

SESSION SIX  
Economic Development

## Development and World Peace— Are They Compatible?

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### *Abstract*

*Are development and peace compatible? That peace is conducive to economic development is obvious. However, that economic development is a condition for sustained peace is suspect. There are two basic conditions for economic development—people wanting growth and the government allowing a proper environment for growth. When economists provide advice to governments, they focus on the second condition. However, a simple mathematical example shows that allowing proper conditions for growth does not fully solve the country's problems. Although well-managed Third World countries are experiencing economic growth, developed countries are growing more quickly. The widening gap causes increasingly unstable situations that can erupt into political conflicts. In order to encourage conditions more conducive to peace, a deeper probe is necessary, one that moves away from the evaluation of monetary awards and focuses on qualitative values, for example, on personal development.*

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\*Mr. Liebenthal participated in the conference in his capacity as a private citizen, not as a representative of the World Bank, and expressed his own personal views.

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*Modern Science and Vedic Science*, Volume 5, Numbers 1–2, 1992, Special Issue  
Proceedings of Approaches to Creating a Stable World Peace, April 5–7, 1991  
Sponsored by the Institute of World Peace  
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The relationship between economic development and world peace is a huge, complex topic. A practical focus for discussion is the question of whether the two, development and peace, are compatible. Two postulates serve as starting place. The first is the self-evident truth that sustained peace is a condition for economic development. It is obvious that no serious economic progress can occur in a situation where there is no peace, where there is civil war or internal disruption. The second postulate is that economic development is a condition for sustained peace. This also looks fairly compelling. However, there are some significant issues associated with this statement, issues that have to do with the way the science of economics approaches economic development.

How does economics as a science approach economic development from the perspective of a practitioner of economics? Let me simplify all of the conditions for economic development into two conditions. First, for a country to develop, the people have to *want* to develop. They have to want to work harder, make more money, and keep it to reinvest. This is usually interpreted as the axiom, "More is better," a standard axiom of economics. Second, the government has to let the people develop and create the right environment for development. Most of economics, to the extent that it deals with development, focuses on the second condition, the role of government and the appropriate policy requirements for economic development.

There are many things that economists look at in this regard. They look at such issues as the level and structure of taxes, the money supply, interest rates, trade policies, tariffs, and quantitative restrictions on trade. There is a regulatory and legal framework to address market failures. Situations such as monopolies need to be regulated lest they start making excessive profits. Addressing other market failures involves making sure that health and safety are taken care of adequately. Since there is even a market failure in regard to environmental protection, this area also needs to be regulated. Another area of development economics is the question of government investment policy.

In regard to these major areas of economics, there has been a recent shift towards *laissez faire* in regard to trade, a movement towards advocating a more open economy. There is a clear trend towards arguing for reduction of the role of government, which would involve a transfer of public enterprises to the private sector. There is also a clear trend towards deregulation of the regulatory and legal framework. In addition, there has been a major change in foreign exchange controls. Over the last 20 years we have moved from a system where all exchange rates were fixed through a collaborative arrangement between all the major governments to a situation where the exchange rates are allowed to drift virtually uncontrolled.

Development economists provide advice to the government in regard to these issues. However, there is a fundamental problem that can be demonstrated through simple arithmetic. Assume that a Third World country has an average per capita income of \$500 per year, that is, the average yearly income only buys \$500 worth of goods. Through very careful management of the available resources, wise policies, and some luck, an average Third World country can expect a yearly growth rate of around 7% of its Gross Development Product (GDP). This is about the sustainable limit. Going above that limit brings problems analogous to those that occur in the physical world with a car that is driven at excessive speed—it will work for a while, but eventually there is a crash.

A country at \$500 per capita growing about 7% per year will double in economic size over a 10-year period. Taking into account an average population growth rate of about 2% per year, a fairly conservative estimate, it follows that by the year 2000 that country will grow from \$500 average yearly income to about \$800 average yearly income per capita.

Consider next a developed country like the U.S., which has an average income of around \$20,000 per capita. With reasonable management, the U.S. economy can grow at about 3% per year. With a population growth rate of about 1% per year, in 10 years the average yearly income will grow from around \$20,000 to \$25,000.

The problem with this scenario is that in the 10-year period the gap has widened. The well-managed Third World country went from a per capita income of \$500 to \$800 while the average developed country went from \$20,000 to \$25,000. The gap has widened by \$4,700. The rich are getting richer, the poor are getting less poor, but not quickly enough to close the gap. This is an inherently unstable situation. The science of economics does not tell us what will happen, but there are evident signs of the stress that will emerge. One can see these signs in, for instance, political instability, as Third World governments find it evermore difficult to meet the expectations of the people. One can see it in the break-up of the Soviet Union, which is clearly the result of economic mismanagement. One could also see the invasion of Iraq into Kuwait as a consequence of irritation or envy for the amount of wealth Kuwait had accumulated, although this may be a more far-fetched interpretation.

Consequently, one can argue, on the basis of how the arithmetic works out, that economic development is not consistent with sustainable peace. It leads to an unstable condition. It is very difficult for developing countries to grow at more than 7% per year, and even if they did, they couldn't close the gap. Conversely, it is unlikely that a recession in the U.S. will last a long time, because eventually corrective processes take place, and the GDP will keep growing. The gap widens, and the situation remains inherently unstable.

Is there something wrong with the argument? The assumptions on which the arithmetic was based appear to be sound, on a superficial level at least. At a deeper level, one could ask, "Do people really want more? Is more really better?" Consider this question from both points of view, that of poor countries and that of developed countries. From the point of view of poor people, all evidence points in the direction that they do want more. \$500 per capita per year is not enough to provide for basic needs, such as food, shelter, health, and education. The life expectancy, at around 55 years instead of 75, is not up to the level of the Western world, and the level of education clearly is not enough to enable them to develop their full personal potential. To provide these services it is necessary for the government to have a certain level of income, which can only be derived through taxation, which in turn can only be derived through personal income. So clearly, one cannot challenge the axiom that it is better for someone who is poor to have more rather than less.

For the more developed countries, with an average income of around \$20,000, all sociological and psychological studies indicate that the rich also want more. So we are left with a paradox. All evidence suggests that the axioms are right, and the arithmetic, or the basic methodology, is itself right. We are left with this growing gap that is inherently unstable, and, I propose, inherently inconsistent with sustainable world peace.

Is economic development incompatible with world peace? This is the point at which economics leaves us and cannot carry us any farther. Obviously this is not a very satisfactory state of affairs for a working economist who has to think about these things. This is where we have to appeal to a more interdisciplinary approach. That is why the Institute of World Peace is being established and why peace studies are always carried on outside the traditional disciplines. The question lends itself more to discussion in interdisciplinary terms.

In interdisciplinary terms, what can economics contribute to the discussion? There is a rich moral and ethical tradition, in the form of all the injunctions about giving being better than receiving and sharing being better than keeping, that challenges the axiom that more is better. The need to move away from a focus on monetary rewards towards more qualitative values is a common value on which all of us would agree. But those moral and ethical principles need to be followed through, strengthened, integrated, and then fed back into economics in a way that economics can accept them.

Can one measure economic development simply in terms of dollars? Something better is obviously needed, something that reflects other dimensions. When we look at economic development, we also need to look at personal development, since an economy is only an aggregate of individuals. Along with redefining the meaning of economic development, we need to redefine personal development and personal growth. The direction, again, is away from a growth objective stated in dollars per year towards a more multidimensional objective.

The need is obvious, and the task is very difficult. There is a lot of work to do. I wish the Institute of World Peace well in facing up to this mighty challenge.