

INTRODUCTION

REMEMBERING PETER BAUER

James A. Dorn

I regard the extension of the range of choice, that is, an increase in the range of effective alternatives open to people, as the principal objective and criterion of economic development.

—Peter Bauer (1957: 113)

The Princeton Conference

On May 6–8, 2004, the James Madison Program in American Ideals and Institutions at Princeton University hosted a prestigious conference in tribute to the late Peter (Lord) Bauer. Many of Peter's longtime friends attended the conference, including three Nobel laureates, and Milton Friedman and Thomas Sowell prepared a special video in which they reflected upon Peter's contributions to development economics. The inspiration for this important meeting came from Nancy Upham, a person who was a great help to Peter and to whom he dedicated his final book, *From Subsistence to Exchange and Other Essays* (Princeton University Press, 2000). In organizing the event, Nancy worked closely with Robert P. George, director of the James Madison Program and McCormick Professor of Jurisprudence in the Department of Politics at Princeton. The conference was made possible through the generous support of the Earhart Foundation and cosponsored by the Ogden Fund at Princeton University.

The Cato Institute is honored to be able to publish several of the conference papers and speeches in this special issue of the *Cato Journal*. I thank Nancy Upham and Robby George for their assistance,

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as well as Judi Rivkin and Madison Kitchens. Peter Bauer no doubt would have been pleased to see that his ideas are alive and well.

The Princeton conference was intended to both remember Peter Bauer and reflect upon his work. It was a small, intimate meeting that allowed participants to discuss the many aspects of Peter's work as well as to relate his ideas to current research. Peter's closest associate and collaborator Basil Yamey opened the conference with a thoughtful discussion of the man and his work. The first formal session was devoted to a discussion of "Resources, Institutions, and Attitudes: How Does Development Happen?" James Buchanan chaired the session and speakers included Basil Yamey, Amartya Sen, and Israel Kirzner. Session two dealt with "Colonialism, Imperialism, and Development," and was chaired by John O'Sullivan. Niall Ferguson and George Ayittey made presentations, and Martin Hutchinson commented. John O'Sullivan presented a luncheon talk on "Peter Bauer and the English Class System." The final panel of the day, chaired by Amartya Sen, returned to the theme of "Institutions and Development." Speakers included James Buchanan, Douglass North, and John McGinnis, with comments by Mary O'Grady. In a very insightful dinner address, Anthony Daniels, who had worked as a medical doctor in Africa, discussed the "anti-Bauerist" policies practiced in that country.

The next morning, the conference began with a session on "Trading Places: Migration, Nations, and Development." Allan H. Meltzer chaired the panel and speakers included Anthony Daniels, Nicholas Eberstadt, and me, with comments by Andrew Alexander. In the next session, chaired by Herbert London, Allan Meltzer, Enrique Gherzi, and Razeen Sally discussed "Democracy, Equality, and Development," with comments by William Niskanen. Robert George presented summary remarks, followed by Peter Brimelow's luncheon address. To conclude the conference, participants were treated to the Friedman-Sowell video, "Peter Bauer and His Ideas."¹

This special issue of the *Cato Journal*—**Remembering Peter Bauer**—contains eight articles by some of Peter's closest friends who give us a better understanding of this great man and scholar, and his contributions to development economics. (The "Other Articles" contained in this issue are not from the Princeton conference, but they do relate to Bauer's work.)

¹The videotape of the entire conference is available at www.princeton.edu/WebMedia/special.

From Subsistence to Exchange

Peter Bauer's final book, *From Subsistence to Exchange*, shows the breadth of his thinking and his deep understanding of the development process, with particular attention paid to the importance of people's conduct, culture, institutions, and policies. In this book, Peter returns to a basic theme that first appeared in *The Rubber Industry* (1948) and *West African Trade* (1954)—namely, the importance of trade for economic development, in the sense of increasing “the range of effective alternatives.” His firsthand study of Malaya (now Malaysia) in the late 1940s and of West Africa in the early 1950s convinced him that those who opposed domestic and international trade committed their countries to stagnation. He recognized the importance of the small trader to the commercial life of a nation and the crucial role that international trade plays in cultivating new ideas and stimulating new wants.

Amartya Sen, one of Peter's students at Cambridge and now a Nobel laureate economist, writes in his introduction to *From Subsistence to Exchange*, “Bauer has been a consistent and cogent defender of the role of the market economy in bringing about economic development. No one has done more in clarifying the reach of Adam Smith's thesis regarding the creative contributions of exchange.” He goes on to say, “The world of empirical understanding and practical reason that Peter Bauer has created is a robust addition to the discipline of economics in general and to development economics in particular” (Sen 2000: x–xi). For those contributions and others, Peter Bauer was awarded the first Milton Friedman Prize for Advancing Liberty. Although Peter died on May 2, 2002, at 86, shortly before he was to receive the actual award, he died knowing his work would live on.²

Other essays in the Princeton book, such as those dealing with population, foreign aid, Third World poverty, Western guilt, and the English class system served as the basis for some of the articles in this issue.

Bauer's Growing Impact

I first met Peter in 1985, when I was organizing a conference in his honor, which the Cato Institute held in Washington on May 1, 1986. From the very beginning, I could see his intensity, his clarity of thought, and his passion for individual freedom and limited government,

² For a survey of Bauer's work, see Dorn (1987, 2002).

as well as his great intellectual depth and curiosity. That conference resulted in a special edition of the *Cato Journal* (vol. 7, no. 1, 1987)—*Development Economics after 40 Years: Essays in Honor of Peter Bauer*, which included his famous essay “The Disregard of Reality.” At the time, Peter told me it was to be his “swan song.” Yet he was to say this many more times and it turned out to be the beginning of a very fruitful relationship with the Cato Institute, culminating with the Friedman award.

When the award was announced in April 2002, Peter received a flood of congratulatory messages that gave him great satisfaction in his final days. John Blundell, general director of the Institute of Economic Affairs and a member of the international selection committee, which also included Lady Thatcher, presented the award posthumously on May 9 at the Cato Institute’s 25th anniversary dinner in Washington. During the ceremony, Milton Friedman said, “There are few things that are more important than to honor those people who have promoted liberty around the world, and Peter deserved that prize. A friend of mine for 50 years, he was always consistent and persistent in presenting ideas that were unpopular but correct.”

Bauer’s work and relationship with Cato informed all our work on economic development—namely, the Project on Global Economic Liberty. In 1994, Ian Vásquez, who directs Cato’s Global Economic Liberty project, and Doug Bandow, a senior fellow at Cato, edited an important book that was heavily influenced by Bauer’s criticism of official development aid, *Perpetuating Poverty: The World Bank, the IMF, and the Developing World*.

I had the privilege of working with Peter on a number of projects after his so-called swan song:

- In September 1990, just before the collapse of the Soviet Union, Peter spoke at Cato’s Moscow conference, “Transition to Freedom: The New Soviet Challenge.” This meeting was a historic one in the sense that it was the largest gathering of market liberals ever to occur in the Soviet Union. Peter warned that it would take time to make the transition from plan to market, and argued that privatization and liberalization, not external aid (or what he called “subsidies”), would be the key to successful reform.
- In 1992, I invited Peter to participate in Cato’s Distinguished Lecturer Series. His lecture, “Subsistence, Trade, and Exchange: Understanding Developing Economies,” was given on October 14. (F. A. Hayek, the founder of the Mont Pelerin Society, had given the first lecture in the series.) Two years later, Peter gave

a second lecture at Cato titled “Population Explosion: Disaster or Blessing?” Both lectures appeared in *From Subsistence to Exchange*.

- By the mid-1990s, Peter’s work was receiving increasing attention. To further spread his ideas, I collected some of his key essays, as well as essays by leading economists who had been influenced by his work, and in 1998 Cato published *The Revolution in Development Economics*. That book, which I coedited with Steve Hanke and Sir Alan Walters, was later translated into Chinese and published in Shanghai.
- When Princeton published Peter’s final book in 2000, Cato collaborated with the Princeton University Press to bring out a special printing as a Cato Institute Book, which we distributed widely. Peter visited Cato one last time for a book launch party, at which his good friend Jim Buchanan spoke. As always, it was a stimulating and enjoyable event with Peter enthusiastic and displaying his Hungarian charm.

It is clear from the articles in this issue and from the recent academic literature that Peter Bauer’s ideas are becoming increasingly accepted in development economics. Indeed, it is now widely understood among economists that

- “Having capital is the result of successful economic performance, not its precondition.”
- “Economic performance depends on personal, cultural, and political factors, on people’s aptitudes, attitudes, motivations, and social and political institutions.”
- “Ability to borrow abroad does not depend on the level of income, but on responsible conduct and the capacity to use funds productively.”
- “Development aid is thus clearly not necessary to rescue poor societies from a vicious circle of poverty. Indeed, it is far more likely to keep them in that state.”³

The focus of the International Monetary Fund’s 2005 *World Economic Outlook* is on “Building Institutions,” not on aid. In Chapter 3 of the report, Subir Lall, Nikola Spatafora, and Martin Sommer (2005: 125) write, “Higher growth depends importantly on better institutions,” including “stronger property rights, lower corruption, and better governance.” From a survey of the literature, they conclude,

³ Quotations from Bauer (2000: 45–46).

The econometric analysis finds that the transition to good institutions is more likely to occur in countries that are more open, have a greater degree of political accountability, have a higher level of education in the population, and are in the same region as countries with relatively good institutions. Higher aid, on the other hand, could be a hindrance to transitions [Lall, Spatafora, and Sommer 2005: 152].

Although the IMF study does not cite Bauer, its results are consistent with what he said more than 40 years ago.

Despite the acceptance of many of Peter's ideas in the academic world, there are those who still think that foreign aid is a precondition for alleviating poverty, as can be seen in the current campaign by Western nations for more aid to the Third World.

For a long time Bauer fought against the rising tide of statism, protectionism, and the disregard of basic economic principles. Today, most developing countries have embraced the market, not the plan. Yet, one idea that persists is the notion that democracy is a precondition for development. Peter, on the other hand, firmly believed that limited government and economic freedom were more important for development than democracy—though he believed that democracy is desirable. What he meant was that in a place like Hong Kong, with limited government and a very high level of economic freedom, living standards will be high even though there is no democracy and few natural resources. Meanwhile, in a resource-rich country like India, which historically has had a very interventionist state, democracy does not guarantee development.

“What matters for economic advance,” says Bauer, “is not how the government is established but what is envisaged as its tasks.” Like 18th century classical liberals, he argued, “a government is most likely to promote the economic advance and well-being of the people by the effective performance of a specific range of tasks while refraining from extensive control of economic life” (Bauer 1998: 243). One of the biggest challenges facing developing countries today is growing the nonstate sector and limiting the size of government. Studying the work of Peter Bauer can help in that task.

Some Reminiscences

One does not work with Peter Bauer without a few good stories. So let me share several since this is a volume about “Remembering Peter Bauer.” I recall many transatlantic phone calls, usually late in the evening, when Peter wanted to discuss a paper or a lecture he was going to present at a Cato event. He was a real stickler for detail and

would dwell for days on the choice of the proper phrase. The results were impressive—as, for example, “to give money to the rulers on the basis of the poverty of their subjects directly rewards policies of impoverishment” (Bauer 1985: 43). He studiously recorded new ideas or facts in a small notebook, often during a meal at the Reform Club or the Garrett Club. He loved a glass of wine just before he spoke and a cigar afterward. When I asked him to give a lecture as part of the Cato Distinguished Lecture Series, he insisted on reading his lecture, slowly and with the proper gestures, because that is what a proper lecturer is supposed to do.

He was always a gentleman as well as a scholar, and he was fiercely independent. He typically used a personal experience to illustrate his point. For example, he told me that once while he was in India, he took a taxi but forgot his billfold. Upon learning that he was from Britain, the driver said, “Don’t worry, I know Englishmen keep their promises. You can send me the money.” The point, of course, is that reputation and the rule of law are important assets in a culture of commerce.

Peter was also thoughtful in dealing with his friends. Once I was supposed to meet him at the Garrett Club for lunch but overslept and kept “the Lord” waiting for nearly an hour. I thought he would be quite upset. But, as it turned out, my reputation was secure. I had always been punctual when either calling Peter or meeting him. So I found that he wasn’t upset because I was late; he was upset because he thought I had died!

Lord Bauer of Market Ward is now in that “Great Library in the sky,” to use Ronald Coase’s expression. If he’s listening—and I’m sure he is—I want to say, “Thanks Peter for all you have given to us—your wit and wisdom, your charm and love of life, and most of all your legacy of liberty.”

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