

where farming and consumption—i.e. purchases of food, shelter, and other necessities—ought to claim the largest shares of GDP.

During the 1960s, development specialists recognized their mistake. Industrialization was proceeding apace, but poverty rates remained high. So, says Eberstadt, they devoted more money to “basic human needs”—health care, education—and merely compounded their error. Such aid only swelled the budgets of Third World governments, thus shrinking the share of GDP available for personal consumption.

Meanwhile, investment in Third World industry has not abated, even though it has produced, at best, mediocre rates of return. What has happened, says Eberstadt, is that di-



*Much U.S. aid never reaches the people it is intended to help. As a result, Washington increasingly bypasses foreign governments.*

rect investment by Western business has shrunk, but commercial loans and subsidized loans from institutions like the World Bank have not. Overall, a remarkable \$1.8 trillion in capital flowed into the Third World between 1956 and 1986. The only plausible explanation, Eberstadt notes, is that Third World governments “are being held to a lower standard of economic performance than those facing their own citizens, international businesses, or the governments of Western countries.” That allows the governments of poor countries to ignore the marketplace if they choose (though some do not), and ultimately to further impoverish their citizens. “Development economics” has failed, Eberstadt suggests; the market, he believes, deserves a chance.

## Fukuyama II

“A Reply to My Critics” by Francis Fukuyama, in *The National Interest* (Winter 1989–90), 1112 16th St. N.W., Washington, D.C. 20036.

No article in recent memory has provoked as much controversy as Francis Fukuyama’s “The End of History?” in the *National Interest*. [See *WQ*, Autumn ’89, pp. 12–13]. Now Fukuyama, deputy director of the U.S. State Department’s policy planning staff, answers his critics.

He says that many of these critics misunderstood his basic point. He argued that history as the philosopher G. W. F. Hegel understood it has come to an end: Liberalism has triumphed over all competing ideas about the organization of society. “In order to refute my hypothesis, then, it is not sufficient to suggest that the future holds in store large and momentous events. One would have to show that these

events were driven by a systematic idea of political and social justice that claimed to supersede liberalism.”

This argument is not as esoteric as it may seem. For virtually all of us are Hegelians, Fukuyama insists, even if we do not realize it. It is from Hegel that we have inherited the notion of history as progress, as a process of evolution “from primitive to modern, through a succession of stages of ‘false consciousness.’” History thus must arrive at some final truth, an end. The only alternative is radical relativism, as Friedrich Nietzsche held, in which all values and morals are mere “products of their time.” That, says Fukuyama, leads to consequences, such as fascism and the

glorification of war, "which few of us would be willing to stomach."

Other critics have faulted Fukuyama for ignoring continuing threats to the liberal idea. True, he says, the communist world could abandon reform. But communism can never regain the moral authority that made it a worldwide challenge to liberalism. What about Islamic fundamentalism? "For all of Islam's pretensions of being a universal religion, fundamentalism has had virtually no appeal outside of communities that were not Muslim to begin with." And although Islam claims nearly a billion adherents, the clash between Islam and the West "seems something less than an even match."

Fukuyama is more inclined to take seriously the challenge of resurgent nationalism, especially now that German reunification is a serious prospect. Still, he holds, it

is hard to imagine nationalist conflicts turning into wars on the scale of the ideological struggles of the past.

Finally, there is what the historian Gertrude Himmelfarb called the "X-factor," the possibility that some unimagined new ideology may arise to challenge liberalism. Fukuyama believes the fact that human progress toward liberalism has been underway "since at least the beginning of the Christian era in Europe" makes this unlikely. And yet he cannot completely rule out Himmelfarb's prospect.

Fukuyama admits one mistake. What he failed to make clear when he said that liberalism will "govern the material world in the long run" was that the "long run" may be several generations of struggle away. The end of history, then, is an anticlimax. It is cause neither for wild celebration nor for complacency.

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**ECONOMICS, LABOR & BUSINESS**

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*Industrial Policy Rides Again*

"The Quiet Path to Technological Preeminence" by Robert B. Reich, in *Scientific American* (Oct. 1989), 415 Madison Ave., New York, N.Y. 10017.

During the 1980s, two Republican administrations devoted to the free market have launched an undeclared national defense-oriented industrial policy.

In 1987, for example, the Reagan administration approved a \$4.4 billion superconductor accelerator; a \$1 billion "high-performance computing strategy" was announced early in 1988. Among other elements of the new "industrial policy" is the Defense Advanced Research Projects Agency's \$100 million annual contribution to SEMATECH, the joint research venture sponsored by U.S. semiconductor companies.

Reich, the relentless industrial-policy advocate

from Harvard's Kennedy School of Government, finds himself in the unaccustomed position of opposing these government subsidies. The United States, he says, already outspends Japan on research and

*Defense Protectionism*

In *Orbis* (Fall 1989), William J. Long of American University criticizes the Republicans' de facto industrial policy.

*Increasingly, the argument is heard in defense circles that a sound strategic trade and investment policy entails governmental protection of, or encouragement for, certain industries . . .*

*Once [the Pentagon] weakens the executive branch's commitment to open trade and capital markets, large and powerful industries are likely to wrap themselves in the banner of strategic trade to obtain preferential treatment. For, as Jacques S. Gansler, a former Pentagon procurement officer, puts it: "National security sells. Industrial policy doesn't."*