

Chapter 11

The Third World, Growth and Resources

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Abstract

Businessmen are often castigated for being too little concerned about the Third World, and for being committed to unsustainable growth at the cost of the environment, and missing out on the great goods of life. These criticisms are often captious, and therefore ignored. But businessmen do have to deal with the Third World on occasion, and as citizens may have to vote; and although often there is not much to be done, it is important to have a clear mind about the implications of economic activity, if only to avoid being made to feel guilty, and to prevent potential recruits being put off from business life.

§11.1 Guilt

We are made to feel guilty about the Third World. It is our fault that rain forests are being cut down, indigenous peoples chased out of their primitive simplicity and herded into shanty towns, millions of children left living off garbage bins on the streets of Rio. Compassion fatigue at length sets in, and we are glad to be told by others that the Third World is none of our business, and that each country should look after its own, and that it is morally wrong to raise taxes to be spent on international aid. All these views are wrong, though some contain some kernel of truth. In spite of there not being much that any of us can do about the Third World, there is something, and we should think carefully about what we can and should do, all of us in our capacity as private citizens, some of us also in some business capacity.

We also feel uncomfortable about growth. On the one hand, growth is thought to be a good thing. Politicians boast that the

Gross National Product has increased during their term of office, and they therefore should be re-elected. We are bemused. We are not convinced that things are better than they used to be in the good old days, but cannot contest the figures. And we are obscurely worried. Environmentalists point out that the world is finite, and there must be a limit to the growth that can be sustained. They tell us we should be more economical, and we agree, and they go on to say that unless we are really uncomfortable there is no hope for us. We shiver, and turn up the central heating.

We would like to be friends with the Environment, but do not know how to evaluate the issues collectively, or deal with them individually. Man's intervention in the world has not always been for the worse, but clearly he has been a great polluter, and the world would be a better place if we all exercised restraint. It is an instance of the Prisoners' Dilemma, and the responsible businessman is torn between particular imperatives of competitive survival and general obligations to the wider world.

§11.2 Transferability

Guilt and compassion fatigue are enhanced by some of the arguments addressed to us. "Do you need £10 more than this starving child does?" It is clear, on the one hand, that we could make an extra donation, but on the other, if we did so, the same argument could be adduced again and again and again. But then we begin to sense something wrong. Although any unit of money is highly transferable, it does not follow that the same holds good for very large sums. I can give £1 to War on Want; I can give £1,000; but to give £1,000,000,000 would disrupt the economies of both donor and recipient: for, as we have seen,¹ money is not a quasi-material object that can be shunted around, but something that obtains its value by being used to facilitate cooperation. The pound sterling gets its value from the cooperative activities of the British, and cannot be drawn off from the British economy in indefinitely large amounts. I can donate an ounce of blood, a half-pint of blood, or a pint, but not seven pints. The gift relationship is not indefinitely expandable. Although more needs to be done, and more can be done, yet there are limits, and it is well to be aware of these, so that what can be done is done to the best advantage.

¹ See above, ch.3, §3.4. and ch.10, §10.4.

§11.3 Education and Trade

Aid does not have to be ineffective. Many charities and private ventures show that. Those who administer it are dedicated volunteers, whose fingers are not sticky, who are content to do undramatic good, and are receptive to the suggestions of those they are trying to help, and sensitive to the needs and possibilities of the areas where they work. Much can be done, much has been done, often by helping the recipients to help themselves.

One of the services the West can render to other countries is in education, particularly in educating future governments. There are difficulties. Hitherto when we have had students from poor countries they have often not wanted to return. More important than technical skills are general attitudes. After the collapse of the Berlin Wall, the West German Government was able to second many deputy burgomasters to East Germany to set their local government on the right lines. Perhaps the greatest service Britain could offer would be to take on foreign students after their graduation in central and local government offices for a number of years, so that they could learn how to run things competently and imbibe the public sector *ethos* of public service.

Perhaps the most effective way of helping others to help themselves is to join with them in cooperative exercises. By trading with the Third World we enable them to stand on their own feet, learning in the process the skills and attitudes that have made the West rich. Substantial progress has been made in the liberalisation of world trade, but restrictions and barriers still remain. The 1994 Uruguay round should result in a 40 percent cut in developed countries' tariffs on industrial products, and an increase in the value of those imports that receive duty-free treatment in developed countries from 20 to 44 percent.² Furthermore, the restrictions imposed by the Multifibre Arrangement (MFA) will also be relaxed and phased out over a period to 2005, although there will be a mechanism in place (the Textile Monitoring Body), which will adjudicate in cases where the importing country can demonstrate that imports have been arriving in such quantities as to damage seriously the domestic industry. Such measures are welcome, but not enough. The developed countries are still protectionist—the market for agricultural products in the European Union is a case

² *Trading into the Future*, World Trade Organization, 1994.

in point—and Third-World countries may argue that the rich countries of the West are using their political power to keep the poor countries poor. Protectionist policies prevent poor countries being able to sell the things they are capable of producing, while leaving them eager to import the highly sophisticated products of the West which they cannot produce for themselves.

There is a real dilemma. Is it right for British clothing manufacturers to be put out of business as a result of cheaper imports from the Far East? The British consumer and the Far East worker say Yes: the unemployed textile worker says No. A balance has to be found between their claims. Workers in Britain, though for the most part not as poor as those in the Third World, are none the less deserving of consideration, and unemployment is a great evil. But the poverty of the Third World is a great evil too, and it is hypocrisy to give small amounts in direct aid, while shutting the door against the far more important trade and the benefits which the elimination of barriers can bring.³

§11.4 Globalisation

The globalisation of business is a major development over the last forty years, and raises new questions for the legitimacy and practices of international business both as regards the civil authorities and the local culture in the countries in which they operate.

Big business operates in many countries, and is no longer subject to any one sovereign State. It can choose where to conduct business, and if a regime is unreasonable, it can move elsewhere.⁴ This greatly increases its bargaining power. Multinational firms are like barons in middle ages, and able to stand up to the crown. In part this is good. Just as the crown needed curbing in the middle ages, so the State needs to be stood up to now. It is a salutary experience for a finance minister to find that if he decides to appropriate all the golden eggs, the goose flies away. But multinationals

³ See D.A. Hay, *Economics today*, Leicester, 1989, ch.7, §3, esp. p.260 and sources cited in fn.31. For a different form of protectionism, see above, ch.9, §9.4. For protectionism under guise of high-mindedness, see Samuel Brittan, *Capitalism with a Human Face*, Aldershot, 1995, p.222.

⁴ Not that tax should be the chief factor. Many multinational firms reckon that if they let tax dominate their commercial decisions, their business would deteriorate.

may abuse their power, and not pay their fair share of the costs of running the societies they operate in. Companies registered in the Cayman Islands, like tankers registered in Liberia, do not inspire confidence that they will be mindful of their obligations generally.

A study conducted by Fiat⁵ revealed that 40% of the managerial jobs in the company dealt with international matters, and as a result identified the need to redefine management responsibilities in the context of international operations. To find out more about the competencies of multi-country managers, the Ashridge Management Research Group interviewed managers from a diverse group of multinational companies.⁶ The study identified new competencies for “doing”, such as acting as an inter-cultural mediator and change agent, and for “being”, such as cognitive complexity, which is the ability to see several dimensions in a situation rather than only one, and to identify relationships and patterns between different dimensions. These new management competencies are required for operating effectively in different cultural environments. For example, Japanese and Western styles of management differ.

The first important characteristic of Japanese management is the strong emphasis on people, which paves the way to different patterns among the Japanese, Europeans or Americans in response to a given set of similar circumstances. Whereas the systems-type of management found in the US and Europe emphasises the decision maker, the professional, the individual’s creativity and responsibility, the functional relationship and management by objectives, the organic-type found in Japan makes the boss a facilitator, a social leader and emphasises group strength, free-form command and management by consensus.⁷

This kind of debate about how multinational companies are to be managed takes business into new areas of ethical behaviour. No longer is it sufficient to do business on the basis of a “colonialist” approach whereby the local nationals should be grateful to

⁵ E.Auterio and V.Tesio, “The Internationalisation of management in Fiat”, *The Journal of Management Development*, vol.9 no.6, 1980.

⁶ K.A.Barham and S.Wills, “Management across Frontiers”, *Ashridge Research Group*, 1992.

⁷ J.Graverau, “Japanese Management”, *The Financial Times Handbook of Management*, ed. Stuart Crainer, 1995. See further an Indian example from F.G.Bailey’s *Stratagems and Spoils*, quoted in ch.12, §12.3.(p.194 of Dec 95)

receive the advantages of superior management techniques. Economic behaviour in international business now calls for a much more cooperative and inter-active approach, and represents a major opportunity for *alteritas*, recognising and corresponding to what is different from “my way”.⁸

The potential for conflict exists, particularly if one culture, or system, believes its existence to be under threat, giving rise to “fundamental” defences of the local culture, as happened at the end of the Shah’s reign in Iran. There is an alternative, however, in which a positive cultural exchange through business activity breaks down nationalist barriers. Montesquieu spoke of his “being first a man, then a Frenchman; or rather, being of necessity a man, and only a Frenchman by chance.” In such a way multinationalism can put economic activity in a new light, placing new emphasis on its original meaning of ‘household organization’,⁹ where a sharing, rather than a conflict, of interests is the motivating force.

§11.5 Corruption

If we trade with the Third World, we face problems of employment policies, of environmental issues, and of corruption. Of these corruption is the most perplexing. If a firm refuses on principle to bribe government officials, business becomes impossible; if, however, it goes along with the prevailing practice, it is reinforcing it, and making it more difficult for the country ever to have an honest and competent government. And corruption spreads. Those who are instructed to give bribes may see nothing wrong in taking them.

Some firms maintain a strict clean-hands policy and survive. That is, undoubtedly, the best course, and one found, if it were tried, to be more possible than is commonly supposed.¹⁰ Some firms keep their own hands apparently clean by getting others to

⁸ For a practical instance, see Appendix B.

⁹ see Glossary

¹⁰ The United States Foreign Corrupt Practices Act of 1977 makes it a criminal offence for American persons to offer or provide payments to officials of foreign governments in order to obtain or retain business, even if doing so is not unlawful in the foreign country concerned. (cited by Elaine Sternberg, *Just Business*, London, 1994, p.276, n.20.) The costs and non-costs of high-mindedness are discussed by Samuel Brittan, *Capitalism with a Human Face*, Aldershot, 1995, p.33.

do the dirty work. Some British firms pay a 10% commission on all their sales in India to an Indian agent who has an incentive to lay out considerable sums to secure that orders come their way. Some simply pay what is demanded as and when they need something from officialdom. It is difficult to blame them, difficult to feel quite happy about it. "When in Rome, do as the Romans do . . ." but. At least one would like to be taking such steps as were possible to rid the country of the scourge, perhaps only by keeping records for future use, possibly by moving away from areas where bribes were necessary to those where it was possible to be honest.

A similar problem arises with organized crime. In Eastern Europe, especially in Russia itself, protection money is regularly demanded. It would be irresponsible for a firm simply to ignore threats, and expose its employees to kidnap or murder, but equally every extorted payment reinforces the extortioner's power. Some firms simply refuse to do business in any country that cannot or will not maintain law and order and give effective protection to law-abiding residents going peaceably about their own business. Large firms which do not wish to, or cannot afford to, pull out, can provide their own protection, housing their employees in fortified camps, and conveying them in armoured vehicles, with the same degree of armed protection accorded to diplomats in unsafe countries. It is an expensive policy, but a good one, not only because it provides effective security, but also in showing up the limits of the Mafia's might. Every demand for protection money not acceded to weakens the credibility of further demands; the mere existence of a safe area encourages the formation of other safe areas and strengthens the will to resist.¹¹

§11.6 Foreign Aid

Corruption is the chief argument against governments' undertaking foreign aid. Much of it is wasted. It goes from government to government, and governments are corrupt. In the Third World they are openly and blatantly corrupt, and much of the poverty of those living in the Third World is due to the vanity and incompetence of those of their fellow-countrymen they have the misfortune to have as rulers. But even among the relatively respectable governments

¹¹ See, for example, Geoff Winestock, "Strong Arms and the Law", *Business Russia*, Economist Intelligence Unit, London, July 1995, vol.1, no.4, p.1.

of the West, there is a deep tendency to turn idealistic initiatives to self-interested ends. Money is given to the impoverished country, but is tied to its being spent in the donor country not on what is actually needed but on buying something the donor country has to spare, something it cannot sell anywhere else. Under the guise of foreign aid it is really a form of outdoor relief for ailing industries.

After the collapse of communism the countries of Eastern Europe needed help. Many experts were sent out by their governments, giving a lot of advice, much of it of a somewhat obvious kind—‘That reactor is dangerous; you ought to replace it’. Much money was spent on five-star hotels that could have been better spent on providing the wherewithal to carry out some of the suggestions made. There is an inherent tendency for government money to stick to the fingers of government officials handling it.

Governments tend to suffer from megalomania. Big projects get into the newspapers and make ministers look good. Sometimes big projects are needed: perhaps only some colossal endeavour could turn back the encroachment of the Sahara desert. But the track record has been bad. Not only has much money been wasted by big projects funded by governments and the World Bank, but often they have done damage. Irrigation has not made deserts more fertile but saltier, dams had been better not built, cattle not raised.

Often the argument against governments’ undertaking foreign aid is based not on what actually happens, but high principle. It is held that it is morally wrong to raise taxes to be spent on international aid. The State’s right to raise taxes rests, it is argued, on an implied contract, which authorises the State to legislate and raise revenues for the benefit for its citizens but for no other purpose. But, with the possible exception of the United States of America, States do not owe their existence to any actual contract, and non-actual contracts suffer from the grave defect of being indeterminate. Who is to say what terms I might have agreed to, had I been drawing up an agreement with a future sovereign? I might have stipulated that he was to act only in my interests, narrowly defined, but I might equally have required him to be faithful to the tenets of Islam, and act always in accordance with the teachings of the Prophet. Not every State has been founded on the principles of a public utility company. Many have shared values of a more idealistic kind, and nations have often striven collectively to achieve national ideals.

The contract theory of the State, apart from its other defects, suffers from the same inadequacy as the classical view of the public limited company, in imposing too strict a limitation of authority.¹² Citizens cannot exclude moral considerations from those their government may take cognizance of, any more than shareholders can with their directors. If governments have authority to make any decisions at all, they must have discretion to take account of moral considerations as well as others. And in fact they must take up some moral standpoint, situated as they are in a wicked world in which other powers are minded to displace them by force. In order to survive, States have to be able to fight, and if they are to be able to fight, people must be prepared to die for them, and nobody is prepared to die for reasons of self-interest alone. States must stand for something people are prepared to give their lives for, values that go beyond the limited concerns of a public utility company.

It does not follow that a State must devote some of its revenues to foreign aid. But it may. It is a corporate decision that may be legitimately made without contravening the fundamental principles that form the *raison d'être* of the State. A nation may think it part of its national mission to help other nations, and may decide to devote revenues to this purpose. But there are difficulties in ensuring that they are well spent. Foreign aid is not in principle wrong, but often in practice ineffective.

§11.7 Beware of Numbers

Malthus¹³ haunts our subconscious. The spectre of uncontrolled population increase seems realised in the Third World, and we often feel responsible in as much our humane efforts to improve health have only removed the natural curbs without replacing them by artificial ones. Although it is often argued that increased prosperity is the only way to limit population increase, there is much doubt whether it actually works—or at least whether it will work in time. Government initiatives have been helpful, though not, as yet, effective enough. There is not much individuals can do, except not to use Malthusian nightmares as an excuse for not doing anything about the Third World, or even not thinking about it. We need to think, partly in order that when we have to take decisions, we

¹² See above, ch.4, §4.6.

¹³ See Glossary.

reach them in the right way, partly because we are liable otherwise to be paralysed by bogeymen we have not dared contemplate, and therefore have not seen through.

Collective action is often called for. But strategies for taking decisions are not well understood. We mostly think in terms of surveying available alternatives, and attempting a cost-benefit analysis for the more promising ones. But that is unrealistic. The reliability of the conclusions drawn is no greater than that of the numbers fed in; and although numbers have an inherent appearance of precision and reliability, the ways in which quantitative assessments are actually made are often imprecise and unreliable.

It is quite difficult to attach numbers to magnitudes. In the physical sciences after centuries of thought and experiment we can measure temperature, electric current and atomic weight, but in economics we have no theory to help us, and few facts on which to base a quantitative measure. We can count population, number of telephones, number of bankruptcies; where there is a large market with many transactions, we can record the price at which shares or currencies were bought and sold. A firm can have reasonably reliable knowledge of its stocks, the number of employees, its takings, the bills it has to pay, and the money it has in the bank; but beyond that figures are often only guesstimates, and sometimes worse. The rate of inflation over the next twelve months, the pre-Christmas sales, the incidence of VAT—only time will tell. Worse than that, many figures are deliberately falsified. With sufficient effort, I might get to know the income tax returns for Italy: but I should be a fool to infer from them what incomes in Italy actually were. Throughout Eastern Europe figures have been falsified for decades. Yet so great is the worship of numbers that in 1994 the Czech Gross Domestic Product was being calculated using a deflator based on 1984 prices, which had been heavily manipulated by the authorities.¹⁴ Often it is admitted that the figures are based on unreliable foundations, but then argued that since they are the only figures available we must do the best we can with them. That is a mistake. Unreliable figures are unreliable figures. Calculations with unreliable figures are unreliable calculations. Conclusions drawn from unreliable figures are unreliable conclusions. Instead of being mesmerised by figures, businessmen should simply say that they do not know, use their eyes, back their

¹⁴ *Business Eastern Europe*, XXIII, no.44, October 31, 1994, p.1.

hunches, knowing that they do not know, and accepting the standing condition of all decision-making that it is done with imperfect information. If we do not know, we do not know, and it is much better to know that we do not know than to have a barrage of figures to conceal from us the fact that we do not know.

Not all figures are totally unreliable. Although we need to be aware of the reasons people may have for falsifying their returns, some statistics are reasonably reliable, though not absolutely accurate. It is a useful exercise then not simply to adopt the best figures we can get, but to note what effect a somewhat different figure would have on the final calculation. Some systems are relatively insensitive to variations of some parameters: others much more so—ice-cream sales to day-time temperatures. If we have a reliable but imprecise figure for a magnitude, it is good to know the corresponding range of variability for the final figure.

But we cannot quantify probabilities at all accurately, and such guesstimates as we make are subject to imponderable chances. What is the probability of the yen rising against the peseta next year? It all depends. If the King of Spain were assassinated by a Basque terrorist, then the peseta would fall: if yet another Prime Minister of Japan is bowled out for corruption, the yen might. Or, again, it might not, being buoyed up by the US deficit and distrust of the dollar, or by Japan's success in keeping out imports. We cannot enter even imprecise probabilities for such events, and all analyses based on such figures bear little relation to fact.

In any case cost-benefit analyses are largely beside the point, because they fail to focus on the key question a decision-maker should always be asking himself: 'What if I am wrong?' Instead of COBA (COst-Benefit Analysis) we need ACE, Assess Cost of Error. There is a new venture suggested for the firm. It might prove very profitable. But what if not? If, should it fail to come off, the firm will go bankrupt, we should look on it quite differently from the way we should if the starting-up costs could easily be written off. In the latter case, if I wrongly decide not to go ahead, I forgo great profits, whereas if I wrongly decide to have a try, my losses are limited; and this presents an entirely different choice for me from the one I face if a wrong decision to go ahead will end in bankruptcy.¹⁵ The same approach is needed in deciding public

¹⁵ On one occasion in Singapore four investors were wondering whether to build a \$10,000,000 steel mill, and the senior investor asked "Can we afford to lose \$10,000,000?", and the answer being Yes, they went ahead with the project.

policy. At present we are much exercised about the greenhouse effect, which may be due to our great consumption of fossil fuel. The causal connexion is unproved. We may be witnessing only a random fluctuation. The ocean may be able to absorb a very large amount more of carbon dioxide. There may be some homeostatic mechanism at work. We do not know. We cannot sensibly quantify the probabilities of any of these hypotheses being true. The assumptions we put into our models are so arbitrary as to make the models almost valueless. But what we can do is to work out what will happen either way if we are wrong. If we are wrong in supposing that there is a simple causal connexion between burning fossil fuel and global warming, we shall restrict fuel consumption and spend money on developing alternatives needlessly; we shall end up with expensive nuclear power stations and a shivering house-bound population denied oil-fired central heating and easy motor transport. But we shall survive. If, however, we decide the other way and are wrong, we shall discover our error too late to put it right, and global temperatures will rise, deserts will expand, the ice caps will melt, and most of the big cities of the world will be under water.

In the face of uncertainty we have to act on imperfect information, and have to take risks. But in deciding what to do, we need to consider not just alternative courses of action, but alternative assessments of future course of events, taking seriously the imperfection of our information, and our inadequate powers of assessing it. We need a policy of safety first. But in discerning the dangers to be avoided, we need to scrutinise them carefully, to make sure that they are real dangers, and not just figments generated by misuse of figures, and inadequate grasp of the issues involved, leading us to suppose that the whole purpose of economic activity is to increase, without limit, some spurious index, such as the Gross National Product.

§11.8 Gross National Product

The Gross National Product (GNP) is a measure of economic activity. It is based on the amount of money changing hands over a particular interval in payment for goods and services. If more money changed hands, then more goods were purchased, and more services rendered. And that, it is supposed, is a good thing.

In fact, very much more is supposed. It is taken for granted that the Gross National Product is a measure of wealth generally, and that the greater the Gross National Product, the greater our wealth, and that the whole object of business activity is to increase the Gross National Product. But that is absurd. The Gross National Product leaves out many factors. It has difficulty in accounting for public goods that are unpriced. It takes no account of cooperative activities in which no money changes hands.

Housewives work; mothers work; volunteers work. Their labour makes an enormous difference to the well-being of society, but is ignored in calculations of the Gross National Product. Defenders of the Gross National Product argue that we can still use changes of the Gross National Product in one country to measure increases of wealth, because these factors are unlikely to change much from year to year. But we do not know that. Technological improvements and alterations in social patterns have greatly affected work in the home and in voluntary pursuits—smoke control and central heating have lightened housework, baby alarms between houses have liberated mothers. Over longer intervals of time, and between different societies, comparisons of Gross National Product are even less meaningful. And whenever they are made, they have the insidious effect of denigrating the worth of all those who work for free, and making out that whatever is priceless is valueless.

Public goods are difficult to account for. Some, defence for example, are entered at cost. In the years since the Second World War Britain has spent a much smaller proportion of its Gross National Product on the armed services than Germany did in Hitler's time: but for Britain the money spent secured the blessings of peace, for Germany disaster and defeat. Environmental goods are enormously important. Life in Los Angeles is insupportable, however many dollars each wage-earner brings home each week. "Where there is muck, there is brass" it used to be said; and in recent years, multinational businesses, criticized for locating in India hazardous processes which were not allowed in the West, have claimed in defence that the Indians needed the money, and the choice was between hazardous industries and no industry at all.¹⁶ These are possible defences. But the fact that they can be put forward at all shows that there is some trade-off between environmental goods

¹⁶ For a different concern, where the criticism was not that the industry was hazardous, but that its products were not needed, see Appendix B.

and monetary ones, and hence that a monetary measure alone cannot be an accurate measure of the good life.

Many cooperative activities do not involve money but do make us better off. Consider two National Health Service doctors, one good, one bad. The good one takes a lot of trouble with his patients, listening carefully to what they say, exercising considerable skill in diagnosing their complaints, often reassuring them that nothing much is wrong. The bad doctor pays no attention to what the patient says, and prescribes barbiturates for everyone. All in all more money changes hands as his prescriptions are paid for by the National Health Service, while the treatments prescribed by the other average out cheaper. The bad doctor increases the Gross National Product, the good doctor the national well-being.

We can multiply instances. In the one case two academics who never cooperate, each giving the same boring lectures year in and year out: in the other they spend a lot of time reading and discussing each other's work, write interesting articles in consequence, and collaborate in giving lively and stimulating seminars. Or we can imagine two towns, one in Italy where there has always been a municipal opera house paid for out of local taxes, the other in America where it is supported entirely by the tickets it sells. And it could be that the revenue raised in each case was the same. But in the Italian town the opera is played each night to full houses, with poor as well as rich flocking to hear their favourite Verdi, while in America only the select few can afford to pay what it costs to hear *La Traviata*. Or, to take an example characteristic of the late twentieth century, a bus service is withdrawn because it is losing money. Most of those who were accustomed to use it stay at home because they cannot afford to do anything else: but occasionally they have to go to the doctor or the chemist, and then take a taxi. The taxi, let us suppose, is run by the former bus-driver, who was made redundant; and let us suppose further, what he takes in fares from his bus-less customers is the same as what was paid to him and was spent on maintaining and fuelling the bus previously. The Gross National Product is the same, but many people are much worse off.

The motor industry has been a great beneficiary of the obsession with the Gross National Product. More money spent on cars was registered as an increase of the Gross National Product, and so thought to be a good thing. Undoubtedly it brought great benefits to some, which should not be ignored. But it imposed great

costs on others, which also ought not to be ignored. Many people were killed,¹⁷ many injured, some children stunted by lead poisoning, many more confined to home and denied the freedom to roam, on account of the danger from motor traffic. These were real costs, inadequately registered in calculations of the Gross National Product.¹⁸

The fundamental flaw in the Gross National Product is that it takes account only of those transactions in which money changes hands, that is, those cooperative activities where there is not sufficient community of values to achieve common objectives without any money changing hands. Monetary transactions enable us to cooperate when otherwise we could not, but do not improve cooperative activity that can take place anyhow.¹⁹ Great care is needed in interpreting the Gross National Product; it is not to be worshipped; nor should we suppose that business is committed to its limitless increase.

§11.9 Is Economic Activity A Good Thing?

What the Gross National Product does measure is economic activity, and it might seem that economic activity was inherently a good thing. If there was no economic activity we should all be much worse off, and the effect of each transaction that takes place is to leave the parties better off than if it had not taken place. To some extent, then, it must be a good thing. But before we generalise, we need to consider alternative activities it might displace. They might be a good thing too, and might, indeed, be better. One man likes skiing. He works overtime to get the extra money to fly to Austria for a skiing holiday; his mate likes fishing, and rather than work overtime, occupies his leisure hours patiently and inexpensively, at the riverside. It is clear that the former is better off as a result of his economic transactions than if he had neither

¹⁷ In one Cost-Benefit assessment to determine whether a pedestrian crossing should be made in Woodstock Road, Oxford, the deaths of old-age pensioners were entered as a benefit, since it would save their pensions having to be paid.

¹⁸ See more fully, E.J.Mishan, *The Costs of Economic Growth*, Staples Press, 1967; F.J. Hirsch, *Social Limits to Growth*, London, 1970; and D.A. Hay, *Economics today*, Leicester, 1989, ch.8, §2.

¹⁹ See above, ch.2, §2.1.

earned nor spent the extra money: but it does not follow that he is better off than his mate. In some cases, indeed, we should be strongly inclined to think the reverse. Two sisters are married and have children. One works in an insurance office, earning good money which she spends on a baby-minder and on convenience foods. The other is domestically inclined, and spends her time at home, feeding the children on home cooked food and dressing them in clothes she has made herself. Many would say that her children were better looked after, though her sister had engaged in many more economic transactions.

Money confers freedom, though only of a certain sort.²⁰ The man who works overtime could choose to go to the Carpathians instead of the Alps, or to go water-skiing in the Mediterranean, or pot-holing in the Pyrenees, whereas the fisherman has a much narrower range of options. The sister who sells insurance can buy angel's whip or hamburgers or potato crisps for her children, whereas her sister can only re-heat the shepherd's pie. To that extent economic activities are good, enhancing choice. But other activities are good, too. Cooperative activities within associations holding many values in common are inherently good, realising shared values at the same time as engaging with other people over a wide range of concerns. Although the choice is more limited, the engagement is greater, and more fulfilling. The check-out girl at the supermarket does not get into a deep personal relationship with the sister buying the fish fingers, whereas conversations over the garden fence about different ways of making turnip soup can be part of a continuing and deeply satisfying relationship. Hirsch makes the further criticism that we often earn money in order to be better off *than other people*. But we cannot all be better off than everybody else. Many of the goods sought are "positional goods", which cannot, in the nature of the case, be available to all. In so far as we engage in economic activity in pursuit of these goods, we are bound, most of us, to be disappointed.²¹

No simple answer can be given to the question whether economic activity is a good thing. Sometimes it is, sometimes it is undertaken at the cost of something better. It is good that people

²⁰ See above, ch.3, §3.1 *ad fin.*

²¹ F.J.Hirsch, *Social Limits to Growth*, London, 1970; see also D.A. Hay, *Economics today*, Leicester, 1989, pp.289-293.

should have a wide range of choice. Many of the goods and services made available by modern economies make life far healthier, more varied and more interesting than in times past. But it does not follow, and is entirely false, that we ought to increase economic activity regardless of other considerations. Sometimes there are more efficient ways of obtaining what we want, and often there are better things to be doing with our time.²²

§11.10 Limited Resources

The prophets of the present age fear for the future of mankind if economic growth continues unabated. Some of their fears are, as we have seen, rational. The world is finite, and could not continue for ever to sustain an exponentially increasing population. Even if the population is stabilised, many resources are non-renewable, and must be exhausted some time, and will be exhausted soon if consumed at the prodigal and increasing rate of the present age. We need to conserve energy, fossil fuels, and scarce minerals, and must stop polluting earth, sea and sky.

Many thinkers, however, go further, and claim that economic activity is itself inherently unsustainable. We must, they say, abandon altogether the idea of economic growth, and adopt entirely new economic objectives. What in fact we need to abandon is a false image of economic activity. If we think of the manufacture and exchange of goods as the paradigm economic activity, then we readily assume that making material goods is the basis of wealth. If this assumption were true, then the mining of iron ore and coal and the dumping of derelict cars would be a real indicator of national wealth, and it would follow that in the fulness of time the mines would be exhausted and the dumps occupying all the available land. But the assumption is wrong. We do not create wealth by manufacturing material objects, but by satisfying people's wants and needs. They need food, water, medicines, clothes. They want cars, transistors, compact disks. In as much as they want material things, economic activity will be geared to making what they want, and it is a proper criticism of some Western economies that they stimulate wants for material goods by advertising. But that need not be so. As real wants change, so it will become more difficult to stimulate artificial ones greatly at variance with them. The bigger car gives way to the faster computer, the voluminous bathing costume of the last century to the scant bikini of today. In the eighteenth century the Physiocrats²³ argued that since we all had

²² See D.A. Hay, *Economics today*, Leicester, 1989, ch.8, §2.

²³ See Glossary.

to eat, agriculture was the only activity that really created wealth, and all non-agricultural labourers were parasites living on the backs of the peasants. We laugh at such simplicity today, thinking of the green revolution and the effectiveness of combine harvesters, but make the same mistake about manufacturing generally. The doctor who persuades the worker on an assembly line to stop smoking is improving things quite as much as the worker who screws on carburettors; writing software is not parasitic on making hardware: rather, the relation is one of symbiosis, and this is true of the economy as a whole.

It follows that economic growth is not inherently prodigal of natural resources. It has thus far been associated with increased consumption of material goods, and a good deal of waste; but waste diminishes as technology improves, and as people become richer they may become more discriminating in their tastes. We cannot be sure of this, and may anyhow need to take collective action to conserve resources and reduce pollution. But once we rid ourselves of these false images, we see that we do not have to despair.