth century? This most terrible hundred-years in Western history started out in an atmosphere of optimism and high expectations. People of good will in 1900 believed in the inevitability of democracy, the invincibility of progress, the decency of human nature, and the coming reign of reason and peace. David Starr Jordan, the president of Stanford University, expressed the mood in his turn-of-the-century book The Call of the Twentieth Century. "The man of the Twentieth Century," Jordan predicted, "will be a hopeful man. He will love the world and the world will love him."

Looking back, we recall a century marked a good deal less by love than by hate, irrationality, and atrocity, one that for a long dark passage inspired the gravest forebodings about the very survival of the human race. Democracy, striding confidently into the 1900s, found itself almost at once on the defensive. The Great War, exposing the pretension that democracy would guarantee peace, shattered old structures of security and order and unleashed angry energies of revolution -- revolution not for democracy but against it. Bolshevism in Russia, Fascism in Italy, Nazism in Germany, militarism in Japan all despised, denounced, and, wherever they could, destroyed individual rights and the processes of self-government.

In another decade the Great Depression came along to expose the pretension that democracy would guarantee prosperity. A third of the way into the century, democracy seemed a helpless thing, spiritless, paralyzed, doomed. Contempt for democracy spread among elites and masses alike: contempt for parliamentary dithering, for "talking-shops," for liberties of expression and opposition, for bourgeois civility and cowardice, for pragmatic muddling through.

In another decade the Second World War threatened to administer the coup de grace. Liberal society, its back to the wall, fought for its life. There was considerable defeatism in the West. The title of Anne Morrow Lindbergh's 1940 bestseller proclaimed totalitarianism The Wave of the Future. It was, she wrote, a "new, and perhaps even ultimately good, conception of humanity trying to come to birth." Hitlerism and Stalinism were merely "scum on the wave of the future . . . The wave of the future is coming and there is no fighting it." By 1941 only about a dozen democracies were left on the planet.

The political, economic, and moral failures of democracy had handed the initiative to totalitarianism. Something like this could happen again. If liberal democracy fails in the 21st century, as it failed in the twentieth, to construct a humane, prosperous, and peaceful world, it will invite the rise of alternative creeds apt to be based, like fascism and communism, on flight from freedom and surrender to authority. A *

After all, democracy in its modern version -- representative government, party competition, the secret ballot, all founded on guarantees of individual rights and freedoms -- is at most 200 years old. A majority of the world's inhabitants may be living under democracy in 1997, but democratic hegemony is a mere flash in the long vistas of recorded history. One wonders how deeply democracy has sunk roots in previously nondemocratic countries in the years since the collapse of the totalitarian challenges. Now the democratic adventure must confront tremendous pent-up energies that threaten to blow it off course and even drive it onto the rocks.

THE LAW OF ACCELERATION

MUCH of this energy is pent up within democracy itself. The most fateful source in the United States is race. "The problem of the twentieth century," W.E.B. Du Bois observed in 1900, "is the problem of the color line." His prediction will come to full flower in the 21st century. Minorities seek full membership in the larger American society. Doors slammed in their faces drive them to protest. The revolt against racism has taken time to gather strength. White America belatedly awakens to the cruelties long practiced against nonwhite peoples, and the revolt intensifies. As Tocqueville explained long ago, "Patiently endured so long as it seemed beyond redress, a grievance comes to appear intolerable once the possibility of removing it crosses men's minds. For the mere fact that certain abuses have been remedied draws attention to others, and they now appear more galling; people may suffer less, but their sensibility is exacerbated."

There are other pent-up energies. Modern democracy itself is the political offspring of technology and capitalism, the two most dynamic -- that is to say, destabilizing -- forces loose in the world today. Both are driven ever onward by self-generated momentum that strains the bonds of social control and of political sovereignty.

Technology created the clock, the printing press, the compass, the steam engine, the power loom, and the other innovations that laid the foundation for capitalism and that in time generated rationalism, individualism, and democracy. At first technological advance was unsystematic and intermittent. Soon it was institutionalized. "The greatest invention of the nineteenth century," said Alfred North Whitehead, "was the invention of the method of invention."

In the twentieth century, scientific and technological innovation increased at an exponential rate. Henry Adams, the most brilliant of American historians, meditated on the acceleration of history. "The world did not double or treble its movement between 1800 and 1900," Adams wrote in 1909, "but, measured by any standard . . . the tension and vibration and volume and so-called progression of society were fully a thousand times greater in 1900 than in 1800; -- the force had doubled ten times over, and the speed, when measured by electrical standards as in telegraphy, approached infinity, and had annihilated both space and time." Nothing, Adams thought, could slow this process, for "the law of acceleration . . . cannot be supposed to relax its energy to suit the convenience of man."

The law of acceleration now hurtles us into a new age. The shift from a factory-based to a computer-based economy is more traumatic even than our great-grandparents' shift from a farm-based to a factory-based economy. The Industrial Revolution extended over generations and allowed time for human and institutional adjustment. The Computer Revolution is far swifter, more concentrated, and more drastic in its impact.

HYPERINTERACTIVE STATE

THE COMPUTERIZED world poses problems for democracy. Where the Industrial Revolution created more jobs than it destroyed, the Computer Revolution threatens to destroy more jobs than it creates. It also threatens to erect new and rigid class barriers, especially between the well-educated and the ill-educated. Economic inequality has already grown in the United States to the point where disparities are greater in egalitarian America than in the class-ridden societies of Europe. Felix Rohatyn, the investment banker and rescuer of a bankrupt New York City, speaks of the "huge transfers of wealth from lower-skilled middle-class workers to the owners of capital assets and to a new technological aristocracy." Those who skip or flunk the computer will fall into the Blade Runner proletariat, a snarling, embittered, violent underclass.

The computer will also affect the procedures of democratic politics. James Madison in The Federalist Papers distinguished between "pure democracy," by which he meant a system in which citizens assemble and administer the government in person, and a republic, by which he meant a system in which the majority expresses its will through "a scheme of representation." For most of American history, "pure democracy" was necessarily limited to town meetings in small villages. Now the interactivity introduced by the Computer Revolution makes "pure democracy" technically feasible on a national scale.

Brian Beedham in an article in the December 21, 1996, Economist applauds this development, claiming representative democracy is "a half-finished thing." Every citizen, Beedham argues, is entitled to an equal say in the conduct of public affairs. The rise of public opinion polls, focus groups, and referendums suggests popular demand for a finished democracy. With a nation of computers plugged into information and communication networks, "full democracy" is just around the corner. Full democracy, pure democracy, plebiscitary democracy, direct democracy, cyberdemocracy, the electronic town hall: under whatever name, is this a desirable prospect?

Perhaps not. Interactivity encourages instant responses, discourages second thoughts, and offers outlets for demagoguery, egomania, insult, and hate. Listen to talk radio! In too interactive a polity, a "common passion," as Madison thought, could sweep through a people and lead to emotional and ill-judged actions. Remembering the explosion of popular indignation when President Truman fired General Douglas MacArthur, one is grateful that the electronic town hall was not running the country in 1951. The Internet has done little thus far to foster the reasoned exchanges that in Madison's words "refine and enlarge the public views."

UNBRIDLED CAPITALISM

WHILE THE onrush of technology creates new substantive problems and promises to revise the political system through which we deal with them, the onrush of capitalism may have even more disruptive consequences. Let us understand the relationship between capitalism and democracy. Democracy is impossible without private ownership because private property -- resources beyond the arbitrary reach of the state -- provides the only secure basis for political opposition and intellectual freedom. But the capitalist market is no guarantee of democracy, as Deng Xiaoping, Lee Kuan Yew, Pinochet, and Franco, not to mention Hitler and Mussolini, have amply demonstrated. Democracy requires capitalism, but capitalism does not require democracy, at least in the short run.

Capitalism has proved itself the supreme engine of innovation, production, and distribution. But its method, as it careens ahead, heedless of little beyond its own profits, is what Joseph Schumpeter called "creative destruction." In its economic theory, capitalism rests on the concept of equilibrium. In practice, its very virtues drive it toward disequilibrium. This is the dilemma of contemporary conservatism. The unfettered market conservatives worship undermines the values -- stability, morality, family, community, work, discipline, delayed gratification -- conservatives avow. The glitter of the marketplace, the greed, the short-termism, the exploitation of prurient appetites, the ease of fraud, the devil-take-the-hindmost ethos -- all these are at war with purported conservative ideals. "Stationary capitalism," as Schumpeter said, "is a contradiction in terms."

Even premier capitalists are appalled by what runaway capitalism has wrought. If understanding of capitalism can be measured by success in making money out of it, no one understands contemporary capitalism better than the financier and philanthropist George Soros. "Although I have made a fortune in the financial markets," Soros writes, "I now fear that the untrammeled intensification of laissezfaire capitalism and the spread of market values into all areas of life is endangering our open and democratic society." The "uninhibited pursuit of self-interest," Soros continues, results in "intolerable inequities and instability."

The Computer Revolution offers wondrous new possibilities for creative destruction. One goal of capitalist creativity is the globalized economy. One -- unplanned -- candidate for capitalist destruction is the nation-state, the traditional site of democracy. The computer turns the untrammeled market into a global juggernaut crashing across frontiers, enfeebling national powers of taxation and regulation, undercutting national management of interest rates and exchange rates, widening disparities of wealth both within and between nations, dragging down labor standards, degrading the environment, denying nations the shaping of their own economic destiny, accountable to no one, creating a world economy without a world polity. Cyberspace is beyond national control. No authorities exist to provide international control. Where is democracy now?

THE ASIAN SHIFT

THE END of the Eurocentric era raises further problems for democracy. Self-government, individual rights, equality before the law are European inventions. Now the age of the Pacific is upon us. The breakthrough of Japan in the century coming to an end heralds the breakthrough of China and India in the century ahead. The economic magnetism of Asia is already altering the contours of the global economy, and foreshadows historic shifts in the planetary balance of power.

I am not greatly concerned about the "clash of civilizations" that worries some thoughtful analysts. Civilizations are rarely unified. Countries within the same civilization are more likely to fight with each other than to join in monolithic assaults on other civilizations. But the impact of the rise of Asia on the future of democracy is worth consideration. The Asian tradition, we are told, values the group more than the individual, order more than argument, authority more than liberty, solidarity more than freedom. Some Asian leaders, notably Lee Kuan Yew of Singapore and Mahathir bin Mohamad of Malaysia, love to contrast Asian discipline and stability with the disorder and decadence they impute to the individualistic West. They denounce the attempt to hold Asian countries to Western democratic standards as the new form of Western imperialism.

Nevertheless, both India and Japan are functioning democracies. If the claim that human rights are universal is proof of Western arrogance, the restriction of those rights to Europe and the Americas brands non-Western peoples as lesser breeds incapable of appreciating personal liberty and self-government, and that is surely Western arrogance too. In fact, many Asians fight for human rights, and at the risk of their freedom and their lives. "Why do we assume," asks Christopher Patten, the last British governor of Hong Kong, "that Lee Kuan Yew is the embodiment of Asian values rather than Daw Aung San Suu Kyi," the courageous opposition leader under prolonged house arrest in Burma? A pre-Tiananmen Square wall poster in Beijing proclaimed: "We cannot tolerate that human rights and democracy are only slogans of the Western bourgeoisie and the Eastern proletariat only needs dictatorship." In the words of the Indian economist Amartya Sen, "The so-called Asian values that are invoked to justify authoritarianism are not especially Asian in any significant sense." Chris Patten concludes, "I think the Asian value debate is piffle. What are these Asian values? When you home in on what one or two Asian leaders mean by them, what they actually mean is that anyone who disagrees with me should shut up."

Still, the new salience of Asia on the world scene, the absence of historical predilections for democracy, and the self-interest of rulers who see democracy as a threat to their power suggest a period of Asian resistance to the spread of the democratic idea.

CULTURE LASHES BACK

THAT RESISTANCE will be reinforced by the defensive reaction around the planet to relentless globalization -- a reaction that takes the form of withdrawal from modernity. The world today is torn in opposite directions. Globalization is in the saddle and rides mankind, but at the same time drives people to seek refuge from its powerful forces beyond their control and comprehension. They retreat into familiar, intelligible, protective units. They crave the politics of identity. The faster the world integrates, the more people will huddle in their religious or ethnic or tribal enclaves. Integration and disintegration feed on each other.

A militant expression of what Samuel Huntington calls cultural backlash is the upsurge of religious fundamentalism. Islamic fundamentalism seems especially hostile to freedom of expression, to women's rights, and, contrary to historical Islam, to other religions. Nor is the fundamentalist revival confined to the Third World. Many people living lives of quiet desperation in modern societies hunger for transcendent meaning and turn to inerrant faith for solace and support.

According to a 1995 Gallup poll, more than a third of American adults claim that God speaks to them directly. One hopes it is the God of love rather than the God of wrath on the other end of the line. Fundamentalism, carried too far, has ominous implications for democracy. Those who believe they are executing the will of the Almighty are notably harsh on nonbelievers. A fanatic, as the Irish-American wit Finley Peter Dunne's Mr. Dooley once observed, "does what he thinks th' Lord wud do if He only knew th' facts in th' case." Fanaticism is the mortal enemy of democracy.

Back to the question: Has democracy a future? Yes, Virginia, it does, but not the glorious future predicted in the triumphalist moment. Democracy has survived the twentieth century by the skin of its teeth. It will not enjoy a free ride through the century to come.

In America, democracy must run a gauntlet of challenges. The most crucial is still Du Bois' color line. Much depends on the availability of jobs, especially in the inner city. If employment remains high, political action will mitigate racial tensions, particularly when minorities understand that in the longer run ethnic gerrymandering will reduce, not increase, their influence. Tension will be mitigated even more by intermarriage. Sex -- and love -- between people of different creeds and colors can probably be counted on to arrest the disuniting of America.

The national capacity to absorb and assimilate newcomers will remain powerful. The call of the mainstream will appeal far more than linguistic or ethnic ghettos, above all to the young. English will continue as the dominant language. Indeed, in essentials the national character will be recognizably much as it has been for a couple of centuries. People seeking clues to the American mystery will still read, and quote, Tocqueville.

Technology will rush on according to Adams' law of acceleration. But for all the temptations of interactivity and all the unpopularity of elected officials, I doubt that Americans will sanction the degradation of representative democracy into a system of plebiscites. Capitalism too will careen on, through downs as well as ups, but laissez-faire ideology will probably wane as capitalists discover the range of troubles the unfettered market cannot solve, or makes worse. Unbridled capitalism, with low wages, long hours, and exploited workers, excites social resentment, revives class warfare, and infuses Marxism with new life. To move along constructive lines, capitalism must subordinate short-term plans and profits to such long-term social necessities as investment in education, research and development, environmental protection, the extension of health care, the rehabilitation of infrastructure, the redemption of the city. Capitalists are not likely to do this by themselves. Long-term perspectives demand public leadership and affirmative government.

In the world at large, can capitalism, once loose from national moorings, be held to social accountability? Will international institutions acquire the authority to impose, for example, a global SEC? This won't happen next week, but continuing abuse of power will build a constituency for reform. Wars will still disturb the tenor of life, but where in the past they generally arose from aggression across national frontiers, the wars of the 21st century will more likely be between ethnic, religious, ideological, or tribal factions within the same country. Such wars are harder to define and to control. Let us pray that no factional zealot gets hold of an atomic bomb.

Nation-states will continue to decline as effective power units: too small for the big problems, as the sociologist Daniel Bell has said, and too big for the small problems. Despite this decline, nationalism will persist as the most potent of political emotions. Whether democracy, a Western creation, can be transplanted to parts of the world with different cultures and traditions is far from certain. Yet I would expect a gradual expansion of democratic institutions and ideals. It is hard to believe that the instinct for political and intellectual freedom is limited to a happy few around the North Atlantic littoral.

Democracy in the 21st century must manage the pressures of race, of technology, and of capitalism, and it must cope with the spiritual frustrations and yearnings generated in the vast anonymity of global society. The great strength of democracy is its capacity for self-correction. Intelligent diagnosis and guidance are essential. "Perhaps no form of government," said the historian and diplomat Lord Bryce, "needs great leaders so much as democracy." Yet even the greatest of democratic leaders lack the talent to cajole violent, retrograde, and intractable humankind into utopia. Still, with the failures of democracy in the twentieth century at the back of their minds, leaders in the century to come may do a better job than we have done of making the world safe for democracy.

GRAPHIC: Picture, "The world must be safe for democracy." Woodrow Wilson at Independence Hall, Philadelphia, July 4, 1914, CORBIS-BETTMANN

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2000

A statement delivered by

H.E. VÁCLAV HAVEL

THE PRESIDENT OF THE CZECH REPUBLIC

Conference FORUM 2000
September 4, 1997

Addresses 1993-1997

Ladies and Gentlemen,
Distinguished Participants,

Allow me to welcome you all very cordially to the Czech Republic, to Prague and Prague Castle. Thank you for accepting the invitation to the FORUM 2000 conference — which is being held here and has been made possible especially thanks to the foundations sponsoring and organizing it.

First, if you allow me, I would like to say a few words about our country, about this city and this Castle. The Czech Lands, probably due mostly to their location in the centre of Central Europe, have, since time immemorial, been a crossroads of diverse power interests and currents of thought; it is certainly not a chance circumstance that in ancient ages, as well as in more recent times, a number of great wars have erupted in this particular location — and not infrequently also ended here, as for example in the Thirty Years' War and lately at the time of the Munich dictate, then during the Communist putsch of 1948 and at the attack by armies of the Warsaw Pact against our country in 1968. Events in our country were a test for all Europe, a warning to the continent, and a challenge to redefine its basic values and demonstrate coherently the amount of courage it was willing to exert to defend those values. Probably even more important than this political fate was what I would choose to call the spiritual record of our country. The East and the West, Catholicism and Protestantism, democracy and totalitarianism, republicanism and monarchist absolutism, mysticism and enlightenment, national subjugation and national blossoming, tolerance and chauvinism, awareness of global context side-by-side with provincialism and isolationism, Central Europeanism and a traditional deep interest in matters non-European, selfish and ignorant short-sightedness and astonishing historical vision — all have combined and clashed over the long decades and centuries in a very extraordinary manner.

An amazing specimen of what I have just said about our country bears the name Prague. This city has been, every so often in its history, a true crossroads of European spiritual trends — as in the period of Rudolf II, currently the theme of a large exhibition being held in Prague; this city has often been called magical, mysterious, enchanting, spellbinding, particularly because of its eventful and multi-layered history growing from the perpetual entwinement of the Czech, Jewish, German and Italian elements with various other European influences that has made an indelible mark on its appearance and permeated the atmosphere of the city.

The Castle, on whose premises we find ourselves today, is central and dominant to Prague, a city which — in my opinion — is more Central European and European than just Czech. With almost encyclopaedic consistency it has been a great witness to the history of the city and country, offering a lens-like, converging reflection of the past ages. It is, or rather for long centuries has been, also the centre of our life — both spiritual and cultural.

For all the reasons indicated above I feel that the Czech Republic, Prague and Prague

Castle are a most fitting location for the meeting which opens here today. Where else should wise people from all over the world meet to reflect together for a few days on the fate and future of our common civilization than in a place with such eventful history, a place which had always felt with such sensitivity the threats looming over humankind and its culture, as well as the hopes that man may and must nourish?

Our conference follows a series of similar events organized over the years by the foundation established by Marion and Elie Wiesel, some of which I had the honour of attending; it also, however, has unique and individual features distinguishing it somewhat from the mentioned series. I am hinting not only at the items on its agenda, not only at the external framework of the conference and accompanying events, not only at its ambition to establish a certain tradition, but mainly at the circle of its guests. Invitations to this conference have been sent out to about one hundred prominent personalities of public life, philosophers, political scientists, politicians, scientists, religious authorities and intellectuals from all cultural regions or areas of civilization of the contemporary world. Of course, not all the invited have been able to attend. Nevertheless, I think that you, who did find time to travel to Prague, are a truly brilliant sample of the people who, on this planet, are engaged in the most fundamental questions of its destiny.

Before I assume the part of a keen listener to your debate, I shall try to outline in a brief, and indeed rather simplified, manner my personal expectations of this conference.

Humankind today is well aware of the varied spectrum of threats looming over its head. We do know that the number of people living on our planet is growing at a soaring rate and that within a relatively short time we can expect it to number tens of billions. We do know that it shall be almost impossible to feed so many people. We do know how the already-deep abyss separating the planet's poor and rich could deepen further, and dangerously, because of this rapid population growth. We do know how difficult it will be for people of various nationalities and cultures to coexist crowded so dramatically together; and we know how many different kinds of conflicts such a situation could lead to. It is also a commonly known fact that modern humankind has been destroying the environment on which its existence depends; that it is ever faster exhausting non-renewable sources of energy and other riches of this planet; that its activities are contributing to global warming, to the build-up of the greenhouse effect; to the enlargement of the holes in the ozone layer; that it is disturbing the balance of all ecosystems. We all know, too, about the danger into which humankind is hurling itself by developing, producing and proliferating nuclear weapons and weapons of mass destruction in general. And finally we all know about the current and the expected future rise of social problems, crime, drug abuse and various forms of human alienation and frustration in the event of further concentration of people in large agglomerations destroying natural human communities and bonds. Any one of us could certainly go on listing similar threats for a long time, describing them in more detail and in rich colours, explaining how deeply they are entwined; hundreds of books have been written about these threats, some have even become topics of expensive global summits.

I see a large, yet typical, paradox for our era in the fact that though contemporary humanity has been aware of these dangers, it does almost nothing to confront or avert them. It is fascinating how preoccupied people are today with all kinds of catastrophic prognoses — is it not common for titles containing impressive evidence of the disasters into which we are tumbling headlong become bestsellers? — and how very little people take these into account in their everyday activities. For how many years now have these warning data been taught in schools and yet how small is the effect of this knowledge on human behaviour! Does not every schoolchild know today that the resources of this planet are limited and that if exhausted faster than recovered would mean we could not but be doomed? And still we continue in our ways and, moreover, do not even seem perturbed. Quite the contrary — rising production, and therefore also consumption, is felt as the main sign of success of a state, and that not only of poor states where such feelings could be justified, but also of the wealthy ones, cutting the branch on which they are sitting by their ideology of stupidly indefinite and senseless growth.

It seems to me that it is not, now, critical to point out again and again such horrors which may be lying in wait, unless our whole global civilization changes its essential direction. Today, the most important thing, in my view, is to study the reasons why humankind does nothing to avert the threats about which it knows so much and why it allows itself to be carried onward by some kind of perpetual motion — basically unaffected by self-awareness or a sense of future options and, as it seems, virtually incapable of being affected.

I believe and hope that our conference will touch this topic. Indeed, the prerequisite of any change for the better is first naming correctly the situation which needs to be changed and then analyzing its causes.

It would be unfair, of course, to deny the existence of numerous projects for the aversion of this danger or for its limitation as well as the fact that a lot has been done for the implementation of such projects. However, all attempts of this kind have one thing in common — they do not at all touch basic trends of development from which the threats I am speaking of sprout, but merely regulate their impact using technical or administrative instruments. A typical example of such instruments are legal acts, ordinances or international treaties stipulating how much toxic matter this or that product may contain or how much toxic waste this or that plant may discharge into the environment. I am not criticizing this type of standards or safeguards against any type of threat, quite the opposite: I am glad that something like this is being done at all. I only claim that these are technical tricks reducing the unfavourable impact of other techniques — without, however, such regulatory activity having any effect on the substance of the matter.

What then is the substance of the matter? What indeed could change the tendencies of today's civilization? What could really stop the perpetual motion which we have not been able to control so far?

It is my deep conviction that the only option is for something to change in the sphere of the spirit, in the sphere of human conscience, in the actual attitude of man towards the world and his understanding of himself and his place in the overall order of existence. It cannot suffice to invent new machines, new regulations, new institutions.

It is necessary to understand differently and more perfectly the true purpose of existence on this Earth and of our deeds. Only such new understanding will allow development of new models of behaviour, new scales of values and life objectives, through this means finally attach a new spirit and new meaning also to the spe regulations, treaties and institutions.

In short: it appears to me that it would be better to start from the head rather than the tail.

I would welcome it, of course, to hear whether you share this conviction of mine or perhaps, relying on your life experience, your knowledge and your beliefs or faith, wha further and more specific points you would like to add to this topic.

One of the reasons I believe that a true and essential turn for the better can derive only from changes in the sphere of the spirit is because of an observation of mine. Whenever I encounter any kind of deeper civilization problem anywhere in the world — be it logging of rain forests, ethnic or religious intolerance or the brutal destruction of the cultural landscape which had taken centuries to develop — then somewhere at the end of the long chain of causes that gave rise to the problem at issue I always find one and the same reason: a lack of accountability to the world and responsibility for it.

There are countless types of responsibility, perceived as either more or less pressing, many of which vary naturally among individuals. We feel responsible to ourselves or for ourselves, for our health, our performance, our welfare; we feel responsible for our families, our companies, our communities, our professions, political parties, churches, regions, nations or countries; and somewhere in the background of all these feelings of responsibility there is, in every one of us, a small feeling ~~of responsibility~~ for the world as a whole and for its future; do we not all feel that the world does not end at the moment of our death and that it is wrong to act as if we do not care if the floods come after we are gone. Nevertheless, it seems to me that this last and deepest responsibility, that is responsibility for the world, is very low for a number of reasons and is actually dangerously low against the background of the fact that the world today is a more interlinked place than ever before in history and that we are *de facto* living one global destiny and that almost anything that happens anywhere in the world may in one way or another affect the lives of us all.

And yet we live in a world which seems to legitimize very strongly all kinds of possible and impossible particular interests, which however seems unable to legitimize properly the universal interests, those which reach beyond the framework of the family, company, party, state or current generation. That is namely those interests which could be expected to dominate in today's globally networked world and one threatened by multiple c civilizations. Those who pursue such interests — not superficially and only verbally, but truly sincerely — are today being pushed more obviously to the margins of society as idealists standing apart from the real state of affairs.

The current world is dominated by several great religious systems whose differences seem to be coming to the fore with increasing perspicuity and actually forming the background to many real or potential political and armed conflicts in the present and future. In my opinion this fact which is attracting, understandably, the concerned attention of all observers conceals somewhat a considerably more substantial circumstance — the contemporary global civilization inside which the tension within the areas of the individual religion is taking place is indeed in essence a deeply atheistic one. Indeed, it is to date the first atheistic civilization in the history of humankind. Simultaneously, it is the first civilization which embraces the whole planet.

The reason why I am stressing this fact namely at this moment is, I hope, obvious: the atheistic nature of this civilization coincides deeply, I believe, with the hypertrophic pursuit of individual interests and individual responsibilities together with the crisis of global responsibilities.

Could the fact that humanity thinks only within the limits of what lies in its field of vision and is incapable of remembering also what lies beyond, whether in the temporal or spatial sense, not be the result of loss of metaphysical certitude, vanishing points and horizons? Could not the whole nature of the current civilization — with its shortsightedness, with its proud emphasis on the human individual as the crown of all creation and its master and with its boundless trust in humanity's ability to embrace the Universe by rational cognition, could it not all be but the natural manifestation of a phenomenon which, in simple terms, amounts to the loss of God? Or more specifically: the loss of respect to the order of existence of which we are not the creators but mere components, to the mysterious inherent meaning or spirit which does possess this order, to its memory capable of not only recording that part of our deeds concealed from others but of recording it for eternity, that is of evaluating our deeds so as to say from the point of view of eternity? Could it not be that the issue is a crisis of respect for the moral order extended to us from above, or simply a crisis of respect for any kind of authority higher than our own earthly being, with its material and thoroughly ephemeral earthly interests? Succinctly, could not the crisis of responsibility and accountability for the world as a whole and for its future be but the logical consequence of the modern conception of the world as a complex of phenomena controlled by certain scientifically identifiable laws, formulated for God-knows- what purpose — that is, a conception which does not question the meaning of existence and renounces any kind of metaphysics or any kind of its own metaphysical roots?

I have been thinking about the basic questions and paradoxes of the contemporary civilization for many years and in recent times I have even had the opportunity of encountering different aspects of these issues in various countries of all continents. And without my view being burdened a *priori* by any kind of paradigm, I become repeatedly and increasingly convinced of the validity of that which I have just outlined. It is for this reason that I shall be especially interested in the views of this assembly of wise people, to see how they either refute, or on the other hand supplement my conviction.

To put it simply: amongst other things, I expect this conference to give me and many others an answer to whether I am right or mistaken when I think what I am thinking — that the crisis of the so much-needed global responsibility is in principle due to the fact that we have lost the certainty that the Universe, nature, existence and our lives are the work of creation guided by a definite intention, that it has a definite meaning and follows a definite purpose, and together with this certainty of course also all and every humility towards what reaches beyond us and surrounds us. This loss is of course accompa by the loss of the feeling that whatever we do must be subjected to the regard for higher order of which we are part and to the respect for its authority in whose fie vision every one of us is permanently present.

I have mentioned that the image of today's world reflects the predominance of seve great religious systems which are playing an increasingly important role — or rath whose mutual "otherness" seems to be becoming increasingly important, and that ma people actually perceive a conflict between these different religious worlds as one of threats mankind will encounter the future.

Yes, after the fall of the colonial system and the end of the bipolar division of the world and due to the population boom and the growing self-confidence and influence various countries and continents lying outside the limits of the hitherto dominant Euro American civilization sphere, humankind is actually entering a world who characteristic features are multipolarity and multiculturalism.

It would seem so far that the more tied the various civilization, cultural and religio groups are by the bonds of a single global civilization - exerting unavoidably a unify influence — the more they try to confront such grip by emphasizing their sovereign inalienable identity, specificity, or simply things by which they differ from the circle of the other groups. As if one lived in an epoch of accentuated spiritual, religious an cultural "*otherness*". This growing accent is indeed another large threat to this world.

But how to restore in the human mind a shared attitude to what is above if peopl everywhere have a different image of that which is above and everywhere feel the nee to stress that "*otherness*"? Is there any sense in trying to turn the human mind to the heavens when such a turn would only aggravate the conflict among our various deities

I am not, of course, an expert on various religions, but from all that I know about the main ones, learning about them over the time and in direct contact with them, I have gained the indelible impression that they have much more in common than they adm or are willing to admit. Starting from the basic point of departure — that is, that the world and our existence here are not a freak chance having little meaning but are pa of a mysterious, yet integral, act whose sources, direction and purpose are difficult fo us to perceive in their entirety — to the large complex of moral imperatives which th act applies in addressing us — all this, surprisingly, seems to unite the various religio systems while the specific aspects of their traditions, accents, liturgies and interpretatio remain, in my view, an immensely important, but not dominant, factor. What, on th other hand, I think does dominate is the similarity in what the various religions ask o us, as human beings, or how they perceive us.

The last but perhaps most important question I would like to ask is, whether the way o of the current bleak situation could not be found in the actual search for what unites th various religions and cultures, in the search for common sources, principles, certitud aspirations and imperatives, a purpose-minded search; and then, applying mea adequate to the needs of our time, to cultivate all matters of human coexistence a endeavour as well as the treatment of the planet on which it is our destiny to live, and to suffuse it all with the spirit of what I wish to call, with your permission, the common spiritual and moral minimum.

Do you suppose this might be a way to stop that blind perpetual motion dragging us into hell, or would it seem to you to be unrealistic and naïve? Would you presume that such general and universal recovery of the human spirit and human responsibility for the world, such — as I once called it — "existential revolution" could be provoked only by some unprecedented shock or disaster, or is it within the power of wise people to bring them about by their own will and by joining their forces without the need for any appalling impulse from the outside? Would you presume that convincing words of wise people would simply be enough to achieve what has been described or would we need, like in the past, charismatic prophets or modern messiahs or even some kind of historical miracle?

Distinguished Friends,

I would be very surprised if any two of you give an identical answer to the several very general questions which I have posed here. It is not, however, our purpose to reach an agreement on something of neutral content, or on a compromise, and then issue that as a joint manifesto nobody would bother to read because it is too vague. We can bravely leave that procedure to official conferences and summits. The agenda of this assembly is different: an opportunity for its participants — and they are truly a varied group — to express, in the most original and interesting way possible, their own views of the issues which are undoubtedly of concern to us all, and to turn the mutual exchange and confrontation of these views into a true forum.

A forum as space where people reflect on matters concerning everybody and discuss them.

Thank you for your attention and I wish us all a successful meeting. I also wish you a pleasant stay in Prague and hope you will absorb some of its special atmosphere — let it be an enrichment for you, at least to the same degree as your presence here and the ideas you voice enrich my fellow citizens.

PW interactive {the web}

Net Prophet

Calvin Reid -- Nov 4, 1997

It will come as no surprise that digital theorist, entrepreneur and cyberspace cheerleader Esther Dyson's much awaited new book, *Release 2.0: A Design for Living in the Digital Age* (Broadway Books, $25) comes complete with its own website. The site has the usual amenities; excerpts, surveys, links and a series of discussion forums that Broadway Books publicist Jennifer Prost expects to be very busy. "For such an intellectual," Prost said happily, "she's as popular as a movie star. We can't keep up with the media requests." And the busier the forums the better, said Prost, because Broadway already has an "upgrade" planned for the book's trade paper edition, *Release 2.1*, due next year, that will incorporate material from the discussion topics. Nine topics, one each week, are scheduled, and discussions on work, communities and education have already begun, with Dyson and guests participating. The site also features a sample of the book presented in Trellix, an innovative frames-based Web interface devised by Dan Bricklin that BDD New Media director Jonathan Guttenberg called "a different way to maneuver through text on the Web."

Bookwire has more about: Broadway Books, Esther Dyson, *Release 2.0*

Back to **The Web**

Books

Digital Dreams

Date: November 30, 1997, Late Edition - Final
Byline: By Derek Bickerton
Lead:

RELEASE 2.0
A Design for Living in the Digital Age.
By **Esther Dyson**.
307 pp. New York:
Broadway Books. $25.

Text:

I am writing this review on my laptop. Twenty years ago, I'd have been pounding away on a typewriter, bottle of White-Out at the ready, wastebasket filling with crumpled drafts. Now whole paragraphs magically appear and disappear, change places effortlessly, instantaneously. Just 10 years ago, the prelude to writing would have consumed days of phone tag. Now I respond to the initial inquiry and within minutes the reply pops onto my screen. In those days, when I was done, I'd have stood in line at the post office to see what the review would cost to send. Now, one click and it's home free -- or just for the cost of a local telephone call. Surely only a rabid technophobe would deny that the world has changed for the better.

At least that's the contention of Esther Dyson, daughter of the scientist-futurologist Freeman Dyson, called "the most influential woman in all the computer world" in The New York Times Magazine and now the author of "Release 2.0: A Design for Living in the Digital Age." With her father's optimism and faith in technological solutions, Dyson looks forward to a world of fulfilling communities in which creativity is rewarded, the powerless become powerful and governments, if not quite withering away, lose many of their teeth. Though an idealist, she is far from starry-eyed: she realizes that these things will not come about unless Internet users -- the growing hyper-community of E-mailers and Web-site browsers -- act responsibly and with foresight. However, as a firm believer in the power and beneficence of the free market, she opposes any attempt to control the Net by legislation (such as the ill-fated Communications Decency Act) and insists that self-regulation works best: rather than trying to squelch pornography by limiting free speech, we should exploit the wide range of content-rating systems that already exist (the chapter on content control gives a handy survey) and use blocking software to keep offensive material from the impressionable.

Dyson surveys most of the legal and ethical issues that have surfaced during the past decade, and generally makes moderate and judicious suggestions. Should material posted on Web sites lie within the public domain? Yes, but it's crass to copy without permission. Should anonymous postings be allowed? On balance, yes, despite the admitted evils of electronic stalkers and slanderers -- whistle-blowers and political dissidents, among others, would suffer unjustly if anonymity were outlawed. In addition, she raises some less widely appreciated issues. Encrypting messages in (one hopes) unbreakable code is still frowned on by government agencies, because it's a potential cover for criminal activity. But soon, Dyson predicts, insurance companies will make all businesses routinely encrypt databanks and communications, to avoid the huge claims that would otherwise result from disgruntled customers and ex-employees trashing records, posting confidential data and carrying out similar acts of electronic sabotage.

All this and more Dyson accomplishes with a minimum of the techie jargon that turns off so many potential users. On the whole she does an excellent job of explaining acronyms and Netspeak, although the neophyte may still puzzle over "intranet," or "groupware" and "E-cash." Indeed, one of her goals is to demystify the Net and thus disarm those who would demonize it. One telling anecdote involves the reaction of Hungarian police officers to a bomb explosion: instead of rounding up the usual suspects, they visited the local Internet provider and demanded a list of his clients. A system that lets people communicate globally, instantly and often free of charge must seem to many the way witchcraft seemed in the Middle Ages; anything that helps dispel such attitudes must be salutary.

Yet at times Dyson's determination to proclaim the Net's virtues steers her away from the grittier particulars. Detailed discussion of cases like the one brought by the Bavarian government against Compuserve, based on alleged violations of local laws by pedophile and neo-Nazi Compuserve clients, might have highlighted tensions between free speech and social policy more sharply than Dyson's more generalized treatment of such issues. But the case, though twice briefly mentioned, is never explored. And occasionally her statements take one's breath away. "Eventually," she says, "criminals will be using the Net." Doesn't she know that since the 1980's Scotland Yard (like many other police forces) has had its own computer crime unit, or that pedophiles and con men were among the first to log on? If Dyson's subtitle were "How to Manage and Live With the Internet," such criticisms could be dismissed as quibbles. When she confines herself to giving outsiders a user-friendly insider's view of the Internet and how it works (or should work), she writes clearly and convincingly. But won't "living in the digital age" involve rather more than that?

Not according to Dyson. In her view, "the profundity of the changes that the Net will bring to human institutions" will be accompanied by "its lack of impact on human nature" -- people will go on living as they have always done. But how can they? More time spent sitting alone, staring into a screen, can only mean less time spent interacting with flesh-and-blood creatures. Dyson ignores the sinister temptations of virtual reality, including virtual sex, temptations bound to grow as real reality gets ever scarier and more complex. She sees no essential difference between real communities and on-line communities: as the former decline, the latter will replace them.

But in one's family or village, even in one's church or political party, there is always the challenge of coping with those whose opinions, attitudes and interests differ radically from one's own. In cyberspace, there's the seductive appeal of being able to confine oneself to meeting only those who share some obsession, of hanging out in chat rooms with virtual clones of oneself. It's not just the individual psyche that will suffer. The new tribalism is threatening enough without this new arena, in which cults and militias have already shown themselves among the savviest operators.

Dyson knows that "on-line communities can exist sealed away from reality," but she merely mentions this as a possibility, in a single paragraph, without discussion. On the social dangers of isolated, alienated individuals, she has nothing to say. Perhaps she believes that the potential for anyone to communicate with anyone else outweighs those dangers. But when everyone's shouting, no one's listening; the power to reach others may prove a cruel illusion.

And when it comes to the world at large, her narrowness of vision becomes scary. She is not comfortable, she says, "saying that everyone in the world should be on the Net," but "in the end, everyone will be, except for a few holdouts." Everyone? Mongolian herdsmen, Brazilian hunter-gatherers, the peasants of Indonesia or India or Iran, the uncounted slum dwellers of the third world's exploding cities? Technophobia and culture lag just aren't the problems. Now and far into the future, barriers of poverty and illiteracy (not to mention language) will exclude the majority of humankind from membership in what Dyson calls (without acknowledgment to Marshall McLuhan) the "global society of the connected."

The second half of this century has already seen serious increases in inequality, both within and between nations. Whether we will it or no, the Net adds another dimension to that inequality. Moreover, the advantages that accrue to Net users -- wired schools, enhanced job searches, consumer choice -- further compound that inequality. Dyson is justly proud of the work she has done getting former Eastern bloc countries on line, but she must know that in those countries Net use is the privilege of a tiny, precariously poised minority. What will be the ultimate social impact of all this? Nobody knows, but authors like Dyson are precisely those who should be thinking about it.

Maybe Dyson should have taken another hint from McLuhan. Of course he exaggerated -- the medium isn't the whole message -- but our environment shapes us at least as much as we shape our environment. In the end, this book recalls science fiction stories of the midcentury, set in the year 3000 with space travel, time travel and all manner of exotic gizmos, but where all the characters, earthlings and aliens alike, talk, think, feel and behave exactly like 1950's Americans. We should be wiser now. We should realize that whatever future the Internet brings us, however sensibly and fairly we manage it, it won't be merely

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NPR

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HEADLINE: U.S. Role in Global Economy

BYLINE: Kathleen Schalch, Washington, DC; Bob Edwards, Washington

HIGHLIGHT: NPR's Kathleen Schalch reports on the likely U.S. role in th new global economy. Trade representatives are calling for the U.S. to lead the way. They say President Clinton needs fast track authority to win the best offers from our trading partners. But some critics say the economic crisis in Asia will lead to an immense trade deficit with the U.S. -- possibly reaching a record $300 billion. Anxiety over trade issues has united an unlikely coalition of environmentalists, Christian conservatives, labor activists and some lawmakers on Capitol Hill. They advocate a more protectionist stance.

BODY:

BOB EDWARDS, HOST: This is MORNING EDITION. I'm Bob Edwards.

When it returns to work this month, Congress will confront new questions about the costs and benefits of the emerging global economy. The huge volume of goods and money moving throughout the world has created unprecedented wealth, but it's also blurred national boundaries, formed new classes of winners and losers, and threatened to bankrupt entire countries.

The Clinton administration wants the U.S. to forge ahead by toppling trade barriers and seizing new opportunities. But Congress may not cooperate. Instead, many analysts foresee a growing wave of protectionism.

NPR's Kathleen Schalch reports.

KATHLEEN SCHALCH, NPR REPORTER: U.S. Trade Representative Charlene Barshefsky is adamant. She says the United States cannot afford to retreat from its leadership role in the global economy.

CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE: It is critical that we maintain our leadership in defining the rules of trade, in defining the rules of commerce, and in helping to write the rules by which economies become more market-oriented, more commercially in tune with the way in which we like to do business.

SCHALCH: Barshefsky says the U.S. is facing crucial trade negotiations in the coming months on issues ranging from intellectual property to agriculture, and needs fast track authority to get the best deals possible. Without it, she says, our trading partners won't put their best offers on the table since they won't know what they'll get in return.

Most economists, including Jeffrey Garten (ph), dean of the Yale School of Management, argue that new trade agreements will benefit the U.S.

JEFFREY GARTEN, DEAN, YALE SCHOOL OF MANAGEMENT: Generally speaking, our economy is much more open than other economies. So, we're in the process of really leveling the playing field.

SCHALCH: Historically, such arguments have won over lawmakers as well. But during last year's fast track debate, skeptics in Congress outnumbered believers.

And since then, there have been more setbacks. In December, for the first time, the World Trade Organization ruled against the U.S. It was a landmark case which pitted Kodak against its Japanese rival

Fuji. Even Ambassador Barshefsky expressed dismay. She says the WTO ignored the way Japan's distribution system discriminates against imports.

BARSHEFSKY: This is widely recognized, widely acknowledged, and indeed, even Japan admits as much.

SCHALCH: The WTO decision could heighten trade tensions between the U.S. and Japan, and undercut the administration's argument that the international trading system is essentially free and fair.

Another looming problem is the financial crisis in Asia. Ironically, the reforms the IMF is demanding will wrench some of that region's economies open in ways U.S. trade negotiators could only dream of.

At the same time, the U.S. trade deficit with Asia is likely to explode. Exports from the region were already competitive. Now, plummeting currencies could make them up to 70 percent cheaper. And with demand shrinking at home, these nations will have to export.

Marcus Nolan (ph) of the Institute for International Economics predicts that the U.S. global trade deficit could reach a record $300 billion and that Congress isn't going to like it.

MARCUS NOLAN, INSTITUTE FOR INTERNATIONAL ECONOMICS: When the U.S. trade deficit goes up, the U.S. gets into trade disputes with foreign countries, regardless of whether these disputes have anything to do with the trade deficit or not. It's just a political lightening rod.

And I am afraid, as the trade deficit reaches new historical heights, that there will be a temptation in the Congress and in the administration to resort to protectionism in the United States. This, if it spread to other countries, could be very, very bad for the world's economy, given the fragility of world financial markets at this time.

SCHALCH: According to Eric Peterson (ph) of the Center for Strategic and International Studies, arguments against protectionism could fall on deaf ears in Congress. Peterson says Democrats are increasingly beholden to organized labor, which opposes free trade, and Republicans have splintered over the issue.

ERIC PETERSON, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES: American trade is now in a squeeze play. There have been a number of centrist Democrats and Republicans over the years who have been the core of a cohesive trade agenda that the United States has championed. But unfortunately, that core is now diminishing. There are fewer and fewer Democrats and Republicans in the center now who seem willing to champion freeing of international trade.

SCHALCH: Edward Graham (ph) of the Institute for International Economics offers a harsher assessment.

EDWARD GRAHAM, INSTITUTE FOR INTERNATIONAL ECONOMICS: A substantial percentage of the Congress -- and I would say that this

includes the vast majority of those who were elected in 1994 -- are simply very ignorant on this issue and they're somewhat inclined to react under the pressures of the moment. I would say, in fact, even further that not only are a lot of these members quite ignorant of international trade issues, but some of them seem to be downright proud of it.

SCHALCH: But many members of Congress say the problem is not ignorance, it's that they've looked into the matter and don't like what they see.

Massachusetts Democrat Barney Frank says liberals like himself are tired of the government acting like its sole purpose is to make sure goods and capital flow freely across international boundaries.

U.S. REPRESENTATIVE BARNEY FRANK (D-MA): The ability of capital to move undercuts the ability of unions and government to provide fairness. We are told, "cut back on your unemployment compensation rules, reduce your taxes, take a wage cut, take a cut in your health care benefits, or else we will move."

SCHALCH: Frank says open markets and the free movement of capital have triggered a race to the bottom. House Minority Leader Dick Gephardt has warned that as globalization has knit the world's economies together, it has pulled Americans apart. Tennessee Republican Zach Wamp voices the same concerns.

U.S. REPRESENTATIVES ZACH WAMP (R-TN): I think we've gotta be very careful as a country that we do not lose our own soul because of our desire to make money.

SCHALCH: Wamp says U.S. commercial interests should not undermine American values.

WAMP: Other countries do not have our values, they do not have our culture. We should be careful in working out agreements with them. If they have no regard for human rights, or very little regard for human rights, as our friends in China do today -- and it's proven. Out in the countryside, they have sweatshops for teenage girls that would make any decent human being sick.

SCHALCH: Wamp and other lawmakers say their qualms are shared by the American people. Indeed, anxieties over trade have brought together an unlikely coalition of environmentalists, Christian fundamentalists, human rights and labor activists.

Steve Frank (ph) heads a national organization of conservative Republicans.

STEVE FRANK, HEAD OF A NATIONAL ORGANIZATION OF CONSERVATIVE REPUBLICANS: The policies that are being made on trade are being made by faceless bureaucrats in other countries, and we don't have the right to question 'em. As citizens and voters, we don't have the right to elect and unelect them.

And the grassroots, as I travel throughout the country, recognize that trade policy is an area that we have not taken a great interest

in over the years. Now we must. And we recognize the impact on families and jobs and communities in the United States. And it's time that we speak out.

SCHALCH: Eric Peterson of CSIS says the trade debate has moved inexorably from Wall Street to Main Street. Closed plants make headlines, he says, while the benefits of trade, such as cheap imports and good export jobs, don't. Peterson worries that the old internationalist consensus will crumble just as it's begun to pay off.

PETERSON: Over the last 10 years, one-half of humanity has projected itself into the global market economy. And this is exactly what we have wanted for over half this century, what the U.S. has championed. And now, precisely at the time when all these societies are working to liberalize their economies, to instill free market practices, the champion of free trade, the United States, runs the risk of retreating from its historical commitment. That, I believe, is serious business.

SCHALCH: But Peterson says heading off protectionism won't be easy, and he expects trade to be the hot button issue in the next elections.

Kathleen Schalch, NPR News, Washington.

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The world is experiencing the worst employment crisis since the 1930s. Almost one-third of the Earth's 2.8 billion workers are either jobless or underemployed, and many of those who are employed work for very low wages with little prospect for advancement.

High levels of joblessness result not only in an enormous waste of resources but also in human suffering and hopelessness, rising inequality within and between countries, and a host of social ills. These conditions threaten social cohesion and undermine democratic institutions--or make them much more difficult to establish. And growing global interdependence causes such problems in one country to affect others negatively as well.

Global employment problems intensified in the early 1970s after a long period during which prosperity was relatively equitably shared among people in the United States and other industrialized countries (ICs) and among those in some developing countries (DCs). Almost every country suffers from a combination of insufficient employment growth and a lack of jobs adequate to enable workers to maintain and improve their incomes. Europe's unemployment rate, for example, was very low for most of the postwar period, but by 1994 it had surged to 12 per cent. To make matters worse, a large portion of Europe's jobless have been unemployed for a year or longer, and they face diminishing chances of returning to work.

The U.S. unemployment rate is lower than that of Europe; however, real wages have fallen for most American workers, and, since the end of World War II, joblessness has increased. Between 1979 and 1993, wages paid to young male high school and college graduates fell 30 per cent and 8 per cent, respectively. Since 1987, only workers with post-graduate and professional degrees have enjoyed rising real wages. Lower real wages account for most of America's income inequality--which is much greater than that of other ICs and is currently higher than at any other time in the postwar period. These trends imply that most American workers will have little chance of earning the real incomes their parents did in the 1960s and 1970s.

Employment conditions elsewhere have also worsened since the 1970s: Many of the "transition" economy countries (TECs) of Eastern and Central Europe have experienced sharp declines in output, the rapid emergence of mass unemployment, and rising inequality and poverty. Between 1990 and 1993, TEC output fell by more than 10 per cent per year, and a growing portion of those unemployed were out of work for a year or more. In Hungary, a majority of those unemployed had been out of work for more than six months.

Most TECs have had dramatic increases in poverty. In mid-1992, 73 per cent of all Bulgarian households had incomes below the officially set social minimum, up from 42 per cent in 1990. In 1992, over 50 per cent of Polish households were classified as at or below the poverty level, up from about 40 per cent in 1991. The situation was even worse in the countries of the former Soviet Union, where 100 million people had incomes below the poverty line at the end of 1991.

Conditions have also deteriorated in the DCs since the 1970s, especially in sub-Saharan Africa, which has retrogressed, and in many countries, especially Benin and Niger, where the modern sectors have collapsed. Most employment growth has been in low-productivity, informal sectors, which probably contain more than 60 per cent of a given region's urban workforce. Urban unemployment rates in sub-Saharan countries in the early 1990s were 50 to 100 per cent higher than in the mid-1970s. Of the 15 countries for which data for the 1980s are available, real manufacturing wages fell in 12--at an average annual rate of 12.3 per cent.

A steady decline in Latin America's modern-sector employment during the 1980s reversed the trend of the previous three decades. During this period, urban, informal-sector employment rose from 13.4 to 18.6 per cent of total employment, the average real minimum wage fell 24 per cent, and informal-sector wages shrank by 42 per cent.

Globally, the brightest spots are East and Southeast Asia, which have had high growth in productivity, output, employment, and real wages, along with declining poverty and unemployment. Throughout the region, unemployment rates remained between 2.0 and 2.7 per cent from the mid-1980s to the early 1990s, and average annual real earnings grew by more than 5 per cent during the 1980s. The region also experienced low approximate poverty rates--15 per cent--compared with 59 per cent in South Asia, 54 per cent in sub-Saharan Africa, and 28 per cent in Latin America and the Caribbean. The lessons from East and Southeast Asia, discussed below, provide important insights into what both DCs and ICs might do to improve their economic performance.

ADJUSTING TO SHOCKS IN AMERICA AND ABROAD

The oil price shocks of the 1970s interrupted a long period of global growth, which neared 5 per cent per year between 1966 and 1973. This growth slowed to 3.5 per cent between 1974 and 1980, then to 3.3 per cent in the 1980s, and it sunk to 1.1 per cent during the recession of the early 1990s.

The world's employment problems are closely associated with the slowdown of global growth; however, there is disagreement among economists about what caused the slowdown and how to restore equitably shared global growth. Clearly, many of the world's economic problems are due to the absence of the kind of consensus-based, domestic and international economic policies that existed until the 1970s--at least in the major ICs--and were associated with rising and more evenly distributed incomes between the end of World War II and the early 1970s. The growth in global output before the 1970s was also boosted by the rapid spread of technology and modern production systems in an increasingly open global economy. International transactions--mainly trade and investment--increased much faster than global output.

The problems faced by the ICs are illustrated by the United States, whose interests shaped the global economy after World War II, and whose domestic production systems and policies produced the world's strongest economy and highest standard of living. For the most part, America owed its economic success to an abundance of natural resources, economies of scale in its mass production system, a large and growing internal market, and supportive institutions and policies. While the United States can claim huge advantages in its mass production system and still boasts the world's wealthiest economy, it nonetheless faces enormous disadvantages in the more competitive, knowledge-intensive world of the 1990s.

By the end of the 1960s there were signs that America's economy was in trouble. The main forces for change were technology and increased international competition, which combined to weaken the mass-production system and to alter dramatically the conditions for economic viability. In this more competitive world, dominated by knowledge-intensive technology, the keys to economic success became human resources and more effective production systems, not natural resources and domestic economies of scale. Technology makes possible new organizations of production, but competition makes them essential in order to maintain and improve incomes.

Technological advances and the globalization of markets have yielded significant public policy consequences: national governments exercise less control over their economies, national companies wield less influence over their markets, and unions hold less authority with respect to negotiating working conditions.

No longer can a country maintain high wages and full employment through the traditional combinations of monetary-fiscal and international trade policies, administered wages and prices, and fixed exchange rates. Keynesian policies to maintain aggregate demand contributed significantly to prosperity in the ICs but could not deal adequately with the inflationary pressures induced by the external supply shocks of the 1970s. Keynesian remedies did little to foster productivity, which is the main determinant of economic success in a more competitive global economy. Most importantly, in the 1970s and 1980s, internationalization weakened the links between domestic consumption, investment, and output that formed the basic structure of Keynesian demand management. The weakening of these Keynesian links was made clear when U.S. tax cuts in the early 1980s increased consumption, but then--in marked contrast with the 1960s--also greatly stimulated imports. These tax cuts therefore produced a much smaller increase in domestic investment than had earlier tax cuts in a less-globalized market. Indeed, imports accounted for a large share of the available consumer goods and almost all of the increased demand for capital goods following the 1981 tax cuts.

A more competitive, knowledge-intensive economy thus poses new employment policy dilemmas. For an economy in which wages are high to remain competitive, growth sufficient to prevent rising unemployment due to advances in productivity must be sustained. At the same time, countries are less able to stimulate their economies through demand-management policies alone. Similarly, employment problems are exacerbated by the absence of a global "engine of growth," a role played by the United States and expanding global markets during the three decades after World War II. The United States no longer can serve this function, and the absence of policy coordination--especially among the United States, Germany, and Japan--hampers global growth and stability. In addition, obsolete international economic institutions and policies make it difficult to provide the investment, development programs, and markets needed to raise demand in Third World countries and thus to stimulate the global economy.

HIGH-PERFORMANCE SYSTEMS OR LOW WAGES?

With internationalization, countries, companies, and people must yield to the imperatives of global competition. The most basic imperative is that we can compete in only two ways: by reducing wages and incomes or by increasing productivity and product quality. We can no longer rely on natural resources and the economies of scale sustained by oligopolistic firms in domestic markets insulated from international competition and sustained by macroeconomic policies. Most high-income ICs, and some of the top-performing DCs in Asia, have either implicitly or explicitly rejected the low-wage option because it implies more unequal incomes--which is exactly what most American workers have experienced in the last 20 years. These countries see that lower and more unequal incomes threaten their political, social, and economic health. The only way to improve total incomes under this system is to work longer and harder, a reality that clearly limits economic progress. By contrast, since technological change is essentially the substitution of ideas, skills, and knowledge for physical resources, the high-performance option could create very steep learning and earning curves, thus rapidly increasing personal, organizational, and national advancement. For example, because agriculture has become more knowledge intensive, farmers have greatly improved output with less land, labor, and physical capital. Economic and political analyst Peter Drucker provides another illustration of this process: The seminal product of the 1920s was the automobile, which was 60 per cent energy and raw materials and 40 per cent skills and knowledge; the seminal product of the 1990s is the computer chip, which is 2 per cent energy and raw materials and 98 per cent ideas, skills, and knowledge.

What must we do to pursue the high-performance option? Global experience suggests that countries first must develop national consensus and then fashion policies and strategies to achieve the high-performance option. Under modern conditions, competitive market forces alone will produce low-wage outcomes and global stagnation. National policies should therefore encourage companies to organize for high performance and discourage the low-wage alternative.

In general, high-performance organizations stress quality, productivity, and flexibility--rather than economies of scale and fragmented production processes that require most workers to exercise limited thinking skills. High-performance organizations develop lean, participative governance structures that decentralize decisionmaking, have positive reward systems, develop and use leading-edge technologies, and stress continuing education and training for all workers, not--as was the case with the mass production system--for managers and professional workers alone.

Unfortunately, far fewer American companies have organized for high performance than have European and Japanese firms. Most American companies pursue low-wage strategies that maximize shortrun company objectives, but could hurt workers and communities by contributing to joblessness and polarized incomes.

There are several reasons why so few American companies have organized for high performance. First, the mass production system, supported by New Deal policies aimed at sustaining the economy's aggregate demand for goods and services, was most successful in the United States. Therefore, it spawned the development of deeply entrenched supporting institutions and policies that resist change.

Second, change requires a consensus-based strategy, which is difficult to achieve in the United States because of fragmented governmental institutions, a strong laissez-faire philosophy, greater freedom for business decision making, and a weaker sense of community than in other countries, especially Germany and Japan.

Third, the high-performance option forecloses the low-wage alternative, because it requires high minimum wages, income-support systems, strong labor organizations, and the empowerment of workers. Other ICs meet these conditions better than does the United States.

Fourth, American education and training catered to the mass-production system's bifurcated skill and knowledge requirements. A few professional and technical people needed higher-order thinking skills, but most workers required only basic skills for routine work. In high-performance systems all workers need higher-order thinking skills. However, in the United States, only research universities and some technical training programs are world class. Few American public schools, school-to-work systems, and on-the-job learning processes can compete with those of Germany, Japan, or certain East Asian countries. Relative to other ICs, the United States gives much more support to higher education than to primary and secondary education.

Finally, the absence of coherent, consensus-based economic policies creates uncertainties in the American environment. Those uncertainties deter businesses from investing the time and resources required to establish high-performance systems.

This background provides a better understanding of the diverse ways in which the United States and Europe responded to the economic disruption associated with the oil price shocks of the 1970s. It illustrates, too, the dissimilar employment problems they are now experiencing. In general, most European policies support high-performance systems and higher unemployment, while most of those in the United States encourage low-wage practices and faster job growth.

DIVERSE RESPONSES

The immediate problem created by the oil price shocks concerned the income reductions required to pay for higherpriced imported oil. Because of their more highly coordinated policies and flexible production systems, the Japanese absorbed these shocks pretty well, keeping unemployment relatively low and realwage growth relatively high. Since the United States had no consensus-based mechanism to negotiate ways of absorbing the shock, it allowed inflation to reduce real incomes.

It was not until the early 1980s that U.S. and European policies began to diverge. The Reagan administration's policies were based on the supply-side argument that large tax cuts would so energize the American economy that the budget could be balanced by the end of 1983 or 1984, even as defense spending was greatly increased. The Reagan policy demonstrated the reduced effectiveness of budget stimulus by a single country in an increasingly open global system and illustrated the ways in which disruptions in major countries spread to other nations. The tax cuts stimulated domestic consumption, but, by greatly widening the budget deficit, they also significantly raised real-interest and exchange rates. Rising interest rates contributed considerably to the debt crisis in the DCs, especially in Latin America. The debt crisis, in turn, contributed to Latin America's economic stagnation during the 1980s, which reduced American exports to the region and further exacerbated the U.S. trade deficit.

Thus, the U.S. adjustment to inflation and the economic slowdown of the 1970s led to a combination of restrictive monetary policies and high unemployment during the early 1980s, with an expansive fiscal policy from 1982 on. High unemployment in the early 1980s and the growing globalization of production weakened unions and put downward pressure on wages, as did the declining real value of both the minimum wage and social safety nets. This combination of policies, plus the shift of employment from manufacturing to services, led to lower real wages for most workers and growing wage inequality. In Europe, by contrast, the outcome of restrictive policies to check inflation was high unemployment that each country was powerless to counteract alone because of the reduced effectiveness of national economic policies. France discovered this fact in the early 1980s when its attempted unilateral stimulus resulted in mounting trade and budget deficits. Due to Germany's fear of inflation and the creation of the European monetary system, which in effect links currencies to the deutsche mark, European policies are highly restrictive.

Some economists and politicians often argue that labor-market institutions have contributed to high European unemployment. There are several parts to this argument.

First, unemployment, it is posited, results from excessively high wages, which labor-market mechanisms prevent from falling as they have in the United States. The evidence suggests that European wages did not fall with the oil price shocks, so profit margins were compressed. However, by the end of the 1980s, European wage restraint and the elimination of wage indexing had restored profit margins and relative wage positions in most European countries. Despite these adjustments, unemployment remained high, casting doubt on the validity of this argument.

Second, it is argued that Europe's employment problems were caused by inflexible industrial-relations systems. While industrial-relations systems do need to become more compatible with the productivity and flexibility requirements of high-performance systems, European industrial-relations systems in fact have been fairly adaptable. A labor movement that is accepted as a "social partner," which is largely true in Europe, seems quite willing to adjust to new economic realities. Moreover, negotiated changes generally enjoy greater credibility and acceptance than those made by government mandate or unfettered market forces. In particular, European labor movements are major barriers to low-wage strategies and have more power than their American counterparts to tilt policies toward the high-performance option.

Third, the critics say that another troubling source of rigidity is high minimum wages. However, the employment effects of maintaining a minimum wage are small, and, as part of an overall strategy, they serve the functions of providing work incentives, limiting lowwage competition, and assuring more adequate earned incomes.

Finally, it is argued that the generous unemployment compensation systems in Europe and the greater ease with which employers can lay off workers in the United States account for the differences in their respective employment experiences. However, it is difficult to compare the United States with all of Europe. It is more appropriate to compare the United States with a major country like Germany, which, critics argue, suffers from rigidities and growing unemployment due to high income supports, especially generous unemployment compensation, rigorous labor standards, and extensive worker participation at every level in major companies.

However, the German case is not so simple. Germany has slower job growth partly because its work force has simply grown less rapidly than has that of the United States. Nevertheless, if we use one definition of unemployment and restrict our analysis to West Germany and the United States, Bureau of Labor Statistics data show that West German unemployment was lower than that of the United States for most of the years between 1972 and 1993, and it was lower every year between 1990 and 1993, as the following chart shows.

ILLUSTRATION OMITTED

The upward trend in German and U.S. unemployment rates suggests both common labor-market developments and other factors. First, generous social benefits probably account for a small part of Germany's higher unemployment levels. The main causes of higher unemployment lie with labor-market and economic developments. In particular, the merger with East Germany created major problems for West Germany. And comparisons with the United States are distorted by the fact that Germany is just entering its recovery, while the United States is nearing the end of a long recovery. If social benefits are a major cause of unemployment, U.S. unemployment levels should be much lower than Germany's, which is not the case.

Second, much of the recent rise in U.S. and European unemployment rates is due to excessively tight macroeconomic policies instituted to counter inflation. While there is considerable doubt that, under present conditions, low unemployment will produce inflation, there is no doubt that high unemployment will dampen inflationary pressures, but at very high economic and social costs.

Third, European unemployment is of a longer duration than is that of the United States. In 1992, 33.5 per cent of German unemployment consisted of workers without jobs for a year or longer, compared with only 11.2 per cent of similarly jobless workers in the United States. It is not known, however, how much of the higher unemployment in Europe and other ICs is due to macroeconomic policies and how much is due to other causes. In the March/April 1994 issue of International Economic Insights, Robert Solow, M.I.T.'s Nobel laureate in economics, proposes

a concerted steady expansion of aggregate demand in Europe, aimed at eliminating a substantial margin of unemployment, perhaps as much as 5 or 6 percentage points. In the course of this exploration, we would no doubt discover just how big that margin actually is. Europeans would then be in a better position to think intelligently about the proper scope for the welfare state for guarantees of job security.

Solow adds, "The ... belief that the only good labor market is a dog-eat-dog jungle strikes me as both socially wrong and economically unproductive."

Fourth, there is a correlation between long-term unemployment in Europe and the duration of unemployment benefits and the magnitude of severance payments, though causation is unclear. While correlations do not prove causation, longer-term income supports than are available in the United States undoubtedly are a factor in European workers' reluctance to take marginal low-wage jobs. A better economic policy would minimize passive income supports like those in Germany and would encourage more active policies to improve skills and labor-market performance, as is done in Sweden.

Still, Katharine Abraham, U.S. commissioner of labor statistics, and Susan Houseman, senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Michigan, who have scrutinized the impact of German labor-market policies and the adjustment process, discount the argument that these policies make the German labor market more rigid than that of the United States. "In fact," they concluded in a Summer 1993 Brookings Review article, "U.S. and German companies faced with similar declines in sales make very similar labor cuts. The difference is that U.S. firms lay off many workers immediately, while German companies reduce workers' hours." These scholars add: "Overall, we conclude that German policies have been fairly successful in giving workers more stable employment without inhibiting labor adjustment and without imposing burdensome costs on employers."(1)

HIGH-PERFORMING ASIAN ECONOMIES

As was noted earlier, DCs have adjusted differently to the more competitive international economy. In general, countries with export-oriented strategies have performed much better than those that remain inward looking. While the successful countries in East and Southeast Asia have taken advantage of global market opportunities, they have not adopted purely laissez-faire policies, because they recognize the need for active strategies to promote key infant industries, correct market failures, and achieve an equitable sharing of the benefits and costs of change. None of these things would happen with market forces alone.

The eight high-perforing Asian economies (HPAEs)--Hong Kong, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, and Thailand--provide some insight into what is required to succeed in a globalized economy. In particular, these economies demonstrate the possibilities for virtuous cycles whereby policies to stimulate growth and reduce income inequality actually reinforce each other.

According to World Bank studies, the HPAEs not only have outperformed the ICs since the 1960s, but they have had higher growth rates than ever experienced by the ICs. Moreover, while the per capita income gap between the ICs and most DCs has grown, the HPAEs are closing this gap rapidly, and they are doing so with reduced income inequality and declining poverty rates.

What accounts for this remarkable performance? One factor is the "shared development" strategies these countries adopted, at least partly in response to the formidable communist challenge they perceived in the 1940s and 1950s. To gain greater credibility and support, these countries adopted measures that simultaneously had grassroots appeal and made good economic sense. These measures included massive investments in basic education, land reform (Korea and Taiwan), housing (Hong Kong and Singapore), and rural infrastructure (Indonesia).

These countries' education policies were basic to their economic success. All HPAEs except Thailand had much higher levels of primary and secondary school enrollment than countries with similar per capita incomes. Most importantly, the HPAEs had much smaller male-female enrollment gaps than other DCs. And, unlike the experiences of other DCs, school enrollment and educational quality improved simultaneously in the HPAEs.

A growing body of research finds education to be one of the most important factors associated with rapid productivity growth. Education augments learning skills, improves workers' ability to develop and use technology, and increases productivity. World Bank research shows that high primary and secondary school enrollment enhanced HPAE growth by 20 per cent and 40 per cent, respectively, between 1960 and 1985.

Education boosts economic performance in different ways for males and females. Education for males enhances their performance directly when young men enter the work force, while educated women have the added benefit of improved individual, family, enterprise, and national economic performance through lower fertility rates and healthier and better-educated children. In East Asia, the fertility rate for women with more than seven years of schooling is 54 per cent that of uneducated women. Thus, relative to other DCs, lower fertility in the 1960s resulted in fewer school-age East Asian children in the 1970s and 1980s, which permitted faster growth in school expenditures per child. These developments, as well as robust growth, enabled Asian countries to provide much-higher-quality education than was possible for DCs with faster population growth, more school-age children, and much slower economic growth. In 1960, East Asian education expenditures relative to gross national product (GNP) were slightly higher than in other areas, but they were not much higher in 1989. (They were 2.5 per cent in 1960 and 3.7 per cent in 1989, compared with 2.4 per cent and 4.1 per cent for sub-Saharan Africa and 2.2 per cent and 3.6 per cent for all DCs.) Due to much faster economic growth and fewer school-age children, public school expenditures per eligible child between 1970 and 1989 quadrupled in South Korea but did not even double in Mexico. Over this same period, public school expenditures as a percentage of GNP fell in South Korea and rose in Mexico, even though in 1989 Mexican expenditures per eligible child were only 26 per cent of South Korea's. Similarly, relative to per capita GNP, per-pupil operating costs of Indonesian and Malaysian schools were less than half the African average.

In the HPAEs, where the proportion of well-educated people is relatively large, the education wage premium was reduced and, therefore, income inequalities were diminished. Low inequality, in turn, reduced poverty and increased the demand for education by low-income households, which spend a large proportion of their income on education. For example, if income in Brazil was distributed as equitably as it is in Malaysia, Brazilian school enrollment would be at least 40 per cent higher.

Of course education is critical, but it cannot be considered apart from overall economic strategies. For example, the strong demand for education in Asia was boosted by a brisk demand for skilled workers. These educated workers were needed to satisfy the requirements of high-performance development strategies that included the export of products with greater value added at home.

The HPAEs share several common characteristics that vary in magnitude and intensity in different countries. These include rapid and sustained growth between 1960 and 1990, dynamic demographic transformations due to population displacements and reduced population growth, relatively equal income distributions, and unusually rapid export growth.

Between 1960 and 1990 several factors separated the HPAEs from less-successful DCs. High combined public and private investment rates of more than 20 per cent of gross domestic product and extensive human capital formation account for roughly two-thirds of the HPAEs' growth. High productivity growth accounts for the rest.

The HPAEs' rapid productivity growth stemmed from various sources. Highly skilled workers and managers helped raise productivity in these countries. Additionally, exceptional allocation efficiencies due to a combination of market forces and intervention from public-private consensus-based "deliberative councils" facilitated growth. Other factors figuring in the HPAEs' success include the importation, adaptation, and development of advanced technology. Finally, efficient production organizations stressed hard work, which was made acceptable by low but rising real wages and relatively equal income distribution.

The HPAEs' successes were therefore based on a combination of economic fundamentals and market-friendly interventions, one of which was the maintenance of macroeconomic stability to prevent inflation and to facilitate savings, investment, and long-range public and private planning. Investment--especially in human capital, infrastructure, and price systems--minimized unplanned price distortions and contributed to the HPAEs' economic strength. Finally, stable and secure financial systems and an openness to international investment, trade, and foreign technology allowed these countries to prosper.

At times, East Asian governments intervened in their economies by maintaining low interest rates to stimulate capital investment and by allocating credit to preferred economic and financial activities. Additionally, East Asian leaders promoted strategic industries, and, in markets with little competition, they held supervised contests that distributed rewards to enterprises based on performance. In contrast to the orthodox view that intervention should correct only "market imperfections," according to the World Bank study, The East Asian Miracle, the HPAEs understood that "markets consistently fail to guide investment to industries that would generate the highest growth for the overall economy."

Another HPAE "shared growth" strategy, not found in most DCs, was support for rapid agricultural productivity growth and rough parity between farm incomes and urban wages. This combination helped keep food prices and wages low. Unfortunately, low wages also were maintained through strategies such as the suppression of labor standards, especially of workers' rights to organize and bargain collectively. Rural incomes were improved by land reform, the availability of credit, technology, and technical assistance, and by allowing agricultural prices to be set by market demand in the early stages of national economic development. Other DCs have suppressed farm prices and incomes, thus reducing agricultural efficiency and actually raising food prices.

Analysts disagree about how "shared development" improved HPAE performance. Indeed, this outcome is contrary to orthodox economic development theory, which stresses "trickle down" policies favoring the wealthy in order to encourage the capital formation needed to stimulate economic growth. However, economists Nancy Birdsall, David Ross, and Richard Sabot suggest that income equality could stimulate growth by inducing savings and investment by the poor, especially for education and health; by contributing to political and macroeconomic stability; and by increasing the efficiency of low-income workers.

LESS-SUCCESSFUL MODELS

The sub-Saharan African countries provide a vivid contrast with the HPAEs. These countries have held to inward-looking economic polices and have had negligible attachments to the global economy. Some countries changed their policies during the 1980s, but these countries still have strong barriers to economic reform, including high risks for investors, abrupt policy shifts, insecure property rights, and weak accounting and judicial systems. According to the U.N.'s International Labour Organization (ILO), aid is given to African governments in a way that raises exchange rates, thus inhibiting exports and crowding out private investment. In addition, aid is usually conditioned on easily evaded promises for reform rather than on actual past performance.

Since most of the poverty and unemployment in Africa is concentrated in rural areas and urban informal activities with low productivity and unstable incomes, to become more productive and better integrated with modern industries, these informal sectors require greater access to capital. Informal urban sectors should receive special attention because they help build a safety net where social supports are either weak or nonexistent. In addition, informal sectors absorb surplus labor and provide useful goods and services.

The East European economies also face unique problems. For these TECs, the issue is one of moving from managed economies to market systems. Because the TECs have strong human capital endowments, they could perform very well in the long run. However, whether they can become democratic, market-oriented countries depends heavily on their ability to make the transition to market systems through the institutions and policies needed to compete in global markets. Because of the absence of social safety nets and essential market-oriented institutions, this transition is much more daunting than many people imagine. Developing these institutions and mechanisms is inherently a slow process. The task is not adequately appreciated by proponents of rapid change, or "shock treatment," who argue that instant restructuring is required for advancement toward market systems.

However, as the ILO report World Employment 1995 argues, there are policy instruments to facilitate gradual adjustment, such as abandoning import quotas and subsidies to state-owned enterprises in favor of assistance--with time limits--for the enterprises most likely to succeed in domestic and international markets. Substituting markets for production subsidies will make it easier to determine which enterprises will most likely succeed. In order to attract capital, the TECs also need to safeguard property rights, reform capital markets, improve labor-market and training processes, and promote self-employment as well as public and private job creation.

The main challenge for the TECs is to build enough economic and social stability to prevent political destabilization. Since the world has a big stake in a successful outcome, the international community should do whatever it can to facilitate that process.

THE NEED FOR CONSENSUS

The world's employment crisis is due largely to policy paralysis: Officials and analysts differ in their priorities and their degree of uncertainty over how to function in a more competitive, knowledge-intensive global economy. In the past, economies in the United States and other ICs were based on national mass-production systems sustained by Keynesian demand-management measures and an open and expanding global economy, which was greatly facilitated by the Bretton Woods mechanisms.

However, globalization and technological change have significantly reduced the effectiveness of these traditional policies and institutions. In this new economy, those who develop flexible and adaptable organizations to produce quality products at competitive costs maintain and improve their incomes and will achieve a more equitable distribution of the benefits and costs of change. By contrast, those who attempt to compete mainly by reducing wages will experience lower and more unequal incomes and a limited ability to improve living conditions. Similarly, adjusting from traditional to high-performance economies requires consensus-based strategies, because under present conditions market forces alone will produce low-performance outcomes. Clearly, however, the high-performance option, by boosting productivity, will lead to rising unemployment unless it is accompanied by adequate growth. It is equally clear that the stimulus for growth must come from both the DCs and the ICs.

There is much uncertainty about how to achieve adequate global growth, but the companies and countries that succeeded during the 1970s and 1980s provide insights into the broad contours of new organizational, market, political, and institutional frameworks. Mutually advantageous processes by which all groups gain are required. This is posited by the principle of comparative advantage, but it is not automatic, either between or within countries.

In sum, policies to address the global employment crisis should include several dimensions. First, consensus for the high-performance option must be established, both within countries and internationally. It is in everybody's interest to narrow income gaps by raising wages in the DCs rather than by lowering them in the ICs.

Second, consensus for coordinated national and international policies must be secured to restore global, equitably shared growth. Global expansion must, however, be combined with structural adjustments within DCs to maintain and improve incomes. Although world output growth recovered to 3.7 per cent in 1994, without faster growth the number and quality of jobs will remain unfavorable almost everywhere, making national and global adjustments very difficult.

Third, existing institutions and policies must be reformed--or new ones must be created based on high-performance concepts, rather than on the self-defeating and inequitable low-wage, laissezfaire, "trickle-down" policies too often followed in the past. As the HPAE experiences suggest, development policies should give priority to education and self-help programs to improve income-earning opportunities, especially for the poor. As was noted, the communist threat caused many HPAEs to improve the conditions of low-income people, which made sense economically as well as politically and socially. We need to find the moral equivalent of the Cold War. Perhaps aid and loans from international institutions, conditioned on economic incentives and "bottom up" rather than "trickle down" policies, could serve that function.

Fourth, the international financial system must be reformed to prevent a recurrence of the policies that led to the DCs' debt crises during the 1980s and to create safeguards against financial speculation that distorts, and could destabilize, international financial markets. In 1971, for example, before the collapse of the Bretton Woods arrangements, 90 per cent of all foreign exchange transactions was for trade and investment and only 10 per cent was for speculation. Today, the situation is reversed: over 90 per cent derives from speculation and less than 10 per cent from trade and investment. Perhaps a strong international financial institution that functions like an international central bank acting as a lender of last resort might introduce sounder international financial practices.

Fifth, international policies to encourage high-performance shared growth must be implemented. The policies must be based on market-friendly interventions while paying careful attention to the economic fundamentals and cultural realities of each organization and place. In addition, economic performance can benefit from supportive infrastructure, social safety nets, the adaptation and improvement of technology, and human resource development.

Finally, labor standards need to be reformed so that they are a component of the rules for all international trade, investment, aid, and employment transactions. Labor standards could prevent these transitions from suppressing working conditions by withholding competitive advantages from enterprises or countries that violate basic international labor standards, improving productivity and efficiency, and permitting low-wage workers to increase global demand by participating in their countries' development.

(1)For a more extensive treatment of these issues, see Ray Marshall, "The importance of international labour standards in a more competitive global economy," in International labour standards and economic interdependence, Werner Sengenberger and Duncan Campbell, eds. (Geneva: International Institute for Labour Studies, 1994).

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BYLINE: Roelofs, Joan

BODY:

Those who wish to promote change should look closely at what sustains the present system. One reason capitalism doesn't collapse despite its many weaknesses and valiant opposition movements is because of the "nonprofit sector." Yet philanthropic capital, its investment and its distribution, are generally neglected by the critics of capitalism. Most studies of the subject are generously funded by the nonprofit sector itself; few researchers have followed up on the observation of Marx and Engels in The Communist Manifesto: A part of the bourgeoisie is desirous of redressing social grievances, in order to secure the continued existence of bourgeois society ... To this section belong the economists, philanthropists, humanitarians, improvers of the condition of the working class, organizers of charity, members of societies for the prevention of cruelty to animals, temperance fanatics, hole-and-corner reformers of every imaginable kind.

The United States is unique in the size and scope of this sector which spends over $ 400 billion annually. Its tax-free wealth is largely unaccountable: just imagine the land, the buildings, their contents, and the investments of churches, private universities and schools, museums, zoos, teaching hospitals, conservation trusts, opera houses, etc. This model has been exported to everywhere for over a century. Currently the United States philanthropy network is attempting to create entire "nonprofit" sectors in Eastern European countries. "Bible imperialism" was an early version; another was a large Rockefeller infusion into the London School of Economics during the 1920s and 1930s.

Some may see a galaxy of organizations doing good works - a million points of light - but the nonprofit world is also a system of power which is exercised in the interest of the corporate world.

What is the nonprofit sector? In the United States, it includes churches, private schools and universities, cultural institutions, advocacy groups, political movements, research institutes, charities, and foundations. One subset is particularly noteworthy: those organizations covered by section 501 (c) (3) of the Internal Revenue Code. These are the benevolent organizations whose receipts are tax-exempt, and whose contributions are tax-deductible for the donors. They are generally the only organizations that receive foundation grants. In turn, they must restrict political advocacy and may not engage in election campaigns. They also may not distribute profits to shareholders.

Not all in this sector are corralled into innocuous system-protecting activities; there are a few independent, usually poor and obscure organizations. However, most organizations are linked to each other and to the major corporations by their funding, their invested assets, technical assistance, interlocking directorates, and peak organizations such as the Independent Sector and Council on Foundations.(1)

Independent Sector, the trade association of the nonprofit sector, was founded in 1980. It has a budget of $ 5 million and 800 members, including (as of November 1988): the AT&T Foundation, the Aga Kahn Foundation, the American Association of Community and Junior Colleges, the American Association of University Women, B'nai B'rith International, Boy Scouts of America, Coors Foundation, Environmental Law Institute, Mexican-American Legal Defense and Educational Fund, Mothers Against Drunk Driving, NAACP Legal Defense and Education Fund, National Audubon Society, Sierra Club, and World Wildlife Foundation. There are over 1500 foundations in the United States that are affiliates of profit-making corporations, and they work along with the traditional charities and foundations to keep the ship afloat.

In what way does this sector serve as a protective layer? First of all, non-profits play an important role in the concentration and distribution of capital for the profit making sector. For example, prominent on nonprofit hospital boards of trustees are businesspeople, bankers, real estate developers, insurance executives, etc. Expansion decisions provide a major stimulus to the economy of a region, as well as plums for individual corporations. In addition, foundations and other charitable institutions invest assets in stocks and bonds and can exert power along with other institutional investors.

Second, nonprofits provide goods and services that the market cannot, from homeless shelters to opera and BBC TV drama. The latter are quite important, as the defection of intellectuals tends to be more dangerous than dire poverty.

Unprofitable but necessary activities could be carried out by government, as they are in many countries. However, privatization of charity, culture, education, and reform has many advantages. If philanthropic capital were taxed, its disposition would be subject to political debate. Nonprofit organizations, on the other hand, are directed by self-perpetuating boards, and there is no democratic control over their private policy-making. Staff members have no civil service status or security; they are dependent on philanthropy and its visible, hugging arms. Almost all organizations look to corporations and foundations for funding. Small donations or dues arc rarely adequate for any major undertaking, and require much energy to collect. Even the NAACP Legal Defense and Education Fund was crucially dependent on foundation money for the litigation leading to Brown v. Board of Education in 1954.

Some of these unprofitable functions could be performed by political parties, unions, or social movements. Elsewhere in the world, political parties sponsor youth groups, daycare centers, children's camps, and other charitable and educational activities. One might think it particularly appropriate in a democracy for political parties to be the primary locus for social reform and public policy research and advocacy. Nevertheless, in the United States advocacy and reform are largely monopolized by foundation-supported nonprofits.

Yet another protective function is employment for sons and daughters of the rich who might otherwise be unemployed and disaffected, along with those of any class who are dissident and troublesome. Mix a "soup" of potential and actual troublemakers with lots of gold floating around, and it will go down very smoothly, soothing sore throats and sore heads.

The nongovernmental and nonpartisan status of these organizations generates a halo of altruism and independence, and this is all the more useful in their international activities. Their geographical and functional range is exhaustive, and there is scant recorded evidence of resistance to the penetration of philanthropy. Recent activities include support for Christian Democratic parties, unions, and grassroots organizations throughout Latin America; the creation of a nonprofit sector in Eastern Europe and the former Soviet Union; the fostering of a nonracial, nonsocialist solution in South Africa; and the "sustainable" development response to critics of third world exploitation. The United Nations itself, by origin and development, owes much to multinational philanthropy.

The contours of the nonprofit system become clearer when we look at its great planning and funding arms: the large foundations. They contribute to amusement, to placation of artists, to biochemical research, and to routine charity, but perhaps their most interesting endeavors are in directing social reform. They and their creations supply the ideas for political change. The great multipurpose foundations first arose in the early 20th century, closely connected in spirit and practice with Progressivism and the rise of the social sciences. The new millionaires of robber baron infamy saw foundations as devices to serve several purposes. First, they would provide a systematic way to dispose of vast fortunes. Second, they would permit considerable social control through philanthropy. John D. Rockefeller decided "to establish one great foundation. This foundation would be a single central holding company which would finance any and all of the other benevolent organizations, and thus necessarily subject them to its general supervision. Third, foundations could improve public relations; many believed that the Rockefeller Foundation was created to erase the scandal of the Ludlow Massacre.

In the period prior to the First World War, foundations could ameliorate the lot of the masses and at the same time coopt intellectuals who often had socialist sympathies. They promoted an ideology that regarded social ills as problems to be solved by social scientists. Class struggle, or even conflicts of interest, was of no moment.

After the Second World War, foundation intervention in the policy process increased dramatically. For example, fear of political disorder brought forth an amelioration strategy from the Ford Foundation. Its Report for 1949 argued that we had to strengthen our system in order to meet the challenge of communism. Problems included the unfinished business of the Civil War, the lack of political participation, and the care of maladjusted individuals. Ford's initial strategy was to fund litigation for Supreme Court decisions, which successfully obtained increased legal equality for blacks, reform of the criminal justice system, and reapportionment of legislatures.

During the 1960s, as one response to burgeoning protest movements, the Ford Foundation took the lead in developing public interest law, which included law firms, clinical programs in law schools, specialized law reviews, and an appropriate ideology. Among the litigation organizations created were the Women's Law Fund, Environmental Defense Fund, Natural Resources Defense Council, and a number of Legal Defense and Education Funds(LDEFs) including the Puerto

Rican LDEF, Mexican-American LDEF, and Native-American LDEF. Older organizations, such as National Association for the Advancement of Colored People Legal Defense and Education Fund and the American Civil Liberties Union, also became dependent on foundation funding.

Foundation ideology, disseminated through conferences, reports, and sponsored research and books, holds that radical protests are signs of inadequacies in pluralism. Disadvantaged groups such as blacks, Chicanos, women, children, and the poor need help in getting their rights. Grant money enables them to participate in the interest-group process on an equal basis with the more advantaged groups. Note that the poor are seen as just another minority group. Any idea that poverty, militalism, racism, and environmental degradation are related by-products of the capitalist system is ruled out.

Foundations have also poured money into existing organizations to steer them to reasonable, pragmatic goals. There were no rewards for those who wanted blacks in the United States to see themselves as part of the world anticolonial uprisings. Moderate black organizations, including the National Urban League, NAACP, NAACP/LDEF, and Southern Regional Council have been funded; radical groups have been ignored or repressed.

Foundations promote coalitions that are weighted towards the status quo. Thus, the National Urban Coalition(NUC) was formed in 1967 as an alliance between civil rights organizations, foundations, and major corporations. Previously, corporate philanthropy was usually devoted to public relations, product promotion, employee training, and similar purposes. Beginning in the 1960s, most major corporations developed foundations that participated, along with Ford, Carnegie, Rockefeller, etc., in supporting capitalism in general They also became members of Independent Sector. The legality of philanthropic use of corporate funds is often questioned by stockholders, but the significance of this new wing of the "nonprofit sector" is generally ignored by leftists.

One program of the NUC, under Ford Foundation leadership, was the creation of Community Development Corporations, in an attempt to transform the "Black Power" slogan into the more acceptable "Black Capitalism." These entities, which combine financing from government, corporations, and foundations, develop small businesses and industries in impoverished areas--white and black, urban and rural. Although their return on investment is trivial, their payoff can be measured in terms of pacification, the development of moderate leadership, and social mobility for individuals.

Another project of the foundation-corporation alliance was the establishment of the Martin Luther King Jr. Center for Non-Violent Social Change in Atlanta. It was financed by the large foundations, as well as the corporate foundations of Ford Motor Company, Atlantic Richfield, Levi Strauss, Amoco, General Motors, Heublein, Corning, Mobil, Western Electric, Proctor and Gamble, US Steel, Monsanto, Morgan Guaranty Trust, etc. Along with innocuous programs like daycare centers, housing rehabilitation, and information on how to celebrate Dr. King's birthday, are two striking projects. One is work with military chaplains to provide King Birthday observances at military bases. The other is cosponsorship of an annual lecture series entitled: "The Free Enterprise System: An Agent for Nonviolent Social Change."

Other minority movements have been transformed into standard Washington lobby format. The Southwest Council of La Raza and National Council of La Raza were created by the Ford Foundation from what were once militant movements of Chicanos in the Southwest.

Leadership training and technical assistance programs for protest and advocacy organizations also stress pragmatic goals. The foundations claim that their programs enhance "pluralism." What they mainly do is increase the clout of the foundation-corporation network. For all the emphasis on participation, ordinary people have become alienated from politics in any form, and foundation-supported policy experts nearly monopolize the political debate.

The major foundations have always had overseas interests. Before the Second World War they had a more active foreign policy than the U.S. government, working through organizations such as the Council on Foreign Relations, the pre-eminent foreign policy think tank created by the Rockefeller Foundation and the Carnegie Endowment. The idea and funds for the United Nations owe much to foundation and Rockefeller family philanthropy.

Instability in Latin America has been greeted by the "hard cops," the CIA and the military, but also by innumerable foundation-supported projects, carried out directly or by funded nonprofits. These include aid to noncommunist grassroots organizations (especially "Christian Democratic" ones), training for potential leaders in the United States, and funding of university programs and scholars.

Foundations also created Americas Watch, and similar organizations for other parts of the world, all of which are premised on the notion that rebellions occur in part because many governments do not respect human rights, perhaps because of sloppiness, or ignorance, or corruption. Americas Watch then brings individual violations to the attention of the media and international organizations. It does not acknowledge that repression, torture, and extermination may be government policy, or that technical assistance programs may be transmitting the technology of torture.

In Eastern Europe and the former USSR, foundations long supported dissidents, for example, through the Eastern European Cultural Foundation, and ran exchange programs to influence scholars and government officials. With the eclipse of the communist governments, the U.S. nonprofit sector has not only funded individual nonprofits of all kinds, but has attempted to create an entire world in its own image. It does this by sending specialists to write constitutions, to revise civil law and university curricula, and to establish a nonprofit sector in each nation to perform charitable, cultural, social, and educational functions that were formerly government responsibilities. The traditional funders have been joined by an array of foundations created by George Soros for these purposes. Also, the U.S. government, modeling itself on the foundations, has gotten into the act through the National Endowment for Democracy, created by Congress in 1983 to channel funds to overseas political organizations and do overtly what the CIA does covertly. This new addition to the nonprofit sector has been attempting to mitigate the shock of marketization, which has brought about not only unemployment and destitution, but also the collapse of many important cultural and social institutions.

The environmental movement has also been a threat to "business as usual." Especially when degradation is linked to corporate activity. The response from the foundation world has been the creation and funding of many organizations, think tanks, university institutes, and conferences on "sustainable development," as well as the ideology itself of sustainable development.

Foundation influence was substantial in every aspect of the United Nations Conference on the Environment and Development in Rio de Janeiro in June 1992. Many of the nongovernmental organizations at the Global Forum, the grassroots arena," were funded by foundations, if not their creations. Even official governmental delegates were tutored by the foundation network, which "provided technical assistance to developing-country governments that lacked the resources to participate fully in the debate, and provided texts to governments that didn't know the issues well enough to draft the subtle language needed for compromise."'

The foundation world's concern with "citizen participation" is now global. Of course, as in previous leadership-training programs, people will be taught to be effective, that is, to have pragmatic, reasonable goals. A new organization has been created: "CIVICUS: World Alliance for Citizen Participation ... members consist of both donors and grantees--to accelerate citizen participation and influence throughout the world.... Its administrative office is currently housed at the Independent Sector in Washington, D.C."(4)

This is only a small sample of the protective activities of the "third sector." Much helpful and good work has been supported. Whether this is enough to stave off planetary disaster in economic, environmental, social, and political dimensions is another question. It often looks as though the energy to devise, promote, and initiate radical alternatives to the present system has been dissipated by the third sector's protective layer.

NOTES

(1.) Council on Foundations is an association of 1300 foundations operating in the United States and abroad. Established in 1949, the Council assists grantmakers through leadership and research programs. It recently contributed nearly $ 6 billion to education, human services, science research, arts, And urban development projects. Council on Foundations Factsheet, 1995 (2.) B. Howe, "The Emergence of Scientific Philanthropy," in Arnove, R., ed., Philanthropy and Cultural Imperialism (Boston: G.K.Hall, 1980), p. 29 (3.) J. Maughan, "The Road from Rio," The Ford Foundation Report, Summer 1992, p. 16. (4.) "World Alliance," Foundation News, September/October 1993, p. 10.

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IN the fourth century A.D. Christianity's conquest of Europe and the Mediterranean world gave rise to the belief that a peaceful era in world politics was at hand, now that a consensus had formed around an ideology that stressed the sanctity of the individual. But Christianity was, of course, not static. It kept evolving, into rites, sects, and "heresies" that were in turn influenced by the geography and cultures of the places where it took root. Meanwhile, the church founded by Saint Peter became a ritualistic and hierarchical organization guilty of long periods of violence and bigotry. This is to say nothing of the evils perpetrated by the Orthodox churches in the East. Christianity made the world not more peaceful or, in practice, more moral but only more complex. Democracy, which is now overtaking the world as Christianity once did, may do the same.

The collapse of communism from internal stresses says nothing about the long-term viability of Western democracy.. Marxism's natural death in Eastern Europe is no guarantee that subtler tyrannies do not await us, here and abroad. History has demonstrated that there is no final triumph of reason, whether it goes by the name of Christianity, the Enlightenment, or, now, democracy. To think that democracy as we know it will triumph-or is even here to stay-is itself a form of determinism, driven by our own ethnocentricity. Indeed, those who quote Alexis de Tocqueville in support of democracy's inevitability should pay heed to his observation that Americans, because of their (comparative) equality, exaggerate "the scope of human perfectibility." Despotism, Tocqueville went on, "is more particularly to be feared in democratic ages," because it thrives on the obsession with self and one's own security which equality fosters.

I submit that the democracy we are encouraging in many poor parts of the world is an integral part of a transformation toward new forms of authoritarianism; that democracy in the United States is at greater risk than ever before, and from obscure sources; and that many future regimes, ours especially, could resemble the oligarchies of ancient Athens and Sparta more than they do the current government in Washington. History teaches that it is exactly at such prosperous times as these that we need to maintain a sense of the tragic, however unnecessary it may seem. The Greek historian Polybius, of the second century B.C., interpreted what we consider the Golden Age of Athens as the beginning of its decline. To Thucydides, the very security and satisfactory life that the Athenians enjoyed under Pericles blinded them to the bleak forces of human nature that were gradually to be their undoing in the Peloponnesian War.

My pessimism is, I hope, a foundation for prudence. America's Founders were often dismal about the human condition. James Madison: "Had every Athenian citizen been a Socrates, every Athenian assembly would still have been a mob." Thomas Paine: "Society is produced by our wants and government by our wickedness." It was the "crude" and "reactionary" philosophy of Thomas Hobbes, which placed security ahead of liberty in a system of enlightened despotism, from which the Founders drew philosophical sustenance. Paul A. Rahe, a professor of history at the University of Tulsa, shows in his superb three-volume Republics Ancient and Modern (1992)how the Founders partly rejected the ancient republics, which were based on virtue, for a utilitarian regime that channeled man's selfish, materialistic instincts toward benign ends. Man, Benjamin Franklin said in an apparent defense of Hobbesian determinism, is "a tool-making animal."

Democracies Are Value-Neutral

HITLER and Mussolini each came to power through democracy. Democracies do not always make societies more civil-but they do always mercilessly expose the health of the societies in which they operate.

In April of 1985 I found myself in the middle of a Sudanese crowd that had just helped to overthrow a military regime and replace it with a new government, which the following year held free and fair elections. Sudan's newly elected democracy led immediately to anarchy, which in turn led to the most brutal tyranny in Sudan's postcolonial history: a military regime that broadened the scope of executions, persecuted women, starved non-Muslims to death, sold kidnapped non-Muslim children back to their parents for $ 200, and made Khartoum the terrorism capital of the Arab world, replacing Beirut. In Sudan only 27 percent of the population (and only 12 percent of the women) could read. If a society is not in reasonable health, democracy can be not only risky but disastrous: during the last phases of the post-First World War German and Italian democracies, for example, the unemployment and inflation figures for Germany and the amount of civil unrest in Italy were just as abysmal as Sudan's literacy rates.

As an unemployed Tunisian student once told me, "In Tunisia we have a twenty-five percent unemployment rate. If you hold elections in such circumstances, the result will be a fundamentalist government and violence like in Algeria. First create an economy, then worry about elections." There are many differences between Tunisia and its neighbor Algeria, including the fact that Tunisia has been peaceful without democracy and Algeria erupted in violence in 1992 after its first election went awry and the military canceled the second. In Kurdistan and Afghanistan, two fragile tribal societies in which the United States encouraged versions of democracy in the 1990s, the security vacuums that followed the failed attempts at institutionalizing pluralism were filled by Saddam Hussein for a time in Kurdistan and by Islamic tyranny in much of Afghanistan. In Bosnia democracy legitimized the worst war crimes in Europe since the Nazi era. In sub-Saharan Africa democracy has weakened institutions and services in some states, and elections have been manipulated to restore dictatorship in others. In Sierra Leone and Congo-Brazzaville elections have led to chaos. In Mali, which Africa-watchers have christened a democratic success story, recent elections were boycotted by the opposition and were marred by killings and riots. Voter turnout was less than 20 percent. Even in Latin America, the Third World's most successful venue for democracy, the record is murky. Venezuela has enjoyed elected civilian governments since 1959, whereas for most of the 1970s and 1980s Chile was effectively under military rule. But Venezuela is a society in turmoil, with periodic coup attempts, rampant crime, and an elite that invests most of its savings outside the country; as a credit risk Venezuela ranks behind only Russia and Mexico. Chile has become a stable middle-class society whose economic growth rate compares to those of the Pacific Rim. Democratic Colombia is a pageant of bloodletting, and many members of the middle class are attempting to leave the country. Then there is Peru, where, all the faults of the present regime notwithstanding, a measure of stability has been achieved by a retreat from democracy into quasi-authoritarianism.

Throughout Latin America there is anxiety that unless the middle classes are enlarged and institutions modernized, the wave of democratization will not be consolidated. Even in an authentically democratic nation like Argentina, institutions are weak and both corruption and unemployment are high. President Carlos Menem's second term has raised questions about democracy's sustainability-questions that the success of his first term seemed to have laid to rest. In Brazil and other countries democracy faces a backlash from millions of badly educated and newly urbanized dwellers in teeming slums, who see few palpable benefits to Western parliamentary systems. Their discontent is a reason for the multifold increases in crime in many Latin American cities over the past decade.

Because both a middle class and civil institutions are required for successful democracy, democratic Russia, which inherited neither from the Soviet regime, remains violent, unstable, and miserably poor despite its 99 percent literacy rate. Under its authoritarian system China has dramatically improved the quality of life for hundreds of millions of its people. My point, hard as it may be for Americans to accept, is that Russia may be failing in part because it is a democracy and China may be succeeding in part because it is not. Having traveled through much of western China, where Muslim Turkic Uighurs (who despise the Chinese) often predominate, I find it hard to imagine a truly democratic China without at least a partial breakup of the country. Such a breakup would lead to chaos in western China, because the Uighurs are poorer and less educated than most Chinese and have a terrible historical record of governing themselves. Had the student demonstrations in 1989 in Tiananmen Square led to democracy, would the astoundingly high economic growth rates of the 1990s still obtain? I am not certain, because democracy in China would have ignited turmoil not just in the Muslim west of the country but elsewhere, too; order would have decreased but corruption would not have. The social and economic breakdowns under democratic rule in Albania and Bulgaria, where the tradition of pre-communist bourgeois life is weak or nonexistent (as in China), contrasted with more-successful democratic venues like Hungary and the Czech Republic, which have had well-established bourgeoisie, constitute further proof that our belief in democracy regardless of local conditions amounts to cultural hubris.

Look at Haiti, a small country only ninety minutes by air from Miami, where 22,000 American soldiers were dispatched in 1994 to restore "democracy." Five percent of eligible Haitian voters participated in an election last April, chronic instability continues, and famine threatens. Those who think that

America can establish democracy the world over should heed the words of the late American theologian and political philosopher Reinhold Niebuhr:

The same strength which has extended our power beyond a continent has also . . . brought us into a vast web of history in which other wills, running in oblique or contrasting directions to our own, inevitably hinder or contradict what we most fervently desire. We cannot simply have our way, not even when we believe our way to have the "happiness of mankind" as its promise.

The lesson to draw is not that dictatorship is good and democracy bad but that democracy emerges successfully only as a capstone to other social and economic achievements. In his "Author's Introduction" to Democracy in America, Tocqueville showed how democracy evolved in the West not through the kind of moral fiat we are trying to impose throughout the world but as an organic outgrowth of development. European society had reached a level of complexity and sophistication at which the aristocracy, so as not to overburden itself, had to confer a measure of equality upon other citizens and allocate some responsibility to them: a structured division of the population into peacefully competing interest groups was necessary if both tyranny and anarchy were to be averted.

The very fact that we retreat to moral arguments-and often moral arguments only-to justify democracy indicates that for many parts of the world the historical and social arguments supporting democracy are just not there. Realism has come not from us but from, for example, Uganda's President Yoweri Museveni, an enlightened Hobbesian despot whose country has posted impressive annual economic growth rates-10 percent recently-despite tribal struggles in the country's north. In 1986 Museveni's army captured the Ugandan capital of Kampala without looting a single shop; Museveni postponed elections and saw that they took place in a manner that ensured his victory. "I happen to be one of those people who do not believe in multi-party democracy," Museveni has written. "In fact, I am totally opposed to it as far as Africa today is concerned. . . . If one forms a multi-party system in Uganda, a party cannot win elections unless it finds a way of dividing the ninety-four percent of the electorate [that consists of peasants], and this is where the main problem comes up: tribalism, religion, or regionalism becomes the basis for intense partisanship." In other words, in a society that has not reached the level of development Toqueville described, a multi-party system merely hardens and institutionalizes established ethnic and regional divisions. Look at Armenia and Azerbaijan, where democratic processes brought nationalists to power upon the demise of the Soviet Union: each leader furthered his country's slide into war. A coup in Azerbaijan was necessary to restore peace and, by developing Azerbaijan's enormous oil resources, foster economic growth. Without the coup Western oil companies would not have gained their current foothold, which has allowed the United States to increase pressure on neighboring Iran at the same time that we attempt to normalize relations with Iran "on our terms."

Certainly, moral arguments in support of democracy were aired at the 1787 Constitutional Convention in Philadelphia, but they were tempered by the kind of historical and social analysis we now abjure. "The Constitution of the United States was written by fifty-five men-and one ghost," writes retired Army Lieutenant General Dave R. Palmer in 1794: America, Its Army, and the Birth of the Nation (1994). The ghost was that of Oliver Cromwell, the archetypal man on horseback who, in the course of defending Parliament against the monarchy in the mid seventeenth century, devised a tyranny worse than any that had ever existed under the English Kings. The Founders were terrified of a badly educated populace that could be duped by a Cromwell, and of a system that could allow too much power to fall into one person's hands. That is why they constructed a system that filtered the whims of the masses through an elected body and dispersed power by dividing the government into three branches.

The ghosts of today we ignore-like the lesson offered by Rwanda, where the parliamentary system the West promoted was a factor in the murder of hundreds of thousands of Tutsis by Hutu militias. In 1992, responding partly to pressure from Western governments, the Rwandan regime established a multi-party system and transformed itself into a coalition government. The new political parties became masks for ethnic groups that organized murderous militias, and the coalition nature of the new government helped to prepare the context for the events that led to the genocide in 1994. Evil individuals were certainly responsible for the mass murder. But they operated within a fatally flawed system, which our own ethnocentric hubris helped to construct. Indeed, our often moralistic attempts to impose Western parliamentary systems on other countries are not dissimilar to the attempts of nineteenth-century Western colonialists-many of whom were equally idealistic-to replace well-functioning chieftaincy and tribal patronage systems with foreign administrative practices.

The demise of the Soviet Union was no reason for us to pressure Rwanda and other countries to form political parties-though that is what our post-Cold War foreign policy has been largely about, even in parts of the world that the Cold War barely touched. The Eastern European countries liberated in 1989 already had, in varying degrees, the historical and social preconditions for both democracy and advanced industrial life: bourgeois traditions, exposure to the Western Enlightenment, high literacy rates, low birth rates, and so on. The post-Cold War effort to bring democracy to those countries has been reasonable. What is less reasonable is to put a gun to the head of the peoples of the developing world and say, in effect, "Behave as if you had experienced the Western Enlightenment to the degree that Poland and the Czech Republic did. Behave as if 95 percent of your population were literate. Behave as if you had no bloody ethnic or regional disputes."

States have never been formed by elections. Geography, settlement patterns, the rise of literate bourgeoisie, and, tragically, ethnic cleansing have formed states. Greece, for instance, is a stable democracy partly because earlier in the century it carried out a relatively benign form of ethnic cleansing-in the form of refugee transfers-which created a monoethnic society. Nonetheless, it took several decades of economic development for Greece finally to put its coups behind it. Democracy often weakens states by necessitating ineffectual compromises and fragile coalition governments in societies where bureaucratic institutions never functioned well to begin with. Because democracy neither forms states nor strengthens them initially, multi-party systems are best suited to nations that already have efficient bureaucracies and a middle class that pays income tax, and where primary issues such as borders and power-sharing have already been resolved, leaving politicians free to bicker about the budget and other secondary matters.

Social stability results from the establishment of a middle class. Not democracies but authoritarian systems, including monarchies, create middle classes-which, having achieved a certain size and self-confidence, revolt against the very dictators who generated their prosperity. This is the pattern today in the Pacific Rim and the southern cone of South America, but not in other parts of Latin America, southern Asia, or sub-Saharan Africa. A place like the Democratic Republic of Congo (formerly Zaire), where the per capita gross national productis less than $ 200 a year and the average person is either a rural peasant or an urban peasant; where there is little infrastructure of roads, sewers, and so on; and where reliable bureaucratic institutions are lacking, needs a leader like Bismarck or Jerry Rawlings-the Ghanaian ruler who stabilized his country through dictatorship and then had himself elected democratically-in place for years before he is safe from an undisciplined soldiery.

Foreign correspondents in sub-Saharan Africa who equate democracy with progress miss this point, ignoring both history and centuries of political philosophy. They seem to think that the choice is between dictators and democrats. But for many places the only choice is between bad dictators and slightly better ones. To force elections on such places may give us some instant gratification. But after a few months or years a bunch of soldiers with grenades will get bored and greedy, and will easily topple their fledgling democracy. As likely as not, the democratic government will be composed of corrupt, bickering, ineffectual politicians whose weak rule never had an institutional base to start with: modern bureaucracies generally require high literacy rates over several generations. Even India, the great exception that proves the rule, has had a mixed record of success as a democracy, with Bihar and other poverty-wracked places remaining in semi-anarchy. Ross Munro, a noted Asia expert, has documented how Chinese autocracy has better prepared China's population for the economic rigors of the post-industrial age than Indian democracy has prepared India's.

Of course, our post-Cold War mission to spread democracy is partly a pose. In Egypt and Saudi Arabia, America's most important allies in the energy-rich Muslim world, our worst nightmare would be free and fair elections, as it would be elsewhere in the Middle East. The end of the Cold War has changed our attitude toward those authoritarian regimes that are not crucial to our interests-but not toward those that are. We praise democracy, and meanwhile we are grateful for an autocrat like King Hussein, and for the fact that the Turkish and Pakistani militaries have always been the real powers behind the "democracies" in their countries. Obviously, democracy in the abstract encompasses undeniably good things such as civil society and a respect for human rights. But as a matter of public policy it has unfortunately come to focus on elections.What is in fact happening in many places requires a circuitous explanation.

The New Authoritarianism

THE battle between liberal and neoconservative moralists who are concerned with human rights and tragic realists who are concerned with security, balance-of-power politics, and economic matters (famously, Henry Kissinger) is a variation of a classic dispute between two great English philosophers-the twentieth-century liberal humanist Isaiah Berlin and the seventeenth-century monarchist and translator of Thucydides, Thomas Hobbes.

In May of 1953, while the ashes of the Nazi Holocaust were still smoldering and Stalin's grave was fresh, Isaiah Berlin delivered a spirited lecture against "historical inevitability"-the whole range of belief, advocated by Hobbes and others, according to which individuals and their societies are determined by their past, their civilization, and even their biology and environment. Berlin argued that adherence to historical inevitability, so disdainful of the very characteristics that make us human, led to Nazism and communism-both of them extreme attempts to force a direction onto history. Hobbes is just one of many famous philosophers Berlin castigated in his lecture, but it is Hobbes's bleak and elemental philosophy that most conveniently sums up what Berlin and other moralists so revile. Hobbes suggested that even if human beings are nobler than apes, they are nevertheless governed by biology and environment. According to Hobbes, our ability to reason is both a mask for and a slave to our passions, our religions arise purely from fear, and theories about our divinity must be subordinate to the reality of how we behave. Enlightened despotism is thus preferable to democracy: the masses require protection from themselves. Hobbes, who lived through the debacle of parliamentary rule under Cromwell, published his translation of Thucydides in order, he said, to demonstrate how democracy, among other factors, was responsible for Athens's decline. Reflecting on ancient Athens, the philosopher James Harrington, a contemporary and follower of Hobbes, remarked that he could think of "nothing more dangerous" than "debate in a crowd."

Though the swing toward democracy following the Cold War was a triumph for liberal philosophy, the pendulum will come to rest where it belongs-in the middle, between the ideals of Berlin and the realities of Hobbes. Where a political system leans too far in either direction, realignment or disaster awaits.

In 1993 Pakistan briefly enjoyed the most successful period of governance in its history. The government was neither democratic nor authoritarian but a cross between the two. The unelected Prime Minister, Moin Qureshi, was chosen by the President, who in turn was backed by the military. Because Qureshi had no voters to please, he made bold moves that restored political stability and economic growth. Before Qureshi there had been violence and instability under the elected governments of Benazir Bhutto and Nawaz Sharif. Bhutto's government was essentially an ethnic-Sindhi mafia based in the south; Sharif's was an ethnic-Punjabi mafia from the geographic center. When Qureshi handed the country back to "the people," elections returned Bhutto to power, and chaos resumed. Finally, in November of last year, Pakistan's military-backed President again deposed Bhutto. The sigh of relief throughout the country was audible. Recent elections brought Sharif, the Punjabi, back to power. He is governing better than the first time, but communal violence has returned to Pakistan's largest city, Karachi. Ibelieve that Pakistan must find its way back to a hybrid regime like the one that worked so well in 1993; the other options are democratic anarchy and military tyranny. (Anarchy and tyranny, of course, are closely related: because power abhors a vacuum, the one necessarily leads to the other. One day in 1996 Kabul, the Afghan capital, was ruled essentially by no one; the next day it was ruled by Taliban, an austere religious movement.)

Turkey's situation is similar to Pakistan's. During the Cold War, Turkey's military intervened when democracy threatened mass violence, about once every decade. But Turkish coups are no longer tolerated by the West, so Turkey's military has had to work behind the scenes to keep civilian governments from acting too irrationally for our comfort and that of many secular Turks. As elected governments in Turkey become increasingly circumscribed by the army, a quieter military paternalism is likely to evolve in place of periodic coups. The crucial element is not the name the system goes by but how the system actually works.

Peru offers another version of subtle authoritarianism. In 1990 Peruvian voters elected Alberto Fujimori to dismantle parts of their democracy. He did, and as a consequence he restored a measure of civil society to Peru. Fujimori disbanded Congress and took power increasingly into his own hands, using it to weaken the Shining Path guerrilla movement, reduce inflation from 7,500 percent to 10 percent, and bring investment and jobs back to Peru. In 1995 Fujimori won re-election with three times as many votes as his nearest challenger. Fujimori's use of deception and corporate-style cost-benefit analyses allowed him to finesse brilliantly the crisis caused by the terrorist seizure of the Japanese embassy in Lima. The commando raid that killed the terrorists probably never could have taken place amid the chaotic conditions of the preceding Peruvian government. Despite the many problems Fujimori has had and still has, it is hard to argue that Peru has not benefited from his rule.

In many of these countries Hobbesian realities-in particular, too many young, violence-prone males without jobs-have necessitated radical action. In a York University study published last year the scholars Christian G. Mesquida and Neil I. Wiener demonstrate how countries with young populations (young poor males especially) are subject to political violence. With Third World populations growing dramatically (albeit at slowing rates) and becoming increasingly urbanized, democrats must be increasingly ingenious and dictators increasingly tyrannical in order to rule successfully. Surveillance, too, will become more important on an urbanized planet; it is worth noting that the etymology of the word "police"is polis, Greek for "city." Because tottering democracies and despotic militaries frighten away the investors required to create jobs for violence-prone youths, more hybrid regimes will perforce emerge. They will call themselves democracies, and we may go along with the lie-but, as in Peru, the regimes will be decisively autocratic. (Hobbes wrote that Thucydides "praiseth the government of Athens, when . . . it was democratical in name, but in effect monarchical under Pericles." Polybius, too, recommended mixed regimes as the only stable form of government.) Moreover, if a shortage of liquidity affects world capital markets by 2000, as Klaus Schwab, the president of the World Economic Forum, and other experts fear may happen, fiercer competition among developing nations for scarcer investment money will accelerate the need for efficient neo-authoritarian governments.

The current reality in Singapore and South Africa, for instance, shreds our democratic certainties. Lee Kuan Yew's offensive neo-authoritarianism, in which the state has evolved into a corporation that is paternalistic, meritocratic, and decidedly undemocratic, has forged prosperity from abject poverty. A survey of business executives and economists by the World Economic Forum ranked Singapore No. 1 among the fifty-three most advanced countries appearing on an index of global competitiveness. What is good for business executives is often good for the average citizen: per capita wealth in Singapore is nearly equal to that in Canada, the nation that ranks No. 1 in the world on the United Nations' Human Development Index. When Lee took over Singapore, more than thirty years ago, it was a mosquito-ridden bog filled with slum quarters that frequently lacked both plumbing and electricity. Doesn't liberation from filth and privation count as a human right? Jeffrey Sachs, a professor of international trade at Harvard, writes that "good government" means relative safety from corruption, from breach of contract, from property expropriation, and from bureaucratic inefficiency. Singapore's reputation in these regards is unsurpassed. If Singapore's 2.8 million citizens ever demand democracy, they will just prove the assertion that prosperous middle classes arise under authoritarian regimes before gaining the confidence to dislodge their benefactors. Singapore's success is frightening, yet it must be acknowledged.

Democratic South Africa, meanwhile, has become one of the most violent places on earth that are not war zones, according to the security firm Kroll Associates. The murder rate is six times that in the United States, five times that ~~in Russia~~. There are ten private-security guards for every policeman. The currency has substantially declined, educated people continue to flee, and international drug cartels have made the country a new transshipment center. Real unemployment is about 33 percent, and is probably much higher among youths. Jobs cannot be created without the cooperation of foreign investors, but assuaging their fear could require the kind of union-busting and police actions that democracy will not permit. The South African military was the power behind the regime in the last decade of apartheid. And it is the military that may yet help to rule South Africa in the future. Like Pakistan but more so, South Africa is ~~destined~~ for a hybrid regime if it is to succeed. The abundant coverage of South Africa's impressive attempts at coming to terms with the crimes of apartheid serves to obscure the country's growing problems. There is a sense of fear in such celebratory, backward-looking coverage, as if writing too much about difficulties in that racially symbolic country would expose the limits of the liberal humanist enterprise worldwide.

~~Burma, too,~~ may be destined ~~for a hybrid regime,~~ despite the deification of the opposition leader and Nobel Peace laureate Aung San Suu Kyi by Western journalists. While the United States calls for democracy in and economic sanctions against Burma, those with more immediate clout-that is, Burma's Asian neighbors, and especially corporate-oligarchic militaries like Thailand's-show no compunction about increasing trade links with Burma's junta. Aung San Suu Kyi may one day bear the title of leader of Burma, but only with the tacit approval of a co-governing military. Otherwise Burma will not be stable. A rule of thumb is that governments are determined not by what liberal humanists wish but rather by what business people ~~and others~~ require. Various democratic revolutions failed in Europe in 1848 because what the intellectuals wanted was not what the emerging middle classes wanted. For quite a few parts of today's world, which have at best only the beginnings of a middle class, the Europe of the mid nineteenth century provides a closer comparison than the Europe of the late twentieth century. In fact, for the poorest countries where we now recommend democracy, Cromwell's England may provide the best comparison.

As with the Christian religion (whose values are generally different for Americans than for Bosnian Serbs or for Lebanese Phalangists, to take only three examples), the nominal system of a government is less significant than the nature of the society in which it operates. And as democracy sinks into the soils of various local cultures, it often leaves less-than-nourishing deposits. "Democracy" in Cambodia, for instance, began evolving into something else almost immediately after the UN-sponsored elections there, in 1993. Hun Sen, one of two Prime Ministers in a fragile coalition, lived in a fortified bunker from which he physically threatened journalists and awarded government contracts in return for big bribes. His coup last summer, which toppled his co-Prime Minister and ended the democratic experiment, should have come as no surprise.

"World Government"

AUTHORITARIAN ~~or hybrid~~ regimes, no matter how illiberal, will still be treated as legitim~~ate if they~~ can provide security for their subjects and spark economic growth. ~~And they~~ will easily find acceptance in a world driven increasingly by financial markets that know no borders.

For years idealists have dreamed of a "world government." Well, a world government has been emerging-quietly and organically, the way vast developments in history take place. I do not refer to the United Nations, the power of which, almost by definition, affects only the poorest countries. After its peacekeeping failures in Bosnia and Somalia-and its $ 2 billion failure to make Cambodia democratic-the UNis on its way to becoming a supranational relief agency. Rather, I refer to the increasingly dense ganglia of international corporations and markets that are becoming the unseen arbiters of power in many countries. It is much more important nowadays for the leader of a developing country to get a hearing before corporate investors at the World Economic Forum than to speak before the UN General Assembly. Amnesty International now briefs corporations, just as it has always briefed national governments. Interpol officials have spoken about sharing certain kinds of intelligence with corporations. The Prime Minister of Malaysia, Mahathir Mohamad, is recognizing the real new world order (at least in this case) by building a low-tax district he calls a "multimedia super-corridor," with two new cities and a new airport designed specifically for international corporations. The world's most efficient peacemaking force belongs not to the UN or even to the great powers but to a South African corporate mercenary force called Executive Outcomes, which restored relative stability to Sierra Leone in late 1995. (This is reminiscent of the British East India Company, which raised armies transparently for economic interests.) Not long after Executive Outcomes left Sierra Leone, where only 20.7 percent of adults can read, that country's so-called model democracy crumbled into military anarchy, as Sudan's model democracy had done in the late 1980s.

Of the world's hundred largest economies, fifty-one are not countries but corporations. While the 200 largest corporations employ less than three fourths of one percent of the world's work force, they account for 28 percent of world economic activity. The 500 largest corporations account for 70 percent of world trade. Corporations are like the feudal domains that evolved into nation-states; they are nothing less than the vanguard of a new Darwinian organization of politics. Because they are in the forefront of real globalization while the overwhelming majority of the world's inhabitants are still rooted in local terrain, corporations will be free for a few decades to leave behind the social and environmental wreckage they create-abruptly closing a factory here in order to open an unsafe facility with a cheaper work force there. Ultimately, as technological innovations continue to accelerate and the world's middle classes come closer together, corporations may well become more responsible to the cohering global community and less amoral in the course of their evolution toward new political and cultural forms.

For instance, ABB Asea Brown Boveri Ltd. is a $ 36 billion-a-year multinational corporation divided into 1,300 companies in 140 countries; no one national group accounts for more than 20 percent of its employees. ABB's chief executive officer, Percy Barnevik, recently told an interviewer that this diversity is so that ABB can develop its own "global ABB culture-you might say an umbrella culture." Barnevik explains that his best managers are moved around periodically so that they and their families can develop "global personalities" by living and growing up in different countries. ABB management teams, moreover, are never composed of employees from any one country. Barnevik says that this encourages a "cross-cultural glue." Unlike the multiculturalism of the left, which masks individual deficiencies through collective-that is, ethnic or racial-self-esteem, a multinational corporation like ABB has created a diverse multicultural environment in which individuals rise or fall completely on their own merits. Like the hybrid regimes of the present and future, such an evolving corporate community can bear an eerie resemblance to the oligarchies of the ancient world. "Decentralization goes hand in hand with central monitoring," Barnevik says.

The level of social development required by democracy as it is known in the West has existed in only a minority of places-and even there only during certain periods of history. We are entering a troubling transition, and the irony is that while we preach our version of democracy abroad, it slips away from us at home.

The Shrinking Domain of "Politics"

I PUT special emphasis on corporations because of the true nature of politics: who does and who doesn't have power. To categorize accurately the political system of a given society, one must define the significant elements of power within it. Supreme Court Justice Louis Brandeis knew this instinctively, which is why he railed against corporate monopolies. Of course, the influence that corporations wield over government and the economy is so vast and obvious that the point needs no elaboration. But there are other, more covert forms of emerging corporate power.

The number of residential communities with defended perimeters that have been built by corporations went from 1,000 in the early 1960s to more than 80,000 by the mid-1980s, with continued dramatic increases in the 1990s. ("Gated communities" are not an American invention. They are an import from Latin America, where deep social divisions in places like Rio de Janeiro and Mexico City make them necessary for the middle class.) Then there are malls, with their own rules and security forces, as opposed to public streets; private health clubs as opposed to public playgrounds; incorporated suburbs with strict zoning; and other mundane aspects of daily existence in which-perhaps without realizing it, because the changes have been so gradual-we opt out of the public sphere and the "social contract" for the sake of a protected setting. Dennis Judd, an urban-affairs expert at the University of Missouri at St. Louis, told me recently, "It's nonsense to think that Americans are individualists. Deep down we are a nation of herd animals: micelike conformists who will lay at our doorstep many of our rights if someone tells us that we won't have to worry about crime and our property values are secure. We have always put up with restrictions inside a corporation which we would never put up with in the public sphere. But what many do not realize is that life within some sort of corporation is what the future will increasingly be about."

Indeed, a number of American cities are re-emerging as Singapores, with corporate enclaves that are dedicated to global business and defended by private security firms adjacent to heavily zoned suburbs. For instance, in my travels I have looked for St. Louis and Atlanta and not found them. I found only hotels and corporate offices with generic architecture, "nostalgic" tourist bubbles, zoned suburbs, and bleak urban wastelands; there was nothing distinctive that I could label "St. Louis" or "Atlanta." Last year's Olympics in Atlanta will most likely be judged by future historians as the first of the postmodern era, because of the use of social faades to obscure fragmentation. Peace and racial harmony were continually proclaimed to be Olympic themes-even though whites and blacks in Atlanta live in separate enclaves and the downtown is a fortress of office blocks whose streets empty at dusk. During the games a virtual army was required to protect visitors from terrorism, as at previous Olympics, and also from random crime. All this seems normal. It is both wonderful and frightening how well we adapt.

Universities, too, are being redefined by corporations. I recently visited Omaha, where the corporate community made it possible for the Omaha branch of the University of Nebraska to build an engineering school-even after the Board of Regents vetoed the project. Local corporations, particularly First Data Resources, wanted the school, so they worked with the Omaha branch of the university to finance what became less a school than a large information-science and engineering complex. "This is the future," said the chancellor of the Omaha campus, Del Weber. "Universities will have to become entrepreneurs, working with corporations on curriculum [emphasis mine] and other matters, or they will die." The California state university system, in particular the San Diego campus, is perhaps the best example of corporate-academic synergy, in which a school rises in prestige because its curriculum has practical applications for nearby technology firms.

Corporations, which are anchored neither to nations nor to communities, have created strip malls, edge cities, and Disneyesque tourist bubbles. Developments are ~~not~~ necessarily bad: they provide low prices, convenience, efficient work forces, and, in the case of tourist bubbles, safety. We need big corporations. Our society has reached a level of social and technological complexity at which goods and services must be produced for a price and to a standard that smaller businesses cannot manage. We should also recognize, though, that the architectural reconfiguration of our cities and towns has been an undemocratic event-with decisions in effect handed down from above by an assembly of corporate experts.

"The government of man will be replaced by the administration of things," the Enlightenment French philosopher Henri de Saint-Simon prophesied. We should worry that experts will channel our very instincts and thereby control them to some extent. For example, while the government fights drug abuse, often with pathetic results, pharmaceutical corporations have worked through the government and political parties to receive sanction for drugs such as stimulants and anti-depressants, whose consciousness-altering effects, it could be argued, are as great as those of outlawed drugs.

The more appliances that middle-class existence requires, the more influence their producers have over the texture of our lives. Of course, the computer in some ways enhances the power of the individual, but it also depletes our individuality. A degree of space and isolation is required for a healthy sense of self, which may be threatened by the constant stream of other people's opinions on computer networks.

Democratic governance, at the federal, state, and local levels, goes on. But its ability to affect our lives is limited. The growing piles of our material possessions make personal life more complex and leave less time for communal matters. And as communities become liberated from geography, as well as more specialized culturally and electronically, they will increasingly fall outside the realm of traditional governance. Democracy loses meaning if both rulers and ruled cease to be part of a community tied to a specific territory. In this historical transition phase, lasting perhaps a century or more, in which globalization has begun but is not complete and loyalties are highly confused, civil society will be harder to maintain. How and when we vote during the next hundred years may be a minor detail for historians.

True, there are strong similarities between now and a century ago. In the 1880s and 1890s America experienced great social and economic upheaval. The combination of industrialization and urbanization shook the roots of religious and family life: sects sprouted, racist Populists ranted, and single women, like Theodore Dreiser's Sister Carrie, went to work in filthy factories. Racial tensions hardened as the Jim Crow system took hold across the South. "Gadgets" like the light bulb and the automobile brought an array of new choices and stresses. "The city was so big, now, that people disappeared into it unnoticed," Booth Tarkington lamented in The Magnificent Ambersons.

A hundred years ago millionaires' mansions arose beside slums. The crass accumulation of wealth by a relatively small number of people gave the period its name-the Gilded Age, after a satire by Mark Twain and Charles Dudley Warner about financial and political malfeasance. Around the turn of the century 12 percent of all American households controlled about 86 percent of the country's wealth.

But there is a difference, and not just one of magnitude. The fortunes made from the 1870s through the 1890s by John D. Rockefeller, Andrew Carnegie, J. P. Morgan, and others were American fortunes, anchored to a specific geographic space. The Gilded Age millionaires financed an economy of scale to fit the vast landscape that Abraham Lincoln had secured by unifying the nation in the 1860s. These millionaires funded libraries and universities and founded symphony orchestras and historical societies to consolidate their own civilization in the making. Today's fortunes are being made in a global economic environment in which an affluent global civilization and power structure are being forged even as a large stratum of our society remains rooted in place. A few decades hence it may be hard to define an "American" city.

Even J. P. Morgan was limited by the borders of the nation-state. But in the future who, or what, will limit the likes of Disney chairman Michael Eisner? The UN? Eisner and those like him are not just representatives of the "free" market. Neither the Founders nor any of the early modern philosophers ever envisioned that the free market would lead to the concentration of power and resources that many corporate executives already embody. Whereas the liberal mistake is to think that there is a program or policy to alleviate every problem in the world, the conservative flaw is to be vigilant against concentrations of power in government only-not in the private sector, where power can be wielded more secretly and sometimes more dangerously.

Umpire Regimes

THIS rise of corporate power occurs more readily as the masses become more indifferent and the elite less accountable. Material possessions not only focus people toward private and away from communal life but also encourage docility. The more possessions one has, the more compromises one will make to protect them. The ancient Greeks said that the slave is someone who is intent on filling his belly, which can also mean someone who is intent on safeguarding his possessions. Aristophanes and Euripides, the late-eighteenth-century Scottish philosopher Adam Ferguson, and Tocqueville in the nineteenth century all warned that material prosperity would breed servility and withdrawal, turning people into, in Tocqueville's words, "industrious sheep."

In moderate doses, apathy is not necessarily harmful. I have lived and traveled in countries with both high voter turnouts and unstable politics; the low voter turnouts in the United States do not by themselves worry me. The philosopher James Harrington observed that the very indifference of most people allows for a calm and healthy political climate. Apathy, after all, often means that the political situation is healthy enough to be ignored. The last thing America needs is more voters-particularly badly educated and alienated ones-with a passion for politics. But when voter turnout decreases to around 50 percent at the same time that the middle class is spending astounding sums in gambling casinos and state lotteries, joining private health clubs, and using large amounts of stimulants and anti-depressants, one can legitimately be concerned about the state of American society.

I recently went to a basketball game at the University of Arizona. It was just a scrimmage, not even a varsity game. Yet the stadium was jammed, and three groups of cheerleaders performed. Season tickets were almost impossible to obtain, even before the team won the national championship. Donating $ 10,000 to $ 15,000 to the university puts one in a good position to accumulate enough points to be eligible for a season ticket, though someone could donate up to $ 100,000 and still not qualify. I have heard that which spouse gets to keep tickets can be a primary issue in Tucson divorce cases. I noticed that almost everyone in the stands was white; almost everyone playing was black. Gladiators in Rome were almost always of racial or ethnic groups different from the Romans. "There may be so little holding these southwestern communities together that a basketball team is all there is," a Tucson newspaper editor told me. "It's a sports team, a symphony orchestra, and a church rolled into one." Since neither Tucson nor any other southwestern city with a big state university can find enough talent locally, he pointed out, community self-esteem becomes a matter of which city can find the largest number of talented blacks from far away to represent it.

We have become voyeurs and escapists. Many of us don't play sports but love watching great athletes with great physical attributes. The fact that basketball and football and baseball have become big corporate business has only increased the popularity of spectator sports. Basketball in particular-so fluid, and with the players in revealing shorts and tank tops-provides the artificial excitement that mass existence "against instinct," as the philosopher Bertrand Russell labeled our lives, requires.

Take the new kind of professional fighting, called "extreme fighting," that has been drawing sellout crowds across the country. Combining boxing, karate, and wrestling, it has nothing fake about it-blood really flows. City and state courts have tried, often unsuccessfully, to stop it. The spectators interviewed in a CNN documentary on the new sport all appeared to be typical lower-middle and middle-class people, many of whom brought young children to the fights. Asked why they came, they said that they wanted to "see blood." The mood of the Colosseum goes together with the age of the corporation, which offers entertainment in place of values. The Nobel laureate Czeslaw Milosz provides the definitive view on why Americans degrade themselves with mass culture: "Today man believes that there is nothing in him, so he accepts anything, even if he knows it to be bad, in order to find himself at one with others, in order not to be alone." Of course, it is because people find so little in themselves that they fill their world with celebrities. The masses avoid important national and international news because much of it is tragic, even as they show an unlimited appetite for the details of Princess Diana's death. This willingness to give up self and responsibility is the sine qua non for tyranny.

The classicist Sir Moses Finley ended his austere and penetrating work Politics in the Ancient World (1983) with these words:

The ideology of a ruling class is of little use unless it is accepted by those who are being ruled, and so it was to an extraordinary degree in Rome. Then, when the ideology began to disintegrate within the elite itself, the consequence was not to broaden the political liberty among the citizenry but, on the contrary, to destroy it for everyone.

So what about our ruling class?

I was an expatriate for many years. Most expatriates I knew had utopian liberal beliefs that meant little, since few of them had much of a real stake in any nation. Their patriotism was purely nostalgic: a French friend would become tearful when her national anthem was played, but whenever she returned to France, she complained nonstop about the French. Increasingly, though, one can be an expatriate without living abroad. One can have Oriental rugs, foreign cuisines, eclectic tastes, exposure to foreign languages, friends overseas with whom one's life increasingly intertwines, and special schools for the kids-all at home. Resident expatriatism, or something resembling it, could become the new secular religion of the upper-middle and upper classes, fostered by communications technology. Just as religion was replaced by nationalism at the end of the Middle Ages, at the end of modern times nationalism might gradually be replaced by a combination of traditional religion, spiritualism, patriotism directed toward the planet rather than a specific country, and assorted other organized emotions. Resident expatriates might constitute an elite with limited geographic loyalty beyond their local communities, which provide them with a convenient and aesthetically pleasing environment.

An elite with little loyalty to the state and a mass society fond of gladiator entertainments form a society in which corporate Leviathans rule and democracy is hollow. James Madison in The Federalist considered a comparable situation. Madison envisioned an enormously spread-out nation, but he never envisioned a modern network of transportation that would allow us psychologically to inhabit the same national community. Thus his vision of a future United States was that of a vast geographic space with governance but without patriotism, in which the state would be a mere "umpire," refereeing among competing interests. Regional, religious, and communal self-concern would bring about overall stability. This concept went untested, because a cohesive American identity and culture did take root. But as Americans enter a global community, and as class and racial divisions solidify, Madison's concept is relevant anew.

There is something postmodern about this scenario, with its blend of hollow governance and fragmentation, and something ancient, too. Because of suburbanization, American communities will be increasingly segregated by race and class. The tendency both toward compromise and toward trusting institutions within a given community will be high, as in small and moderately sized European countries today, or as in ancient Greek city-states. Furthermore, prosperous suburban sprawls such as western St. Louis and western Omaha, and high-technology regions such as the Tucson-Phoenix corridor, North Carolina's Research Triangle, and the Portland-Seattle-Vancouver area will compete with one another and with individual cities and states for overseas markets, as North

America becomes a more peaceful and productive version of chaotic, warring city-state Greece.

A continental regime must continue to function, because America's edge in information warfare requires it, both to maintain and to lead a far-flung empire of sorts, as the Athenians did during the Peloponnesian War. But trouble awaits us, if only because the "triumph" of democracy in the developing world will cause great upheavals before many places settle into more practical-and, it is to be hoped, benign-hybrid regimes. In the Middle East, for instance, countries like Syria, Iraq, and the Gulf sheikhdoms-with artificial borders, rising populations, and rising numbers of working-age youths-will not instantly become stable democracies once their absolute dictators and medieval ruling families pass from the scene. As in the early centuries of Christianity, there will be a mess.

Given the surging power of corporations, the gladiator culture of the masses, and the ability of the well-off to be partly disengaged from their own countries, what will democracy under an umpire regime be like?

The Return of Oligarchy?

SURPRISINGLY, the Founders admired the military regime of Sparta. Only in this century has Sparta been seen as the forerunner of a totalitarian state. Why shouldn't men like Madison and George Washington have admired Sparta? Its division of power among two Kings, the elders, and the ephors ("overseers") approximated the system of checks and balances that the Founders desired in order to prevent the emergence of another Cromwell. Of course, Sparta, like Athens, was a two-tiered system, with an oligarchic element that debated and decided issues and a mass-helots ("serfs") in Sparta, and slaves and immigrants in Athens-that had few or no rights. Whether Sparta was a monarchy, an oligarchy, or a limited democracy-and whether Athens was oligarchic or democratic-still depends on one's viewpoint. According to Aristotle, "Whether the few or the many rule is accidental to oligarchy and democracy-the rich are few everywhere, the poor many." The real difference, he wrote, is that "oligarchy is to the advantage of the rich, democracy to the advantage of the poor." By "poor" Aristotle meant laborers, landowning peasants, artisans, and so on-essentially, the middle class and below.

Is it not conceivable that corporations will, like the rulers of both Sparta and Athens, project power to the advantage of the well-off while satisfying the twenty-first-century servile populace with the equivalent of bread and circuses? In other words, the category of politics we live with may depend more on power relationships and the demeanor of our society than on whether we continue to hold elections. Just as Cambodia was never really democratic, despite what the State Department and the UN told us, in the future we may not be democratic, despite what the government and media increasingly dominated by corporations tell us.

Indeed, the differences between oligarchy and democracy and between ancient democracy and our own could be far subtler than we think. Modern democracy exists within a thin band of social and economic conditions, which include flexible hierarchies that allow people to move up and down the ladder. Instead of clear-cut separations between classes there are many gray shades, with most people bunched in the middle. Democracy is a fraud in many poor countries outside this narrow band: Africans want a better life and instead have been given the right to vote. As new and intimidating forms of economic and social stratification appear in a world based increasingly on the ability to handle and analyze large quantities of information, a new politics might emerge for us, too-less like the kind envisioned by progressive reformers and more like the pragmatic hybrid regimes that are bringing prosperity to developing countries.

The classicist Sir Moses Finley has noted that what really separated the rulers from the ruled in the ancient world was literacy: the illiterate masses were subject to the elite's interpretation of documents. Analogous gulfs between rulers and ruled may soon emerge, not only because of differing abilities to process information and to master technology but also because of globalization itself. Already, barely literate Mexicans on the U.S. border, working in dangerous, Dickensian conditions to produce our VCRs, jeans, and toasters, earn less than 50 cents an hour, with no rights or benefits. Is that Western democracy or ancient-Greek-style oligarchy?

As the size of the U.S. population and the complexity of American life spill beyond the traditional national community, creating a new world of city-states and suburbs, the distance will grow between the citizens of the new city-states and the bureaucratic class of overseers in Washington. Those overseers will manage an elite volunteer military armed with information-age weapons, in a world made chaotic by the spread of democracy and its attendant neo-authoritarian heresies. We prevented the worst excesses of a "military-industrial complex" by openly fearing it, as President Dwight Eisenhower told us to do. It may be equally wise to fear a high-tech military complex today.

Precisely because the technological future in North America will provide so much market and individual freedom, this productive anarchy will require the supervision of tyrannies-or else there will be no justice for anyone. Liberty, after all, is inseparable from authority, as Henry Kissinger observed in A World Restored: Metternich, Castlereagh, and the Problems of Peace 1812-1822 (1957). A hybrid regime may await us all. The future of the Third World may finally be our own.

And that brings us to a sober realization. If democracy, the crowning political achievement of the West, is gradually being transfigured, in part because of technology, then the West will suffer the same fate as earlier civilizations. Just as Rome believed it was giving final expression to the republican ideal of the Greeks, and just as medieval Kings believed they were giving final expression to the Roman ideal, we believe, as the early Christians did, that we are bringing freedom and a better life to the rest of humankind. But as the nineteenth-century Russian liberal intellectual Alexander Herzen wrote, "Modern Western thought will pass into history and be incorporated in it . . . just as our body will pass into the composition of grass, of sheep, of cutlets, and of men." I do not mean to say that the United States is in decline. On the contrary, at the end of the twentieth century we are the very essence of creativity and dynamism. We are poised to transform ourselves into something perhaps quite different from what we imagine.

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BODY:

Thank you very much. It's a pleasure to be in Dallas today, although in all candor, given my philosophical orientation, it's a pleasure to be about anywhere other than where I work. The Cato Institute is something of an anomaly among inside-the-Beltway institutions in that our purpose is not to spend the money and run the lives of everyone who lives outside the Beltway. Quite the contrary, we view our mission as protecting the interests and rights of those Americans who do live outside the Beltway in what we now refer to as the "private sector."

There was a time in this nation's history when people would have looked at you quizzically if you had said you were from the "private sector." For the first half of the great American Experiment, society and what we call the private sector were pretty much the same thing. Government, or what we now call the "public sector," was viewed as a necessary evil - and therefore kept very small with its task being limited to protecting the rights to life, liberty, and property of those individual human beings who constituted society.

But as everyone in this audience is keenly aware, things have changed. In the early part of this century, government spending at the federal, state, and local levels amounted to under 10 percent of national income. But by 1950 that figure had risen dramatically to 26 percent. Today, spending at all levels of government amounts to 43 percent of national income and is continuing to grow. This, I submit, is something that should be of considerable concern to anyone who values freedom and prosperity.

I agree with Milton Friedman, who says that the true level of taxation on the American people is the level of government spending. That is, the burden on those of us in the private sector is determined by the amount of resources extracted by the public sector. Whether the extractions come in the form of taxes, borrowing, or inflation is, from this point of view, less important than the fact that resources are being removed from the private, productive, job-creating part of society. So in this sense the deficit issue is bogus. The government never has a deficit - it spends every penny it can get its greedy little hands on. If you want to cut spending primarily to reduce the deficit, that's fine with me, but from my perspective, I want to cut spending because to do so increases the prosperity and freedom of the private sector.

And, of course, spending is only part of the burden the private sector suffers at the behest of the public sector. Regulations alone cost the American consumer an estimated $ 600 billion a year, according to Murray Weidenbaum at the Center for the Study of American Business. In fact, when you talk about regulation, there's not a single element of your existence that some politician or bureaucrat inside the Beltway doesn't feel completely justified in regulating or controlling - if he's not already doing so.

You know, someone once said, and I'm certain this is true, if you took every bureaucrat inside the Beltway and laid them end-to-end, that that would be a good thing.

What I'd like to do today is make the case for what I call the civil society over political society. Sometime back the famous jurist Oliver Wendell Holmes wrote, "Taxes are what we pay for civilized society." I think Holmes got it precisely wrong. In fact, I would argue that the level of taxation and of government regulation is a measure of our failure to civilize our society.

Because there are basically only two ways to organize society: Coercively, through government mandates, or voluntarily, through the private interaction of individuals and associations. Take all the various political "isms" and they all boil down to a single question. Fascism, communism, conservatism, liberalism, neoconservatism - you name it - the bottom line of political philosophy and therefore of the politics, itself, is "Who is going to make the decision about this particular aspect of your life, you or somebody else?" There's an awful lot of heavyweight philosophical debate that goes on, but don't let them fool you: Politics is about the individual's relationship to the state, pure and simple. Do you spend the money you earn or does some politician? Do you pick the school your child goes to or does some bureaucrat? Can you buy products someone from another nation made or does a politician say you can't have that choice? Can you pick your own retirement plan, or are you forced to put so much money into a mandated pay-as- you-go government plan, that you can't afford to choose for yourself?

In a civil society you make the choices about your life. In a political society someone else makes those choices. And because it is not the natural order of things for someone other than you to make those decisions about your life, the political society is of necessity based on coercion. None other than George Washington warned us of this reality when he wrote,

"Government is not eloquence; it is not justice. It is force. Like fire, it is a dangerous servant and a fearsome master."

Civil society, on the other hand, is based on voluntarism and predicated on giving the widest possible latitude to the individual so that he has sovereignty over his own life, so long as he respects the equal rights of others in society. It's a simple concept, really, but a radical one nevertheless. It's the concept on which this great nation of ours was founded and which was so revolutionary that it motivated tens of millions of people from around the globe to come here, often giving up everything, just to live in the "land of the free." The immigrants of the past did not - and they do not today - come to America for food stamps, wheat subsidies, or Head Start programs. They come, and come, for the right to live their own lives as they choose.

Here's an interesting thought experiment. Suppose we increased the level of immigration, but the rule would be that immigrants and their descendants would have no access to government social services, including welfare, social security, health care, business subsidies, or the public schools. I would argue first that there would be no lack of takers for that proposition. Second, within a generation, we would see these immigrants' children going to better and far cheaper schools than the average citizen; there would be less poverty, a better work ethic, and proportionately more entrepreneurs than in the rest of U.S. society; and virtually everyone in this group would have high deductible catastrophic health insurance, while the truly needy would be cared for by an "immigrant culture" that gave proportionately more to charity. If my hypothesis is true, and I believe it would be for virtually any immigrant group you could name, it is something to think about, isn't it?

Today, the vision of liberty that drew immigrants to the United States in the past, is inspiring freedom movements all around the globe. More than an arms build-up, it was the ideas of the American Revolution that toppled communism in Eastern Europe, and that is energizing freedom fighters in Asia, Africa, and Latin America to set up societies in which the individual is more important than the state. The tragedy is that, while all these wonderful movements for freedom are going on, we seem to have forgotten the lessons of our forefathers here at home. Rather than losing ground, government in the U.S. is steadily gaining ground. The political society is winning at the expense of the civil society.

The last presidential campaign is a case in point. With all due respect to the great state of Texas, that campaign was not one of the high points in the history of political discourse. George Bush could not offer a satisfactory reason why he broke his promise to the American people not to raise taxes, much less explain why he wanted a second term. Ross Perot did allow us to express our frustration with both the Republicans and Democrats, but in the process temporarily dropped out of the campaign because, he said, the Republicans were out to sabotage his daughter's wedding. And Bill Clinton, the erstwhile pal of Gennifer Flowers, pretended he was a New Democrat while his wife Hillary baked cookies and didn't let on for a minute that she planned to totally revamp one-seventh of our GDP in the first hundred days of the new administration.

That campaign was in my view, and to put it mildly, unworthy of the American people. We have an interest in politics precisely because it does deal with our relationship to the state and all that that entails. Politics has a profound impact on our lives and the lives of our loved ones. We deserve more than platitudes, paranoia, and pratfalls in our presidential candidates. But the great tragedy of the 1992 presidential campaign was not so much in the personal weaknesses of the individual candidates as it was in its utter lack of philosophical content. The Founders of this nation believed that government had to be strictly limited, that there were vast areas of human society in which government had no legitimate role to play at all. Messrs. Bush, Perot, and Clinton did not and do not share that view. To them, there is no area of human activity that government cannot be involved in, no social or economic problem that government cannot solve. The only real debate between them, when you analyze it, was over how much in the way of resources government has to deal with these problems.

It does seem ironic that so many politicians in this country hold this curiously benign view of government as some kind of giant nanny, that will make everything okay if we just give it more money. Because as we enter the twenty-first century, government activities beyond its legitimate function of the protection of life, liberty, and property have pretty much been exposed as one of the great failures of civilization. Coercive, political society simply doesn't work very well. Most people, whether they're willing to admit it or not, know that now. There is a reason why East Germany produced the smoke-belching bucket-of-bolts Trabant, and West Germany produced the Mercedes, the BMW, the Porsche, the Audi, and the Volkswagen. Same people, same culture, different political system. Civil society worked; political society didn't.

Yet politicians in America continue to give credence to the idea that the political society can address our problems better than the institutions of the civil society. As Milton Friedman has observed, we seem to be saying that we know that socialism is a failure and that capitalism is a success, therefore we need more socialism.

Ladies and gentlemen, the time has come for us to say that the Emperor has no clothes. We've been too tolerant for too long of politicians and their court intellectuals who smugly tell us that 30 years of declining SAT scores and increasing expenditures means we must spend more on the public school monopoly; that sluggish economic activity means we must take more money from the productive sector to give to government bureaucrats; that protectionism saves jobs when we know it costs many more than it saves; that we must sacrifice while Congress votes itself a 30 percent pay raise; that escalating health care costs means we need more government involvement in medicine, rather than less.

How much longer can we let this charade continue? Freedom isn't perfect. The civil society will have its problems. But compared to the litigious, contentious, corrupt political society? Can anyone seriously maintain that a single major domestic government program has actually worked? That the private sector isn't more responsive, innovative, cost-effective, and, indeed, humane, than the public sector? I don't think so.

Consider just a few examples of where the American government has assumed a huge role in our society. In a civil society, people provide for their own retirement by saving real money. Those savings go into savings accounts, stocks, bonds, and other vehicles to provide the capital that creates jobs, productivity and economic growth. In a political society where the government runs the retirement system, there are no real savings because politicians would rather spend the money now and pretend that it's in a trust fund, as they do with social security. Did you know that according to the government's own figures the combined payroll tax will reach 26 percent early in the next century - and that's based on the eternally optimistic acturial assumptions of the Social Security Administration? (Of course, their idea of optimistic is that we'll all stop living longer.)

But there's going to be intergenerational warfare before we get a combined payroll tax of 26 percent. The younger generation will not play the victim in some babyboomer Ponzi scheme. There is a way out of this looming disaster that the politicians pretend doesn't exist. It involves seriously cutting federal spending and allowing young people, say those under 40, to opt out of a system and invest instead in a tax-free Super IRA, thereby creating capital, economic growth, and retirement security outside of the political society.

Or take government regulation of business, which is pervasive, counterproductive, and harming America's international competitiveness. In a civil society such regulation.as existed would be for the purpose of preventing fraud, misrepresentation, and excess pollution (note I said excess pollution" because any ecomomic activity creates waste - although capitalism produces much less waste than socialism as witness the horribly polluted Eastern European nations - and there are those in the Green Movement who are more interested in shutting down industry than they are in preventing pollution). But in a political society business regulation takes on a life of its own, with bureaucracies brimming with bureaucrats who make a living by throwing wrenches into the machinery of the free market. That's why the so-called Clean Air Act requires about $ 4 billion of expenditures to combat acid rain, when a ten-year $ 500 million government study concluded that acid rain was a non-problem. Less than one percent of American lakes are acidic and the majority of those are acidic for natural reasons, unrelated to industrial waste. The great Nobel laureate economist F. A. Hayek, who held the honorary title of Distinguished Senior Fellow with the Cato Institute prior to his passing last year, used to refer to attempts by bureaucrats and politicians to improve on the marketplace through government regulations as the "fatal conceit." It's an apt phrase, because what the bureaucrats and government planners never really comprehend is that the market is a continuous discovery process. Regulation, by its nature, blunts the discovery process by forcing businesses to act in a prescribed manner, thereby limiting the options from which to discover better alternatives.

Let me give you an example of what I mean. When interstate trucking was heavily regulated there wasn't much competition and a few big companies dominated the industry. Many smart economists and even some bureaucrats believed that if the market for interstate trucking was deregulated, competition would increase, leading to lower shipping rates. They were right. But what they didn't predict was that the deregulated market would generate much greater savings - on the order of tens of billions of dollars - by discovering that greater flexibility allowed for radical downsizing of inventories, the so-called just-in-time-inventory phenomenon.

And this discovery process, which the political society stifles, applies in any number of fields. I mentioned the high cost and low quality of much of our government monopoly education system. In a civil society parents, not bureaucrats, determine where their children go to school, and I should say, what curriculum they study. The whole debate over prayer in school is a good example of the inherent conflict that exists in political society. Private schools cost much less and do a better job while affording parents the opportunity to have their child pray or not, depending on their choice. The teachers unions and public school bureaucracies fight the idea of school choice with a remarkable passion, given their record of success.

But the truth is that the days of public school monopoly are numbered. Parents are increasingly demanding their right to opt out of the political educational system and join the civil educational system. I said the discovery process works in education. It does so in a very simple but effective way. Take our inner city schools, which in many instances are not much more than day care prisons. Given a choice system, the parents of these kids who are being deprived a fair start in life would immediately improve the quality of education in the inner city. How? This is how: Mrs. Smith notices that Mrs. Jones kids tuck in their shirts, say "yes, sir," and "yes, mam," and generally keep their noses out of trouble. Mrs. Jones, which school did you say you're sending your kids to?

And don't buy the argument that there simply aren't enough schools to meet the demand. Empowering parents with school choice vouchers will be incentive enough for entrepreneurs like Chris Whittle and others to fill the void. One final example of the superiority of the civil society over the political society and then I'll offer two ideas that I think would go a long way toward rolling back the encroachment of government. As you know, Hillary Rodham Clinton is determined to change our health care system in America. She's right that there is something wrong with the system. She's wrong in believing that it suffers from too little government involvement. Most Americans don't want the same system that delivers the mail delivering our health care.

Over the past two decades health care expenditures have risen from about six percent of GDP to about 14 percent. That's a huge increase that reflects systemic problems. The roots of those problems go back to the government-imposed wage and price controls of World War 11. With wages frozen companies competed for employees by offering improved fringe benefits, most notably free health insurance. By the time the IRS got around to realizing that health insurance was in fact income to the worker, it had become such a popular benefit that their attempt to tax it was overturned by Congress. Hence, we have today a third party payment system that features very low deductibles - generally ranging from $ 100 to $ 300 - that makes health care appear to be almost a free good to the consumer. Low deductibles for health care are like buying grocery insurance and saying, lucky I have this grocery insurance because we're out of food again this week.

Health care expenditures are a part of life and should be paid for by the consumer, just like we pay for our groceries. Insurance should be limited to catastrophic or high dollar coverage. The Cato Institute has developed a free market aproach to health care called the Patient Power plan based on our book by that name and which, incidentally, was authored by John Goodman of the Dallas-based National Center for Policy Analysis. Here's how it would work: The average company now pays $ 4500 for an employee's family health plan, all of which is deductible for tax purposes. We propose having the company instead purchase a $ 1500 catastrophic, $ 3000 deductible plan, giving the employee the remaining $ 3000 to place in a Medical Savings Account, which would accumulate earnings tax-free, like an IRA. The $ 3000 would not be taxable to the employee but the government wouldn't be out any money because the whole $ 4500 was a business expense for tax purposes in the first place.

At this point the employee now has first dollar responsibility for his or her health care. Suddenly, the discovery process of the market kicks in as the consumer - rather than state regulated, cost-plus third party insurance companies - is controlling the health care dollar. Like Mrs. Smith and Mrs. Jones, word gets around who charges what and we start to see some comparison shopping. When patients do go to the doctor - and they don't go as frequently as they used to because they get to keep whatever they don't spend of the $ 3000 in their Medical Savings Account - they start asking if this procedure is really necessary; do we really need another x-ray; and isn't there a generic drug that does the same thing as this designer drug does for one-tenth the cost? Suddenly, nurses will start being polite because when people are spending their own money, that's what they expect.

In addition, we estimate that there will be over $ 30 billion in administrative savings alone with this plan because insurance companies won't be checking on the vast bulk of medical expenses they currently have to. Some 94 percent of Americans never exceed $ 3000 in medical expenses during the course of the year, and it's only when they do that insurance companies come into play.

Another benefit of the Patient Power plan is that the savings that accumulate in the Medical Savings Account provide health care security between jobs. The funds there can be used to purchase individual insurance until the worker is under another company plan. You hear a lot about the estimated 37 million uninsured Americans, but what you don't hear is that fully half of them are uninsured for four months or less, and some 70 percent of them are uninsured for a year or less. We can deal with the remaining 11 million or so Americans without driving the rest of us into some kind of government managed plan complete with rationed care and higher costs. In fact, many of the remaining unisured would take advantage of the tax feature of the Patient Power plan that would allow them to set up their own Medical Savings Accounts independent of their employer.

We estimate that the total savings from the Patient Power plan would be in excess of $ 200 billion a year - all without mandates, taxes, or more government involvement in health care delivery.

The list of major government failures goes on and on. Welfare dependency, the savings and loan debacle, wetlands regulations - it's not an enviable record, and given the history of governments around the world, we shouldn't expect it to be. I hardly claim to know all the answers on how to reverse the growth of government in America, but as I mentioned, I do have two proposals that I believe can effect systemic change in the dynamics of that growth. The first is radical tax reform. There is a growing grassroots movement - that is gaining increased academic support - to simply get rid of our income tax system and replace it with a federal retail sales tax.

Let me immediately point out that I am definitely not talking about a value-added tax (VAT). The problem with a VAT is that it is far too easy to increase. It's a hidden tax and the experience in Europe is that it just grows 'n' grows. A federal retail sales tax is something else. For one thing, you'd be aware of it every time you bought something. For another, it's so simple and easy to understand that it would be much easier to create some taxpayer solidarity in trying to lower the level of federal taxes (which did not, contrary to popular opinion, decline during the Reagan years). Instead of grabbing your wallet when somebody mentioned tax reform, as is the case under the current system, all you'd have to do is vote for the candidate who promises to lower the federal sales tax.

According to a Cato Institute study by the noted Boston University economist Laurence Kotlikoff, an initial federal sales tax of 17 percent would replace the funds raised today by all the various income taxes - personal, corporate, and capital gains. Because of the boost to the economy such a tax structure would create through increased saving and, hence, productivity, the tax could eventually be lowered to just 11 percent, according to Kotlikoff.

Furthermore, there is something to be said for the salutory effects of Americans living in a country where it was none of the government's business how much money they made. The civil liberties implications of not needing an IRS to fund the federal government should by itself make the concept of a federal sales tax - as a replacement, not an addition to the income taxes - worth considering.

The second systemic reform we need to implement as soon as possible is legislative term limitation - at the local, state, and federal levels. To put it bluntly, too many of our problems as a nation are a direct result of professional politicians who suffer from Hayek's "fatal conceit." With the system we have today, where, for instance, it takes an average of 19 years in office for a congressman to become a committee chairman, a lot of good folks look at the prospect of running for Congress and decide not to because they'd have to be there too long before they had any real influence. They don't want to spend 10, 15, or 20 years as a politician. They'd rather live in the private sector leading productive lives as doctors, businessmen, computer programmers, or whatever.

The problem is, that is precisely the kind of person we need in Congress - not the person who looks at running for Congress and thinks, Gee, I could stay there the rest of my life! For democracy to work, it must be representative democracy, which means our elected officials represent the private sector, not the public sector. We know which sector career politicians identify with.

But even if we didn't have this adverse preselection process - even if the men and women serving in Congress truly did represent a good cross-section of the private sector - eventually even the best of them would be corrupted by what I call the "culture of ruling" inside the Beltway. It is unnatural to wake up every morning and have reporters pushing microphones in your face, asking you your opinion on everything under the sun. Pretty soon you start thinking that maybe your opinion is more important than it really is. Worse, you start thinking that maybe you should codify your opinion on everything under the sun. Indeed, the records kept by groups like the National Taxpayers Union demonstrate that the vast majority of congressmen become bigger spenders and submit more and more bills, the longer they're in office. I wonder, for instance, if an earlier Phil Gramm would have volunteered to carry George Bush's water on the huge tax increase that ultimately did in his administration?

In any case, we need to limit the terms these people serve in Congress - for their own sakes, if for nothing else. The national movement for term limits is rapidly growing. It calls for a six year limit in the House and 12 years in the Senate. If we're going to have a government of, by, and for the people, we're going to have to have true citizen legislature and that means we're going to have to have term limits.

Let me conclude by reminding you of America's heritage of freedom. The Founders of this great nation thought they were creating a civil society. They did, and for a century or more it worked magnificently. But just as the Founders feared and tried to prevent, the political society has emerged again with a vengeance in the Twentieth Century. We must not let the George Bush's and Bill Clinton's of the world destroy the great American experiment in human liberty. There is, it seems to me, a moral imperative for us to reclaim our heritage as a free people and our right to live in a civil society. It can be done, if only we take seriously our responsibilities as a free people, which means never conceding to politicians and bureaucrats the right to run our lives. Thank you very much.

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Policy Review

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How Far Have We Traveled Down Hayek's "Road"?

BYLINE: DICK ARMEY, MALCOLM S. FORBES JR., MILTON FRIEDMAN, PHIL GRAMM, VIRGINIA POSTREL, JENNIFER ROBACK, JUDY SHELTON, FRED L. SMITH JR.

BODY:

The free world celebrates two special 50th anniversaries this year. One is of D-Day, the beginning of the end of Nazi Germany's evil empire. The other is the publication of The Road to Serfdom, by Friedrich Hayek, which warned that Britain, America and other free nations that were expanding the welfare state and adopting centralized economic controls were unintentionally traveling down the same road to serfdom that led to fascism in Germany and communism in Russia. Hayek's Road, and his later works such as The Constitution of Liberty and Law, Legislation and Liberty, are among the most influential books in modern conservatism. To mark its semicentennial, Policy Review asked some of America's most thoughtful students of freedom to answer whether our country has moved closer or further from serfdom in the 50 years since Hayek's prophecy.

DICK ARMEY

Certainly we've travelled further down the road to serfdom since 1944, but that's really not the interesting question. The real issue is, in which direction on that road are we heading now? I believe we have just made a screeching U-turn aud are now heading back toward freedom -- but Washington doesn't know it yet.

Ironically, things in this country began to go wrong at the precise moment Hayek was writing. That's when our statists conceived income-tax withholding, the scheme that made our modern leviathan possible. In the old days, when free Americans paid their taxes out of their own wallets, there was a limit to how much revenue our statists could raise without having a rebellion on their hands. People could see how much they paid the government, and judge if the return was worth it. But once World War II gave the statists an excuse to take our money from our paychecks before we even touched it, the obscene growth of the government became inexorable.

Today, we are staggering beneath a bloated government that spends over $ 24,000 for each household in America, an amount equal to almost 40 percent of the nation's economy. Every cent a typical American earns from New Year's Day to May 5 he in effect surrenders to the government. Throw in the hidden cost of government regulations -- a concealed tax of over a half-trillion dollars a year -- and it is not until July 13 that he stops working for the political class and begins working for himself. Young families with children suffer the cruelest burden. gen millions of American couples need a second income, they need it not to support their children, but to support the government. Yes, we are indeed frighteningly close to serfdom.

But liberation is at hand. For all the gloom of the Clinton term, we must remember that a paradigm-shattering revolution has just taken place. In the signal events of the 1980s -- from the collapse of communism to the Reagan economic boom to the rise of the computer -- the idea of economic freedom has been overwhelming vindicated. The intellectual foundation of statism has turned to dust. This revolution has been so sudden and sweeping that few in Washington have yet grasped its full meaning-which is why the Clinton plan to nationalize our health care is actually taken seriously. But when the true significance of the 1980s freedom revolution sinks in, politics, culture -- indeed, the entire human outlook -- will change.

Capitalism will lose its century-old connotation of materialism and greed, and will at last be recognized as an unambiguous good, the only system compatible with our creative human natures. The redistributionist pessimism of today's elites will give way to a new populist optimism of growth and opportunity. Policies that restrict economic freedom will suddenly seem backwards and reactionary; those that expand it will be seen as enlightened and progressive. And the Clinton administration will be remembered as an anomaly, the last gasp of a cause that had already been lost.

Once this shift takes place -- by 1996, I predict -- we will then be able to advance a true Hayekian agenda, including a fiat tax, radical spending cuts, the end of the public school monopoly, a free market health-care system, and the elimination of the family-destroying welfare dole. Unlike 1044, history is now on the side of freedom.

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MALCOLM S. FORBES JR.

The road to serfdom has changed direction to the road to freedom. The combination of high technology and the failure of socialism has given traditional liberalism a new lease on life.

Industrialization was once seen by many observers as the enemy of the individual. Mass production meant monotonous assembly lines. Factories meant uprooting people from traditional rural societies to rootless, impersonal urban environments. An industrial economy meant more complex, more remote hierarchies. On the land, the peasant or the small farmer personally knew, or at least was familiar with, the landlord and members of the gentry. An auto worker, by contrast, rarely, if ever, saw the chairman of General Motors.

Non-Marxist intellectuals viewed industrialization as a Faustian bargain where people sacrificed their humanity to enjoy a better material life. Marxists saw workers being impoverished as well as dehumanized.

Thus socialism was seen by many supposedly thoughtful people as a means of bringing fellowship and unselfish, uncoerced cooperation among workers in the workplace as well as enriching their standard of living.

Three catastrophes -- the two world wars and the Great Depression -- made some sort of collectivism seem the wave of the future.

World War I, with its totally unexpected, seemingly pointless battlefield slaughter of an unimagined, horrific scale shattered the faith of many in the beliefs and institutions of Western civilization. The individualism glorified in the 19th century seemed hopelessly quaint after the First World War. The war was a catalyst for massive government penetration into and domination of society on a scale utterly inconceivable before the conflict.

The Great Depression discredited American-style laissez-faire economics. Given this catastrophic contraction, economists concluded, free markets could not be left to themselves. The notion of a mixed, peacetime economy was born. Politically, the Depression discredited Parliamentary democracy. After World War I most European countries either had or established democratic governmeats. By the mid-1930s, all but a handful had collapsed. Parliamentary democracy was seen as weak, corrupt, incompetent. By contrast, fascism and Nazism seemed more modern, brisk, efficient.

It took a world war to defeat Nazi-style totalitarianism. But this war also gave -- for a while anyway -- enormous prestige to the totalitarian Soviet Union. After the experiences of the inter-war years, even Western Europe saw some measure of socialism, or "social democracy," as an antidote to unemployment and as an agent for a humane society.

This was the environment in which Hayek wrote his book. Most politicos, writers, academics and "generally informed" people believed in some variation of what came to be called the welfare state.

How different the environment is today. Even socialists have to disguise their agendas with free market rhetoric * la Bill Clinton, or in the garb of Al Gore's apocalyptic environmentalism, or with European-style protectionism. The administration's attempt to de facto nationalize health care is the last great offensive of the collectivists.

Technology is now an agent of individualism. The microchip, which is expanding the reach of the human brain the way machines expanded the reach of the human muscle in the last century, is flattening hierarchies the way electricity physically flattened factories when it replaced steam power in the early part of this century. We simply don't need as many layers of management to process information as we did before. The corporate sector has been undergoing this process for years; the public sector will soon be hit with it, too.

The microchip is the enemy of the tyrant. Not so long ago, money had to be transported physically by, say, putting bars of gold in ship bottoms or in wagons. Governments could literally prohibit their citizens from moving their wealth outside of their jurisdictions. Today the blip of a computer can transport hundreds of billions of dollars in less than a second.

Dictators can enslave the body, but they can no longer capture the true source of wealth, the human mind.

Wealth is less and less being measured by material resources. Resource-rich Brazil remains mired in an economic morass. Resourceless Hong Kong, which has to import its drinking water, is one of the richest and most densely populated specks of real estate on the earth today.

Now that the Cold War is over, the United States is paying serious attention to its extraordinary surge of violent crime and to soaring rates of illegitimacy. What was somewhat tolerated when we faced an external threat, has become intolerable now that the threat has been removed. We are seeing the stirrings of a number of reform movements, especially spiritual ones. A harbinger: Bill Bennett's best-selling, The Book of Virtues.

People today want to improve their lives, not only materially, but in quality as well. We may soon be experiencing a modern version of the Great Awakening that so profoundly influenced pre-Revolutionary America in the mid-18th century.

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MILTON FRIEDMAN

The fall of the Berlin Wall, the collapse of communism behind the Iron Curtain, and the changing character of China have reduced the defenders of a Marxian-type collectivism to a small hardy band concentrated in Western universities. Today there is wide agreement that socialism is a failure, and capitalism a success. Yet this apparent conversion of the intellectual community to what might be called a Hayekian view is deceptive.

While the talk is about free markets and private property, and it is more respectable than it was a few decades ago to defend near-complete laissez-faire, the bulk of the intellectual community almost automatically favors any expansion of government power so long as it is advertised as a way to protect individuals from big, bad corporations, relieve poverty, protect the environment, or promote "equality."

The present discussion of a national program of health care provides a striking example. The intellectuals may have learned the words but they do not yet have the tune.

The message of The Road to Serfdom is even more relevant to the United States today than half a century ago. Intellectual opinion then was far more hostile to the book's theme than it appears to be now, but practice conformed to it far more than today. Post-World War II government was smaller and less intrusive than it is today. Lyndon Johnson's Great Society programs, including Medicare and Medicaid, and George Bush's Clean Air and Americans with Disability acts were all still ahead, let alone the numerous other extensions of government that Ronald Reagan was only able to slow down, not reverse in his eight years in office. Total government spending -- federal, state, and local -- in the United States has gone from 26 percent of national income in 1950 to nearly 45 percent in 1993.

Much the same has been true in Britain, in one sense more dramatically. The Labour Party, formerly openly socialist, now defends free private markets; and the Conservative Party, once content to administer Labour's socialist policies, has tried to reverse -- and to some extent under Margaret Thatcher succeeded in reversing -- the extent of government ownership and operation. But Margaret Thatcher was unable to call on anything like the reservoir of popular support for liberal values that led to the withdrawal of the "control of engagements" order shortly after World War II. And while there has been a considerable amount of "privatization" there as here, government today spends a larger fraction of the national income and is more intrusive than it was in 1950.

On both sides of the Atlantic, it is only a little overstated to say that we preach individualism and competitive capitalism, and practice socialism.

MILTON FRIEDMAN is a senior research fellow at the Hoover Institution. Excerted from the foreward to The Road to Serfdom, Fiftieth Anniversry Edition, by F. A. Hayek, to be published Sepetember, 1994 by the University of Chicago Press.

PHIL GRAMM

The Road to Serfdom didn't predict that greater government control over the economy would lead to totalitarianism overnight. Rather, Hayek argued that "the most important change which extensive government control produces is a psychological change, an alteration in the character of the people." He sensed that people would gradually lose their spirit of self-reliance and independence, would gradually surrender their freedom for the promise of greater security. He feared that serfdom would arrive with a whimper, not a bang.

I think some of the demoralization Hayek predicted has unquestionably taken place, even in America. The latest example is that in the last few months, three different pollsters have found that when Americans are asked, "Do you feel your children are going to do better than you have done?" by almost a 2-to-1 margin, they say, "No."

This loss of faith in the American dream is a direct consequence of the growth of intrusive, burdensome and initiative-smothering government.

As a measure of this growth, consider the following: In 1950, the average American family making the median income with 2 children sent $ 1 out of every $ 50 it earned to Washington. Today, the average American family sends $ 1 out of every $ 4 it earns to Washington.

Such a massive transfer of resources has had a remarkable effect. By taking income and decision-making power from families and small businesses, politicians have encouraged people to believe that they are no longer in charge of their own destinies, that their salvation lies in Washington. For Americans misled by politicians who "feel your pain," the American dream of success through hard work, sturdy self-reliance, and personal responsibility seems increasingly stale. It could not be otherwise for those who embrace the notion that success lies in defining themselves as victims.

If that trend gathers momentum, the entire shape of our social and political landscape will change for the worse. As government expands and the American dream fades, social mobility will become the exception rather than the rule. America will increasingly come to be divided along class lines, and the politics of resentment will replace the politics of hope and opportunity. Such a climate is hardly conducive to the success of liberty.

All of this stops well short of saying that Hayek's prediction is on the cusp of coming true. Socialism as well as totalitarianism failed and were rejected in Eastern Europe. In my heart, I know that America's destiny is, and always will be, freedom -- provided we mend our ways.

In Dickens's A Christmas Carol, a chastened Ebenezer Scrooge, horrified by his glimpse of the future that seemingly awaits him, asks the Ghost of

Christmas Yet To Come, "Are these the shadows of things that will be, or are these the shadows of the things that may be, only?" Every child knows the answer to Scrooge's question: By altering his behavior, he alters his destiny.

So can we. If we want to get off The Road to Serfdom, we must make the relentless pursuit of freedom our purpose, the empowerment of every American family our goal. The battle for individual freedom will not be decided in Eastern Europe or in the Third World. It will be won or lost not in the Kremlin but in the Capitol. If the road to serfdom is to be the road not taken, liberty must be reaffirmed here in America. That was Hayek's mission when he charted The Road to Serfdom, and it should be ours now.

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VIRGINIA POSTREL

When The Road to Sefdom was published, Americans were putting up with government actions they would never tolerate today -- rationing, wage and price controls, draconian export restrictions, the imprisonment of innocent Japanese-Americans and the confiscation of their property, the draft -- not only because wartime seemed to justify such measures but because the reigning ideology deemed them fair and efficient. At least in our attitudes, we have come a long way from serfdom.

When Hayek laments "the increasing veneration for the state, the admiration of power, and of bigness for bigness" sake, the enthusiasm for "organization" of everything . . ., and that "inability to leave anything to the simple power of organic growth," we see his times, not ours. That veneration of government, that love of bigness, vanished with the Great Society and Watergate, the Organization Man and the Feminine Mystique, gas lines and stagflation.

The self-centered politics of the older baby boomers, despite their dangerous excesses, weakened the notion that government should subordinate individual happiness to the social good. And the cynicism of younger Americans mocks the old boomers' remaining faith in activist government. Somehow, too, we avoided the "piling-up of restrictions on the movement of men and goods" that full-blown serfdom requires. World trade busted the monopolies Hayek feared as both the effect of and the justification of regulation; today we're actually beginning to see competition in electricity.

In 1944, technology and science appeared to side with serfdom, with mass production and monopoly, and with social engineering. Today, these very disciplines tradercut the arguments for uniformity and control. Emergent behavior, chaos theory, complexity, genetic algorithms, and evolutionary systems all encourage dynamic, Hayekian world views.

The personal computer demonstrates that revolutionary inventions can come from unknown misfits, weakening the argument for "rational planning." No bureaucrat would have forseen Apple or backed Bill Gates. The cheap biotechnology of the next generation makes forecasting even less predictable.

Hayek feared that young people would choose security over independence. Today, we are struggling to figure out how to live again in a world of independence. Reconstructing the virtues that Hayek cherished --

"independence, self-reliance, and the willingness to voluntary co-operation with one's neighbors" -- is the difficult task ahead.

The Road to Serfdom is in disrepair. But we have not yet escaped it. Most of the regulations remain, despite the changed Zietgeist, and Hayek never envisioned the controls environmentalism would bring. The Clinton administration still celebrates German security and order, learning nothing from Hayek's day. Its healthcare scheme, with its destruction of individual plans and its contempt for innovation, is a blueprint for serfdom. The Food and Drug Administration is running amok. A twisted version of feminism is bringing government into ever more intimate areas of life.

Perhaps, like the children of Israel, we must wait for the old serfs to die. Perhaps even that vail not surface. But we are better off than we were 50 years ago. Back then people really believed in planning, uniformity, and bigness. Now most Americans would find such notions laughable or threatening. And changing minds is the prerequisite for changing policies.

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JENNIFER ROBACK

Without question, the poor and working-class of America are closer to serfdom now than they were 50 years ago. For the political process has systematically closed every market in which they can compete without assistance. The poor now exist at the sufferance of other people. They are indeed serfs.

The jobs that people of modest means can perform have been drastically limited, by a variety of regulations, the minimum wage being only the best-known example. But the restrictions include health and safety regulations, as well as a panoply of mandated benefits, such as family leave policies. The result is a two-tiered labor market, in which the privileged few have very good jobs, and large numbers of people have either no job at all, or part-time, part-year jobs, for which the mandated benefits are not required.

Poor and working-class people can no longer provide or purchase for themselves a variety of services. The research of David Beito shows that the poor used to be able to purchase lowpriced and low-quality housing. As the family accumulated more money, they would place their old dwelling onto rollers, and roll it into the back lot, and build themselves a nicer home. They would rent out the older house, often to elderly family members, or to young family members just beginning their own families. In this way, the poor provided not only housing, but capital and community, for themselves. Outlawing the "backlot tenement" was one of the first objectives of progressive reformers. Through fraternal societies, the working class provided health care, life insurance, disability insurance, and recreation. Members of fraternal societies often received the services of a "lodge practice doctor," as part of their annual dues. The doctor made house calls, and provided services to the lodge member and his entire family. Outlawing the lodge practice doctors was one of the principal objectives of medical reformers.

The knowledge of how to create a life without the state is dying off with the last generation of working-class people who actually lived that life. My father was a founding member of his " parish. The school my siblings and I attended charged no tuition and was completely supported by the parish. My father was a founding member of his local chapter of the Catholic Order of Foresters, a fraternal society that provided, among other things, life insurance. We buried our father this fall. I do not know if our generation will have the knowledge and the character to recreate the world of voluntary cooperation of which he was a part.

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JUDY SHELTON

In terms of monetary integrity, we are closer to serfdom today, for reasons that might seem counterintuitive.

As we contemplate Hayek's warning 50 years ago about the incremental loss of individual freedom trader the encroachment of socialist planning, we should remember that 1994 also marks the 50th anniversary of the Bretton Woods conference. For all the grandiose notions of its architects, John Maynard Keynes and Harry Dexter White, and their shared penchant for creating supranational agencies to manage economic and financial affairs, the Bretton Woods agreement hammered out in July 1944 set the stage for a generation of unprecedented global trade and prosperity in the decades following World War II.

One of the unintended consequences of the Bretton Woods system was to place restrictions on the ability of the U.S. government to depreciate the value of currency as a means of absorbing fiscal indulgences. By imposing the obligation of having to convert dollars into gold at a fixed rate of $ 35 per ounce when so requested by a foreign central bank, the system laid the responsibility for maintaining international monetary stability squarely at the feet of the United States.

That the U.S. government would ultimately disavow that responsibility -- deeming it a burden rather than a privilege -- after engaging in accommodative monetary expansion during the 1960s calls into question the inherent flaws of the Bretton Woods approach, but not its basic purpose: To provide a sound international monetary regime to facilitate the optimum use of trade and capital flows around the world.

Should the golden era of Bretton Woods be judged in Hayekian terms as an example of "the fatal conceit" of ambitious social engineering? Or would Hayek's conviction that the exercise of individual economic choice serves as a primary guarantor of personal liberty suggest a more appreciative interpretation?

Hayek tells us: "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends. And whoever has sole control of the means must also determine which ends are to be served, which values are to be rated higher and which lower -- -in short, what men should believe and strive for."

What could be more controlling than to permit government to alter the value of money -- which serves to define economic activity and provides the essential instrument for exerting individual choice in free markets? By relinquishing authority over the money supply to the discretionary, inclinations of powerful men versus the automatic discipline of gold convertability, we undermine the integrity of the basic building block of democratic capitalism.

Hayek observed that "money is the greatest instrument of freedom ever invented by men." But when government has the power to distort economic choice by carrying out inflationary policies and by manipulating currencies in foreign exchange markets, government maintains a choke-hold on individual freedom.

Today, the value of the money held by Americans is a function of the decency of central bankers and government finance officials; it is a far cry from the international rule of law, not men, which Hayek deemed necessary to safeguard the interests of individuals against the tyranny of the state.

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FRED L. SMITH JR.

As a despairing optimist, I am of two minds. As an optimist, I am elated that the forces of collectivism have suffered great setbacks during the last 50 years. The Evil Empire has collapsed. America's progressive-era economic regulatory structure has gradually been dismantled. Perhaps, most importantly, Hayek's embattled band of Mont Pelerin classical liberals has blossomed into a world-wide free market movement.

Yet, as a realist, I fear that freedom -- -in America at least -- continues to retreat. Fifty years ago, the Constitution and American culture still restricted the scope of government. Those promoting the federal government's higher education and highway construction programs felt it necessary to rationalize such programs on "national defense" grounds. Today the constitutional legitimacy of, say, politically managed health care is not even debated or questioned. Taxes have increased in severity. Government credit and insurance schemes are more intrusive and create more mischief than in 1044. Federal welfare programs have done as much harm to minority families as anything since slavery.

Too often conservatives have focused only on one threat at a time -- national defense, economic deregulation, constitutional restraints on spending -- while statist forces have found other routes to their goals. As one statist rationale has been destroyed, they've quickly advanced another. American statists were very creative, inventing the modern regulatory state which retains the appearance of "private" enterprise while destroying the reality. Outright government ownership would be most honest, after all. Government agencies -- say the Postal Service -- are held somewhat responsible for their performance, while regulatory agencies exercise vast power but evade such accountability. America has moved steadily down the road toward ever-greater regulatory controls. The gains of economic deregulation were real but they have been more than offset by the losses associated with social, health, and environmental regulations. Such regulatory programs entail vague goals, universal scope, and massive delegations of authority to bureaucrats.

Environmental issues are a prime example. As the economic rationale for statism faded, arguments that we must regulate the economy to protect our planet have advanced. The results have been disastrous. A nation that once went to war to protest the uncompensated "quartering" of troops in private homes now meekly submits to federal regulators "taking" private property to host "endangered" wildlife. Other bureaucrats impose costly unfunded mandates on small businesses and municipalities. The EPA has become the most powerful economic regulator in America's history. The intellectual and moral counter-attack has barely begun.

Hayek's metaphor of a road is somewhat misleading, as Hayek certainly realized. The war for freedom has many fronts, and friends of freedom must be careful to think strategically -- not to allow themselves to be deluded that victory on one front is decisive or that victory is ever permanent. Today, the main road to serfdom is paved with green bricks rather than the red bricks of yesterday. No one, however, should be confused; all statist roads lead to the same dreary totalitarian end-state -- and we are fast approaching the point of no return.

FRED L. SMITH JR. is president of the Competitive Enterprise Institute.

GRAPHIC: Picture 1, Friedrich Hayek; Pictures 2 through 4, no caption, UPI/Betmann, Archive; Diagram, BILL CLINTON'S HEALTH-CARE PLAN, JUST WHAT THE DOCTOR ORDERED. . . . BIG GOVERNMENT, courtesy office of Sen. Arlen Specter; Pictures 5 and 6, no caption, UPI/Betmann, Folio

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BODY:

ECONOMICS, THEN AND NOW

By JOSEPH NOLAN, Visiting Instructor, Business Administration, Flagler College

Delivered at Flagler Forum, St. Augustine, Florida, November 17, 1994

AN economist finds it a refreshing change to be invited to peruse the past, because we are usually asked to fathom the present and forecast the future. The distinguished British banker, Lord Rothschild, put his finger on the difficulty of economic forecasting when he was asked by a young lady what was likely to happen to the world economy in the year ahead.

"My dear," he replied, "there are only two people in the whole world who could answer that. One is a junior bureaucrat in the Treasury Department in Washington, and the other is a very junior associate in the Bank of England. Unfortunately, they disagree."

There is little disagreement among economists today, however, that Adam Smith is a towering figure in economic history, and that his seminal book "The Wealth of Nations," even after 200 years, is still the most widely known title of an economics work. By telling us why a market economy is best able to accommodate the economic needs of consumers, and how to think about the role of government in a market system, Smith provided the most lucid explanation and the most compelling defense of capitalism. As economist Robert Heilbroner said,

"His vision became the prescription for the spectacles of subsequent generations."

Far more than a historical figure, Adam Smith probably enjoys a greater measure of popularity today than ever before -- known to more people with a higher approval rating. Random House recently published a new Modern Library edition of his book. Disciples proudly wear the Adam Smith necktie, with the bewigged head of capitalism's founding father, as a sign that they are CPC -- Conservatively Politically Correct. This is a practice begun during the Reagan administration when young White House aides sported the tie to signify that they were "true believers" in Reaganomics.

What I'd like to do this morning is to look with you first at the man himself, then at his book, and finally at Adam Smith's significance in our contemporary world where people of widely differing views invoke his name in support of their cause.

Adam Smith, The Man

The patron saint of the market system was a shy, mild-mannered lad who grew up in Kircaldy, Scotland, a small port town just across the Firth of Forth from Edinburgh. At the age of four, he was kidnapped by a band of gypsies who held him for a while and then abandoned him by the roadside. One biographer later ventured the opinion that "he would have made, I fear, a very poor gypsy."

Be that as it may, he did make an outstandingly fine student, first at the University of Glasgow and later at Oxford where he won a scholarship. Like many college students, he complained about his professors. It even happens occasionally here at Flagler.

"In the University of Oxford," he wrote, "the greater part of the professors have for these many years given up altogether even the pretense of teaching." Universities he said, had become "sanctuaries in which exploded systems and obsolete prejudices found shelter and protection after they had been hunted out of every other corner of the world." The universities, he went on, produced students "completely ignorant of everything which is the common subject of conversation among gentlemen of the world."

Despite his low opinion of professors -- or perhaps in an effort to improve the breed -- Smith himself eventually became one. He joined the faculty of the University of Glasgow where he taught Moral Philosophy which, in those days, covered Natural Theology, Ethics, Jurisprudence and Political Economy which we now call Economics.

In fact, Adam Smith may have been the original absent-minded professor. One day while conducting a government dignitary through a local tanning factory, he became so engrossed in his explanation of how the process worked that he strode right into a huge, odoriferous tanning pit, and had to be rescued by three workmen.

On another occasion, he climbed out of bed and went for a walk in the middle of the night. Many miles later, the clang of church bells aroused him from sleep, and he hustled back home with nightshirt flapping in the breeze. He once brewed himself a beverage of bread and butter, and pronounced it positively the worst cup of tea he ever tasted. A French woman novelist, who got to know him while he was visiting Paris, said, "He's a most absent-minded creature, but one of the most lovable."

His personal quirks did not seem to interfere in the least with his wide-ranging intellectual capabilities. He was a highly popular teacher, according to one of his students, James Boswell, whose biography of Dr. Samuel Johnson later became a classic in its own right.

After sixteen years on the campus, Smith accepted a more lucrative position as traveling tutor of the young Duke of Buccleuch. The duke was a stepson of Charles Townsend who later gained a measure of notoriety as author of the British tea tax which occasioned the historic Boston Tea Party. The tutoring job involved touring Europe, helping the young duke to develop a proper polish, attending lavish balls, and accepting a stipend and pension that were roughly double his academic income.

The first and most boring stop on the Grand Tour was Toulouse in the south of France where they stayed for a year and a half. To ease the boredom and "to pass away the time," Smith confided to his philosopher-friend David Hume, "I have begun to write a book." That book, of course, was "The Wealth of Nations." In Geneva and later in Paris, he tested his ideas on a number of intellectuals including Voltaire and Francois Quesnay. Quesnay had formed the first group that can be identified as a "school" of economic thought. The group was known as the Physiocrats, and their attempt to quantify the output of the system resulted in an economic model based on rudimentary national income accounting. The Physiocrats' ideas strongly influenced Smith and, in his hands, their "natural order" was spelled out in the form of the market mechanism.

In 1766, Smith returned to his beloved Scotland and for the next ten years worked diligently on his book. He obviously would never have made it in today's publishing world where prosperous authors are expected to turn out at least one book a year.

The Book

"The Wealth of Nations" was published in 1776, the same year as the Declaration of Independence, and economists insist that it was fully as important to their field as its companion was to government and political science. Smith's book was an instant hit despite Hume's gloomy prediction that it might take the reading public some time to warm up to his friend's ideas. The first edition sold out in a few months. Thomas Jefferson called it the best book available on political economy.

In Smith's 900 pages were powerful concepts, clearly expressed and often strikingly illustrated. What's more, it didn't take an economist to understand his message. The prime source of the wealth of nations, in Smith's view, was not gold or silver as many believed at the time, but what some people actually got for their money. The welfare of a nation depended decisively on its production.

In his book, Adam Smith emphasized four main topics: the self-regulating market; specialization and the division of labor; the limited role of government in the economy; and the advantages of free trade. Let's take them up one at a time, and examine what he had to say.

Smith's great insight was that private self-interest could be a public virtue. As one economist explained, Adam Smith liked to think there was a little Scotsman inside each one of us. The unusual aspect of the wealth produced by a market economy, as he saw it, was that it did not emerge from any organized plan. Instead, it was the unintended result of the actions of many people, each pursuing the incentives offered by the market, with his or her own interests in mind. In Smith's words:

"It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest . . . Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command . . . By directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is, in this as in many other cases, led by an invisible hand to promote an end which was no part of his intention."

Smith believed that the efficient working of the market was the key to a comfortable standard of living. He showed that the price system was a self-adjusting mechanism which led to resources being used in a way that maximized the value of their contribution to production. Competition would result in the provision of those goods that society wanted, in quantities that society desired, at prices that society would be willing to pay. His description of the self-regulating market mechanism was an important first word that would be the point of departure for much of our subsequent economic analysis.

In Smith's scenario, the major propellant of the accumulation process was the division of labor. In the early pages of "The Wealth of Nations," he introduces us to a small pin factory where ten men, "indifferently equipped" with machinery, were able to produce forty-eight thousand pins a day. By contrast, each man, if he had "wrought separately and independently . . . certainly could not . . . have made twenty, perhaps not one pin in a day."

What attracted Smith's attention was not the machinery, but the way the job was divided so that each worker became an expert on his part of the task.

"One man draws out the wire," he wrote, "another straights it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper."

Specialization and division of labor increase productivity, according to Smith, because they allow for the development and refinement of skills, eliminate the time-wasting en-tailed in going from one job to another, and simplify tasks so as to permit the introduction of labor-saving machines.

Adam Smith himself did not use the term "laissez faire," which has since become the watchword and motto of capitalism. The origin of that expression dates back to the late 17th century when Louis XIV reigned as King of France. His Finance Minister, Jean Baptiste Colbert, asked a group of merchants how the government might be helpful to business.

A spokesman for the group replied, "Laissez nous faire" (Leave us alone). In modern parlance, "Get off our backs!" And over the years, that sentiment has resonated through the business community like a train-caller's chant.

Smith saw government as having three principal duties: national defense, the administration of justice, and the construction of public works. The first, he said, was to protect society from "the violence and invasion of other independent societies." The second was to develop an institutional structure through which justice could be administered to protect everyone's rights. The third was to establish appropriate public institutions and public works such as roads, bridges, canals and the like. Smith's framework was shaped by his strongly negative reaction to the elaborate apparatus of controls which he saw the British government imposing on individuals.

Bear in mind that Adam Smith was writing at the beginning of a new era in which the vested interests of the past were hanging on for dear life. It was against these vested interests -- notably the Mercantilists -- that he wrote. The Mercantilists promoted and supported an enormous array of economic controls, designed to produce an export surplus. The only way for a nation to prosper, they believed, was to sell as many goods as possible to other countries and amass a huge fortune in gold and silver, while importing as little as possible.

Prevailing opinion at the time was that in a market exchange, one party can profit only at the expense of the other. However, Smith reasoned that if both parties enter into an exchange voluntarily, and each gives up something of value, then both can come out ahead.

Indeed, he was the father of the Law of Absolute Advantage which provides the theoretical underpinning for our international trade today. He believed that all nations would be better off if each one concentrated on producing those goods it could produce most efficiently, and traded for those it could not turn out as well. He wrote:

"It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy.... What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom.... We trust with perfect security that the freedom of trade without any attention of government will always supply us with the wine which we have occasion for; and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to employ, either in circulating our commodities or in other uses."

Smith was steadfastly opposed to tariffs, quotas and other protectionist barriers to trade, and much of "The Wealth of Nations" was a spirited argument for expanding free trade.

Was Adam Smith always right in his insights? Certainly not. For example, he could never figure out why diamonds should be far more expensive than water. He reasoned that the total utility of water is much greater than the utility of diamonds because everyone needs water but nobody really needs diamonds.

Of course, Smith, a lifelong bachelor, had never heard the popular song, "Diamonds Are A Girl's Best Friend."

It was not until a century later that the so-called Marginalist School of Economists resolved this diamond-water paradox. They explained that it was not a product's total utility that made the difference, but rather its marginal utility -- that is, the satisfaction we get from one more unit of a good. The marginal utility of water is ordinarily low because it is readily available to us. The more we have, the less we crave one more glass. But the marginal utility of diamonds is relatively high because their availability is extremely limited. The less we have of something, the more we care about one more unit of it.

However, what is surprising about Adam Smith after two centuries is not how mistaken he was on some specific points, but how clairvoyant he was in observing the entire economic landscape.

Significance of Adam Smith Today

We owe to "The Wealth of Nations" much of our understanding of what markets can and cannot do, and how buyers and sellers are led by an "invisible hand" to promote an end which was no part of their original intention. Smith's book gave economics its present-day shape. The topics he dealt with and the approach he used are reflected in economics texts as they are taught today. There were economists before Smith's time, but he summed up their work so effectively that few scholars have thought it worthwhile to go back beyond him. After "The Wealth of Nations," people began to see the world around them with fresh eyes, noting how the tasks they performed fit into the work of society as a whole and helped to achieve its objectives.

Today, unfortunately, the dominant image of Adam Smith is that of an advocate of unhampered self-interest, a staunch opponent of all government intervention, and a foe of virtually any kind of humanitarian legislation. A reading of "The Wealth of Nations" suggests that many of those who describe themselves as disciples of Adam Smith substitute what they believe him to have said for what he actually did say. As historian Jerry Muller of Catholic University points out, Smith needs to be rescued from some of those who claim him as their intellectual progenitor, just as he was rescued as a youngster from that band of gypsies in Scotland.

He was not as strongly opposed, as his present day admirers make him out to be, to all government actions that seek to promote the general welfare. What he was against was the destructive meddling of government with the market mechanism. He was as much opposed to barriers to imports and bounties on exports as he was to government actions that sheltered industry from competition.

He was certainly no dedicated apologist for the business community. In fact, his book is filled with biting remarks about the "mean and rapacious" ways of the manufacturing class of his time.

"People of the same trade," he wrote, "seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy to raise prices." He was also skeptical about joint stock companies -- the forerunners of our modern corporations.

"The directors of such companies," he said, "being managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners of a private copartnery frequently watch over their own.... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company."

On the other hand, Adam Smith's name has been invoked in support of the European Community, the North Atlantic Free Trade Agreement (NAFTA), and the latest GATT trade accord that has touched off noisy controversy. And chances are that he would have strongly favored all three because he was a passionate pioneer of free trade. If he were alive today, we would probably see him on the Larry King Show, debating the merits of NAFTA and GATT with the likes of Ross Perot.

In "The Wealth of Nations," Smith inveighed against the Mercantilists of his time whose short-sighted doctrine was that nations would be better off exporting as much and importing as little as possible. Our modern Mercantilists, of course, are the Japanese who seem to thrive on exporting to the United States and the rest of the world, while being highly selective on what imports they will admit.

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Linear causal questions must not crowd out equilibrium analysis. In this context, the culture-vs.-structure, chicken-and-egg debate is ultimately fruitless. More important is to understand how history smooths some paths and closes others off. Douglass North summarizes the challenges ahead:

> Path dependence means that history matters. We cannot understand today's choices (and define them in the modeling of economic performance) without tracing the incremental evolution of institutions. But we are just beginning the serious task of exploring the implications of path dependence. . . . Informal constraints matter. We need to know much more about culturally derived norms of behavior and how they interact with formal rules to get better answers to such issues. We are just beginning the serious study of institutions.[86]

LESSONS FROM THE ITALIAN REGIONAL EXPERIMENT

The twentieth century is ending, as it began, with high aspirations for extending the benefits of democratic self-government to ever larger numbers of men and women.[87] What factors will affect whether these hopes will be realized? Our study has explored both the power of institutional reform as a strategy for political change and the constraints on institutional performance posed by the social context. Twenty years after the establishment of regional government in Italy, what have we learned from this experiment in building new institutions of democracy?

For at least ten centuries, the North and the South have followed contrasting approaches to the dilemmas of collective action that afflict all societies. In the North, norms of reciprocity and networks of civic engagement have been embodied in tower societies, guilds, mutual aid societies, cooperatives, unions, and even soccer clubs and literary societies. These horizontal civic bonds have undergirded levels of economic and institutional performance generally much higher than in the South, where social and political relations have been vertically structured. Although we are accustomed to thinking of the state and the market as alternative mechanisms for solving social problems, this history suggests that *both* states *and* markets operate more efficiently in civic settings.

This civic equilibrium has shown remarkable stability, as we saw in Chapter 5, although its effects have been disrupted from time to time by exogenous forces like pestilence, war, and world trade shifts. The contrasting, Hobbesian equilibrium in the South has been even more stable, though less fruitful. Mutual distrust and defection, vertical dependence and exploitation, isolation and disorder, criminality and backwardness have reinforced one another in the interminable vicious circles traced in

horizontal vs. vertical

Putnam: "Making Democracy Work"

this chapter and the previous one. People in Bologna and Bari, in Florence and Palermo, have followed contrasting logics of communal life for a millennium or more.

When the regional reform was introduced in 1970, therefore, the new institutions were implanted in very different social contexts. As we learned in Chapter 4, civic regions were characterized by a dense network of local associations, by active engagement in community affairs, by egalitarian patterns of politics, by trust and law-abidingness. In less civic regions, political and social participation was organized vertically, not horizontally. Mutual suspicion and corruption were regarded as normal. Involvement in civic associations was scanty. Lawlessness was expected. People in these communities felt powerless and exploited. They were right.

social context affect new institutions

These contrasting social contexts plainly affected how the new institutions worked. As we saw in Chapter 3, objective measures of effectiveness and subjective measures of citizen satisfaction concur in ranking some regional governments consistently more successful than others. Virtually without exception, the more civic the context, the better the government. In the late twentieth century, as in the early twelfth century, collective institutions work better in the civic community. By the 1980s, the North has also attained great advantages in physical and human capital, but those advantages are accentuated and in part explained by its longstanding edge in social capital.

This is one lesson gleaned from our research: *Social context and history profoundly condition the effectiveness of institutions*. Where the regional soil is fertile, the regions draw sustenance from regional traditions, but where the soil is poor, the new institutions are stunted. Effective and responsive institutions depend, in the language of civic humanism, on republican virtues and practices. Tocqueville was right: Democratic government is strengthened, not weakened, when it faces a vigorous civil society.

On the demand side, citizens in civic communities expect better government and (in part through their own efforts), they get it. They demand more effective public service, and they are prepared to act collectively to achieve their shared goals. Their counterparts in less civic regions more commonly assume the role of alienated and cynical supplicants.

On the supply side, the performance of representative government is facilitated by the social infrastructure of civic communities and by the democratic values of both officials and citizens. Most fundamental to the civic community is the social ability to collaborate for shared interests. Generalized reciprocity (not "I'll do this for you, because you are more powerful than I," nor even "I'll do this for you now, if you do that for me now," but "I'll do this for you now, knowing that somewhere down the

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road you'll do something for me") generates high social capital and underpins collaboration.

The harmonies of a choral society illustrate how voluntary collaboration can create value that no individual, no matter how wealthy, no matter how wily, could produce alone. In the civic community associations proliferate, memberships overlap, and participation spills into multiple arenas of community life. The social contract that sustains such collaboration in the civic community is not legal but moral. The sanction for violating it is not penal, but exclusion from the network of solidarity and cooperation. Norms and expectations play an important role. As Thompson, Ellis, and Wildavsky put it, "Ways of life are made viable by classifying certain behaviors as worthy of praise and others as undesirable, or even unthinkable."[88] A conception of one's role and obligations as a citizen, coupled with a commitment to political equality, is the cultural cement of the civic community.

Where norms and networks of civic engagement are lacking, the outlook for collective action appears bleak. The fate of the Mezzogiorno is an object lesson for the Third World today and the former Communist lands of Eurasia tomorrow, moving uncertainly toward self-government. The "always defect" social equilibrium may represent the future of much of the world where social capital is limited or nonexistent. For political stability, for government effectiveness, and even for economic progress social capital may be even more important than physical or human capital. Many of the formerly Communist societies had weak civic traditions before the advent of Communism, and totalitarian rule abused even that limited stock of social capital. Without norms of reciprocity and networks of civic engagement, the Hobbesian outcome of the Mezzogiorno—amoral familism, clientelism, lawlessness, ineffective government, and economic stagnation—seems likelier than successful democratization and economic development. Palermo may represent the future of Moscow.

The civic community has deep historical roots. This is a depressing observation for those who view institutional reform as a strategy for political change. The president of Basilicata cannot move his government to Emilia, and the prime minister of Azerbaijan cannot move his country to the Baltic. "A theory of change that gives priority to ethos can have unfortunate consequences. . . . It may lead to minimizing efforts at change because people are believed to be hopelessly enmeshed in an ethos."[89] More than one Italian regionalist told us privately that publicity about our results might unintentionally undermine the regional reform movement. One able reformist regional president in an uncivic region exclaimed when he heard our conclusions: "This is a counsel of despair! You're telling me that nothing I can do will improve our prospects for success. The fate of the reform was sealed centuries ago."[90]

The full results of the regional reform, however, are far from an invitation to quietism. On the contrary, a second lesson of the regional experiment is (as Chapter 2 demonstrates) that *changing formal institutions can change political practice*. The reform had measurable and mostly beneficial consequences for regional political life. As institutionalists would predict, institutional changes were (gradually) reflected in changing identities, changing values, changing power, and changing strategies. These trends transpired in the South no less than the North. In both South and North, the new institution nurtured a more moderate, pragmatic, tolerant elite political culture. In both South and North, the reform altered old patterns of power and produced more genuine subnational autonomy than unified Italy had ever known. In both South and North, the reform itself generated pressures, both inside and outside the government, in support of further decentralization. In both South and North, the regional government is generally regarded by community leaders and ordinary voters as an improvement over the institutions it replaced—certainly more accessible and probably more effective. The regional reform allowed social learning, "learning by doing."[91] Formal change induced informal change and became self-sustaining.

The new institution has not yet lived up to the highest expectations of its optimistic advocates. Factionalism and gridlock, inefficiency and simple incompetence, still plague many regions. This is especially so in the South, which was much less well positioned than the North to take advantage of the new powers. Both North and South have made progress in the last twenty years, but compared to the North, the southern regions are no better off today than they were in 1970. Compared to where the South would be today without the regional reform, however, the South is much better off. That is the view of most southerners.

Has the reform also begun to reverse the vicious uncivic circles that have trapped the Mezzogiorno in backwardness for a millennium? We cannot say, for the final lesson from this research is that *most institutional history moves slowly*. Where institution building (and not mere constitution writing) is concerned, time is measured in decades. This was true of the German Länder, it has been true of the Italian regions and of the communal republics before them, and it will be true of the ex-Communist states of Eurasia, even in the most optimistic scenarios.

History probably moves even more slowly when erecting norms of reciprocity and networks of civic engagement, although we lack the benchmarks to be sure. For convenience's sake, we might date the founding of the communal republics and the Norman kingdom, and thus the start of Italy's civic split between North and South, in (say) the year 1100. But it seems highly unlikely that surveys of nobles, peasants, and townspeople in 1120 would have detected the initial stages of the North-South division.

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Two decades are time enough to detect the impact of institutional reform on political behavior, but not to trace its effects on deeper patterns of culture and social structure.

Those concerned with democracy and development in the South should be building a more civic community, but they should lift their sights beyond instant results. We agree with the prescription of the Italian economic historian Vera Zamagni, who urges local transformation of local structures rather than reliance upon national initiatives:

> It is a dangerous illusion to believe that the Mezzogiorno can be changed from outside *despite* its existing political-economic-social structure. . . . Beyond any doubt, the temporal perspective required for such a political and cultural revolution is long. But it does not seem to us that the path taken so far, with the results it has produced, has been any shorter.[92]

Building social capital will not be easy, but it is the key to making democracy work.

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In The Philosophy of History, Hegel discerned a disturbing historical pattern-the crack and fall of civilizations owing to a morbid intensification of their own first principles. Although I have made a fortune in the financial markets, I now fear that the untrammeled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society. The main enemy of the open society, I believe, is no longer the communist but the capitalist threat.

The term "open society" was coined by Henri Bergson, in his book The Two Sources of Morality and Religion (1932), and given greater currency by the Austrian philosopher Karl Popper, in his book The Open Society and Its Enemies (1945). Popper showed that totalitarian ideologies like communism and Nazism have a common element: they claim to be in possession of the ultimate truth. Since the ultimate truth is beyond the reach of humankind, these ideologies have to resort to oppression in order to impose their vision on society. Popper juxtaposed with these totalitarian ideologies another view of society, which recognizes that nobody has a monopoly on the truth; different people have different views and different interests, and there is a need for institutions that allow them to live together in peace. These institutions protect the rights of citizens and ensure freedom of choice and freedom of speech. Popper called this form of social organization the "open society." Totalitarian ideologies were its enemies.

Written during the Second World War, The Open Society and Its Enemies explained what the Western democracies stood for and fought for. The explanation was highly abstract and philosophical, and the term "open society" never gained wide recognition. Nevertheless, Popper's analysis was penetrating, and when I read it as a student in the late 1940s, having experienced at first hand both Nazi and Communist rule in Hungary, it struck me with the force of revelation.

I was driven to delve deeper into Karl Popper's philosophy, and to ask, Why does nobody have access to the ultimate truth? The answer became clear: We live in the same universe that we are trying to understand, and our perceptions can influence the events in which we participate. If our thoughts ~~belonged~~ belong to one universe and their subject matter to another, the truth might be within our grasp: we could formulate statements corresponding to the facts, and the facts would serve as reliable criteria for deciding whether the statements were true.

There is a realm where these conditions prevail: natural science. But in other areas of human endeavor the relationship between statements and facts is less clear-cut. In social and political affairs the participants' perceptions help to determine reality. In these situations facts do not necessarily constitute reliable criteria for judging the truth of statements. There is a two-way connection-a feedback mechanism-between thinking and events, which I have called "reflexivity." I have used it to develop a theory of history.

Whether the theory is valid or not, it has turned out to be very helpful to me in the financial markets. When I had made more money than I needed, I decided to set up a foundation. I reflected on what it was I really cared about. Having lived through both Nazi persecution and Communist oppression, I came to the conclusion that what was paramount for me was an open society. So I called the foundation the Open Society Fund, and I defined its objectives as opening up closed societies, making open societies more viable, and promoting a critical mode of thinking. That was in 1979.

My first major undertaking was in South Africa, but it was not successful. The apartheid system was so pervasive that whatever I tried to do made me part of the system rather than helping to change it. Then I turned my attention to Central Europe. Here I was much more successful. I started supporting the Charter 77 movement in Czechoslovakia in 1980 and Solidarity in Poland in 1981. I established separate foundations in my native country, Hungary, in 1984, in China in 1986, in the Soviet Union in 1987, and in Poland in 1988. My engagement accelerated with the collapse of the Soviet system. By now I have established a network of foundations that extends across more than twenty-five countries (not including China, where we shut down in 1989).

Operating under Communist regimes, I never felt the need to explain what "open society" meant; those who supported the objectives of the foundations understood it better than I did, even if they were not familiar with the expression. The goal of my foundation in Hungary, for example, was to support alternative activities. I knew that the prevailing Communist dogma was false exactly because it was a dogma, and that it would become unsustainable if it was exposed to alternatives. The approach proved effective. The foundation became the main source of support for civil society in Hungary, and as civil society flourished, so the Communist regime waned.

After the collapse of communism, the mission of the foundation network changed. Recognizing that an open society is a more advanced, more sophisticated form of social organization than a closed society (because in a closed society there is only one blueprint, which is imposed on society, whereas in an open society each citizen is not only allowed but required to think for himself), the foundations shifted from a subversive task to a constructive one-not an easy thing to do when the believers in an open society are accustomed to subversive activity. Most of my foundations did a good job, but unfortunately, they did not have much company. The open societies of the West did not feel a strong urge to promote open societies in the former Soviet empire. On the contrary, the prevailing view was that people ought to be left to look after their own affairs. The end of the Cold War brought a response very different from that at the end of the Second World War. The idea of a new Marshall Plan could not even be mooted. When I proposed such an idea at a conference in Potsdam (in what was then still East Germany), in the spring of 1989, I was literally laughed at.

The collapse of communism laid the groundwork for a universal open society, but the Western democracies failed to rise to the occasion. The new regimes that are emerging in the former Soviet Union and the former Yugoslavia bear little resemblance to open societies. The Western alliance seems to have lost its sense of purpose, because it cannot define itself in terms of a Communist menace. It has shown little inclination to come to the aid of those who have defended the idea of an open society in Bosnia or anywhere else. As for the people living in formerly Communist countries, they might have aspired to an open society when they suffered from repression, but now that the Communist system has collapsed, they are preoccupied with the problems of survival. After the failure of communism there came a general disillusionment with universal concepts, and the open society is a universal concept.

These considerations have forced me to re-examine my belief in the open society. For five or six years following the fall of the Berlin Wall, I devoted practically all of my energies to the transformation of the formerly Communist world. More recently I have redirected my attention to our own society. The network of foundations I created continues to do good work; nevertheless, I felt an urgent need to reconsider the conceptual framework that had guided me in establishing them. This reassessment has led me to the conclusion that the concept of the open society has not lost its relevance. On the contrary, it may be even more useful in understanding the present moment in history and in providing a practical guide to political action than it was at the time Karl Popper wrote his book-but it needs to be thoroughly rethought and reformulated. If the open society is to serve as an ideal worth striving for, it can no longer be defined in terms of the Communist menace. It must be given a more positive content.

The New Enemy

Popper showed that fascism and communism had much in common, even though one constituted the extreme right and the other the extreme left, because both relied on the power of the state to repress the freedom of the individual. I want to extend his argument. I contend that an open society may also be threatened from the opposite direction-from excessive individualism. Too much competition and too little cooperation can cause intolerable inequities and instability.

Insofar as there is a dominant belief in our society today, it is a belief in the magic of the marketplace. The doctrine of laissez-faire capitalism holds that the common good is best served by the uninhibited pursuit of self-interest. Unless it is tempered by the recognition of a common interest that ought to take precedence over particular interests, our present system-which, however imperfect, qualifies as an open society-is liable to break down.

I want to emphasize, however, that I am not putting laissez-faire capitalism in the same category as Nazism or communism. Totalitarian ideologies deliberately seek to destroy the open society; laissez-faire policies may endanger it, but only inadvertently. Friedrich Hayek, one of the apostles of laissez-faire, was also a passionate proponent of the open society. Nevertheless, because communism and even socialism have been thoroughly discredited, I consider the threat from the laissez-faire side more potent today than the threat from totalitarian ideologies. We are enjoying a truly global market economy in which goods, services, capital, and even people move around quite freely, but we fail to recognize the need to sustain the values and institutions of an open society.

The present situation is comparable to that at the turn of the past century. It was a golden age of capitalism, characterized by the principle of laissez-faire; so is the present. The earlier period was in some ways more stable. There was an imperial power, England, that was prepared to dispatch gunboats to faraway places because as the main beneficiary of the system it had a vested interest in maintaining that system. Today the United States does not want to be the policeman of the world. The earlier period had the gold standard; today the main currencies float and crush against each other like continental plates. Yet the free-market regime that prevailed a hundred years ago was destroyed by the First World War. Totalitarian ideologies came to the fore, and by the end of the Second World War there was practically no movement of capital between countries. How much more likely the present regime is to break down unless we learn from experience!

Although laissez-faire doctrines do not contradict the principles of the open society the way Marxism-Leninism or Nazi ideas of racial purity did, all these doctrines have an important feature in common: they all try to justify their claim to ultimate truth with an appeal to science. In the case of totalitarian doctrines, that appeal could easily be dismissed. One of Popper's accomplishments was to show that a theory like Marxism does not qualify as science. In the case of laissez-faire the claim is more difficult to dispute, because it is based on economic theory, and economics is the most reputable of the social sciences. One cannot simply equate market economics with Marxist economics. Yet laissez-faire ideology, I contend, is just as much a perversion of supposedly scientific verities as Marxism-Leninism is.

The main scientific underpinning of the laissez-faire ideology is the theory that free and competitive markets bring supply and demand into equilibrium and thereby ensure the best allocation of resources. This is widely accepted as an eternal verity, and in a sense it is one. Economic theory is an axiomatic system: as long as the basic assumptions hold, the conclusions follow. But when we examine the assumptions closely, we find that they do not apply to the real world. As originally formulated, the theory of perfect competition-of the natural equilibrium of supply and demand-assumed perfect knowledge, homogeneous and easily divisible products, and a large enough number of market participants that no single participant could influence the market price. The assumption of perfect knowledge proved unsustainable, so it was replaced by an ingenious device. Supply and demand were taken as independently given. This condition was presented as a methodological requirement rather than an assumption. It was argued that economic theory studies the relationship between supply and demand; therefore it must take both of them as given.

As I have shown elsewhere, the condition that supply and demand are independently given cannot be reconciled with reality, at least as far as the financial markets are concerned -and financial markets play a crucial role in the allocation of resources. Buyers and sellers in financial markets seek to discount a future that depends on their own decisions. The shape of the supply and demand curves cannot be taken as given because both of them incorporate expectations about events that are shaped by those expectations. There is a two-way feedback mechanism between the market participants' thinking and the situation they think about-"reflexivity." It accounts for both the imperfect understanding of the participants (recognition of which is the basis of the concept of the open society) and the indeterminacy of the process in which they participate.

If the supply and demand curves are not independently given, how are market prices determined? If we look at the behavior of financial markets, we find that instead of tending toward equilibrium, prices continue to fluctuate relative to the expectations of buyers and sellers. There are prolonged periods when prices are moving away from any theoretical equilibrium. Even if they eventually show a tendency to return, the equilibrium is not the same as it would have been without the intervening period. Yet the concept of equilibrium endures. It is easy to see why: without it, economics could not say how prices are determined.

In the absence of equilibrium, the contention that free markets lead to the optimum allocation of resources loses its justification. The supposedly scientific theory that has been used to validate it turns out to be an axiomatic structure whose conclusions are contained in its assumptions and are not necessarily supported by the empirical evidence. The resemblance to Marxism, which also claimed scientific status for its tenets, is too close for comfort.

I do not mean to imply that economic theory has deliberately distorted reality for political purposes. But in trying to imitate the accomplishments (and win for itself the prestige) of natural science, economic theory attempted the impossible. The theories of social science relate to their subject matter in a reflexive manner. That is to say, they can influence events in a way that the theories of natural science cannot. Heisenberg's famous uncertainty principle implies that the act of observation may interfere with the behavior of quantum particles; but it is the observation that creates the effect, not the uncertainty principle itself. In the social sphere, theories have the capacity to alter the subject matter to which they relate. Economic theory has deliberately excluded reflexivity from consideration. In doing so, it has distorted its subject matter and laid itself open to exploitation by laissez-faire ideology.

What allows economic theory to be converted into an ideology hostile to the open society is the assumption of perfect knowledge-at first openly stated and then disguised in the form of a methodological device. There is a powerful case for the market mechanism, but it is not that markets are perfect; it is that in a world dominated by imperfect understanding, markets provide an efficient feedback mechanism for evaluating the results of one's decisions and correcting mistakes.

Whatever its form, the assertion of perfect knowledge stands in contradiction to the concept of the open society (which recognizes that our understanding of our situation is inherently imperfect). Since this point is abstract, I need to describe specific ways in which laissez-faire ideas can pose a threat to the open society. I shall focus on three issues: economic stability, social justice, and international relations.

Economic Stability

Economic theory has managed to create an artificial world in which the participants' preferences and the opportunities confronting participants are independent of each other, and prices tend toward an equilibrium that brings the two forces into balance. But in financial markets prices are not merely the passive reflection of independently given demand and supply; they also play an active role in shaping those preferences and opportunities. This reflexive interaction renders financial markets inherently unstable. Laissez-faire ideology denies the instability and opposes any form of government intervention aimed at preserving stability. History has shown that financial markets do break down, causing economic depression and social unrest. The breakdowns have led to the evolution of central banking and other forms of regulation. Laissez-faire ideologues like to argue that the breakdowns were caused by faulty regulations, not by unstable markets. There is some validity in their argument, because if our understanding is inherently imperfect, regulations are bound to be defective. But their argument rings hollow, because it fails to explain why the regulations were imposed in the first place. It sidesteps the issue by using a different argument, which goes like this: since regulations are faulty, unregulated markets are perfect.

The argument rests on the assumption of perfect knowledge: if a solution is wrong, its opposite must be right. In the absence of perfect knowledge, however, both free markets and regulations are flawed. Stability can be preserved only if a deliberate effort is made to preserve it. Even then breakdowns will occur, because public policy is often faulty. If they are severe enough, breakdowns may give rise to totalitarian regimes.

Instability extends well beyond financial markets: it affects the values that guide people in their actions. Economic theory takes values as given. At the time economic theory was born, in the age of Adam Smith, David Ricardo, and Alfred Marshall, this was a reasonable assumption, because people did, in fact, have firmly established values. Adam Smith himself combined a moral philosophy with his economic theory. Beneath the individual preferences that found expression in market behavior, people were guided by a set of moral principles that found expression in behavior outside the scope of the market mechanism. Deeply rooted in tradition, religion, and culture, these principles were not necessarily rational in the sense of representing conscious choices among available alternatives. Indeed, they often could not hold their own when alternatives became available. Market values served to undermine traditional values.

There has been an ongoing conflict between market values and other, more traditional value systems, which has aroused strong passions and antagonisms. As the market mechanism has extended its sway, the fiction that people act on the basis of a given set of nonmarket values has become progressively more difficult to maintain. Advertising, marketing, even packaging, aim at shaping people's preferences rather than, as laissez-faire theory holds, merely responding to them. Unsure of what they stand for, people increasingly rely on money as the criterion of value. What is more expensive is considered better. The value of a work of art can be judged by the price it fetches. People deserve respect and admiration because they are rich. What used to be a medium of exchange has usurped the place of fundamental values, reversing the relationship postulated by economic theory. What used to be professions have turned into businesses. The cult of success has replaced a belief in principles. Society has lost its anchor.

Social Darwinism

By taking the conditions of supply and demand as given and declaring government intervention the ultimate evil, laissez-faire ideology has effectively banished income or wealth redistribution. I can agree that all attempts at redistribution interfere with the efficiency of the market, but it does not follow that no attempt should be made. The laissez-faire argument relies on the same tacit appeal to perfection as does communism. It claims that if redistribution causes inefficiencies and distortions, the problems can be solved by eliminating redistribution-just as the Communists claimed that the duplication involved in competition is wasteful, and therefore we should have a centrally planned economy. But perfection is unattainable. Wealth does accumulate in the hands of its owners, and if there is no mechanism for redistribution, the inequities can become intolerable. "Money is like muck, not good except it be spread." Francis Bacon was a profound economist.

The laissez-faire argument against income redistribution invokes the doctrine of the survival of the fittest. The argument is undercut by the fact that wealth is passed on by inheritance, and the second generation is rarely as fit as the first.

In any case, there is something wrong with making the survival of the fittest a guiding principle of civilized society. This social Darwinism is based on an outmoded theory of evolution, just as the equilibrium theory in economics is taking its cue from Newtonian physics. The principle that guides the evolution of species is mutation, and mutation works in a much more sophisticated way. Species and their environment are interactive, and one species serves as part of the environment for the others. There is a feedback mechanism similar to reflexivity in history, with the difference being that in history the mechanism is driven not by mutation but by misconceptions. I mention this because social Darwinism is one of the misconceptions driving human affairs today. The main point I want to make is that cooperation is as much a part of the system as competition, and the slogan "survival of the fittest" distorts this fact.

International Relations

Laissez-faire ideology shares some of the deficiencies of another spurious science, geopolitics. States have no principles, only interests, geopoliticians argue, and those interests are determined by geographic location and other fundamentals. This deterministic approach is rooted in an outdated nineteenth-century view of scientific method, and it suffers from at least two glaring defects that do not apply with the same force to the economic doctrines of laissez-faire. One is that it treats the state as the indivisible unit of analysis, just as economics treats the individual. There is something contradictory in banishing the state from the economy while at the same time enshrining it as the ultimate source of authority in international relations. But let that pass. There is a more pressing practical aspect of the problem. What happens when a state disintegrates? Geopolitical realists find themselves totally unprepared. That is what happened when the Soviet Union and Yugoslavia disintegrated. The other defect of geopolitics is that it does not recognize a common interest beyond the national interest.

With the demise of communism, the present state of affairs, however imperfect, can be described as a global open society. It is not threatened from the outside, from some totalitarian ideology seeking world supremacy. The threat comes from the inside, from local tyrants seeking to establish internal dominance through external conflicts. It may also come from democratic but sovereign states pursuing their self-interest to the detriment of the common interest. The international open society may be its own worst enemy.

The Cold War was an extremely stable arrangement. Two power blocs, representing opposing concepts of social organization, were struggling for supremacy, but they had to respect each other's vital interests, because each side was capable of destroying the other in an all-out war. This put a firm limit on the extent of the conflict; all local conflicts were, in turn, contained by the larger conflict. This extremely stable world order has come to an end as the result of the internal disintegration of one superpower. No new world order has taken its place. We have entered a period of disorder.

Laissez-faire ideology does not prepare us to cope with this challenge. It does not recognize the need for a world order. An order is supposed to emerge from states' pursuit of their self-interest. But, guided by the principle of the survival of the fittest, states are increasingly preoccupied with their competitiveness and unwilling to make any sacrifices for the common good.

There is no need to make any dire predictions about the eventual breakdown of our global trading system in order to show that a laissez-faire ideology is incompatible with the concept of the open society. It is enough to consider the free world's failure to extend a helping hand after the collapse of communism. The system of robber capitalism that has taken hold in Russia is so iniquitous that people may well turn to a charismatic leader promising national revival at the cost of civil liberties.

If there is any lesson to be learned, it is that the collapse of a repressive regime does not automatically lead to the establishment of an open society. An open society is not merely the absence of government intervention and oppression. It is a complicated, sophisticated structure, and deliberate effort is required to bring it into existence. Since it is more sophisticated than the system it replaces, a speedy transition requires outside assistance. But the combination of laissez-faire ideas, social Darwinism, and geopolitical realism that prevailed in the United States and the United Kingdom stood in the way of any hope for an open society in Russia. If the leaders of these countries had had a different view of the world, they could have established firm foundations for a global open society.

At the time of the Soviet collapse there was an opportunity to make the UN function as it was originally designed to. Mikhail Gorbachev visited the United Nations in 1988 and outlined his vision of the two superpowers cooperating to bring peace and security to the world. Since then the opportunity has faded. The UN has been thoroughly discredited as a peacekeeping institution. Bosnia is doing to the UN what Abyssinia did to the League of Nations in 1936.

Our global open society lacks the institutions and mechanisms necessary for its preservation, but there is no political will to bring them into existence. I blame the prevailing attitude, which holds that the unhampered pursuit of self-interest will bring about an eventual international equilibrium. I believe this confidence is misplaced. I believe that the concept of the open society, which needs institutions to protect it, may provide a better guide to action. As things stand, it does not take very much imagination to realize that the global open society that prevails at present is likely to prove a temporary phenomenon.

The Promise of Fallibility

It is easier to identify the enemies of the open society than to give the concept a positive meaning. Yet without such a positive meaning the open society is bound to fall prey to its enemies. There has to be a common interest to hold a community together, but the open society is not a community in the traditional sense of the word. It is an abstract idea, a universal concept. Admittedly, there is such a thing as a global community; there are common interests on a global level, such as the preservation of the environment and the prevention of war. But these interests are relatively weak in comparison with special interests. They do not have much of a constituency in a world composed of sovereign states. Moreover, the open society as a universal concept transcends all boundaries. Societies derive their cohesion from shared values. These values are rooted in culture, religion, history, and tradition. When a society does not have boundaries, where are the shared values to be found? I believe there is only one possible source: the concept of the open society itself.

To fulfill this role, the concept of the open society needs to be redefined. Instead of there being a dichotomy between open and closed, I see the open society as occupying a middle ground, where the rights of the individual are safeguarded but where there are some shared values that hold society together. This middle ground is threatened from all sides. At one extreme, communist and nationalist doctrines would lead to state domination. At the other extreme, laissez-faire capitalism would lead to great instability and eventual breakdown. There are other variants. Lee Kuan Yew, of Singapore, proposes a so-called Asian model that combines a market economy with a repressive state. In many parts of the world control of the state is so closely associated with the creation of private wealth that one might speak of robber capitalism, or the "gangster state," as a new threat to the open society.

I envisage the open society as a society open to improvement. We start with the recognition of our own fallibility, which extends not only to our mental constructs but also to our institutions. What is imperfect can be improved, by a process of trial and error. The open society not only allows this process but actually encourages it, by insisting on freedom of expression and protecting dissent. The open society offers a vista of limitless progress. In this respect it has an affinity with the scientific method. But science has at its disposal objective criteria-namely the facts by which the process may be judged. Unfortunately, in human affairs the facts do not provide reliable criteria of truth, yet we need some generally agreed-upon standards by which the process of trial and error can be judged. All cultures and religions offer such standards; the open society cannot do without them. The innovation in an open society is that whereas most cultures and religions regard their own values as absolute, an open society, which is aware of many cultures and religions, must regard its own shared values as a matter of debate and choice. To make the debate possible, there must be general agreement on at least one point: that the open society is a desirable form of social organization. People must be free to think and act, subject only to limits imposed by the common interests. Where the limits are must also be determined by trial and error.

The Declaration of Independence may be taken as a pretty good approximation of the principles of an open society, but instead of claiming that those principles are self-evident, we ought to say that they are consistent with our fallibility. Could the recognition of our imperfect understanding serve to establish the open society as a desirable form of social organization? I believe it could, although there are formidable difficulties in the way. We must promote a belief in our own fallibility to the status that we normally confer on a belief in ultimate truth. But if ultimate truth is not attainable, how can we accept our fallibility as ultimate truth?

This is an apparent paradox, but it can be resolved. The first proposition, that our understanding is imperfect, is consistent with a second proposition: that we must accept the first proposition as an article of faith. The need for articles of faith arises exactly because our understanding is imperfect. If we enjoyed perfect knowledge, there would be no need for beliefs. But to accept this line of reasoning requires a profound change in the role that we accord our beliefs.

Historically, beliefs have served to justify specific rules of conduct. Fallibility ought to foster a different attitude. Beliefs ought to serve to shape our lives, not to make us abide by a given set of rules. If we recognize that our beliefs are expressions of our choices, not of ultimate truth, we are more likely to tolerate other beliefs and to revise our own in the light of our experiences. But that is not how most people treat their beliefs. They tend to identify their beliefs with ultimate truth. Indeed, that identification often serves to define their own identity. If their experience of living in an open society obliges them to give up their claim to the ultimate truth, they feel a sense of loss.

The idea that we somehow embody the ultimate truth is deeply ingrained in our thinking. We may be endowed with critical faculties, but we are inseparably tied to ourselves. We may have discovered truth and morality, but, above all, we must represent our interests and our selves. Therefore, if there are such things as truth and justice-and we have come to believe that there are-then we want to be in possession of them. We demand truth from religion and, recently, from science. A belief in our fallibility is a poor substitute. It is a highly sophisticated concept, much more difficult to work with than more primitive beliefs, such as my country (or my company or my family), right or wrong.

If the idea of our fallibility is so hard to take, what makes it appealing? The most powerful argument in its favor is to be found in the results it produces. Open societies tend to be more prosperous, more innovative, more stimulating, than closed ones. But there is a danger in proposing success as the sole basis for holding a belief, because if my theory of reflexivity is valid, being successful is not identical with being right. In natural science, theories have to be right (in the sense that the predictions and explanations they produce correspond to the facts) for them to work (in the sense of producing useful predictions and explanations). But in the social sphere what is effective is not necessarily identical with what is right, because of the reflexive connection between thinking and reality. As I hinted earlier, the cult of success can become a source of instability in an open society, because it can undermine our sense of right and wrong. That is what is happening in our society today. Our sense of right and wrong is endangered by our preoccupation with success, as measured by money. Anything goes, as long as you can get away with it.

If success were the only criterion, the open society would lose out against totalitarian ideologies-as indeed it did on many occasions. It is much easier to argue for my own interest than to go through the whole rigmarole of abstract reasoning from fallibility to the concept of the open society.

The concept of the open society needs to be more firmly grounded. There has to be a commitment to the open society because it is the right form of social organization. Such a commitment is hard to come by.

I believe in the open society because it allows us to develop our potential better than a social system that claims to be in possession of ultimate truth. Accepting the unattainable character of truth offers a better prospect for freedom and prosperity than denying it. But I recognize a problem here: I am sufficiently committed to the pursuit of truth to find the case for the open society convincing, but I am not sure that other people will share my point of view. Given the reflexive connection between thinking and reality, truth is not indispensable for success. It may be possible to attain specific objectives by twisting or denying the truth, and people may be more interested in attaining their specific objectives than in attaining the truth. Only at the highest level of abstraction, when we consider the meaning of life, does truth take on paramount importance. Even then, deception may be preferable to the truth, because life entails death and death is difficult to accept. Indeed, one could argue that the open society is the best form of social organization for making the most of life, whereas the closed society is the form best suited to the acceptance of death. In the ultimate analysis a belief in the open society is a matter of choice, not of logical necessity.

That is not all. Even if the concept of the open society were universally accepted, that would not be sufficient to ensure that freedom and prosperity would prevail. The open society merely provides a framework within which different views about social and political issues can be reconciled; it does not offer a firm view on social goals. If it did, it would not be an open society. This means that people must hold other beliefs in addition to their belief in the open society. Only in a closed society does the concept of the open society provide a sufficient basis for political action; in an open society it is not enough to be a democrat; one must be a liberal democrat or a social democrat or a Christian democrat or some other kind of democrat. A shared belief in the open society is a necessary but not a sufficient condition for freedom and prosperity and all the good things that the open society is supposed to bring.

It can be seen that the concept of the open society is a seemingly inexhaustible source of difficulties. That is to be expected. After all, the open society is based on the recognition of our fallibility. Indeed, it stands to reason that our ideal of the open society is unattainable. To have a blueprint for it would be self-contradictory. That does not mean that we should not strive toward it. In science also, ultimate truth is unattainable. Yet look at the progress we have made in pursuing it. Similarly, the open society can be approximated to a greater or lesser extent.

To derive a political and social agenda from a philosophical, epistemological argument seems like a hopeless undertaking. Yet it can be done. There is historical precedent. The Enlightenment was a celebration of the power of reason, and it provided the inspiration for the Declaration of Independence and the Bill of Rights. The belief in reason was carried to excess in the French Revolution, with unpleasant side effects; nevertheless, it was the beginning of modernity. We have now had 200 years of experience with the Age of Reason, and as reasonable people we ought to recognize that reason has its limitations. The time is ripe for developing a conceptual framework based on our fallibility. Where reason has failed, fallibility may yet succeed.

GRAPHIC: Illustration; Cartoon