that the ideas of freedom, self-determination and the rational use of natural forces to meet human needs have spread all over the world. This has meant a release of energies and, as usual, has brought with it collisions and the danger of further collisions. At the same time the peoples of the world are now increasingly convinced of the futility and irrationality of war. Once freed from the fear of war the problem of world unity will assume a different character. Cultural diversity will be seen to constitute no danger. Peoples will feel free to develop each in its own way and to cooperate in the problems of common concern — the conquest of disease and poverty and the removal of the barriers that divide men. In this conclusion ethics and sociology are at one. The task before them is to clarify further the conception of a self-directing humanity, to deepen our knowledge of the causes making for conflict, or onesidedness and discrepancies in development and to use the knowledge thus gained in guiding future developments.

Similarities and differences between the social problem and the development problem

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1. Introductory

By the social problem I mean the problem of income inequality between groups within one nation, especially between workers and poor peasants on the one hand and big business men and some of the free professions on the other hand. This inequality was especially sharp in the nineteenth century in the industrial countries. It posed a problem with two aspects: the analytical aspect how to explain the inequality and the policy problem how to lessen it.

By the development problem I mean the problem, now widely felt and discussed, of the income inequality between nations, to-day indicated as the developing and the developed countries.

There is an alleged similarity between the social problem and the development problem, expressed by many authors and politicians when they state that the latter problem is the “social problem on a world-wide scale”. In this essay I want to elaborate on this similarity as well as to indicate its limits: I propose to specify in what respects there is similarity and in what respects there is not. The structure of the essay is as follows. In sections 2 and 3 I propose to describe in some more detail the two aspects of the social problem (the analytical and the policy aspect). In sections 4 and 5 I make an attempt to do the same thing for the development problem. In section 6 I try to sum up the similarities and differences between the analytical aspects of our two problems.

Finally, since attempts at solving the policy aspect have been made at an earlier stage
for the social problem than for the development problem, section 7 deals with the question: can we learn something from the experiences made in the former field on behalf of the latter? In other words: what suggestions to solve the development problem can be derived from our experience with the social problem?

2. The Social Problem: Analytical Aspect
The main attempts at explaining the income inequality within industrial nations in the nineteenth century have been centered around two concepts, the one of exploitation and the one of quality differences among human beings. The exploitation theory was based on the surplus value theory. My personal preference to formulate what I think can be maintained of that theory is that the owners of capital goods and land were relatively few and, as a consequence, received a high income from their resources. It was the almost unlimited private ownership which made this possible. This private ownership was supported by inheritance rights. The theory concentrated on the income derived from capital and land. Because of their scarcity these factors of production showed high marginal productivity and the corresponding prices were paid out as private income on which not much tax was levied.

The theory of quality differences among human beings stated that some people are much more capable of performing difficult tasks than others and that their marginal productivities give rise to large income differences with those unable to do these jobs. This theory concentrates on the production factor labour and emphasizes the huge quality differences existing between labour of high and low qualification.

To-day in an income distribution theory both theories are merged. In addition, we have become increasingly aware of the two sources of qualification: innate qualities and qualities obtained by training and education. We know that many quality elements can be obtained by learning. The process of learning may even extend over several generations and acquired capabilities are partly inherited.

Low incomes will be earned by those having little capital and a low level of education. These underprivileged people cannot easily escape their lot: out of a low income it is difficult to save and it is difficult to pay for education. So they were caught in two “vicious circles” which tended to perpetuate the situation.

3. The Social Problem: Policies to Solve it
The social problem has not yet been solved. Even so we have made considerable progress. To-day, income differences are quite a bit less than a century ago. Both the West and the East have made contributions to the solution. By the West I mean the countries sometimes called free developed or market-economy countries. By the East I mean the countries sometimes called socialist or centrally planned. None of these names is completely satisfactory. Many experts and politicians stress the wide differences in the policies and social systems of these two groups of countries. The differences are diminishing, however, and the systems have already several common features. Since I believe that they will become more similar I am going to mention the common features of the policies applied to reduce income differences.

First, at least part of the capital goods and of the land has been socialized. Where private ownership has been maintained it has been changed considerably so as to
leave much less freedom of decision than a century ago and less income.
Secondly, a certain degree of planning socio-economic development has been introduced. Eastern countries started it and do it in considerably more detail than Western countries, but they are decentralizing some of the decisions now; and big firms in the West have intensified their planning and co-ordination with government planning is improving.
Thirdly, several tax and social insurance policies are used to redistribute income in favour of the lower incomes.
Fourthly, education is within reach of large parts of the population at lower cost than before.
Fifthly, unstable markets are not left to themselves, but regulated, especially agricultural markets.
By all these means the income distribution has become less unequal than it was a century ago and social tensions have diminished.

4. The Development Problem: Analytical Aspect

Theories trying to explain the income inequality among nations are younger than those dealing with the social problem. Differences of opinion are wider therefore; many of to-day's theories are hardly tested. Thus, our sketch in this section must be even cruder than the one given in section 3. Again I venture to group the various theories under two headings; this time I will call them environmental theories and quality theories.

Environmental theories are those which explain a country's poverty with the aid of its geological or political environment. One example is a country's climate. Hot climates seem to be a handicap to productivity of man at least. The country's other natural resources may also constitute a handicap, for instance if rainfall is lacking, or if there are few mineral resources only. Among the political factors influencing a country's wellbeing a colonial past is often quoted as a source of exploitation. In a number of cases this has been true, but there have been positive influences too. Part of the environment consists also of the trade policies which other countries impose. Here the economic power of the industrialized countries may well have been among the handicaps. The relative scarcity of industrial products and the relative abundance of primary goods may be seen as a factor, acting through the terms of trade, unfavourable to developing countries. On top of a low average level of prices of primary products their instability represents a disadvantage.

The quality theories again emphasize the inferior quality, as an average, of the producers in developing countries. Sometimes racial differences are quoted as an explanation. Here again we are up against the question whether the quality differences are innate or due to the environment. One quality aspect may be the anti-selection exerted by migration over the centuries. It is probably correct to say that those who migrated were more active, more enterprising, than those who stayed. Very crudely speaking, we may say that the areas of oldest settlement are those of south-east Asia, which are the poorest of the world and that the farther we go north-west, the more prosperous people are.

The theories so far sketched must be seen as theories explaining why the developing
countries have relatively little capital and relatively low levels of skill. These latter two phenomena are the direct causes of poverty, but they must be seen as the result of the causes mentioned by the two theories. Here also we observe "vicious circles" tending to perpetuate poverty: out of a low income not much capital formation can take place and not much can be spent on training and education.

5. The Development Problem: Policies so far Applied
Since we became aware of the development problem a number of activities have been started and developed with a view to accelerating the development of the developing countries. Transfer of capital and supply of technical experts take place in order to supplement the scarcest resources of these countries. In the short run these means are of predominant importance, since they are influencing favourably the production, and hence the wellbeing, of the developing countries at relatively short notice. The same is true for changes in trade policy in order to give better access to the markets of developed countries to the industrial products of developing countries and market regulations in order to raise or stabilize the prices of the primary products of developing countries.

Longer-run effects, at the same time more fundamental, will be obtained by the process of education in the widest sense. These will change the attitudes and the quality of the peoples of the developing countries. Education should not only be, and is not only actually, formal training in all types of schools, but also the training on the job which can be done particularly well by business enterprises, either in joint ventures or even by foreign enterprises in developing countries.

For longer-term effects also a reorganization of the world economy will be important to the developing countries. Part of such a reorganization may consist of institutionalizing some types of permanent income transfers. This idea has not so far been proposed; as a rule the policies of financial transfers and technical assistance are conceived as temporary.

One important reorganization of the world political structure has already been carried through, not on purpose to solve the development problem, but as a consequence of other forces: the decolonization process.

Finally the long-run policy of family planning should be mentioned as an important means to improve the economic situation of the developing countries.

6. Similarities and Differences: Analytical Aspect
Coming now to the main theme, we are first going to discuss the similarities and differences in the explanation of, respectively, the social and the development problem. We will derive them from a comparison between sections 2 and 4 and add some remarks induced by the comparison.

First a few words about the similarities. The poverty of both the weak social groups and the weak countries in the international community is directly connected with their lack of capital and of skills. In both cases this situation leads to a situation which can be described as exploitation, if we mean low incomes in comparison to the other groups or the other countries. It is open to some doubt whether the colonial system can be seen as an instrument of exploitation, since the colonial system also brought
new ideas and technologies and since not much difference in poverty existed between colonies and other underdeveloped countries.

The deeper cause of the maldistribution of capital and skills may partly be found in random circumstances defining the environment of the classes or peoples involved, partly in differences in innate qualities; but we know little about the real size of the latter differences. It is more important to note that once the maldistribution exists, it is difficult to eliminate. What remains to be said then is that the social organization prevailing in the nineteenth century and the organization of international relations at present again have in common that they were or are not able to do away with the inequality which perhaps may have been created at random. We are coming back to this important side of the matter in the next section.

There are also differences to be noted.

First of all, the degree of inequality in incomes among nations is considerably larger than the degree of inequality in incomes between the citizens within one country. This is reflected in the so-called coefficient $\alpha$ of the Pareto law which describes both income distributions. Even during the worst periods of the social problem the figure was better for the distribution of incomes within one nation than the figure representing the income distribution among nations.¹)

Secondly, the role played by differences in climate can hardly have been of importance to the social problem, since the classes and groups of one country are living practically in the same climate.

In the third place, the role of nationalism, that powerful but dangerous and irrational force, is a different one in the two problems. Nationalism can be used and has been used to reduce the gulf between classes and groups within one nation. There have been and still are political movements which base themselves on some nationalist feelings, while trying at the same time either to belittle or actually to reduce class differences. The nazi movement did so, and several Middle-Eastern countries used slogans such as Arab socialism in one way or the other. The contrast between developed and developing countries, however, has only been sharpened by nationalist feelings, and for obvious reasons. This also expresses itself in the relative value attached to nationalism by developed and less developed countries. Developed countries tried, these last twenty years, somewhat to weaken the position of their nation, in favour of federalist, or supranational agencies. Very few developing countries have already reached this stage. Latin America probably has gone farthest in this respect, but it precisely represents a portion of the underdeveloped world which got its national independence already around 1820.

The different role of nationalist attitudes will be reflected in the table offered in section 7.

Fourth, there is another aspect deserving our attention, namely the fact that so far practically all real executive power has been in the hands of national governments. This has made it possible to introduce and to enforce a body of social legislation which has contributed considerably to the reduction in differences of disposable income between social groups and to a mitigation of social contrasts. No such real

¹) H. Theil, Enige kwantitatieve aspecten van het probleem der hulpverlening aan onderontwikkelde landen, De Economist, 1953.
executive power is available, at the moment, to enforce measures tending to reduce the gap in wellbeing among nations. Practically all that is being done at present in this field depends on voluntary decisions of national governments. It stands to reason that this implies that much less happens than would be the case if a world government existed or even if a few supranational agencies with real power existed.

7. Lessons to be Learned for the Development Problem

We are now turning to the problem of policies and try and answer the question: Can something be learned from our experience of attempts to solve the social problem on behalf of the policies needed to solve the development problem? In order to take advantage, as much as possible, from the similarities between the two problems, it seems useful first to describe the possible correspondence between the institutions and policies relevant to the two problems. In the table below we list some of these for both problems.

<table>
<thead>
<tr>
<th>Institutions and policies relevant to the development problem and the social problem which may be considered as corresponding one by one.</th>
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<tbody>
<tr>
<td>Development problem</td>
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<tr>
<td>Colonialism</td>
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<td>Nationalism</td>
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<td>Free trade policies</td>
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<td>Protection by rich nations</td>
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<td>Financial transfers</td>
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<td>Technical assistance</td>
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<td>Trade policies</td>
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<td>Commodity agreements</td>
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<td>Joint ventures</td>
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<tr>
<td>Charter of Development</td>
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<td>Policy of world unity</td>
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The table contains several somewhat arbitrary choices, which can hardly be avoided. Some comments may be added in order to clarify the statements about correspondence implied. Many of the correspondences seem to be self-evident; thus, for instance, the one between colonialism and slavery. But just as the elimination of colonialism has not itself contributed very much to improve the economic position of the developing countries, so the abolition of slavery has not improved the material wellbeing of workers. "Free" workers often were more miserable than slaves. The significance of the elimination of colonialism and slavery lies elsewhere, in the field of human dignity; they may be considered pre-conditions to a solution of both problems. Nationalism and laisses-faire have in common that they mean the jungle and the right of the strongest. It seems important to note this correspondence simply in order to remind the reader of the dangers of nationalism.

The same applies, up to a point, to the correspondence between free trade and free wage policies or free pricing of agricultural products. The common element is that all
these types of complete freedom lead to an extremely skew income distribution and have to be mitigated by a general frame of government supervision or interference, to be discussed below.

Financial transfers from the wealthier to the poor nations, being comparable to taxes and social security schemes in the solution of the social problem, for that reason must be ranked high among the means to be applied. Contrary to prevailing opinion they should be considered, in my opinion, even as permanent elements of an international order. So must technical assistance, because of its being comparable to education and in fact representing part of education.

Trade policies, already touched upon above, should be so designed as wage policies inside countries, namely, to stimulate efficiency and education but also to protect, within the limits set by the conditions for equilibrium between supply and demand, the weaker groups.

Commodity agreements will be necessary to regulate unstable markets, much the same as equity prices intend to do, but with the emphasis on eliminating fluctuations. The danger implied in both is that prices are set at too high a level and will then disrupt the equilibrium between demand and supply.

Supplementary payments have the same aim and may in many cases be better, since they tend less to disrupt equilibrium: they make it possible to let the market operate and yet to guarantee an equitable income to the producers of primary commodities.

Joint ventures are not completely comparable to the co-operation between employers’ and employees’ unions. This correspondence is a partial one only. They have in common that they bring together the opposed parties, often in the mutual interest. Joint ventures have much more also an element of education on technical matters of production, which co-operation between the two types of unions do not show. Moreover, joint ventures operate at the level of the single production unit, which the cooperation between unions hardly envisages.

This much about correspondence between some of the institutions and means used for the solution of our two problems. We come to speak about the last two items in our table below. Before doing so we want to state two general lessons which can be drawn from the experience with the social problem.

First, the social problem could not be solved by voluntary improvements, by employers, in the situation of workers: “charity” did not work. The great lesson to be learned from the attempts to solve the social problem is that the workers had to help themselves, by organizing themselves and by exerting political pressure aimed at action by the government in order to impose another social structure, implying tax laws and social legislation; implying also the establishment of new agencies, of state enterprises and planning bureaus. Similarly, the developing countries will have to organize themselves with similar aims. The front of “the 77”, which came into existence at the Unctad meeting of 1964 was a first beginning. Among the aims of the concerted action of the developing countries should be those similar to the new social order in developed countries. Translated into the corresponding institutions relevant for the development problem, this means, however, that an international order be established, with real power to enforce “international social legislation” which imposes on the world community the duty to raise the financial transfers, and technical assistance
activities to the levels needed and to shape trade policies according to the needs of world development.

The second general lesson to be learned from the endeavours to solve the social problem is that many of the things needed were easier to attain at a higher level of general productivity than at low levels. This means that the world at large is in need of further development, albeit especially in the poor countries.

The third general lesson is that everything becomes easier if we can restrict the growth of population. Just as the most advanced workers have understood this, the developing countries should understand this; and they already begin to do so.

Thus the main features of a development policy as nowadays advocated by many seem to be supported by the lessons we tried to draw from the experience with the social problem at the national level. All these features should be given expression in what has been called by the Dutch minister in charge of development problems a "Charter of Development Policies" in which a "framework of international development strategy" for the 1970's should be formulated — the latter phrase having been taken over in General Assembly Resolution 2218 (XXI). Such a Charter is indeed needed and should be the basis for a policy of world unity which we also need so urgently for the general purpose of organizing peace. Though this problem is not under discussion in this essay, it is so intimately connected with the problem of the development of developing countries that we cannot avoid mentioning the link.

The strategy will have to sum up the targets and means of development policies, set out before, but to be given quantitative expression, and the obligations involved for developed as well as for developing countries. The Charter will not make sense, however, if it is not being accompanied by the creation of supranational agencies with real power, just as social policy could only be enforced by the power of the state. This, after all, is the greatest lesson to be drawn from a comparison of the two problems.

On introducing innovations in an urban setting

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The process of introducing innovations in developing countries has been described most often in an agricultural and only seldom in an urban setting, where problems are usually quite different. In rural areas one usually has to think primarily in terms of individual peasants among which some will have to be persuaded to be the first to try out the new, e.g. a new strain of wheat, a new fertilizer, etc. Then ways have to be found to spread adoption from the first users to a wider group. That is a slow process based very largely on example, imitation, demonstration, convincing talk and patience.