

Quo vadis, homo sapiens? The End of One Era and the Beginning of Another

Miloš Pick

In memoriam Miloš Pick (1926-2011)

The Czech macroeconomist and academician Miloš Pick died on 31 October 2011, at the age of 85. During the Second World War, the metal worker Miloš Pick became involved in the anti-Nazi resistance. In 1943 he joined the Communist Party as well. He survived the concentration camps of Terezína (Therensienstadt), Auschwitz and Buchenwald.

After the defeat of Fascism, Pick began his professional career in economic research, a field he subsequently returned to repeatedly – starting with the Institute for Economic and Social Research and ending with the Prognostics Institute of the Czechoslovak Academy of Sciences and the Vienna Institute for International Economic Studies. After November 1989, he served as an economic adviser to several members of the Czechoslovak and Czech Government and as an adviser to trade unions. Here a paper he recently wrote. This article was also submitted as a paper to the Conference Global Capitalism and Transnational Class Formation, Prague, on 16-18 September 2011.



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Fukuyama's "End of History" has not yet arrived. Perhaps, however, this is the start of the end of the history of capitalism. What next? I cannot offer the future, just an attempt to find it. And what about all of us, homo sapiens?

After more than twenty years of epoch-making change in our country and the world, the time has come to take stock of the ground we have covered and the road ahead of us (Pick/ 2011).¹

What is left of November?

In November 1989, millions of people in the town squares of Czechoslovakia rang the death knell for a regime that was unacceptable to them, signalling an end to the suppression of the wish for freedom manifested by the Prague Spring. First and foremost, they were expressing that they were intent on freedom. Yet the vast majority of them did not associate freedom with capitalism – only three per cent, compared to forty per cent with socialism and fifty with a third way – as shown by a public opinion poll conducted at the time (ÚVVM 1989).

in this respect, they had not given up their repressed hopes.

The struggle for these objectives mainly took the form of a clash of two basic “scenarios”, as they were known.

In one corner, there was Václav Klaus and his team touting their scenario of the shock restoration of capitalism, which drew mostly on the Washington Consensus, a doctrine agreed by the International Monetary Fund and World Bank with the US Treasury. It was based primarily on the immediate liberalization of the market, including foreign trade. This liberalization shock protected the insufficiently developed economy merely with a cheap labour policy rooted in a low exchange rate, and was the main cause of the deep slump in economies everywhere. It also relied on large-scale, verging on total privatisation, especially via the free voucher method. This promised that capital would be owned by the people, but in reality opened the door to speculators, especially from abroad. Thirdly, it sought to dampen the imbalances thus induced through the macroeconomic restriction of demand.

In the other corner, František Vasák, the deputy prime minister of the Czech government, set up a team to pursue an alternative strategy of economic reform, which consisted mainly of us “68ers” since enlightened by other world developments. This team created the non-shock alternative of a swift but regulated transition to a social market economy. The proposal was complex, but the main clash with Klaus’s shock tactic lay in the two issues in which his gamble was concentrated – the shock liberalization of foreign trade and voucher privatisation. In the liberalization of foreign trade, it suggested a temporary solution using a dual



Praag augustus 1968

exchange rate for the domestic currency, i.e. a regulated and a free rate. This had worked under Erhardt's successful social market reform in post-war Germany. The team proposed gradually privatising large enterprises after their forthcoming commercialisation by cutting them adrift of public budgets. A wide range of privatisation methods, including employee involvement, would be used.

However, the essence of the dispute lay not just in the path followed, but in the goal, the choice between capitalism or the social market economy. Within a year and a day, the "Washington treatment" as envisaged by Klaus came out on top and was adopted by the Federal Parliament in September 1990. Today we are reaping what we have sown.

The Washington Doctrine was applied in Latin America in the 1970s and, especially, in the 1980's, and then in post-communist countries in the 1990s. It initially led to steep economic decline – in Latin America by 20 to 30 per cent, in Russia by 50 per cent, deeper than during the Second World War, and in Czechoslovakia (according to the Statistical Office unpublished data) by about 30 per cent. In nationally complex areas, these economic and social crises triggered ethnic crises and the disintegration of multinational states, including Czechoslovakia.

Although we surmounted the temporary decline in our economy, we made little progress in catching up with the European

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Union's advanced core of fifteen industrialized countries. Today, more than twenty years down the line, we still have only about 70 per cent of that core's economic level. According to a survey (CWM 2009), only half of the population saw a rise in living standards, but just a fifth to any significant degree - these are the winners of this era. More serious are the long-term consequences, as we too found ourselves competing with cheap labour instead of knowledge and quality. In this way, we earn only enough for modest educational, social and health systems, and even that is endangered. Yet foreign capital now saps more than five per cent of gross domestic product by repatriating profits, in addition to what is siphoned off covertly through

intra-company pricing. No economy can shoulder this without end.

After more than twenty years, even the biggest optimists are agog at what is happening to our country. Moral shabbiness is worse than before November. Where, previously, a company director would build a luxury villa for himself using corporate cash, now whole businesses are being stripped of assets running into hundreds of billions of crowns. We can only dream about the morality of the Prague Spring, so besmirched today, when people donated their jewellery for the country's gold stocks and, in August 1968, the criminal underworld in Ostrava promised to stop its robbing and plundering. Today, by contrast, the morality of the underworld is seeping into normal life, even "modernizing" Masaryk's motto of "do not fear and do not steal" into "do not fear, steal" after the people's willingness to make sacrifices, expressed in November, was squandered.

The principal post-communist political leaders who sought the return of capitalism – the triumvirate of Čalfa, Havel and Klaus – recently admitted that this was their goal, but back then they dared not speak openly about it, instead attempting to "sneak" it in under the guise of a "pure" market economy, against the will of most of the people, even though they had promised them freedom. The restoration of capitalism was not decided in 1990 by free elections, but after the elections by Parliament, which did not have the voters' mandate to do so. The Civic Forum's electoral programme contained nothing of the sort.

These representatives selected, from their point of view, a very rational approach. As, after November, they were no longer locked in a struggle for power with the pre-November rulers, they left it lying in the street. So their main concerns, much like their predecessors, were not to let the 68ers get a foot in the door and to malign the third way of the Prague Spring, based on the interplay of state and market in a free society. The unintended consequence was that they continued the suppression of that third way. Perhaps it would be more appropriate to assess this development in relation to August rather than the November anniversaries.

Once again, foreign influences wielded the decisive influence, though this time not with tanks or violence, but noble words and suede gloves. He that does evil never weans good. It is hardly surprising that the above-mentioned poll shows that, while the vast majority (60 to 70 per cent of people) feel they have more opportunity to live freely and openly state their views compared to the previous regime, less than a third believe there is more opportunity to influence political life. This backs up the observations of Professor Bělohradský that before we were not allowed to say anything, whereas now we can say everything we want, but nobody listens to what we have to say. And a large proportion of voters do not even hear about it; being able to speak up by no means translates into the possibility to publish.

We have capitalism we did not want, without the freedom we craved. But let us not “be unjust” to the “fathers” of our restored capitalism for this situation also exists elsewhere. Limited freedom is a natural consequence of contemporary global capitalism and its wild, unregulated form. As Günter Grass said: “Democracy has degenerated into an empty election ritual”. Behind the backs of elected parliaments and governments, the world is governed by several hundred multinational companies. So what’s left of the freedom we were calling for? “Zimmer frei, as I saw jumping out at me everywhere I looked after returning to Prague for the first time in 20 years,” answers my friend in the US, Jiří Hochman the historian (professor emeritus at Ohio State University).

The global crisis is not over

In recent decades, the main long-term trends in world development have intersected.

Since the 1970s, the gradual suppression of the previous post-war reforms has led to the restoration of extremely deregulated capitalism and its global, neo-colonial expansion (the Washington Consensus). This development resulted in the extreme polarization of income, as well as wealth and poverty: in the US, the richest one per cent accounts for a quarter of national income and 40 per cent of wealth (Stiglitz 2011), while in the poorest countries, 15 to 20 million people die annually due to extreme poverty

(World Health Organization 2004, Hrubec 2008). At the same time, extensive sources of further sustainable development have been drained; in particular, scarce natural resources have been excessively depleted and the environment has been degraded: capital exploits not only labour, but also, and increasingly, nature on a genocidal scale.

After Latin America and the post-communist countries, the European welfare state was next in line. Its indebtedness was caused mainly on the revenue side. The rate of taxation relative to GDP in developed countries was 10-15 per cent at the end of the 19th century, as opposed to 30 per cent in the US and other predominantly neo-liberal countries, 40 per cent in the EU15 and 50 per cent in Scandinavia at the end of the 20th century. Developed countries stopped these tax hikes of the past hundred years in the mid-1990s in line with neo-liberal recipes and even lowered taxes to some degree under the pressure of tax undercutting policies in new Member States.

Nevertheless, expenditure on health, pensions, education and environmental protection is objectively increasing – life expectancy and the duration of education are becoming longer, while environmental degradation is on the rise. Waste accounts for only about a tenth of this increase in expenditure and can be effectively restrained. However, for opponents of the welfare state – starting with Thatcher and ending with Blair and Schröder – it was just an excuse to condemn the current welfare state as unsustainable and to curtail it with pseudo-reforms as they raced to disrobe, market and privatise the welfare state.

The curtailment of these public services, provided in accordance with the principle of solidarity, has implications that reach beyond the polarization of living standards, also and above all threatening the competitiveness – and thus the viability – of the welfare state. It particularly weakens elements of competitiveness based on social cohesion (health and social protection) and, especially, knowledge (it creating social strainer in terms of the access that brains have to education). On the other hand, rich countries – including the EU – impose a policy of cheap labour on poor countries (with low “competitive” currency exchange rates in exchange for the early reduction

of protective tariffs), with which these rich countries are then unable to compete. In other words, in Marx’s language: global capitalism removed the core of labour exploitation to poor countries, thus creating a more powerful gravedigger. Such distorted exchange rates are deprived of their balancing role, splitting world trade into countries generating a surplus and countries running a deficit.

The long-standing root causes of the contemporary global crisis can be traced back to the fact that the competitiveness of certain developed countries, the US among them, was being crushed and weakened between these two millstones.

In this respect, unlike the Great Depression of the 1930s, this was not a crisis of overproduction, with a blanket freeze in demand, but a crisis of underproduction: domestic supply, on account of its lack of competitiveness, lagged behind domestic demand, which absorbed excessive imports. Primarily, then, it was a crisis of global imbalances. Countries lagging behind in competitiveness maintain a yawning foreign-trade and current-account deficit and are becoming increasingly indebted to countries with large export surpluses.

However, since the real bridging of this gap in competitiveness with productivity growth is impossible in the short term and these uncompetitive countries were unable or unwilling to use an exchange rate policy (depreciate their currencies) for the sake of short-term protection, they attempted “internal devaluation” – the compression of costs by pushing down wages, taxes and public (especially welfare) spending. This is not only socially painful, but also, and in particular, economically inefficient. Pushing down on taxes and wages without increasing productivity does little to reduce costs.

Downward pressure on wages, on the one hand, dampens demand for consumption among the wage recipients. Unlike the crisis of the 1930s, however, we have also witnessed the extreme polarization of wages and household incomes, which has hampered demand for consumption all the more (Reich 2011). The excessively low and stagnant income of the poor – and increasingly the middle class – has reined in



their demand for consumption. Conversely, the disproportionate income of the rich exceeds the level of their consumption demand, and is a source of excessive savings that, instead of demand, drive forward speculation. The subsequent outcome, much like the crisis of the 1930s, was also a crisis of overproduction, albeit a specific, partially deferred crisis. Demand and production still grew, but at the cost of debt which created an unsustainable bubble. It was the “second floor” of the crisis. Bush’s policy in the US is a symbolic example.

The choking of public (especially welfare) spending and wages and the polarization of their levels triggered the over-indebtedness of households in particular – enabled by expansionary monetary (interest rate) policy and the extreme deregulation of financial markets – which led to the bursting of the bubble and the financial crisis, starting with the collapse of major banks. Given the key role of finance capital in contemporary financial capitalism, where the volume of financial transactions already exceeds global gross domestic product by approximately seventy times, the crisis escalated and the real economy (both demand and production) slumped. This gave rise to another, “third floor”, of the crisis.

The traditional anti-crisis injections of public demand into an uncompetitive economy – akin to a leaky vessel – attract more imports rather than contribute to growth restoration. The weakening growth and taxation rate slash the revenues of public budgets, even though budgetary spending increases due to bank bailouts and demand injections. Debt is thus poured into public

budgets. The end result was the explosion of public budget deficits – this was the “fourth floor” and apex of the crisis spiral.

Current practices usually only suppress these ultimate consequences, the debts of public budgets, and do not tackle the root causes – a lack of competitiveness.

This global crisis was split in the first round. Successful developing countries (including the BRIC countries Brazil, Russia, India and China) managed to tee themselves of the crisis in developed countries to a considerable degree. In developed countries, the restoration of economic growth has so far been modest and fragile.

Having soaked up excessive imports, the US is trying to weaken the US dollar further, which may also undermine the EU’s exports. The EU’s revival has mainly been driven by the export performance of Germany, benefiting from something which the US has thus far had little access in achieving and which is missing entirely in the south of the euro area: a competitive exchange rate. The euro is soft for Germany. Conversely, for those in the south of the euro area, the euro is hard and this lack of competitiveness is allayed, but not halted, by “internal devaluation”, delivering little effect, continuing indebtedness and rising protests among the people, whose blood is flowing in the streets. However, the EU is not dealing effectively with the causes, i.e. it is not overcoming the lack of competitiveness in the south (even in the industrial and exchange rate policy, including adequate depreciation of the euro), but is focusing on quenching the consequences: it is helping to feed the south’s endless indebtedness. This is likely to create more bankruptcies than exit routes. Yet this situation is compounded by the shrinking willingness of creditor countries and may even threaten the unity of the euro area and the EU.

The main causes of the crisis have not been overcome in either the US or the EU. Because the two main actors are not changing their contradictory policies, this could trigger another round of global crisis, the epicentre of which would seem to be not only the US, but especially the EU, starting with the south (Pick 2010/b).

Is it already starting to gain momentum? It will be harder to overcome than in the first round because, in uncompetitive and heavily indebted economies, strangling demand deepens the threat of a slump and even bankruptcy, while fanning demand sucks in imports rather than encouraging growth and “the firepower of this stimulus is fast diminishing”. Can the epicentres at least move from fighting the consequences to overcoming the causes?

The new division of the world

The division of the world among major powers and their groupings has not only a power aspect (the ability to influence all or part of the world) and an economic aspect (control of natural resources and markets in particular), but also a societal factor, if these powers externally promote their societal system, perhaps even as a means to push through their primary goals.

Looking back into the past, Nazism and the aggression it engendered during the Second World War can probably be considered the deepest counter-revolution in human history, or at least in the capitalist era. This is true both in terms of the goals pursued by its agenda – world domination of the master race’s slave-holding capitalism, and as regards the genocidal methods of its dictatorship and total war.

Therefore, its defeat can be regarded as the greatest liberation and societal revolution in human history, regardless of the fact that none of the victorious powers was an immaculate angel of freedom: the Soviet Union was a dictatorship reliant on gulags, Great Britain and France had their colonies, and the US racial segregation. None of this, however, was comparable to Nazism.

Therefore, the division of the world among the victorious powers created a power base for the launch of liberation and social reform based on the application of at least certain elements of decolonisation, democratic governance, and efforts geared at least to the partial interplay of state and market in the economic and social spheres – based on the cautionary experience of the crisis in the 1930s.

The disintegration of the anti-Hitler (Churchill’s speech, Fulton 1947), the

emergence of the bipolar world and the Cold War established opposite, backward tendencies and ushered in a long -transition period where the two trends, liberation and reform tendencies versus anti-reform tendencies, forward versus backward tendencies, competed with and fought each other. However, even under these conditions elements of these forward trends continued long into the era of the bipolar world and the Cold War between the two groups of powers, even at a time of mutual intimidation and the strengthening of domestic political regimes, including the braking or suppression of these reforms. They culminated in the Prague Spring's attempt at reform and in the development of the European (and especially Scandinavian) welfare state. Major turning points against these reform tendencies were, in the late 1960s and 1970s, the suppression of the Prague Spring by external intervention on one side of the Iron Curtain, and the suppression of reform movements and the restoration of capitalism in Latin America, based on the Washington Doctrine, on the other side of the Iron Curtain. An era of prevailing anti-reform and restoration was born.

These backward social tendencies were not preached openly, but were smuggled into public opinion covertly, by means of anti-vocabulary – anti-reforms were dressed up as reforms and the shock restoration of capitalism was disguised as the overall transformation of the societal system. In parallel to reversal in social development within the two power blocs of the bipolar world, the power struggle between them also continued under the noble fig leaves of anti-vocabulary – one promoted the export of its capitalist system under the slogan of liberty, the other its non-democratic non-market “real (non-)socialism” under the slogan of socialism. Yet the hawks at both poles were closer than they appeared on the outside; more than these ideological pacifiers, they took their power interests in the division of the world seriously and were capable of reaching agreement in this respect.

A necessary element in this reversal of history was the rewriting of history, being misleading about the victory over Nazism and labelling – as did the Nazis – the Soviet economic and political system as communism, more deadly than Nazism. Yet this system was incomparable with Nazism,



especially from the perspective of its programme objectives – its declared programme was non-market socialism, which emerged as non-market (non-)socialism, at the time primarily focused on extra-economic goals, on the building of an industrialised economy capable of defending itself. Nevertheless, there were certain common elements regarding the dictatorial methods and form of government. This rewriting is symbolized in particular by the *Black Book of Communism* (Courtois et al. 1998), diverging from the facts and new insights: While the number of civilian victims of the twelve-year Nazi genocide (1933 to 1945) came to 12 million, the executed by the Soviet system at this time totalled 4-5 million (Reiman 2000, Khaustov & Samuelson 209, Khlevnuk & Khozain 2010, Snyder 2010). Only the perennial star remains constant: the most difficult task is to predict the past (Orwell 2004, p. 245).

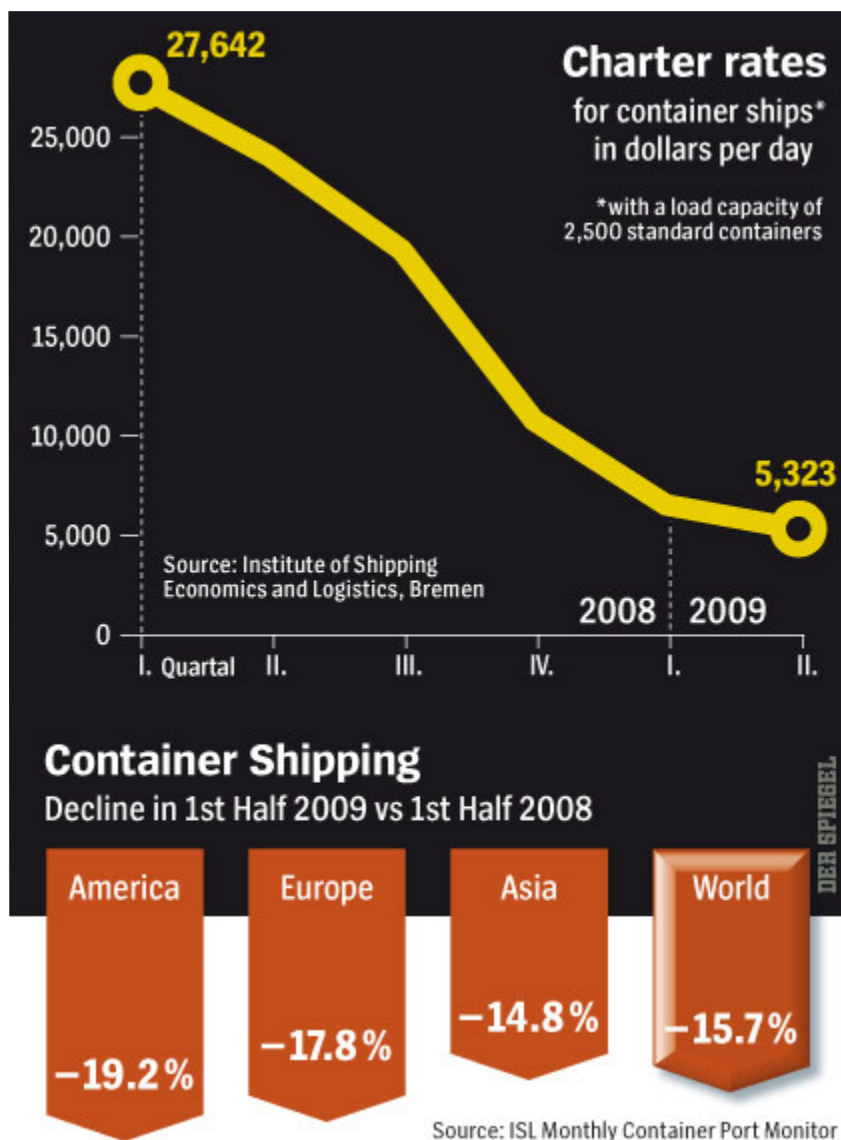
At the turn of the 1990s, however, this wrestling match broke through the boundaries of both blocs, when the Soviet Union was overthrown by the restoration of capitalism based on the Washington Doctrine. Today not even the exporters of this system pretend that it is freer than the late Soviet system of “glasnost” under Gorbachev’s reform era. Above all, however, the basic power results of the Second World War, resulting in the division of Germany and Europe, were revised.

A unipolar world dominated by one superpower, the United States, was created. The

collapse of the Soviet Union, the carving-up of Yugoslavia and the partial re-Habsburgisation of the Balkans even led to the revision of the basic power results of the First World War, and there is pressure to continue this process (to revise the consequences of Trianon). Where possible, this expansion took place non-violently – it was “velvety” or “flowery”. In the countries of the former Soviet Union and throughout the bloc, they were actually largely sympathetic, because this process had long been nurtured by the repression of reforms and resistance against this action. The more you eat, the hungrier you get: “Russia ... steadily integrate into Europe which would ... extend to the Urals and beyond.” (Brezinski 1997). Where persuasion was not enough, violence was used without hesitation – in Pinochet’s Chile, Yugoslavia and Indonesia.

What are the forces behind this? The unipolar world, or the fact that it inherited the conflicting interests of the founding countries, which is remarkable persistent in capitalist conditions? According to the media, the main actors behind the intervention in Yugoslavia were Clinton, Albright, Blair, Kohl and Genscher – who was reportedly the initiator. How does all this affect the stability of Europe and the world in terms of the ongoing global crisis and the shift in the focus of US interests to the new centres of the global world?

On the other hand, the unipolar world thus created is shrinking. The successful



<http://www.social-europe.eu/2010/07/the-society-of-freedom-%E2%80%93-global-crisis-outlook/>

This could be developed on a global scale, in particular:

* By overcoming the asymmetric liberalization of world trade based on the forcing of a cheap labour policy on developing countries. The development of the nascent multipolar world, smoothing the way for the balancing and, gradually, the cooperation and then coordination of the interests of individual regions-around-the world, rather than a unipolar world largely subordinated to the interests of a single superpower, is essential.

* By switching to a new paradigm of sustainable development, even in poor countries, perhaps when they reach a certain threshold of material well-being. By turning away from tangible, quantitative economic growth based on increased quantities of products and services and instead seeking knowledge-based, qualitative development based on increasing the amount of knowledge incarnated (embodied) in the unity of goods and services. And by exploiting contemporary technological advances, diminishing the demands of such development on the quantity of labour, to shorten working hours instead of “producing” unemployment. This requires, on the one hand, the development of humankind and its knowledge, mostly by means of public health and welfare services provided in accordance with the solidarity principle, and in particular by means of the equal access of brains to knowledge, facilitated by a policy of solidarity. Another requirement is a reasonable rate of taxation, including taxation reflecting the scarcity of natural resources and the cost of environmental sanitation.

* By overturning the imbalance of power not only between capital and labour, but also nature, which is indirectly becoming another, increasingly important production factor subject to dangerous “exploitation”. This requires, in particular, the overcoming of the dominance of the largest multinational corporations in the economy and politics. This dominance is an obstacle to the competitive market and democracy. Here, it is necessary to overcome the extreme

economic and social reforms in developing countries, particularly in Asia and Latin America, led by the BRIC countries’ which themselves already represent almost half of humanity and more than a quarter of the world economy, have given rise to a new independent centre of the world. It is growing extremely rapidly, not only economically and technologically, but also as a power; not least, it is an attractive example followed by other countries. The spark may have jumped into Africa. Could it form the social and power base for the different, non-capitalist development of the world? However, it is certainly going to create a multipolar world.

Where next?

A glimpse into the future can only be more modest and humbler than a look into the past. It can only be very general.

Compared to the theorists of the 19th century, however, we have the advantage of knowing many of the results of their visions and aspirations – the losses and at least some positive experiences. Let us attempt, then, at least at a certain contemplation. The current crisis is a societal crisis, much like the crisis of the 1930s. Monopolistic, financial, globalised capitalism, based on the nearly exclusive role of the market with almost no state regulation, is failing. A long-term solution could be to overcome the essence of this system – current knowledge suggests transition to a society of freedom based on the interplay of the invisible hand of the market with the visible, and more effective than at present, hand of the social-knowledge-based society (Pick 2010/a):

deregulation of markets, starting with the financial markets, the public – possibly even proprietary – control of monopolies and the few hundred largest multinationals, including banks. Another requirement is societal bargaining between labour and capital and the participation of the workforce in the ownership and decision-making of enterprises. This is necessary also for the gradual removal of the extreme polarization of income and the reinforced status of the middle class.

Such a society should be a society of the freedom not just of the individual, but also the freedom of a society based on solidarity, not only political freedom, but also liberation from poverty, ethnic and racial oppression, war and environmental destruction. Europe's contribution should primarily be the development of a social-knowledge-based state in the above-mentioned directions, drawing on the valuable experience offered in particular by Scandinavia and perhaps by some of the leading successful developing countries.

Fukuyama's "End of History" has not yet arrived. Perhaps, however, this is the start of the end of the history of capitalism. What next? I cannot offer the future, just an attempt to find it. And what about all of us, homo sapiens?

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Note:

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