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Kenneth Ewart Boulding

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Kenneth Ewart Boulding
"The United States Grants Economy"
Portland State University
August 6, 1969

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HOST: We have a distinguished guest speaker this afternoon in Professor Kenneth Boulding. Like many of the other economists, especially the slightly older economists, many of us were raised on or went through many of his books in school, so we're very familiar with what he has written. Dr. Boulding was educated in England, at Oxford, and he has taught at many of the, at *several* I should say, of American universities. Most recently he is Professor of Economics at the University of Colorado, and we've been engaged in a lively debate as to whose climate and so on are the best, and he's unconvinced that Colorado isn't better than Oregon. But we will take up this controversy at a later period. Among his principal books, the ones I am most familiar with are *The Economic Theory*, which many of the undergraduate students went through, I should say a large number of them in the United States in the... at least in the last fifteen years. Another of his principal books is *The Economics of Disarmament*, and he has a number of others which he has written. He is the recent past President of the American Economic Association. During this summer he has been teaching a short course at Oregon State, and it's for this reason that we're able to secure his services this afternoon. His reputation is one of the most stimulating economics teachers in the United States, and we have some former students of his on our staff who vouch for this. His topic this afternoon will be the U.S grants economy. Dr. Boulding. He will of course answer questions at the end.

DR. KENNETH EWART BOULDING: Yes, thank you. Well I mean that's... I could talk about almost anything, but we can start on the grants economy and then we can go from there. I have a number of interests at the moment. Any speech really ought to be called "The things that are interesting me now." The only time I've ever been chairman of the department, I went up to McGill and we tried to get two courses into the catalogue: *The Things that are Interesting Me Now 1*, and *The Things that are Interesting Me Now 2*, but the dean wouldn't let us put it in. I was rather disappointed about that.

Well, the number of things are interesting me now, one is what I've been calling the "grants economy." Grants is a one-way transfer of an exchangeable, by my definition. That is, if I give you something and if you give me something, that's exchange. Economics is all hip on exchange, this is our baby, we know all about this and on the whole, economics is very heavily concentrated, really, in the exchange sector on the economy, but I would argue that economics deals not only with exchange but with exchangeables, and is indeed the study of how societies organize through exchange and exchangeables. One of the things you do with exchangeables is you give them away. Grants is where I give you something and you don't give me anything; at least you don't give me an exchangeable. You may give me prestige or a warm feeling in the pit of my stomach, but from the point of view of the dirty, grubby-fingered accountant, when you have a grant, my net worth goes down and yours goes up. So this is the fundamental definition of a grant and it's as good as any other definition of economics and better than most. [laughter]

It's a sizable... it's becoming a sizable sector of all economies and the American economy, depending on how we define it. I have a young man who is working on the empirical end of this for me; I always avoid empirical work as far as I can, because it's so time-consuming. It's very much pleasant really, just to sit and think, but anyway you have to at least warm your hands at the fire of empirical research in our professions, so we rather are trying to find out something about it. Actually it isn't so easy; the data on the grants economy, especially on the private grants economies is extraordinarily sparse. Now, however, it does look as if the grants economy has risen from something like 3% of the GNP and by 1910 up to something between, well, I would put it at almost 15-20% today. So this is quite a major structural change in the economy in the last 50 years, shall we say.

Most of this is an increase in the public grants economy, as we can divide the grants economy into the public grants economy and the private grants economy. In the public grants economy of course, is the tax system, as in I pay my taxes, I get something rather vague for this, but it's very vague. When I pay my taxes my net worth goes down and the government's net worth goes up, so this certainly comes under the definition of a grant. Then, what we might call the "non-business sector" of government—that is, there is a sector of government which is just in

the exchange economy, like the post office, more or less, government enterprises—but you know this is fairly small in our society; most government is in the grants sector.

Then of course there's the private grants economy which is the Ford Foundation which isn't, well, isn't a very large portion of the GNP, but it's at least larger than all the international agencies put together, which is a rather shocking statistic. And, well, foundation grants, a little over a billion, billion and a quarter, I would say is a little over, not quite 2% of GNP. And then there's private charity which, for income tax purposes, which is about ten billion. About six billion of this, actually, is church contributions, and most of this I would say is exchange; really, I mean, that is if you get together to build a big fancy church, I would say this is a collective rumpus room really, I mean it's not really, it isn't really a... although it has certain community aspects, it has aspects of the grants economy, and like everything else, it's a certain amount of doubt as to where you put things.

I got interested in the grants economy because I got interested in what I call the integrative system, and it seems to me one of the most neglected areas in the social sciences is what I call the integree, like the economy. Just as we have an economy which is that segment of society which is organized through exchange and exchangeables, the integree is that segment of society which is organized through things like status and identity and community and loyalty and love and trust, and their opposites; malevolence and benevolence. This where in economic terms utility functions are interrelated. This is a very important segment of society, and being an economist I asked myself, "Well, how would you measure this?" and the grant, in the structure of the grants economy, is at least a first approximation to this.

That is, if I give you something and you don't give me anything, the inference is that well, in the first place, there's obviously a status relationship, there's obviously some kind of community relationship. That is, either I'm your father, you're my son. That's the commonest form. I've got to get five children through college in the next few years. So this is a very heavy part of the grants economy actually; it used to be deferred exchange, but it is no longer. You used to support your children in the hope that they would support you in your old age. This generation has no intention of supporting its parents... [laughter] You see? That is, they are pure exploiters—they're just *gimme gimme gimme* and you won't get anything else in return—it's a pure grants economy, as you see.

Or, we belong to the same country and you're poor and I'm rich, so I feel, or you're a beggar and I'm a nice... I'm a good guy; I give you a quarter or something, and so we have some kind of sense of community. And so even pity is part of the integrative system. And it's a very real and

extremely important part of social life. You also have the negative end of it, you see, that is, the way you give negative grants as we do to Vietnam. And this is part of a spectrum.

In fact, one interesting thing that emerges out of this is how extraordinarily simple-minded economists are; I must say I think that economists are the nicest, most naïve people I've ever met... because they believe that people are selfish. How naïve can you get? Most people are malevolent. [laughter] Selfishness is a very... is pretty high up the scale of moral virtue. Selfishness is actually just the zero of the malevolence-benevolence scale, isn't it? As a matter of fact, you can measure this, as you know, it is quite easy. That is, if... even with the kind of instruments we have actually. You see, that is, that the rate of benevolence is how much I will sacrifice in order to increase your welfare by a dollar. Similarly, the rate of malevolence, the other end, just the negative of this, that is, how much I will sacrifice to diminish your welfare by a dollar. Our rate of malevolence towards North Vietnam is about minus four, it could be measured quite easily. That is, it costs us four dollars to do one dollar of damage in North Vietnam. That is, we drop four bombs on the United States for every bomb we drop in North Vietnam, so that obviously we have a quite high rate of malevolence, and you could measure this quite easily you see. As you see, if you have... at least if you have exchangeables lying around.

Economists have always argued as if the rate of malevolence or benevolence was always zero. This is the operation optimum for instance you see, which seems to me an incredibly naïve concept. The whole idea that if you're better off and I'm not, I'm gonna be delighted, [laughter] is, you know, a bit crude, isn't it? And that it neglects everything like, and the... malevolence and all these other things which constitute the negative aspects of the integrative system. As I say the integrative system is a scale here between benevolence on the one hand and malevolence on the other; between community on one hand and "discommunity," if there's a... there wasn't even a word for this, obviously there ought to be, you see, as we have a "discommunity" with the North Vietnamese, where we have community with the Puerto Ricans. Or even a little bit with the Yugoslavs, as you see here.

The grants economy is very significant as a first approximation measure to this. That is, if we could get a matrix which told exactly how much everybody gave everybody plus and minus, the clusters in this would be good evidence of where the integrative structures of the world lie. We haven't been able to do this; it's quite difficult to do really, but maybe in twenty years we can do this and it'll be very instructive, it'll be as instructive as national income statistics really. More instructive than input-output tables, I think, which aren't very instructive for my mind, at least, I never learned anything from them. I'm pretty sure what it would show, it would show the national state as a very strong integrative structure; that is that the grants economy within

the national state is quite large. It would show even the old empires as integrative structures. That is, the French shovel out 2% of the GNP, to the Francophones, just 'cause they like people to speak French. I mean, I as far as I can see, it doesn't do any good, it's just, you know, it's just pure *sentiment* really. The Russians shovelled out lots to the Uzbeks and nothing to the Chinese. You see in fact, now of course the Russians are actually malevolent towards the Chinese and visa versa but the... look what the Russians did to the Uzbeks, because the Uzbeks were in the old Czarist Empire is the only reason probably, and the Soviet Union is the leftover from the Czarist Empire, isn't it. And the Russians haven't got around... well, they haven't got around to the 20th century yet; they're still living in the 19th century pretty much, and they haven't realized that the age of empires has come to an end. Just like the Portuguese; I mean the Russians and Portuguese are very much alike in this regard. So, they shovel it out to the empire, as the imperial power always does. That is, empire is how the colonies exploit the mother country. This is becoming very clear and has been ever since. That is, the grants economy in empire always goes, you see, in grants from the mother country to the colonies. I have a graduate student at the moment working on the exploitation of India by the British in the 19th century, which he finds is so small it gets lost in the Indian Ocean; that is, he can detect it leaving India, he can't detect it arriving in Britain. [laughter] And in India, rather the most optimistic assumption is half of one percent of the Indian GNP, this is how great Indian exploitation was. And of course in the 20th century, the empires have become colossal *burdens* around the mother countries, that's why they've gotten rid of them. And so they've been much better off without them. This is perfectly clear, because you unload a lot of the grants economy.

And they say the national state is very strong; the ideologies are very weak; Communism is a terribly weak integrative system. That is, the workers of the world do not unite *at all*. This is a very weak system. Well, you even look as between Russia and China: the Russians, in the fifties, lent to the Chinese at a modest rate of interest; about one cent per Chinese per annum. And they didn't get much development out of that. And they had to pay it back. And they had to pay it back when things were rough, and the Russians said, "Come on boys, you had the money didn't you?" just like Calvin Coolidge, you know, and they got it back. And of course in the sixties, you know the Russians simply pulled out all the technicians and blueprints and everything and left the Chinese all high and dry. You can't be surprised that the Chinese are mad at them, because they've really been very nasty to them. I think the Christians do better than the Communists, although they don't do very well either, I mean there's a little more of a grants economy within the Christians than there is among Communists.

One of the weakest integrative systems is science. Scientists get grants, they don't give them. Science is a very weak integrative system, it hardly exists at all, you see. The Christians in Minneapolis will give grants to build a chemistry lab in Tokyo, but the scienti... the *chemists*

won't. I don't think a chemist ever gave anybody anything. As a chemist, you see. As I say this is a very weak system.

And of course, the family is a very large and strong integrative system; that is, the grant system within the family is enormous, and I think probably is larger even today with all the supposed decline of the family. You see, it is, I suspect, the grant system within the family is larger probably than it's ever been. This is a matter of identification in a sense, as I say, it is an indication of an integrative structure, that is, the parent is supposed to realize themselves in the satisfaction of the children or something of this sort, you see. I begin to wonder about this with my fifth, but you do run into diminishing margins of returns... [laughter] maybe, even in the grants economy.

Well, if you look at the theory of the grants economy, this, I think, can quite easily be fitted into general economics, even though it hasn't been by much. The general theory of grants is the theory of interrelated utility functions. That is, today this is the theory of benevolence and malevolence. You make grants, positive grants, toward people you are benevolent towards. That is, in which their economic welfare is related to your utility. And of course, the higher the rate of benevolence, the more grants there are likely to be. This is just an extension of the theory of exchange, it's just a generalization of the theory of exchange which assumes a selfishness; it just assumes a zero rate of benevolence, and you can see the theory of exchange as a special case of the general theory of transactions here.

Grants also have a very interesting kind of macroeconomic function in that they perform, in some sense, all the functions of the price system, but they're apt to be called into play by the community and political forces. Well, we get grants where we have collective goods. You see this is obvious, that is, the exchange system does not provide collective goods, it's all well for very good reasons, because of the "freeloading" principle. I think it also calls up a principle which is almost identical with the "prisoner's dilemma"—it's just the generalized prisoner's dilemma, actually—if everybody's good, it pays me to be bad. If everybody's generous, it pays me to be stingy. If everybody supports the united fund, then it pays me not to. Without some assumptions of community identification, you run into the principle; without legitimated coercion, which is what political science is all about, the grants economy is apt to be inadequate.

The private grants economy can be demonstrated to be inadequate, I think, under very reasonable assumptions. And of course this is why we get a public grants economy, of which you are among the beneficiaries, I'm quite sure, which is an economy based on legitimated coercion. Really, the only reason I pay my federal taxes is if I don't I'll be put in jail, because I

don't approve of the federal government. I think in any cost-benefit analysis, the costs exceed the benefits. I'm in favor of dissolving it and having the fifty states join the United Nations and then forming an informal common market. Then I think we'd all be much better off, you see. So, as far as I'm concerned, the federal government is nearly all costs and practically no benefits, so the only reason why I pay my taxes is because I have to. I don't feel strongly enough about this to go to jail for it, [laughter] if I felt strongly about it enough. If you feel very strongly about this, you will go to jail like some of my friends have done, and you'll get civil disobedience and so on. This is also part of the integrative/disintegrative system; civil disobedience is part of the theory of the integree; it can be fitted in with the general social theory very easily once you get away from economics and its absurd assumptions. But I don't feel quite that strongly about it, so I pay my taxes. And in a sense, this means that I legitimize the federal government; I will allow it to do this.

If enough people feel strongly enough about it the thing collapses; one of the very fundamental principles of the integrative system, incidentally, is that the dynamics of legitimacy dominates all other dynamic systems in the social system. It dominates both wealth and power. Power in the sense of threat capability. We don't have a very good language for this. There are three kinds of power really: the exchange power, threat power, and integrative power. Of the three, integrative power is the dominant one, in the sense that if you lose legitimacy, you've really lost everything. That is, you can't establish permanent social organizations without legitimation. Legitimation is just *okayness*. It just means things are okay; it means "acceptability" and it has two aspects: what I call "internal legitimacy," which is more or less equivalent to moral. This is your conviction that your existing role is all right and you will go on doing it. If you lose that, you'll go to pieces and end up in the mental hospital. There's external legitimacy: other people's acceptance of the role. Well, we see this here: I'm standing up here yakking and you're here listening to me, and so far nobody's walked out. You're accepting my role, my status, I'm accepting your status in all this. For some reason when I get up people stay in the room; I don't know why. I often wonder why, really, but it happens this way, and this is part of the integrative structure, you see, it is a part of the kind of a status community structure.

Well, the many aspects of this are just as we mentioned the three functions of the grants economy very briefly, which are the functions of the price system. It has an impact on the allocation of resources, that is, as the price system does. Economists know about that, and a grants economy, as it were, distorts the allocation of resources away from what it would be if there wasn't any grants economy, obviously. The grants economy is, in other words, an economy; this is something that often people surprisingly don't seem to understand. That is, in any given state of society, any given sense of strength of community, there are quite sharp limits to the total of the grants economy. And what this means is that if I get a grant, you don't.

Or at least somebody doesn't. There is *scarcity* in the grants economy, this is the important thing. Hence, the grants economy is an organizer of scarcity; it's an organizer of the distribution of scarce resources, just as there is with the exchange economy, only it modifies the exchange economy. In our society, the grants economy... suppose the grants economy is about 20%, which is a pretty fair figure actually. This creates the war industry, which is to say 9% of the GNP which we wouldn't assume is part of the grants economy. That is, it creates NSF, it creates universities, it creates state universities. This place certainly wouldn't be here if it wasn't for the grants economy, unless we... we might develop exchange institutions for education.

In fact, there is a great deal to be done, and I've been arguing we need to do this because we're close to the limits of the grants economy, and that education is going to beyond this; and that hence my theory of educational economics now is that we ought to get rid of free public education, we ought to charge the full costs of everybody's education and finance educational institutions this way, honestly. Then set up an educational bank, like the federal reserve, which would lend any qualified student the amount he needed for his education, and then he would pay this back with a surcharge on his income tax. This avoids the difficulties of the chattel mortgage. You can't quite set up an FHA for education, it isn't suitable really, and it means that education is an investment, it's a good investment, there's not the slightest reason why investment shouldn't be in the exchange economy. I would take education out of the grants economy really. The grants economy is too scarce, and education doesn't have to be in it. We could very well arrange things so that education was in the exchange economy, and then I think we would not only be more honest, more visible, but also it would be easier to go to the poor actually. Subsidized education would generally subsidize only the rich. When you subsidize anything through the price system you subsidize the rich, because the rich have a lot to buy and sell.

We see this in the agricultural policy. Agricultural policy was sold on the grounds that the farmers were poor and you ought to help them. All right, who gets help? That is the burden of the poor farmers; they get chased off and become the urban problem. The urban problem in our day is a result of the extraordinary technological success of agricultural policy, that's exactly what it is, and it won't last. The urban problem is so temporary it's hardly worth setting up a university to solve it. It'll solve itself in twenty years, because everybody in the city will be second-generation urban and they'll know how to get along. The problem of the cities is the first-generation rurals, that's what it is, and that they'll be... they'll die off in twenty years and then, then you won't have anything like the urban problem that we have today.

As I say, if you subsidize things by making things cheap or dear, you will subsidize the rich. And of course we do this in the educational system scandalously. Eugene is a scandalous subsidy to

the rich, I'm quite sure, as is Michigan... at Michigan, we discovered that our students were in the top 10% of income families and were quite heavily subsidized, and there's just no excuse for this in my mind. So I'm all in favor... I don't think that... One of my principles in life is, none of the best things of life are free and that everything isn't free, it shouldn't be free. I'm very much against things being free. In other words, you see, I think the grants economy should be explicit rather than implicit, it's a very fundamental principle.

Now, the other function is the distribution of income. The price system, as you know, not only allocates resources, it distributes income; and the grants economy does that. But you see in our society on the whole it redistributes income among the rich. It redistributes a little income to the poor through welfare and all that, but it's precious little really; our grants economy on the whole is a redistribution of income to the rich and the middle class from other members of the rich and middle class, and in some ways it even redistributes a certain amount from the poor, as in education. I think our educational system almost certainly redistributes income from the poor to the rich. That is because after all, most state and local taxes are regressive. The property tax is almost certainly regressive, and the people who have children, especially rich people who send them to the good public schools in their nice suburbs, are quite heavily subsidized.

This came home to me when I spent a year in Japan. I had to pay for the education of my own children and went, "Boy, this is rough." It took a quarter of my income. Then when I got home back to Michigan, my school taxes were only \$500, I think, on a reasonably nice professor's house, and I'm quite sure this was costing—that I was costing the community 3 or 4,000. That is by having five children in the public schools. And this may be a little exceptional but this is what happens when you make things cheap, and it's what happens when you make education free: you subsidize the rich. And I mean, on the whole I'm against it; so as I say, I think this is a waste of the grants economy.

If we have a problem of poverty in the country, it's because we are not using the grants economy wisely. The grants economy has limits, and we waste it on agricultural subsidies and on the Department of Defense and all sorts of other things, you see. That is, we don't have it available to subsidize the poor; this is precisely why we have this paradox of what you might call an "affluent poverty" in the middle of an affluent society. That is, the poor in this country are affluent. We all know that in the sense that by comparison with the real poor; I mean after all \$3000 a year is beyond the dreams of avarice in most of the world, and that what we think of as poverty is sort of I suppose in the top 25% of the world's income. But anyway, there's relative poverty and relative deprivation, and there is a good deal of social disorganization

which accompanies this, and this obviously is a scandal—which it is, a scandal—and it's a scandal because I think of the misuse of the grants economy.

The other function of the price system which is closely related to the first—well, I think it is different enough to be differentiated from it—is economic development. Economic development is a problem in the allocation of resources in a sense, you see, but it's such a special one it's probably worth picking out; and of course the grants economy is very fundamental in this. The grants economy has a much heavier role in diverting resources into development than it does just diverting resources in general. This is of course a very fundamental problem of the grants economy, and in all countries. What Myrdal means by “the third world of planning,” before he got... before he realized it was a fraud: the third world of planning is how people get more planned against than planned, somebody said, and it is largely a problem; but still, insofar as it isn't a fraud, it is using the public grants economy for the diversion of resources into what shall we call the developmental industry or the growth industry, you see.

You can think of part of the economy as devoted to growth and the size of the growth industry as to a very large extent a function of the nature of the grants economy, I think. Not altogether—the exchange economy also provides a great deal of growth—but if you want growth beyond what the exchange economy will provide, then you have to have a grants economy. And of course one of the problems here is how to avoid mucking up the exchange economy with the grants economy.

This brings me to the last point on this as I've already mentioned: the distinction between the explicit grants economy and the implicit grants economy. If you distort the price system in some way you will create an implicit grants economy. Distort means you have an ideal, and just what the ideal price system is I don't know. I'm pretty sure it isn't the Marshallian-Walrasian equilibrium, you see. Just what it is I don't really know but there is... If there is some ideal price system, then a distortion from it creates an implicit grants economy. That is, it makes some people better off and some people worse off. We see this particularly with quantitative controls, that is, licensing, quotas, allocations, all this sort of thing. That is, it creates an implicit grants economy really.

And one of the great problems of economic development in the poorer countries is that they nearly all have just terrible implicit grants economies. That is, they mess up the price system and create implicit grants economies which are worthless from the point of view of development, and hence they actually... I suspect that most planning in the poor countries diminishes the rate of development, you see, that is because of the implicit grants economy

which it creates. If you have exchange control, this creates implicit grants economy. If you can get hold of a license, you can tax all the other people in the country in order to make you rich. You see, this is informal, private taxation; that's really what it is. From time to time I have worried about the problem of what is the optimum price structure from the point of view of development; as I say, I'm pretty sure it isn't the Marshallian equilibrium. That is a strong case for distorting the price structure, but I'm quite sure the optimum price structure doesn't include any infinite prices. It's that quantitative restrictions create infinite prices, this is the point, unless of course you have corruption. And as you know, one of the only things that keeps a lot of countries together is corruption. If it wasn't for corruption, the whole thing would fall over; it would fall apart because it's only corruption that gives you a price system at all.

When I think of planning in most of the world, I think of some idiot at a desk who can stop people doing anything sensible. This is what you might call negative planning, I don't know what planning is spelt backwards but... "gninnalp," this is "gninnalp." There's an enormous amount of "gninnalp" all around the world; this is *negative* intervention which lowers growth, increases the concentration of income, distorts the grants economy from the poor to the rich, and so on all around the line. The Latin Americans are extraordinarily good at this, I mean this is the... I think Latin Americans are the high priests of "gninnalp." They really know how to do it. As a matter of fact, they've even been able to do it to the point where they've managed to reverse their development which is really... you know? Argentina, Uruguay, and Chile have reversed their development. I really... twenty years ago I wouldn't have thought this possible. I would've thought that once you were off you were off, but boy, can you really fall down on the launching pad and below. This is planning for negative rates of growth [laughter] which is extraordinary. [laughter] Which I'm afraid our friends to the south are extraordinarily good at and that they... well, this is something that I want to avoid.

Well, just one last, this is really another speech altogether, but I can't refrain from at least summarizing it, because I've been working this summer on a very interesting aspect of the grants economy which is the economics of the war industry. We have a little project from the arms control agency on the economics of adjustments to different levels of the war industry. The war industry, which is a name the arms control agencies don't like very much, but I like it, this is the—well, it's honest—this is that segment of the economy which produces what is purchased with the military budget. And as you know, in the United States this is about 9% now. It's varied in the last 40 years from 0.6%, that is, less than 1% in 1929, to I think 42% in 1945 to about 9% today, so it is far and away the most unstable element in the American economy. And the sort of question that I'm trying to answer, although there isn't really any answer to it, is that what goes down when the war industry goes up and what goes up when

the war industry goes down? This is the economy aspect of it, you see, this is the scarcity aspect of it.

And it's rather interesting, we're just becoming aware of this because of the fact we've had such a long period of approximately full employment. We have what I call the great American myth in this country that only a large war industry saves us from depression. And we learn this from experience, which indicates that experience is a lousy teacher, which it is. Almost universally, that is, what you learn from experience is always the wrong thing, if you aren't very careful about it. We learned from experience that, well, we had a Great Depression, we all know that, and... well, we had a New Deal, and what we learned from experience was that was a failure, which it was, the New Deal was a total failure really. It had a few longtime spinoffs in the way of Social Security, but it seems a little doubtful whether that was a good thing.

On the whole, I think the New Deal... I think it's very clear now that the New Deal was an almost total failure. We had a depression in '38 that almost pushed us back to '32, you see; we had 20% unemployment in 1938 and then dear old Hitler came and got us out of it. [chuckles] You see, that is, we've been very grateful to him ever since, I'm afraid, because by 1945 unemployment had disappeared and the depression was over and it's been over ever since, thank you. Well, now I have to make a speech to your generation saying, "You boys just don't know what it was like, you don't." I mean, you don't have the slightest idea what it was like to come out of college in 1932 as I did. That is, nearly the whole world seemed to be falling apart, you know. If you think things are bad now, they have been much worse, and they may be much worse again. [laughter] It's a funny feeling to be living in a golden age. [laughter] The age may be much more golden than you think, you see. [laughter]

But anyway, it's certainly a golden age by comparison with my young days, you see, which was pretty rough, and of course this, I think, explains the hawkishness of my gener... well, a good deal of my generation. It isn't the whole explanation, but it's a good deal of the explanation of the hawkishness of the labor movement I'm quite sure, which is the most hawkish segment of American society without any question, although part of this is the Communist business. I mean the labor states are the people who really hate Communists because they knew them. [laughter] They had experience with them in the '30s, you see, and anybody who had experience with Communists in the '30s really got a pretty massive dislike for them, because they made you go to union meetings, and that was a fate worse than death for the American unionists, you see, so you that get the real hatred. The real belly hatred of Communism is Mr. Meany, and the ex-Communists might think Mr. Lovestone, and so on you see. This is very clear because they learned this from experience. You have never met any real Communists, I don't

think. They have been extinct in this country really for all practical purposes since 1932... This is 1952, I meant to say. So then you don't have much experience with them.

But this is a dangerous myth actually, because it isn't true. The American economy is extraordinarily adaptable and the evidence of this, of course, was the great disarmament of '45. This is really one of the most remarkable disarmaments in human history, when we transferred over 30% of the economy from the war industry into civilian industry in one year, without unemployment ever rising above 3%. It's an astonishing phenomenon really, and it was rather carefully prepared for, it was done... though we still don't understand how it happened; it was really an extraordinary testimony to the sheer flexibility and adaptability of a good old capitalist society. The thing about capitalist society is that it may be cruddy and it is vulgar, but dammit, it can move. [laughter] And it can adjust, it is extraordinarily flexible and adjustable. It's Adam Smith, it's the good old "hidden hand": if there's money in it, people go there. It's just as simple as that, you know. And there was money in civilian industry and there wasn't any money in the war industry and it was as simple as that, they just went there really. And this was an extraordinary achievement, actually.

We had a little interesting phenomenon just before the late disturbances, as Adam Smith had called them. We had a considerable disarmament really from '63 to '65, you see, this was the MacNamara economy campaign, and it shows up very noticeably in the national income statistics. But the interesting thing is that this is one of the first occasions in American history when we've had a sharp decrease in the war industry and a sharp decrease in unemployment at the same time. This is mainly because of the tax cuts, you see, the great Kennedy tax cuts, and mainly because that released tax resources in the grants economy for state and governments. That is, the tax in the federal government was all taken up in state and local governments.

I have some nice diagrams here, if we had one of these, well, I don't know whether to show these, if anybody's interested you can come up and see them afterwards. That is, this, some of you in the front row will be able to see this; this is '29 at one end and '68 at the other. This is the Great Depression, this is one of the unutilized resources, and here is the Second World War just going *uumph!* like this, you see, and squeezing unemployment at one end and state and local gross private investments and consumption at the other end. This study is exploding a lot of myths: for instance, the release of resources from the Second World War from the abandonment of the automobile industry was 1% of the GNP. [laughs] We have a myth that we financed the war industry out of Detroit, but that isn't so.

The other myth is that the great disarmament was successful because everybody bought washing machines. That is because there was all this pent-up consumer demand—well, there

was a little but not very much. That is not even by... well, personal consumption expenditure was at 72% of what I call the "gross capacity product." Maybe I ought to say something about this; this is that the GNP is a poor measure of 100% of the economy, because it doesn't account for unrealized capacity, that is, unemployment. So that I simply developed the concept of the gross capacity product, which is simply the GNP adjusted for unemployment. And this is the significant measure of the total economy, as I say, in '32, 35% of this is unrealized and you have to take that into account.

Well, the gross personal consumption expenditure was 72% of the economy in '29 under Herbert Hoover; it's only 60% today. Incidentally, this is where the bite of the war industry really comes, you see, it hasn't come out of civilian government which has been expanding. Total government has been expanding very substantially over these forty years, although the place where creeping socialism has mainly crept is the Department of Defense of course, this is the second largest socialist organization in the world. That is, that its GNP is between the People's Republic of China and the Soviet Union. Larger than the People's Republic of China, that is, the United States Department of Defense as a country is a socialist country with a GNP of \$80 billion, whereas China, before they destroyed their statistics, was only about 69. And of course the Soviet Union is about 250, so that it's considerably larger. But it's essentially a socialist country, I think of it as a kind of socialist country within the United States, you see.

It's a rather specialized socialist country. I mean, the socializing... it has the relation to the socialist countries that say, General Motors would have to be a big conglomerate, you see; a socialist country is just a medium-sized conglomerate merger, isn't it really? Poland is the same size as General Electric, for instance. [laughter] You see, we don't really have almost exactly... and we don't quite have any conglomerates the same size of Poland, but I expect in twenty years we will, and it'll be awfully hard to tell the socialist countries from the capitalist corporations, you see. In fact I've been arguing that the way to solve the Cold War is to have the socialist countries incorporate in Delaware. [laughter] And this would solve the whole problem all overnight. If we give them legitimacy, then Poland Inc. could sell stock in [...] and boy, they'd make a killing, an absolute killing, and if it wasn't for all these ideological hangups that they have, they could make very successful middle-sized corporations, and then we wouldn't have to worry about the Cold War anymore, I do think.

But anyway, one of the interesting things actually about the last almost, well, twenty or... ever since '52 at any rate, the proportional structure of the American economy has been extraordinarily stable, and I don't really understand this; I'm really quite puzzled by this, because I'm quite sure it's insecure, but it just happens to be stable. It looks as if there's a cybernetic apparatus which takes care of everything, and although we have cybernetic

apparatuses we didn't have before, this is true, we have the deductible source income tax which is far and away the most important social invention of the twentieth century. You see, this is the thing which really saved capitalism, because it made the tax system have a negative feedback instead of a positive feedback. If you pay your income taxes on last year's income, and if income is falling, income taxes rise as a proportion of income, because you're paying your income taxes on the higher income of last year. You see, if income is rising, then taxes fall, and this is positive feedback; and what you need is negative feedback to get a cybernetic system, and the deductible sourced progressive income tax does this beautifully.

If you begin to have an inflation, everybody gets into the upper brackets, tax collections rise; we begin to run budget surpluses and this drains money out of the public and the inflation stops. If we have a deflation, everybody goes into the lower brackets, the tax collections decline, we run a deficit—much to Eisenhower's surprise—[laughter] and the deficit stops the depression. The deficit stops the depression whether you want it to or not, you see, so that we really have a thermostat on the wall now, you see, and some of the stability of the economy I'm quite sure is a result of that.

But what is interesting and very puzzling is the extraordinary stability of total government. In the last... ever since '52, which has been between about 18.5 and 19.5% of the gross capacity product every year since 1952. And what this means is that the short-term bite of the war industry comes out of civilian government. That is, if the war industry goes up, what goes down is civilian government, and particularly education. Education is extraordinarily vulnerable to a rise in the war industry. Bruce Russett has a very interesting article on this, I think it's in the June *Political Science Quarterly*, in which he's done a lot of correlations of this in the last forty years which indicate there's a very strong negative correlation between education and the war industry. This is where it's strongest because, well, highways go on forever, you know, because you have... they can't stop them. Education is the other large bite of the state and local, so that's where the bite seems to come. I think I better stop now so that we can have some questions, and these can be about anything I'm sure, any one you want to ask about.

HOST: We have one over...

AUDIENCE MEMBER: [off microphone and partially inaudible] Professor Boulding, as you know there's quite a bit of support both from the right and from the left for the [...] of income and guaranteed income...

BOULDING: Yes.

AUDIENCE MEMBER: ...do you see any future and if so—for these programs—and if so, how will these fit into the grants economy?

BOULDING: Yeah. I wouldn't be surprised. I think the way I would do it would be to give everybody a non-redeemable, non-negotiable government bond, because the one thing that's perfectly all right in this country is to clip coupons. This is the great problem of... the great problem of the grants economy is always how to legitimate it. You see that is the really... and this is quite a real problem, because doing good is a very dangerous occupation, and very frequently it does bad. Doing good often does more good to the "doer" than to the "do-ee." [laughter] And so you have to be careful about this, you see, and you have to be particularly careful about these problems of legitimation. As far as I can see, coupon clipping—you give this to everybody—you have a little problem of what to do with children, and I don't think this will be a panacea for everything. I think it would solve the problem of the cities; you have to give them something to tax. And I bet you that the first thing that would happen is the guaranteed annual income would be taxed away by the cities and the states. This would become a beautiful thing to tax; I can see their eyes gleaming now. And it would get rid of these deplorable aspects of welfare. I mean the humiliation, the cultural... you know, the creation of... the perpetuation of the poverty culture, the subsidization of social workers, and all these other things that everybody's all worried about, and it would undercut a lot of this.

On the other hand, I'm pretty skeptical of the people who feel that this is all you have to do to solve the problem of poverty. That's because in the first place we couldn't afford to give enough to solve the problem of poverty. I'm quite sure we can't go much beyond... well, I'm sure we couldn't go beyond what you would say, 25% of the GNP, something like that; I think we could go to that probably, because of course you would tax it back from the rich and the middle class. But the... well, I don't know why, that's the figure that just comes into my head, that's all, but that would be only, what? Well, a little under \$1000 per head. I'm pretty sure we couldn't go above that. Well, if you're going to live on \$1000 you can do this, but you have to be pretty careful. We don't know anything about the impact on the labor market. It wouldn't surprise me at all if a guaranteed annual income or—I don't like this expression, I prefer just the outright grants, really—I don't think your income or your grant ought to depend on you doing anything for it really. This ought to be something... this is why I like the negative tax idea better, and when you think of it as a negative tax, it seems to me quite likely this would increase the supply of labor; if you have a little, you want more. If you have nothing, you don't. We've had experience with this; social security increased private insurance very substantially, and increased people's private provision for their old age. If you had a little then you wanted more. If you had nothing, you said, "Oh, what the hell." So I suspect that this could very well lead to an increase in supply of labor.

On the other hand, we do need to do some research on this, because we've had a good deal of experience with guaranteed annual incomes and with negative taxes, you see. And we ought to study this. The people who retire from the army at the age of 42 with a pension: what happens to them? I'm sure some of them drink themselves to death, well then, you don't have to pay the pension; that's fine, you put something in their beer. The others go to school and they start little businesses and they get jobs and they live productive and useful lives, but they have a little to fall back on, and I wouldn't be at all surprised if these army pensions, which aren't luxurious, actually increase people's... the supply of labor. I think it'd be quite possible, you see.

As you know, the supply of labor is a very funny business; it can be backwards sloping, it can go every which way and we don't know much about it. So I think there's a... and as I say, my own view is that explicit grants are nearly always preferable to implicit ones, because then you see them, then you can argue about them, and they become in the political discourse as grants. On the other hand, this also raises a tricky problem as to whether the political... whether the communit... whether the sense of community is strong enough to stand it. That is a difficult question. You have a very curious dynamic here: that actually, the giving of the grants which measures community also increases it. I'm pretty sure of that, that you have this phenomenon in a slightly pathological form in what I call a "sacrifice trap." That if you start making sacrifices for something, you cannot admit to yourself that the sacrifices are in v... [tape skips and resumes] ...dentity, because this is a threat to your identity.

Suppose you are a student, you've had a miserable freshman year, as most freshman do; it's usually the most miserable year of anybody's life, it certainly was the most miserable year of my life; I look back on my freshman year at Oxford as a year of almost unrelieved misery. Then you put a lot into this, you see, and you've made, you've built your identity into being a student, so you find it hard to give it up. You have to throw good money after bad, and so you become a sophomore. [laughter] And so you're trapped, once you start, once they've got you as a freshman they've got you, you see? It's very hard to break out of it actually and we see many examples of this. Well, you see it in ancient religion; my favorite example is the Aztecs. The Aztecs believed that human sacrifice was required in order to make their corn grow. They had a lot of evidence for this; I mean, they had human sacrifice and the corn did grow. That proved it. And then if there was a bad harvest, I'm quite sure the priest would have come along and say "Well, we'd better escalate this year." And have a bit more sacrifice, you see, and then the next year they'd have a better harvest. And then if anybody complained about this, if some mother didn't want to sacrifice her offspring, a priest said, "Well, but you sacrificed your eldest child last year, that couldn't have been wrong, could it?" You see, I mean... well, you see that is the trap we're in in Vietnam, you see? We have sacrificed 50,000 Americans. Anybody gonna go

to one of those mothers and say, "It was all a mistake, wasn't it? Too bad, haha." [laughter] You see, you're not going to do this, that is that once you get into this, you get, it's a kind of a ratchet thing and you find it very hard to stop. Well, you may also turn this to good effect in the kind of sacrifices which we're involved in, the what you say... in the solution of the problem of poverty or something of this sort. On the other hand, we'll delude ourselves if you think this is all that's necessary for the good life; I mean, that is... I remember Tom Hayden, who was a student... he must have been in your... oh no, he was after your time I think...

AUDIENCE MEMBER: [responds in background]

BOULDING: He must have overlapped a little, but he was one of the founders of the SDS and a student of mine. I was very fond of seeing him for years, but the last time I saw him he'd been working in Newark among the poor and he said... well, the thing that distressed him about the poor was how much money they had. [laughter] Especially compared to him, you see. The thing is, of course, that our income is only loosely related to poverty. I'm certainly not gonna say it's unrelated, I mean the poor do tend to have low incomes; nobody's going to be surprised at that. On the other hand, a great many people who have low incomes are not poor, or at least do not think of themselves as poor. My grandfather, who was a village blacksmith in England, raised a family, respectably, on what would today be the equivalent of \$10 a week. I mean he would have thought \$3,000 a year was luxury beyond the dreams of avarice. They had milk once a week, they had meat once a week, they lived on potatoes out of the garden my grandmother mended and patched and mended and patched, and I think he had one suit of clothes practically all his life and he never went to the movies, and the only book in the house was the Bible and Foxe's Book of Martyrs—he was a Methodist—but if anybody called him poor, he would have hit him. He wasn't poor; poor people were people who drank. [laughter] That is, in his view. These are the people who lived at the end of the town and horsed around and drank and didn't feed their children, didn't look after their children, went around with women, all that sort of stuff, you see. He was a righteous man and a good man, he was a better man than I was, I think really, and he felt... I'm sure he felt he'd lived a rich, honorable, and useful life. On \$10 a week. Well, this is what I mean by poverty being only loosely related to income.

Now, at the extreme end of the scale you get into destitution like you have in Haiti. There's isn't anything funny about that at all, I mean this is just ghastly. The sort of thing that a great... well, at least I think probably a quarter of the world's people live in is destitution, and here there is a very strong... when you get down into \$50 per capita per annum, this is destitution, and there's no nonsense about it. I mean you're hungry all the time, you're miserable all the time, you're sick all the time, you die young, and the only fun you have produces children, and that makes

your problem worse. This is awful; nobody's gonna say that but... I must say between... I would almost put it as low as \$200 per head and on up; poverty is quite considerably a matter of culture. It can be... well, in my grandfather's terms it's a matter of sin. That is, if you're going for sin you'll be poor, you see, and if you don't go in for sin you'll be rich. Perhaps that's a rather simplistic view of the world, but it had some merit; it was not wholly unrealistic at all.

And certainly that the view of poverty is purely a matter of income is nonsense; it's certainly nonsense. Graduate students are poorer than most poor people, but they don't visualize themselves in this way; they get along, you see. Well, I don't know what to do with this, I mean, you see, this raises all sorts of hornet's nests because... well, for instance, is it a civil right to be poor? I think this is a serious question, it's a very important question you see, that is, suppose somebody says "Look, I don't want to go to college. I don't want to earn a lot of money. I don't want to be a part of the middle class. I want to fool around. I want a little acreage. I wanna raise a few hens. I wanna sit on my barn. I wanna shoot rabbits and..." you don't have all this business. Well, the hippies are poor, you see? That is, is there a social right, is it a civil right to be a hippie? It's a very important question, a very important question indeed. I think the thing... the objection that the good middle class people have to the hippies is precisely that they're poor. That is, they have malnutrition, they have lice, they... you know, they look terrible, their clothes are awful, their hair is matted: they're poor, is what it is. And well, do they have the right to do this? I say, well, they do, you see. Do the Amish have a right to be poor? Do the Amish have a right to raise their children to be Amish? Which means, in our society, being poor. That's a very serious question, a very serious question. And I would say we've got to think about this. This assumption that nobody has a right to be poor—I don't mean destitute, that's another matter altogether—there's a lower limit below which I say to hell with it, you don't have any... you don't have any civil rights at \$50 a year, this is nonsense. And I'm not sure that you have a civil right to be sick or the like. Everyone, I'm sorry you pressed a button and sent me off on another speech, I must be careful about this. How about a...? Oh, do we have to stop? I'm sorry I've...

SPEAKER (unidentified): No, we don't have to stop.

BOULDING: ...taken all the time. Yes, gentleman there.

AUDIENCE MEMBER: [asks question; inaudible]

BOULDING: Yeah. Oh, sure. There are some considerable similarities really, I mean that is the... I was a little snide about the church here, because I think that a lot of church contributions are for personal satisfaction, these are personal, this is collective personal consumption, and that if

you contribute to a church to have a fine building and big Sunday schools, and you know, a big fancy church and all that, well then I say that's not much of a grants economy. On the other hand, if you contribute to missionary work and settlement houses and all that sort of thing, those are very clearly in the grants economy, you see, so that I would say there's a bit of a marginal line here.

And it's very much the same in the states, you see, that is, the state also provides collective goods, this is true. And I think from a narrow point... in fact, from my own definition, I would have to include church contributions in the grants economy because they diminish my net worth when I give a church contribution, you see, so that's a grant in that sense of the word. On the other hand, the thing is you see that the grants economy is a spectrum with exchange-like things at one end of it and very clearly grant-like things at the other; and there isn't any line where you can really... it's like asking, "Where does yellow pass into green?" I mean, you know, it's a very continuous spectrum really. On the whole, I would put many church contributions in the exchange-like end of the grants economy, and I would put a great deal of state and local governments in this also. You see, it is when we pay school taxes and highway taxes—I certainly don't regard my gasoline tax, for instance, as much of a grant, you see, this is collective personal consumption. This is a kind of toll for the roads, isn't it? It's highly similar to a... I wouldn't regard a toll bridge as part of the grants economy; that is, if I pay for a toll bridge and I'm paying, this is exchange; I'm paying for a service. It's a rapidly depreciating one, but it is one, this is exchange; and I would say that the gas tax is exchange, pretty clearly you see. In this you just have to draw a line somewhere, and it isn't always easy to say where you should draw it, that's all I'm saying here really. I think that church people are apt to pride themselves a little too much on the grants nature of their contributions, and that often these aren't very... these are—what shall we say—are grants to a very cozy and a small community. There's are certain qualitative differences here. Yes?

AUDIENCE MEMBER: [asks question; inaudible]

[BOULDING laughs]

AUDIENCE MEMBER: [finishes question]

BOULDING: Well, as a grants economy I would say yes, almost certainly, that is that the...

AUDIENCE MEMBER: Why?

BOULDING: Well, because I'm sure it's larger; I haven't been able to check on this, but I mean that is the... well, the only sizable grants economy in the Communist world are within the national state. That is, where Communism is identified with the national state. And also, Communism tends to produce a good deal of malevolence. In fact, you see, it's almost a religion of malevolence, and that, as a result, it legitimates hatred and legitimates it and produces refugees, you see. Yes?

AUDIENCE MEMBER: [asks question; inaudible]

BOULDING: Well, it's a... at least its official doctrine's a little different; I mean, that is that the thing here, of course, is that everybody has a complex role, and Christians have killed each other because they were also Germans and French and whatnot, you see, that is that you get... that is, the religious role is only a small part of the role, as the Communist role is also, as the ideological role is, you see. Most people in the Communist countries don't worry about being Communists. I mean, this isn't terribly salient to them; they accept their own society, but they don't really fuss about it. But what I'm saying is this, is that if you look at the Communist world as a whole, it is the grants economy between the nations and it is very small, and there have been very high negative grants. That is, if you look at the exploitation of East Germany by the Soviet Union after the war, this is one of the spectacular pieces of imperialistic exploitation in history. That is, the Soviet Union took \$16 billion out of East Germany up to 1955. You see... and this is in spite of the fact that East Germany was Communist. And this is a very large negative grant from the Germans. It was a grant from the Russians—I mean a grant from the Germans, you see—under duress. And I say the Russians did nothing for the Chinese, nothing. And they've done really nothing for the East Europeans, very little indeed; I mean, that is I would say that the terms of trade... that if anything, there's been a negative grant system from the Eastern European countries to the Soviet Union.

HOST: Professor Boulding, could I stop for a minute?

BOULDING: Yeah.

HOST: I want to at least give a formal expression of thanks to you for sort of shaking us up, turning us over, and doing a few other things to us here. And then, if anybody wants to continue the questions, very good.

[applause]

BOULDING: Well, if anybody has to go, I don't have to go...

HOST: Yes, then...

BOULDING: ...and then we can just sit around and...

AUDIENCE MEMBER: ...Wasn't there a negative grant in the German-Russian relationship at the Second World War?

BOULDING: [off-microphone] No, this is after the war.

AUDIENCE MEMBER: Yeah, but... so of course the negative grants and the reparations after the war are positive grants.

BOULDING: Positive grant from the Germans, yes.

AUDIENCE MEMBER: Yeah... [cuts off]

BOULDING: ...From the Germans...

AUDIENCE MEMBER: [continues indistinctly]

BOULDING: ...From the Germans, but here, yes... yes. But I mean that is... but it was, this was tribute. This was done under threat. That is, this wasn't done on the free will of the Germans.

AUDIENCE MEMBERS: In both cases.

BOULDING: Both cases, I'm quite sure, that is the... well, no, on the part of the Russians... I mean that the Russians had the upper hand in East Germany, and that they exploited it absolutely ruthlessly. They had to stop this in '55, because they couldn't really afford to have that poorhouse, and they just stopped taking things out, but they never put anything back in. My own conclusion is that socialist exploitation can be far larger and far more ruthless than any kind of exploitation you get in a capitalist economy, because it's better organized.

Well, now you've got the other end in the Soviet Union, as I say, the Russians, that is the... you know, the R.S., R.S... the real Russians, I mean the Russian Russians... have created a rather complex grants economy here within the Soviet Union, and I don't think there's any doubt that they had substantial grants to the Uzbeks, which is their shop window. That is, the Uzbeks are their Puerto Rico, isn't it, in a way you see. But as you know, they destroyed the Tartars, just

eliminated them. I think they've been pretty rough on the Lithuanians and the Estonians and the Latvians. I suspect there's been very substantial exploitation there, simply because they were so much richer than the Soviet Union was. Well, I don't have any data on this, we haven't done any work... I haven't done any work on this. I imagine it's a very... well, it's a little hard to get at this with the Soviet Union. But they've also, I think, probably made substantial grants to the more primitive peoples. They haven't done too badly by the southern republics, the Georgians; and after all Stalin was a Georgian. I think the Georgians... well, our Georgia doesn't do too badly either, you know. That is, our federal system has a way of subsidizing the South, and the Southern senators see to this, especially in the war industry. Yes, gentleman here.

AUDIENCE MEMBER: [indistinct question]

BOULDING: Yeah, that's right. That's a perfectly good question. In our society this is fairly unquestioned, but it's perfectly legitimate to question it. I mean that is that this, well, this depends... something we haven't got into is the problem of the relative structure of income, you see. That is, if you define poverty as the bottom 20% of the income scale, there's no way of getting rid of it ever, because you'll always have a bottom 20%. Unless you have absolute equality, which is pretty difficult to imagine. I think it is true that part of the "un-welfare" of the poor, if we can use such expressions, is in the demonstration effect, you see. That is, in the contemplation in the life of the rich. And this has been particularly tricky in our society, because we don't have any means for legitimating the inequality of income in the way that you have in feudalistic or aristocratic societies. That is, in... well, even in my childhood in England, the king was rich but that was because he was the king, you see. And this was OK; nobody, I think, felt envious of the king.

In fact, my sort of upper-working-class circles, which of course is fanatically royalist, as the working class is in England, especially the upper working class, you see, is the... because, you know, the royal family is almost as important a subject in England as the weather. In fact, it is the only two things you want to talk about in England. The general line of conversation is, "How do they stand it?" Here you have this delightful feeling of being able to pity the rich, you see, because they live this miserably public life and they don't have any privacy, and they don't have any real family life and always on show, you see. Oh, I can hear my grandmother now. But as in a democratic society, you see, as in a society, in a kind of, what you say, old revolutionary society like the United States, you see, which sort of had to legitimate a revolution, and this is always a very critical problem for revolutionary societies because it's very much like legitimating patricide. What's the wonderful phrase? "Treason doth never prosper, what's the reason? For if it prosper, none dare call it treason." It's from Harrington, I think. Of course any

revolutionary society always has this kind of Oedipus complex, which I'm sure creates all sorts of peculiar political institutions and so on.

Well, of course, the way our legitimation of the rich was was the theory that anybody could do it. This was the log cabin-to-White House sort of argument, you see. That is the feeling that if you worked hard and saved and inherited a department store, you could be as rich as Goldwater. The difficulty this runs into is through the perpetuation of the family institution, you see. That riches are all right as long as the rich are mortal, but if the rich are immortal, as the families are, then this raises all sorts of hob with the legitimation through social nobility, and as Mr. Lundberg has pointed out I think very... extremely well in this little book on *The Rich and the Super-Rich*, which is really quite good, I mean he's pointed out that in the United States we do have a "hereditary plutocracy," you might say. You see it is that the Rockefellers are still quite rich even after 50 years and all sorts of income taxation and inheritance taxation, you see. That is, that if you are as rich as the Rockefellers, you know how to get around it. The sixty families today are not very different from the sixty families of 50 years ago actually. There was a time when you... this is in Lancashire, a clerk's a clerk in three generations. This was the legitimation of riches here, that it was unstable and impermanent. And for the not very rich it may be, but for the very rich it's very hard to get rid of it really, and that we are kind of stuck with this and there's a real problem of legitimating it.

On the other hand, we've legitimated to some extent by vicarious participation. This is in Hollywood, you see, that is that Hollywood has the function in the United States that the royal family has in Britain, you see. It is that it sort of provides a dream world for the poor to wallow in, and this actually is why redistribution of income is surprisingly unpopular in this country. Even among the poor. We like people to be rich, we like contemplating the rich. We have a kind of, almost a religion of it—well, Fitzgerald is a wonderful example of this. Here is a... well, he was quite overawed by the rich; I mean he thought the rich were different. And they are different; they're rich, you know. I mean, this makes them different really. And I suspect that my prediction is that we're going to have the rich around for quite a while in this country, that it's going to take a... that we aren't a revolutionary... well, having had a revolution is like having vaccination; that is it really vaccinates you against another one, and that it is a very rare society that really has two revolutions. And if you have a little one like we had, you see, this kind of vaccinates us against revolutions; so I think fundamental change in this society is really very unlikely. And this means I wouldn't be at all surprised if there were Fords and Rockefellers and Kennedys around 100 years from now, you see, and are still rich. It wouldn't be at all surprising. And they're still holding onto the foundations, and so on. Well, you can see that the rich are different by observing the Kennedys; and again, you see that like the royal family, they have a curse on them. That is, this legitimates them you see, that if the rich have a curse on them, then

this... if they invited the wrong fairy godmother at the christening or something, this legitimates them; that is, if the non-rich can say, "Well, I really wouldn't want to be a Kennedy," this helps legitimate them also.

It's a very tricky business... well, you see this in a different form even in the socialist countries really, you see. That is, you don't, of course, in the socialist countries, you don't get the concentrations of personal wealth as you do in the capitalist countries, but boy, you sure get concentrations of personal power which is an equivalent. Actually the... well, my experience is limited, but I was in Leningrad for three weeks at a seminar with the Komsomol... and then I say these Komsomol types are quite like the Kennedys, you know, I mean, they... as a matter of fact they don't dress too bad either, especially the women, they're quite... you know? They're all right, jack. They get the best apartments, and their kids go to college, and they're all right. That is, in a poor society, well, there is no question that the Soviet Union is beginning to have a quasi-hereditary... you see that is a "partyocracy" or whatever the word is. That is because it's simply much easier to get in if your folks are in. It's a kind of theocracy, isn't it really. This is something that... well, large equalitarian societies are very difficult to maintain. That is that it isn't only the dynamics of it, it's... [laughs] There's a kind of law of social thermodynamics about this, you see, that is that equality or extreme inequality is unstable, and it kind of tends to move into the middle somewhere, and you certainly see this in the socialist countries where actually inequality and labor income is larger than it is in this country, as you know, in the Soviet Union there are differences between the lowest and the highest in labor income. In the Soviet Union it's larger than it is here. It's about twelve times in the ordinary Soviet factory. This is quite... and of course the privileged class is a little different, that is, the... like the professor I met in the Soviet Union who was terribly upset because he couldn't get tiles to cover his country house with. He sounded just like somebody from Westchester. So that this is... well, I don't know. Even in utopian communities you tend to get a bit of... that is, equality tends to be unstable in social systems. That is, total equality, real equality. So... I'm not sure I've answered the question, you've only pushed another button. Yes?

AUDIENCE MEMBER: [asks question; inaudible]

BOULDING: I don't know. Well, my feeling is that... of course the cumulative changes are very great. You see that all the time. I mean we... on the whole, my theory of social change is that revolutions don't change things very much, that at least they make visible what had already changed, and that change is mostly ecological really. That it comes from innumerable small changes which cumulate; you see, it's cumulative change that is really significant in society. I've just written a little book against the dialectic on this. I think the whole idea of the dialectic is one of the major intellectual disasters of the last 150 years. And so I've written a little tract

against it really arguing that the most... by far the most significant elements in history are the non-dialectical ones, you see. That is the cumulative, evolutionary... and especially the cumulative changes, what I call the coral reef kind of processes. While there are dialectical processes in industry and sometimes they're quite significant, but on the whole I would argue unless they have a strong non-dialectical matrix, they tend to be adverse. That on the whole dialectics is retrogressive not progressive. Well, of course the Marxists won't like this very much, but it seems to me at least this is the way that I look at it, my point of view at the moment.

And I think from the point of view of the institutions of social change, the great institutions of social change are those which exercise constant pressure... in one direction, you see, there it's again cumulative, you see. You look at... well, Herb Stein, who was one of the few wise men, one of the Council of Economic Advisors and an old friend of mine from way back, he's just written a very interesting book which is the... well, I think it was rather mistitled, but it's called *The Fiscal Revolution in the United States*, which is a little economic and intellectual history, you see, of the transformation of the conventional wisdom. From Herbert Hoover's tax increase in the middle of the depression, which really almost pushed it over the edge—probably didn't have very much effect actually—to the Kennedy tax cut of '64, you see. Actually, after he was assassinated, I think it was, but... and it traces the intellectual history here, you see, particularly the impact of the economists and the impact of the Council of Economic Advisors. You set up a Council of Economic Advisors, and it exercised a continual cumulative pressure to increase the amount of economics. It's like radioactive waste or something, you see. And it's the same, of course, with the adverse things also, they're cumulative things that, like DDT and radioactive wastes of long half-life. Much more dangerous than field burning, you see, which I came through today, and which is inconvenient three weeks of the year, but presumably did not leave any large cumulative effects in the way some things do. Well...

[tape skips forward]

HOST: Thank you very much. [applause]

BOULDING: If anybody would like to see this... [tape cuts off; program ends]