

REFLECTIONS ON PETER BAUER'S  
CONTRIBUTIONS TO  
DEVELOPMENT ECONOMICS  
*Milton Friedman and Thomas Sowell*

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**Friedman:** Tom Sowell and I are glad to be able to participate in your discussion of Peter Bauer's work at long distance. Peter was a close personal friend of mine and we are all upset at his early demise. His work was important and will live on.

**Sowell:** The thing that strikes me most about Peter Bauer is how he stuck to his guns through decade after decade—when he was outside the mainstream, all by himself. And then, by the end of his life, the mainstream had moved over to where he was.

**Friedman:** It reminds me of what's happened to you, Tom. You've gone through essentially the same process.

**Sowell:** I think I'm a few decades away.

**Friedman:** Well, no. At any rate, there are still elements of the opposition to Peter's views that are not negligible—I guess the same thing goes with respect to your views.

**Sowell:** Absolutely. There are many people who have a vested interest in being opposed to his views, because if you understood the message of Peter Bauer then you would begin to question such things as foreign aid. Or, you'd begin to question the World Bank, the International Monetary Fund. And, these are more than just people with a set of ideas; these are people with a huge amount of money and a huge vested interest in the continued imposition of their ideas on countries that need that money.

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**Friedman:** The thing is, you have to distinguish between what people say and what they do. Almost everybody now agrees in principle with the proposition that there are defects in aid. If you go back, the initial dictum that Peter fought against was the vicious cycle of poverty—the idea that was widespread and essentially conventional wisdom in the study of lesser developed countries: that they were poor, and because they were poor they couldn't generate capital, and because they couldn't generate capital they couldn't develop, and that kept them poor. And that the only way they could get out of it was if capital was brought in from outside.

**Sowell:** I mean, I must say it sounds plausible even now. It's only the fact that you have to ask the question: if that's true, how did any other rich countries ever become rich, because they all started out poor?

**Friedman:** And once you say that, the view becomes silly. It's hard to see how anyone could ever have set it forth. And yet, there is no doubt that it was the dominant view within the profession of development economists for many years.

**Sowell:** Well, it's one of many silly ideas that become conventional wisdom. There are so many things that people simply don't think about. And I often think, it really doesn't matter how smart they are. If you don't really stop and think about things, it doesn't matter whether you're a genius or a moron.

**Friedman:** People get into patterns of thinking and it's very hard to get out of those patterns. I think very few people today in the profession would maintain the vicious cycle of poverty argument, because there have been so many counterexamples.

**Sowell:** One of the things that he mentioned in one of his later books was that people were saying things like: "We took all the rubber from Malaysia"; "We took all the tea from India." And he pointed out that this was the direct opposite of the truth. The British brought the rubber tree to Malaysia; they brought the tea to India—and the Indians and Malaysians benefited. There's also the example from his later work in West Africa where he points out that most of the cocoa in West Africa was grown by Africans and that cocoa was not native to Africa—it was brought in and the local people took it from there. One of the things that contrasts with Peter Bauer's notion is that of Gunnar Myrdal, who argued that you had to have westernized intellectuals taking charge of the country and directing the masses, who wouldn't otherwise be able to do anything. And it's ironic because people like Myrdal and others on the Left are regarded as great friends of the masses, but really you see in them the utter contempt for what ordinary people can do.

**Friedman:** Again, conventional wisdom in the development community was that you needed central planning. If the underdeveloped countries were going to get anywhere, it would only be through central planning. Myrdal was one of the main proponents of that view. But I think that view, like the vicious cycle of poverty, was very much a conventional view in the profession.

**Sowell:** It took an awful lot of time and an awful lot of human suffering before that idea was finally sufficiently discredited that even the intellectuals began to abandon it.

**Friedman:** It was really the collapse of the Soviet Union and the fall of the Berlin Wall that put the finishing touch on those views. But again, that's another example: very few people hold those views anymore, but yet practice conforms to the earlier view. In all of the Western countries, government plays a very large role. Socialism is dead, but big government lives and flourishes.

**Sowell:** It sounds as if socialism has simply changed clothes and is now appearing under a different guise.

**Friedman:** Originally, socialism as defined in the dictionary is the ownership and operation of the means of production. Now, it's taking income from some and giving it to others, and regulating people's private lives. It's the welfare state that is the successor to socialism. So far as Peter was concerned, he very early saw through the fallacies of the conventional view, as you say, and strongly emphasized that the so-called "backward people"—the ordinary people of India, Malaysia, and Africa—reacted to the same incentives and reacted just about as rationally as the citizens of the more advanced countries. And, I guess what he did in his key West Africa work was to show the importance of traders and trading in disseminating knowledge and making available "incentive goods," as he called them, that encouraged people to try to achieve higher incomes.

**Sowell:** Ironically, Myrdal was precisely against the traders. He thought there were too many middlemen and so on. It's just amazing. I get no sense that Myrdal actually investigated these theories of his and compared them with anything that actually happened.

**Friedman:** Many of these approaches took on the characteristics of religion, which is believed without investigation. But yet, they must have been plausible. Large numbers of able people believed them. Those views were very deeply entrenched. So, it sounds simple to come along and say, "Look, obviously, if the vicious cycle of poverty were true, no country could have ever developed." But, it wasn't obvious at all and it took a good deal of courage and stubbornness to resist that trend.

**Sowell:** Because Peter Bauer wrote in such a very plain way, and

because the things that he said now seem obvious, I fear that at some point in the future people will be looking back and say, “What was the big deal? All of this is just stuff anybody should have known.” But, it’s almost like saying, “So, the man traveled 10 miles in a day—what is that?” Until you say, “Well no, he traveled 10 miles hacking his way through a jungle,” and that’s essentially what Peter Bauer did. He had a whole jungle of preconceptions and dogmas out there. I myself, of course, started out on the Left and believed a lot of this stuff. The one thing that saved me was that I always thought that facts mattered. And once you think that facts matter, then of course that’s a very different ball game.

**Friedman:** Well, Peter argued against foreign aid. He objected to the term “foreign aid.” He said [that such aid was really] inter-government subsidies, and by calling them foreign aid you begged the question. The word “aid” means it must be helping, and in fact in most cases so-called foreign aid did harm. Because it was aid not to the individuals who needed it, but always it was a subsidy granted to government. So, foreign aid made government stronger, and the problem in many of these underdeveloped countries was that government was too strong and essentially dictatorial.

**Sowell:** One of the other things that Peter Bauer said that ties into that is that the Left is very good at articulation. They do a better job of explaining away failure than the people on the other side do of explaining success.

**Friedman:** Well, there are fewer limits on what you can promise than on what you can deliver.

**Sowell:** Yes, you can promise 10 million jobs if you want, which I think is very nice if you can get it. But, whether we’ll actually see those 10 million jobs is another question.

**Friedman:** If you’re going to promise, you should promise things that are going to happen whether you have anything to do with it or not. And 10 million jobs are not unlikely in the next 10 years or so.

**Sowell:** That’s true. Or else you promise things that are 50 years from now, so that no one will remember or if they do you won’t be here to face the music.

**Friedman:** I think that’s right: either promise what will happen anyway or promise what is far away. But, Peter was of course against promising. He really had no truck with that.

Now, what are the other aspects of Peter’s work? He was very much against the idea of a theory of history.

**Sowell:** Really?

**Friedman:** John Hicks published a small book called *A Theory of Economic History*. I must admit, I have never read it.

**Sowell:** Nor have I.

**Friedman:** But I have read Peter's review of it. And it was a devastating review. He thought that Hicks's analysis was very defective in theory and that the factual evidence he cited was very superficial. In the process, he gave a fairly lengthy argument—a very good argument (I'm not sure I agree with it)—on why you could not have a theory of history. Part of it dealt with the role of individuals that made it so difficult to say anything about what conditions were requisite for progress or performance in history. At any rate, it's a very interesting review, a very long one.

**Sowell:** I think the idea of having a theory of history really assumes away not only the realm of individuals but all of the enormous number of factors that go into any given set of circumstances.

**Friedman:** Well that's what Peter emphasized in this review. He emphasized the enormous number of circumstances that affect things and how the same circumstances can lead to very opposite results.

**Sowell:** I think of an automobile accident that Winston Churchill had in New York sometime before the Second World War—he was seriously injured. Had Winston Churchill died, I can't believe the Second World War would have turned out the same way.

**Friedman:** I'm sure you're right.

**Sowell:** The other thing that Peter Bauer used to talk about was the overpopulation hysteria. He had all kinds of information on this, pointing out that famines don't occur in overpopulated countries: they typically occur in thinly populated countries with lots of empty space and lots of unused land. The overpopulation theory is, I think, one of the miracles of the history of ideas. It's more than 200 years old today, it is still going strong, and it's had 200 years of evidence against it piling up. And yet, it just keeps right on going.

**Friedman:** And in most of the major developed countries, population is declining. Population in Japan is now declining. Population in Russia is declining. The projection for the future is that in all major European countries—Italy, Germany, France, Britain—you will in a few years start having a decline in population, except for immigration.

**Sowell:** Again you could ask a simple question: name a country that had a higher standard of living when its population was half of what it is now. And, there's no such country that I know of.

**Friedman:** No such country. In many ways, population takes care of itself. As countries develop, the need and the value of additional children becomes smaller and economic incentives lead to an equilibrium population. Peter was very strong on the issue. That was again, as you say, one of the bits of conventional wisdom—the

Malthusian notion that population was a deterrent to economic growth. One of the things about Peter was that he was very prolific. He wrote extensively, he published widely on all sorts of topics. One of his major topics, in the early days at least, had to do with the attempts to stabilize the income in the underdeveloped countries and prevent fluctuations. Stabilizing the prices of commodities, that was the excuse and justification for the commodity boards that the British set up in the various colonies. In the cocoa field, for example, the growers of cocoa were required to enter into a marketing board in which they sold their output to the marketing board for a fixed price. Then, the marketing board handled the sale of cocoa. It was a monopolist situation. And the justification for it was that the cocoa farmers, like other farmers, were very much subject to fluctuating incomes and fluctuating prices. The marketing board was designed to stabilize the price. Of course, what it did was to give a guaranteed price that was less than the market price—used it as a means of extracting large sums from the growers of cocoa. Peter wrote a good deal showing the fallacy—that it was doing a great deal of harm rather than good.

**Sowell:** The other thing is that, again, if people are left to themselves the very same function can be taken over by private commodity speculators. Farmers around the world are able to sell their crops in advance for a fixed price to a private speculator.

**Friedman:** But you know it's not only the underdeveloped countries or the imperialists in underdeveloped countries who believe this. The principles on which that marketing board was established are exactly the same ones that account for our having a federal petroleum stock.

**Sowell:** I didn't know that—how?

**Friedman:** We want to stabilize the prices of oil. Clinton drew on the oil reserve in the 1990s, at a time of abnormally high prices. And people today are urging the government to draw down the petroleum reserve in order to counter the high prices of gasoline. The thing that impresses me is the tendency for people in the higher developed countries to preen themselves, that they have the knowledge and are the reason their countries are developed. And they look down on and denigrate the residents of the underdeveloped countries, who in many cases are just as knowledgeable, work harder, and are just as innovative if they have the opportunity.

**Sowell:** Well, you know, I think of the terrible influence of Harold Laski on people who later on became Third World leaders. I was thinking, what if those people had studied under Peter Bauer instead of Harold Laski? How many fewer famines would we have had? How

many people would have been advanced far beyond where they are right now?

**Friedman:** I read recently a piece by an Indian economist who was a student of Bauer. He was making exactly your point about India—about how much better India would have been if it had followed the teachings of Bauer rather than the teachings of Laski.

**Sowell:** And yet another reason why the whole notion of a theory of history is so skewed—that Harold Laski happened to be there at a time when so many people from Third World countries were studying, who would later on become leaders of those countries and then use their own people as guinea pigs for these wholly untested ideas that Harold Laski was throwing around in Britain.

**Friedman:** We have to praise Peter for his contributions. It's been a nice opportunity to discuss them with you, Tom.

**Sowell:** It's been my pleasure.