SYMPOSIUM: TRAILBLAZERS TOO LIGHTLY MENTIONED?

Peter Bauer: Blazing the Trail of Development

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ABSTRACT

PETER BAUER (1915-2002) WAS A PIONEER AND A GIANT IN THE FIELD of development economics. His contributions to the understanding of economic progress, beginning in the 1940s with studies of the rubber industry in Malaya, spanned more than five decades and dealt with a range of the most important development issues, including many that were not considered important at the time.

According to Amartya Sen (2000, ix, xi), “Peter Bauer is in a class of his own as an outstanding economist. The originality, force, and extensive bearing of his writings have been quite astonishing…[He is] one of the great architects of political economy.” In 1984, the World Bank published a volume of essays from ten leading post-war development economists (Meier and Seers 1984). It included Bauer along with such luminaries as Arthur Lewis, Paul Rosenstein-Rodan, and Gunnar Myrdal.

That level of peer recognition, however, was atypical during most of Bauer’s career. Bauer remained one of a few “voices in the wilderness” largely because he stood virtually alone in challenging the development orthodoxy that held central planning, forced savings, protectionism, and official international aid as main tenets. Probably more typical of professional sentiment was Walt Rostow’s (1990, 386) description of Bauer as a “neo-classical gadfly” whose

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1 Gustav Ranis (2004, 6).
usefulness was as a “devil’s advocate” to the complex issues being considered by other development economists.

With the success of outward-oriented East Asian economies and the collapse of development planning, Bauer’s views have generally been vindicated. From the vantage point of the 21st century, it is easy to forget that the hold of the development orthodoxy was strong long after there was ample evidence of its failings. As late as 1985, for example, Indian Prime Minister Rajiv Gandhi (1985)—who would be the first to introduce market reforms in India in the late 1980s—wrote that despite vast problems in collecting and analyzing data, “the solution perhaps lies in improving the tools of collection and analysis of data and not in abandoning the planning effort itself.” No doubt, Bauer would have been unsurprised that the political leader of the country that had epitomized the development path advocated by the post-war orthodoxy was still clinging to the allure of planning despite decades of dismal performance. Institutional inertia and vested interests can explain Gandhi’s early attitude.

Less understandable is why intellectuals, and specifically economists, took so long to arrive at more market-liberal ideas as a guide to policy in developing countries. Even less understandable is why, in the post-communist era, Bauer’s contributions are often still neglected or marginalized by the economics profession.

An example of this neglect is a survey article on trade policy and development by Anne Krueger (1997) appearing in the American Economic Review:

The improvement in living standards, life expectancy, and economic growth prospects in developing countries ranks among the most important success stories since the Second World War. Growth in some has been dramatic, and while progress has been far from uniform, there are grounds for optimism that future growth prospects can be even better than performance to date.

One factor accounting for that success has been improved understanding and adoption of economic policies much more conducive to satisfactory economic growth than was the case in the 1950’s and 1960’s. That better understanding, in turn, resulted from a combination and interaction of research and experience with development and development policy.
Ideas with regard to trade policy and economic development are among those that have changed radically. Then and now, it was recognized that trade policy was central to the overall design of policies for economic development. But in the early days, there was a broad consensus that trade policy for development should be based on “import substitution.” By this was meant that domestic production of import-competing goods should be started and increased to satisfy the domestic market under incentives provided through whatever level of protection against imports, or even import prohibition, was necessary to achieve it. It was thought that import substitution in manufactures would be synonymous with industrialization, which in turn was seen as the key to development.

The contrast with views today is striking. It is now widely accepted that growth prospects for developing countries are greatly enhanced through an outer-oriented trade regime and fairly uniform incentives (primarily through the exchange rate) for production across exporting and import-competing goods. Some countries have achieved high rates of growth with outer-oriented trade strategies. Policy reform efforts removing protection and shifting to an outer-oriented trade strategy are under way in a number of countries. It is generally believed that import substitutions at a minimum outlived its usefulness and that liberalization of trade and payments is crucial for both industrialization and economic development. While other policy changes are also necessary, changing trade policy is among the essential ingredients if there is to be hope for improved economic performance.

Krueger goes on to ask how this change in policy came about, and “what was the contribution of economists and their research to the process?” Krueger’s research, of course, played a key role in making the case for more open trade regimes for developing countries, along with that of other leading researchers such as Jagdish Bhagwati, Ian Little, and T.N. Srinivasan, whom she cites. Yet Krueger does not mention Bauer. In a related essay on the development experience, she surveys the contributions of numerous leading development economists but also does not mention Bauer (Krueger 1995).

Krueger is not alone in the marginalization of Bauer. Another example (many could be given), is Jean Waelbroeck’s 30-page review of the three volumes of the *Handbook of Development Economics*, a review that appeared in *World Bank Economic Review* (Waelbroeck 1998). Waelbroeck surveys the findings of the three volumes (which include Krueger’s 1995 article) and promises to identify “areas of development economics not covered there,” but
Chief Works by Peter T. Bauer

does not cite Bauer. Of the Handbook’s 46 articles, only seven of them cite Bauer.

Indeed, a literature search of the American Economic Review beginning in 1911 when it was first published and extending through 2004 finds only seven articles with references to Bauer and three book reviews in which Bauer is cited. Articles in the World Bank’s in-house journals, the World Bank Economic Review (from 1986 through January 2007) and the World Bank Research Observer (from 1986 through 2006) cite Bauer only six times. (An Excel file detailing these search results is linked at the end of this article from Appendix 1.)

The omission is doubly striking as Bauer both addressed many of the main development issues early on and examined the possible causes of what he called the “spurious consensus” on economic development. Indeed, throughout his career, Bauer (2000, 15) repeatedly pointed to “a widespread disregard of evident reality” in his field, and would come to observe that “Impressive advances coexisted with alarming retrogression.” The advances included contributions to the theory of international trade and the economics of property rights, and the recognition of transaction costs. The lapses included the neglect of fundamental economic principles, conceptual confusions, methodological pretentiousness, and the lack of direct observation. Some of what Bauer saw as troubling in the economics profession—for example, over-reliance on formal analysis and the mathematization of the field—still exists and may help explain the neglect of Bauer even among those who arrive at the same insights and general policy prescriptions as Bauer.

**BAUER’S VIEW OF DEVELOPMENT**

Bauer’s analysis of policy and development were strongly informed by a well-defined view on the meaning of development, a perspective that he formed early in his career:

I regard the extension of the range of choice, that is, an increase in the range of effective alternatives open to people, as the principle objective and criterion of economic development; and I judge a measure principally by its probable effects on the range of alternatives open to individuals. This implies that the process by which development is promoted affects the assessment, and indeed the meaning, of the result. The acceptance of this objective means that I attach significance, meaning, and value to individual acts of choice and valuation, including the individual time preference between the present and the future; and my position is much influenced by my dislike of policies or measures which are likely to increase man’s power over man, that is to increase the

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2 That does not include Bauer (1956).
control of groups or individuals over their fellow men. (Bauer 1957, 113-14).

From the beginning then, Bauer expressed a set of values that both guided his thought and were non-patronizing to his subject of study, and that ran counter to the views of those advocating extensive state interventionism in developing countries. Bauer’s views were certainly in conflict with those of Myrdal, who believed in comprehensive central planning as a way of transforming entire societies, institutions and the attitudes and behaviors of people. “The success of planning for development,” Myrdal (1968, 67) wrote, “requires a readiness to place obligations on people in all social strata to a much greater extent than is now done in any of the south Asian countries. It requires, in addition, rigorous enforcement of obligations, in which compulsion plays a strategic role.” Candid authors like Myrdal and Robert Heilbroner (1963, 20-21, 126f) made clear the profoundly illiberal nature of many of the policies favored by the development consensus. Such views, of course, turned out to be spectacularly wrong.

But Bauer’s emphasis on personal choice also put him at odds with much of the economics profession which often justifies policies on purely technical grounds—such as on an emphasis on output—with little or no regard to the preferences or the freedom of choice of the people affected by the policies proscribed. Bauer’s approach clearly placed him in the classical tradition, rather than the neoclassical tradition, and as Lal (1987, 45, 46) points out, his views draw from an older rhetorical tradition as well, making many economists—such as Srinivasan—uncomfortable with Bauer even though they may reach much the same policy conclusions. According to Lal, the rhetoric of such mainstream economists to justify the market comes from second-best welfare economics “couched in the Arrow-Debreu language.”

A further characteristic that distinguished Bauer’s approach was his recognition of the limitations of both statistical evidence and the use of mathematics and the quantifiable in the study of development. What to much of the profession was and is a sign of scientific rigor to Bauer was a misplaced focus on seemingly measurable factors, such as capital, and to the neglect of influences, such as the historical context and background conditions, far more important to development. “It has encouraged confusion between the significant, on the one hand, and the quantifiable (often only spuriously quantifiable), on the other” (Bauer 2000, 19).

What matters most is direct observation and reliance on primary sources. That belief made Bauer exceptionally interdisciplinary, relying on the work of historians, business accountants, anthropologists, and even travel writers. Thus his criticisms and his approach may have alienated him from much of the economics profession even after the tepid pro-market consensus was formed. Indeed, late in life Bauer (2000, 20) would still lament: “What has become of the traditional method of direct observation, reflection, tracing of connections,
reaching tentative conclusions, and referring these back to observation and to established propositions of the discipline, or to findings of cognate disciplines? Such procedures are no less informative than quantitative analysis. For instance, with the traditional approaches the economist was much more likely to be aware of the gap between theoretical concepts and the available information.”

Bauer’s critiques of growth models reflect his distrust of over-reliance on formal analysis and are largely valid to this day. Growth models may have encouraged the emphasis on the aggregative and quantitative approach in development economics, and also conferred an air of rigor to such analysis. But Bauer (1984, 34) warned that conventional growth models were “unhelpful and even misleading” because they ignored the fact that the parameters were affected by the chosen variables, which themselves he came to recognize as “unimportant.” People’s attitudes or the political situation, variables omitted by growth models, are far more important to progress than the stock of capital, and attempts to increase that stock by tariffs, for example, will affect a model’s parameters and have an impact on development far greater than any increase in capital stock.

Growth models thus “become travesties” (Bauer 1972, 285) that are used to justify wrongheaded policies and neglect direct observation. “As a result of this neglect, development economists often analyse societies, systems and situations which they do not know: they literally do not know what they are talking about” (Bauer 1972, 289).

Such insights and rhetoric did not endear Bauer to most of his colleagues and the agencies that give grants to development economists. But Bauer’s insights do help to answer one of Kreuger’s (1997, 2) questions in her review article on the evolution of thinking on trade and development: “How could it happen that a profession, for which the principle of comparative advantage was one of its key tenets, embraced such protectionist policies?” Development economists were neglecting important principles and facts because they were not looking at the way people in developing countries actually lived. In his writings, Bauer not only took issue with the main findings of the “spurious consensus,” but often showed why there was a gap between the development orthodoxy and reality.

3 In a review of papers recently published in the Journal of Development Economics, Susan Anderson and Peter Boettke (2004, 307) observe that “formalistic tendencies still dominate,” and they criticize the minimal attention paid to institutional history.

4 Bauer (1972, 284) further warns that “While the choice of variables on the basis of logical convenience, simplicity, or elegance of analysis, is often fruitful in the natural sciences, this is not usually so in social studies, where recognition of the complexity of the problem is indispensable for valid results.”

5 On the proportion of development economists receiving support from the development agencies, see Klein and DiCola (2004).
This is not the place to review Bauer’s myriad contributions to the development debate.\(^6\) Rather, by examining the trade and development issues Krueger (1997) highlights, we can get a better understanding of Bauer’s thinking and why he fell outside the mainstream of his profession. The broad issues she highlights include: the behavior of peasants said to be traditional because they supposedly did not respond to price incentives; the dependence of developing countries on primary commodity production, something which free trade would further exacerbate; and the idea that capital accumulation and industrialization were critical for growth.

**BAUER ON GROWTH AND EXCHANGE**

Bauer’s first contributions to development economics included his publications on Malaya (1948) and West Africa (1954).\(^7\) In each place he spent considerable time and was meticulous in documenting the central role of local populations in the rapid spread of the cultivation of cash crops. He was able to show how Asians and Africans, generally lacking formal education, had transformed the economies of those regions within a few decades. While there were no rubber trees in Malaya or cocoa trees in British West Africa in 1885, Bauer noted that millions of acres of cash crops had been planted there by the 1930s, mostly owned by non-Europeans.

His research and observations established a pattern of scholarship that both challenged received wisdom and set its own high standards of method. Peasants, it turned out, did indeed take the long view in planting crops that take years to mature, responded to price signals, and otherwise responded to market incentives. Their supply curves did not bend backwards. Theodore Schultz’s (1964) study of traditional agriculture, cited by Krueger (1997), later was important in undermining the idea that peasants are nonresponsive, but Bauer was perhaps the first to show the folly of that idea.

In studying Malaya and West Africa, Bauer (1954, 3) found it “necessary to restrict abstraction rather severely, and to investigate factors and influences which are often regarded in modern studies in economics as institutional elements (or as data given to the economist). This survey therefore includes a review of some factors which are normally omitted from most modern textbooks on economics, and even from some of those professedly dealing with applied economics.” As such, Bauer was able to document aspects of the move from subsistence production to wider exchange that were unknown or ignored by orthodox development economists. Elkan (1982, 247) claims that Bauer’s early work “foreshadowed the discovery of the ‘informal sector,’” while Yamey (1987, 22) states, “I believe [Bauer] was the first economist to recognize the

\(^6\) For a good general review of Bauer’s thinking, see Dorn (2002), *Cato Journal* (2005), and Blundell (2002).

\(^7\) See Bauer (1948) and Bauer (1954).
extent and economic significance of what has come to be known as the informal sector.”

One phenomenon that was typically ignored in the development literature was the role of traders. Traders, Bauer observed, open up possibilities for farmers otherwise engaged in subsistence production to invest in production for trade. A large part of capital formation takes the form of non-monetary investment—for example, the clearing and improvement of land which requires personal effort—that is not captured by official statistics. Yet Bauer observed that in the aggregate, such activity from small farmers was significant, and its neglect by academics and policymakers led not only to misperceptions about economic activity, but also to flawed policies including taxation of farmers who were thus discouraged from engaging in capital formation.

Bauer thus early on had a healthy skepticism of official statistics and refuted the popular notion that large amounts of capital were necessary for growth. To Bauer (1987, 6), “Lack of money is not the cause of poverty, it is poverty,” and to have money is the “result of economic achievement, not its precondition.” He explained (1981, 248) that what is required are “changes in attitudes and mores adverse to material improvement, readiness to produce for the market instead of for subsistence, and the pursuit of appropriate government policies. Much of capital formation is not a pre-condition of material advance but its concomitant. Housing is one example . . . infrastructure (roads, railways and the like) is also a collection of assets and facilities which do not precede or determine development, but are largely developed in the course of it.”

In this sense, Bauer saw no reason why the role of capital would be any different in the Third World than it was in the West, where other factors, such as institutions that support an exchange economy, were the keys to economic progress. The notion of a vicious cycle of poverty was contradicted not only by the experience of the West, whose initial condition was poverty, but of what Bauer observed in the Third World. The prevalence of the “vicious cycle” idea further confirmed the neglect of evident reality so widespread in his branch of economics. His views on capital also led him to reject foreign aid as essential for growth and to criticize forced savings schemes, which were a central part of import-substitution.

The role of traders in bringing about development was underappreciated in other important ways. Traders regularly provided credit to small farmers and served as intermediaries with manufacturers and the outside world. But the lines separating farmers, traders and manufacturers were often not easily drawn, a fact usually ignored by policymakers and development economists. Farmers were often also traders, and successful traders often became leading manufacturers. Moreover, consumer goods brought in from abroad were not detrimental to savings and investment; rather they acted as incentive goods leading to greater productivity and investment. The development of
agriculture, because of trade, was complementary to the development of industry (just as consumption and investment were complementary). Neglect of these facts also led to inappropriate policies.

Still, Bauer was quick to point out that development did not depend on the development of manufacturing, which in turn did not depend on coercion or central planning. To suggest otherwise was to be ignorant of economic history and to confuse correlation with causation: “this argument for industrialisation, as somebody once said, is analogous to the suggestion that smoking expensive cigars will make people rich as it is rich people who smoke expensive cigars.” (Bauer 1972, 143).

Bauer went on to suggest why poor countries should not shun agriculture:

There are various reasons why in many poor countries a large measure of continued reliance on agriculture, notably on agricultural production for sale, is likely to represent the most effective deployment of resources for the promotion of higher living standards. One reason is the familiar argument based on comparative costs. Another, less familiar, reason is that production of cash crops is less of a break with traditional methods of production than subsidised or enforced industrialisation. Agriculture has been the principle occupation in most of these countries for centuries or even millennia. Thus in the production of cash crops the difficulties of the adjustment of attitudes and institutions in the course of the transition from subsistence production to an exchange or money economy are not compounded by the need to have to acquire at the same time knowledge of entirely new methods and techniques of production. After some time spent on the cultivation of cash crops, people find it easier to get used to the ways, attitudes and institutions appropriate to a money economy. This greater familiarity with the money economy facilitates effective industrialisation. In these conditions of transition from a subsistence to a money economy, conditions widely prevalent in poor countries, production of cash crops and effective industrialisation are complementary through time. The unfavourable contrast often drawn between agriculture and manufacturing, to the detriment of the former, is an example of a time-less, unhistorical approach to economic development, an approach which is inappropriate to the historical development of societies. (Bauer 1972, 144-45).

We now know, of course, that import substitution industrialization led to a tremendous bias against agriculture, as well as other economic distortions inimical to growth. East Asian countries that abandoned that model confirmed Bauer’s insight, as did, sadly, countries that did not. Indeed, Bauer (1957, 79)
warned against the “restrictive measures” being applied in much of Africa and the developing world: “these economies have not experienced the comparatively long spell of relatively unrestricted economic activity undergone by developed countries in the past; this early emergence of effective economic restrictionism may appreciably retard their rate of economic progress.”

In other areas related to development thinking on trade, Bauer’s critiques were equally prescient and devastating. Examples include his critique of the United Nations Conference on Trade and Development (Bauer 1972, first published in 1967) and his discussions of agricultural marketing boards, the supposed deterioration of the terms of trade, commodity agreements, and balance of payments crises. Throughout, Bauer (1972, 457) did not tire of pointing out that “Now, as in the past, the most advanced of the underdeveloped regions and sectors are those in contact with developed countries.” Among the leading development economists, his exposition of the effects of trade on poor countries was by far the most conceptually sound.

**BAUER’S INFLUENCE**

Any attempt to explain Bauer’s marginalization within his profession is necessarily conjectural. What would explain, for example, Little’s (1961) criticism of Bauer as a “political adolescent” followed years later by an apparent conversion of views—as expressed in his book *Economic Development* (Little 1982)—consistent with Bauer’s own market-liberal views but in which Little refers to Bauer only in one footnote (which itself does not reference Bauer’s thinking)?

In her survey article on trade policy, Krueger (1997, 7) refers to the 1950s and 1960s and observes that “For more than a decade, the growing disparity between theory and practice was all but ignored.” She adds that, “One of the puzzling aspects of the evolution of thinking about policy is the degree to which proponents of open trade regimes failed to refute the allegation that free trade would forever leave developing countries specialized in production of agricultural commodities” (11). Evidently, Krueger was either ignorant of or unimpressed with the refutations offered by Bauer.

It may be, as Lal (1987, 46) points out, that the discomfort of mainstream economists with Bauer is due to “an epistemologically unsound positivist view of economics as a science.” Bauer, by contrast, warned against approaching the study of economics as though it were akin to a physical science. Data is important, but so are relationships between phenomenon that can only be discovered through direct observation including factors that are not easy to quantify such as attitudes or the time dimension.

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8 See Lal (1987) for this account.

9 Lal cites McCloskey (1983) as making this more general point about the economics profession.
Following a different methodological tradition, much of the research on trade that helped overturn the development orthodoxy was empirical. Krueger rightly notes that much of it also depended on measurement tools, such as cost-benefit analysis, that could be applied across countries. As such, the trade research provided powerful evidence on the costliness and arbitrary nature of protectionism. Krueger is probably right when she notes that this research and the development experience itself played the key roles in undermining the prevailing consensus. But it seems that pro-trade economists would have been more effective had they been less dismissive of Bauer.

Indeed, Bauer’s classical liberal sensibilities allowed him to see things that were arrived at years later by others. Examples of this include his emphasis on institutions, customs, and government policies as the key determinants of development, and his dim view of the politicization of life that comes with increased state interventionism, an insight that would later be developed by research on bureaucracies and rent-seeking.

In Southeast Asia and West Africa, he was able to see economic progress that “was not the result of conscious efforts at nation building (as if people were lifeless bricks, to be moved about by some master builder)… What happened was in large measure the result of the individual voluntary responses of millions of people to emerging or expanding opportunities created largely by external contacts and brought to their notice in a variety of ways, primarily through the market. These developments were made possible by firm but limited government, without large expenditures of public funds and without the receipt of large external subventions” (Bauer 1984, 31). The fact that advanced sectors of the economy co-existed with traditional sectors was evidence to Bauer of the spread of economic progress, especially when put into a reasonable time frame and compared to the similar historical experience of the West; it was not evidence of enclaves or the lack of backward or forward linkages.10

Bauer’s particular approach to the study of development, though uncongenial to some, afforded him those and other insights. Yet another explanation as to why those insights were underappreciated was the fact that to younger generations of economists, they were simply unknown. Lal (1987, 43) reports that, given negative reviews, Bauer’s work was long “written off” by Lal’s contemporaries. William Easterly notes that “It is amazing how much of the research and thinking of my like-minded co-authors and me was anticipated decades ago by Bauer, without us realizing it. A not so obvious example of this is Bauer’s skepticism about investment and capital accumulation as a very important force in economic development, which people like Ross Levine, Lant Pritchett, and I have shared in several papers in the last decade” (Easterly 2005).

10 For a good review of the rise of Europe that is informed by Bauer’s insistence on examining centuries of historical background, see Raico (1994).
In the end, Bauer’s influence may be greater than is generally appreciated. As development economics has matured and gained a more sophisticated appreciation of the complexity of the growth process, prominent scholars have favorably cited Bauer in recent years. And students of development economics seeking insight and inspiration will continue to read Bauer. Yet, now that the general consensus favors market-oriented policies, I believe that Bauer would have been skeptical of recent initiatives undertaken under that banner. One example of such initiatives is the currently fashionable effort by some aid agencies to promote “sound” policies and institutions. In critical ways, Bauer is still ahead of the debate.

Bauer (2000) once described Indian economist B.R. Shenoy as a hero and a saint. Shenoy dissented from policy opinions that prevailed in his country in the 1950s.11 To Bauer, Shenoy was a hero because he publicly resisted development fads, and he was a saint because he remained serene “in the face of neglect, disparagement, even abuse.” Bauer claimed that Shenoy had personally influenced Bauer’s own conduct and opinions. “Shenoy united moral courage, intellectual integrity, and technical competence to an exceptional degree. The few people who possess this combination of attributes are of great value, both in public life and in academic study. They are particularly valuable in the study of society, where they are especially rare.” Bauer concluded: “May the succession of Shenoy and his like never fail, East or West.” Quite so.

APPENDIX


11 For compilations of Shenoy’s writings, see Shenoy (2004a) and Shenoy (2004b). For essays on Shenoy and other Indian market-liberal scholars in the post-World War II period, see Shah (2001).
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