P.T. BAUER

Reality and Rhetoric

Studies in the Economics of Development

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P. T. Bauer

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REALITY AND RHETORIC

BY THE SAME AUTHOR

The Rubber Industry
West African Trade
The Economics of Underdeveloped Countries (with B. S. Yamey)
Economic Analysis and Policy in Underdeveloped Countries
Indian Economic Policy and Development
Markets, Market Control and Marketing Reform (with B.S. Yamey)
Dissent on Development
Equality, the Third World and Economic Delusion

volume by the Centre under the title *Global Strategy for Growth*.

Chapter 3 is a much enlarged version of a short essay which first appeared in *The Public Interest* (New York), Summer issue, 1982.

Chapter 4 is a much amended version of a paper presented at a conference in memory of the late Wilson E. Schmidt, held in Washington DC in March 1983.

Chapter 5 is a greatly extended and revised version of a paper presented at a conference organized by the American Enterprise Institute for Public Policy Research in Washington DC in July 1981. A much abridged and unrevised version of the conference paper appeared in *This World*, New York, Vol. 1, December 1981.

Chapter 6 was first published in *Encounter*, in the course of 1983.

The original version of Chapter 7 was published in the *Economic History Review*, second series, Vol. XXV, No. 4, November 1972.

Chapter 8 first appeared in the *South African Journal of Economics*, Vol. 22, No. 2, June 1954.

Chapter 9 first appeared in the *Journal of Development Economics*, Vol. 2, 1975. It was a reply, requested by the Journal's editor, to a review article of an earlier book of mine. In this chapter, therefore, I have limited myself to minor stylistic changes. I have, however, omitted two sections and occasional passages that directly overlap with material included in other chapters in this book.

Chapter 10 has not been published before.

In conclusion, I may conveniently note here some matters of terminology. Unless stated otherwise, references to the war are to the Second World War; the terms underdeveloped world, less developed world, less developed countries (ldcs), developing world or countries, the Third World and the South are used as synonyms (these terms are examined critically in Chapter 3); and aid refers to official government-to-government economic aid, and thus excludes military aid, commercial investment and the work of voluntary agencies.

London, August 1983

Preface

In the preparation of this book I have worked even more closely with Professor B. S. Yamey than in my other writings. He is co-author of Chapters 3, 6, 7 and 8, both of their earlier versions and their present form. But he has also been closely involved in all the studies published here, from their inception to the current printed version. As indicated in Chapter 1, the frequent use of the plural pronoun is intended to refer to joint argument and joint work.

Once again I have benefited considerably from the editorial assistance of Léonie Glen. Her quick understanding, intelligent drafting, good nature and remarkable working capacity have left their mark throughout the book.

I should like to thank Dr Brian Hindley and Dr Deepak Lal for thoughtful suggestions for the improvement of an earlier draft of Chapter 2.

I wish to thank Miss Mary de Vere Chamberlain, my secretary, who has typed most of this book, some of it several times over and often in trying conditions, but always in good temper and good humour.

Some of the material has been published before, but in practically every case this version has been much extended and revised. The status in respect of the various studies is as follows.

Chapter 1 has not been published before. It is a revised form of the first lecture in the World Bank's Pioneer Lectures delivered at the Bank in February 1982. It will be incorporated eventually in a World Bank publication of this lecture series. Each of six economists was asked to lecture on what he considered to be his contribution to the study of development economics; hence the somewhat autobiographical nature of the chapter.

Chapter 2 is a substantially revised version of an essay prepared for the Trade Policy Research Centre, to be included in a forthcoming

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CHAPTER 1

Remembrance of Studies Past: Retracing First Steps

1

The following is a reasonable summary of the principal components of the burgeoning development literature of the early post-war years.

External trade is at best ineffective for the economic advance of less developed countries (ldcs), and more often it is damaging. Instead, the advance of ldcs depends on ample supplies of capital to provide for infrastructure, for the rapid growth of manufacturing industry, and for the modernization of their economies and societies. The capital required cannot be generated in the ldcs themselves because of the inflexible and inexorable constraint of low incomes (the vicious circle of poverty and stagnation), reinforced by the international demonstration effect and by the lack of privately profitable investment opportunities in poor countries with their inherently limited local markets. General backwardness, economic unresponsiveness and lack of enterprise are well-nigh universal within the less developed world. Therefore, if significant economic advance is to be achieved, governments have an indispensable as well as a comprehensive role in carrying through the critical and large-scale changes necessary to break down the formidable obstacles to, and initiate and sustain the process of, growth.

These ideas became the core of the mainstream academic development literature, which in turn has served as the basis for national and international policies ever since. Even when some elements of the core have disappeared from more academic writings, they have continued to dominate political and public discourse, an instance of the lingering effects of discarded ideas.

My earliest investigations of economic issues in ldcs were not inspired by these topics, in fact they were altogether unconnected with them.[1] I came to this general area through two studies, one of the rubber industry of South-East Asia and the other of the organization of trade in the former British West Africa. I spent more than ten years on these studies during the 1940s and fifties, when I was for substantial periods in each of the two regions. What I saw was starkly at variance with the components of the emerging consensus of mainstream development economics listed above. My enquiries into and observation of economic, social and political life in these two major regions provoked a lasting interest in general development economics. Although my ideas have developed much since the completion of these studies, they have not moved closer either to the tenets of the development orthodoxy of the 1950s or to their subsequent modification.[2]

2

Even before setting foot in South-East Asia and West Africa I knew that their economies had advanced rapidly (even though they were colonies!). After all, it required no instruction in development economics to know that before 1885 there was not a single rubber tree in Malaya nor a single cocoa tree in British West Africa. By the 1930s rubber, cocoa and other export crops were being produced on millions of acres, the bulk of them owned and cultivated by non-Europeans. But while I knew this and a good deal else about local conditions, I was nevertheless surprised by much of what I saw, including the extensive economic transformation of large areas and the vigour of economic life of much of the local populations. In Malaya (now Malaysia), for example, the economic activity of the many towns and large villages, the excellent communications and the evident prosperity of large sections of the non-European population reflected a world totally different from the largely empty and economically backward Malaya of the nineteenth century. The results of somewhat similar though less extensive changes were evident also in West Africa, most notably in Southern Nigeria and the Gold Coast (now Ghana). How was all this possible if there was any real substance in the central ideas of the contemporary development economics?

In the earliest stages local supplies of capital were minimal. However, in South-East Asia the export market for rubber (and to a lesser extent other products such as tin) attracted investment by European enterprises, particularly for such purposes as the development of rubber estates in hitherto empty jungle. Where local labour supplies were inadequate, as in Malaya and Sumatra, the Western enterprises organized and financed large-scale recruitment and migration of unlettered workers, mainly from China and India. The activities of the Western enterprises induced unintended and unexpected sequences. For instance, Chinese traders were drawn into the rubber trade. Some started their own plantations while others brought seeds and consumer goods to the indigenous people of Malaya and Netherlands India (now Indonesia). They thereby encouraged the local population to plant rubber trees and to produce for the market. By the late 1930s, over one-half of the rubber acreage of South-East Asia was owned by Asians. This acreage represented the results of capital formation through direct investment in the face of initially low incomes.[3]

The history was somewhat different in West Africa. In this region there were (and are) no European-owned plantations. The large area under cocoa, groundnuts, cotton and kola nuts has been entirely on farms established, owned and operated by Africans. The extensive capital involved was made available partly by European trading firms which financed local traders, and partly by direct investment by Africans, the latter in important instances carried out by migrant farmers in regions far from their homes. In all this the role of traders was crucial. Sir Keith Hancock has rightly called West Africa 'The Traders' Frontier'. The traders made available consumer goods and production inputs, and provided outlets for the cash crops. Their activities stimulated investment and production. The part played by what used to be called inducement goods – a term once a household expression but rarely encountered in modern development literature – was notable. The sequence showed the inappropriateness of the notion of the 'international demonstration effect', the idea that access to cheap consumer goods, especially imported goods, retards development in the ldcs by raising the propensity to consume of the local populations.

The rapid economic progress generally, of which the large-scale capital formation in agriculture by the local people was a major component, cannot be squared with the idea of the vicious circle of poverty and stagnation. It would have been a freak of chance if I had happened on the only two regions in the less developed world whose peoples had managed to escape the imperatives of a law of economics. In fact, of course, the notion of the vicious circle of poverty, that poverty is self-perpetuating, is belied by evidence throughout the developed and less developed world, and indeed by the very existence of developed countries.

The notion is not rescued by the suggestion, much canvassed since the 1950s, that the production of commodities for export resulted merely in enclaves operated by Westerners without benefit to the local people. As I have said, a large part of production and sometimes the entire output was (and remains) in the hands of the local population. The same applies to the associated activities of trade and transport. Had this been otherwise, the development of export crops could not have transformed the lives of the local people as it had done. In these regions, as in many others, pervasive economic advance has made it possible for much larger populations to live longer and at much higher standards.

A developed infrastructure was not a precondition for the emergence of the major cash crops of South-East Asia and West Africa. As has often also been the case elsewhere, the facilities known as infrastructure were developed in the course of the expansion of the economy. It is unhistorical to envisage an elaborate and expensive infrastructure as a necessary groundwork for economic advance. And countless people in trading and transport often performed the services usually associated with capital-intensive infrastructure. For instance, human and animal transport, contacts between numerous traders, and long chains of intermediaries were partial but effective substitutes for expensive roads and communication systems.

3

The historical experience I have noted (which had its counterpart in many ldcs) was not the result of conscription of people or the forced mobilization of their resources. Nor was it the result of forcible modernization of attitudes and behaviour, nor of large-scale state-sponsored industrialization; nor of any other form of big push. And it was not brought about by the achievement of political independence; or by the inculcation in the minds of the local people of the notion of national identity: or by the stirring-up of mass enthusiasm for the abstract notion of economic development; or by any other form of political or cultural revolution. It was not the result of conscious efforts at nation building (as if people were lifeless bricks, to be moved about by some master builder), nor of the adoption by governments of economic development as a formal policy goal or commitment. What happened was in very 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 operation of 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.

The nature of these responses in turn exposed for me the hollowness of various standard stereotypes. It was thus evident that the ordinary people of the ldcs were not necessarily torpid, rigidly constrained by custom and habit, economically timid, inherently myopic or generally deficient in enterprise. In the space of a decade or two, the illiterate peasantry of South-East Asia and West Africa planted millions of acres to produce new cash crops; and rubber, cocoa and kola trees, for example, take five years to become productive. In all, this represented large volumes of direct investment made possible by voluntary changes in the conduct, attitudes and motivations of numerous individuals, in many cases involving the sacrifice of leisure and the modification of personal relationships. Yet Malays, Indonesians and Africans were precisely among those who were depicted (as they still sometimes are) as incapable either of taking a long view or of creating capital, and as being hobbled by custom and habit.

The establishment and operation of properties producing cash crops are entrepreneurial activities. So also are the ubiquitous trading and transport activities of local people. The contention is thus invalid that in ldcs entrepreneurial skills and attitudes are lacking. Indeed, they are often present but take forms which accord with people's attributes and inclinations, and with local conditions and opportunities.

In many parts of the less developed world there is evidence of much enterprise and risk-taking, often on a small scale individually, but by no means confined to agriculture and trading. It is not necessary to spell out details here.

The contribution to economic development of the numerous small- and large-scale entrepreneurs (farmers, traders, industrialists and so on) highlights the generally melancholy record of the entrepreneurial efforts of ldc governments, all too often financed at large cost from revenues derived from the taxation of the producers of cash crops. It is often urged in the development literature, in support of the alleged need for extensive state control and direction in the economies of many ldcs, that their populations lack entrepreneurial talents. However, should the people of a particular country in fact be without entrepreneurial talents or inclinations, it is difficult to see how the politicians and civil servants from this population could make up for the deficiency.

In the less developed world, willingness to bestir oneself and to take risks in the process is not confined to entrepreneurs in the accepted sense of the term. Hundreds of thousands of extremely poor landless rural people have migrated thousands of miles to improve their lot. The large-scale migration from South-East China and South India to Fiji, Malaya and Netherlands India is well known. In my work I was able to show that very poor illiterate people were well informed about economic conditions in distant and alien countries, and that they responded intelligently to the opportunities they perceived.

4

When I began my work, the emerging ideas on economic development assigned decisive importance to the ratio between numbers of people on the one hand, and available resources, that is land and other natural resources as well as capital, on the other. Given the size of population, physical resources were all. Apart from age and sex differences, people were envisaged as homogeneous from an economic point of view. All this can be seen in the construction of the growth models of contemporary economic literature, and in the more general discussion these inspired. The only partial qualification was provided in the growing emphasis on human differences resulting from capital embodied in people.

My existing scepticism about this approach was soon and amply reinforced by what I saw in South-East Asia. The differences in economic performance and hence in achievement among groups were immediately evident, indeed startling. Perhaps the clearest demonstration that people, even with the same level of education, cannot be treated as uniform in the economic context was to be found in that region.

Many rubber estates kept records of the daily output of each tapper, and distinguished between the output of Chinese and Indian workers. The output of the Chinese was usually more than double that of the Indians, with all of them using the same simple equipment of tapping knife, latex cup and latex bucket. There were similar or even wider differences between Chinese, Indian and Malay smallholders when I visited several hundred smallholdings in Malaya in 1946. The pronounced differences between Chinese and Indians could not be attributed to the special characteristics often possessed by migrants, as both groups were recent immigrants. The great majority of both Indians and Chinese were uneducated coolies, so that the differences in their performance could not be explained in terms of differences in human capital formation. The Chinese performance in Malaya was especially notable. Not only had practically all the Chinese been very poor immigrants, but they were also subject to extensive adverse discrimination imposed by the British administration and by the local Malay rulers.

Of course, differences among groups were not limited to rubber tapping or to other aspects of rubber production. They were pervasive throughout the local economies in the establishment and running of plantations and mines, and of industrial and commercial undertakings. These differences in no way resulted from differences in initial capital endowments of the differential groups. In fact, of course, these differences meant that the various groups made vastly different contributions to capital formation; and these contributions in turn were conditioned not only by differences in productivity but also by differences in personal preferences, motivations and social arrangements. I was to encounter similar phenomena in West Africa, in the Levant, in India and elsewhere.

I should not have been so greatly surprised by what I found. After all, I was aware of the pronounced differences in economic performance among different cultural groups as a feature of much of economic history, and of the fact that groups discriminated against were often especially productive and successful. My temporary oversight was probably due to my having succumbed to the then prevailing view that the less developed world, newly discovered by Western economists, was somehow different. I had also fallen victim to the notion of the primary and overwhelming importance of physical resources (including capital) as determinants of real incomes, a short period of aberration in which I had ignored what I knew of economic history. And I, like others, may have been bemused by figures of average incomes calculated for entire populations without regard to ethnic (or for that matter age) composition.

I might note here that many millions of very poor people in the Third World today, as in the past, have ready access to cultivable land, and that conventional labour-to-land ratios are meaningless. Such groups as aborigines, pygmies and various African tribes are extreme cases of poverty amidst abundant land. Even in India, much land is officially classified as uncultivated but usable.

The small size and low productivity of so many farms in the Third World primarily reflect want of ambition, energy and skill, and not want of land and capital. In any case, it was borne in on me that the notion of uncultivable land is misleading, since cultivability depends heavily upon the economic qualities of the people as well as on official policies affecting the use of land. Examples of the last point include the price policies of governments, control of immigration and inflow of capital, and the terms on which state lands are made available.[4]

In all, although their discussion has been largely taboo in the post-war development literature, the reality and importance of group differences in economic performance cannot be disputed. The subject is virtually proscribed in the profession, even when these differences serve as major planks in official policy, as they do in Malaysia and elsewhere.

Discussion of the reasons for group differences in performance and of their likely persistence would be speculative, and economic reasoning is not informative on these questions. But this provides no excuse for the systematic neglect of group differences by economists. Such differences are plainly relevant for assessment of the economic situation and prospects in Third World countries (and elsewhere too), and for the concept and implications of population pressure. It follows also that the relation between economic development and population growth cannot be examined sensibly on the basis simply of numbers and resources.

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Considerations such as those set out so far have reinforced my reluctance to attempt to formulate a theory of economic development, and also my rejection of theories based either on sequential stages of history or on the conventional type of growth model. The inadequacy of these theories is in any case revealed by their inability to account for the well-attested phenomenon of economic decline (whether absolute or relative decline). Moreover, economic development is but one facet of the history of a society, and attempts to formulate general theories of history have so far been conspicuously unsuccessful, even though many distinguished minds have been addressed to the question. Not surprisingly, some of these attempts have yielded informative insights, but none of sufficient generality to serve as basis for a theory of development.

In the more narrowly economic context, I found the approach embodied in the conventional growth models to be unhelpful and even misleading. The approach focuses on independent variables which I came to know were unimportant. Again, it ignores the interplay between the chosen variables and parameters. Thus the models take as given such decisive factors as the political situation, people's attitudes and the state of knowledge.[5] Attempts to increase the stock of capital, for instance by special taxation or restriction of imports, greatly affect these and other factors treated as parameters, and these repercussions typically far outweigh the effects on development of any increase in capital which might ensue. These shortcomings are apart from basic problems of the concept and measurement of capital, and of the distinction between investment and consumption. This distinction is especially nebulous in the conditions of ldcs where the use of inducement goods often results in improved economic performance, and consumption is thus complementary to rather than competitive with saving and investment.

Since the Second World War an aggregative and quantitative approach has predominated in development economics. Such an