

PETER BAUER

A TRUE FRIEND OF THE WORLD'S POOR

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VIEWPOINT 4

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In the west Bauer is being remembered as the man who opposed foreign aid most trenchantly. He called aid "government-to-government transfers" and said that they went from the poor of the developed world to the rich of the underdeveloped. Margaret Thatcher was strongly influenced by Bauer—she was instrumental in getting him elevated to the House of Lords in 1982, and reportedly asked Third World leaders at a Commonwealth meeting to read Peter Bauer—but even she did not close down Britain's Office of Development Assistance (ODA). To the bleeding hearts brigade, Bauer's opposition to aid would make him an enemy of the world's poor. In this tribute to the greatest development economist that ever lived, I will take the position that, contrary to the views of the bleeding hearts brigade, Bauer was really a true friend of the poor people of the Third World.

A friend who will be sorely missed. And a friend who will one day be read and honoured in every Economics classroom in the Third World and whose bust will be prominently displayed in every Third World bazaar.

A few days before Lord Bauer's death, a report appeared in the papers saying that the Delhi government was putting out posters telling the citizens not to give alms to beggars. Officials were quoted as saying that beggary had become an "industry" and a traffic hazard. And further, that judging by the sheer number of crippled beggars—mainly children—they were sure there was a "supply chain" ensuring that cripples were available in plenty for the trade.

If Lord Bauer were here, he would greet this news with a wry smile. It was he who had first made the penetrating observation that widespread beggary on the streets of India and Pakistan is not a sign

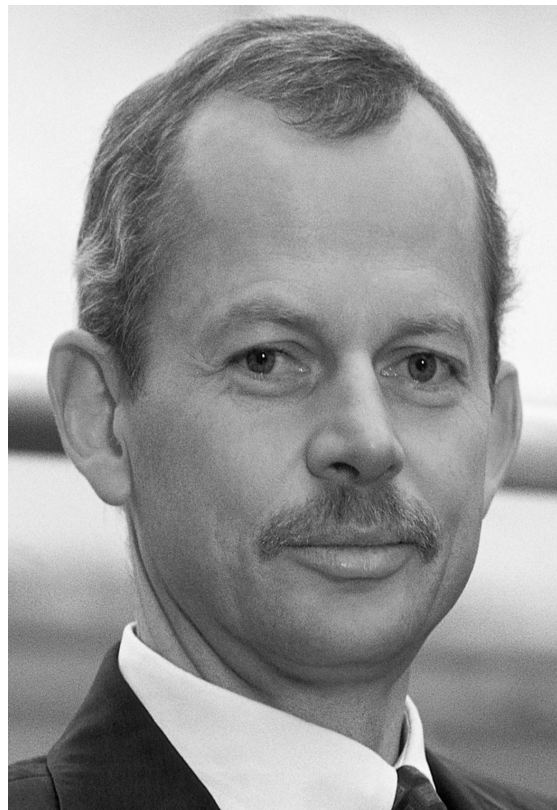
of poverty; rather, this widespread beggary exists because the predominant communities in both countries, Hindus and Muslims respectively, believe they earn spiritual merit by giving alms to the poor.

This acute observation of his is dated 1965, and is contained in the very first chapter of his book criticising Indian planning. In his words:

*Hinduism and Islam, the two principal religions [of India], encourage begging, since they enjoin their followers to support beggars. Both religions extol the contemplative life, especially that of the religious mendicant, which encourages the emergence of large numbers of both genuine and bogus religious mendicants.*¹

He pointed out that, in India, there were no Sikh, Parsi, or Jain beggars—because these communities discourage beggary (a blot on the entire community), encourage self-help, and practice collective charity effectively.

Among the Sikhs, for example, the *gurudwara* hosts a daily *langar* where any poor person is free to eat to his heart's content. But with it comes a positive motivational factor: the same poor man is encouraged to go out, struggle, earn a living, and one day host a *langar* of his own for the poor. There is also a negative motivational factor: if any Sikh is found begging, other Sikhs will come and beat him up! The question: Who is a true friend of the poor and who is an enemy begins to look more com-



Peter Bauer

plex as we scratch the surface of Third World poverty and look at phenomena like widespread beggary with a more critical eye. Economics has a lot to do with observation. Great economists have not been abstract theorists—the so called Ricardian vice is just that: a vice—and Lord Bauer was no abstract theorist. He was a keen observer. His piercing observation on beggary in India and Pakistan has enormous implications if we want to put in place policies that will really help the poor. If the government of Delhi has woken up to the fact that beggary is an industry here, it is time the entire planet went into a huddle to discuss what constitutes the best charity.

The phenomenon of widespread beggary in India is best understood by looking at an example from nature. The road between Roorkee and Dehradun passes through a thick forest. I often drive down this road and never fail to notice that, at various points along the way, thousands of monkeys hang around waiting for the scraps of food that Hanuman worshippers² throw at them. Does this prove that the forest is poor and resourceless? Or does this illustrate the role of incentives—what psychologists call "positive reinforcement." The monkeys have discovered that hanging around by the road is a cool way of getting food. Similarly with beggars. Because civil society gives alms generously, many have found out that beggary is an easy mode of existence. These beggars do not prove that India is poor. Rather, these beggars prove that Indian civil society is rich and generous: indeed, overly generous. Lord Bauer's observations on beggary mean that global civil society must reconsider charity. And then the million-dollar question will be raised: Do we need the state to meaningfully help the poor? I often go into schools and lecture on basic Economics. The students appreciate free markets, but always ask: What about the poor? I then pose the question: Of the following ways to help the poor, which would you choose and why:

1. Pay taxes to the state and ask it to help the poor
2. Take direct action and

3. Contribute to the Missionaries of Charity or other such organisations actually working to help the poor.

It is every person's duty to himself, his family and his society to help himself and not be a burden on others. This is the only ethic in a free society. Then, the only economic policy that should apply is complete economic freedom—with which comes responsibility

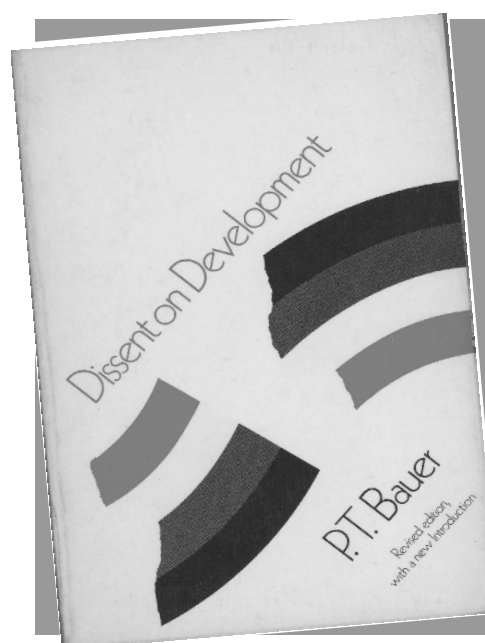
I am happy to report that, after a brief introduction to basic Economics, schoolchildren overwhelmingly go for the third option. There is no other way to meaningfully help poor people. It is a hard fact that life is a struggle against adverse circumstances for all, and it is every person's duty to himself, his family and his society to help himself and not be a burden on others. This is the only ethic in a free society. Then, the only economic policy that should apply is complete economic freedom with which comes responsibility.

It is Bauer who first championed economic freedom for the world's poor—at a time when the entire Third World went in for massive state-directed development at the advice of the World Bank and the

IMF. These architects of failed policy manufactured permanent poverty in the Third World by aiding corrupt, predatory states which economically repressed entire peoples. It was Bauer, alone, who dissented. As the Third World gives up statism and moves to free markets—and India is definitely progressing in this direction—it is Bauer who emerges as the towering hero. An *Economic Times* editorial obituary on Lord Bauer was titled: *He told us so...* Bauer emerges as a friend of the world's poor for another, and equally important reason: he appreciated their faculties. In the fashionable circles of development economics, most illustriously represented by the writings of Leftists like Gunnar Myrdal and Amartya Sen—both Nobel Prize winners—the poor of the Third World are looked upon as stupid, illiterate ne'er-do-wells, while their ruling elite are considered an "intellectual-moral elite."³ Neither speak of economic freedom: India is ranked 122 in the World Economic Freedom Index 2001, and Amartya Sen makes no noises about it. He stresses the role of the state in educating the poor. Like Gunnar Myrdal, he considers the poor to be stupid, and the personnel of the State to be in possession of knowledge which will help the poor. Any student of Bauer would point out that poor tribals living in the jungles of Central India possess the knowledge to distil mahua from a jungle flower of the same name, but they do not

possess the freedom to sell this extremely wonderful alcoholic drink. There are countless Indians who can play musical instruments, sing and dance, but because the State has outlawed the nightlife industry, they languish in poverty.

Bauer truly appreciated the economic skills of poor people in Africa and Asia. He noted, for example, how, because of low purchasing power, retailers would break down bulk to extremely small portions: in Africa, you could buy matchsticks in pairs; and in India, cigarette vendors regularly sell loose cigarettes. His studies on the rubber industry in Malaya sang praises to the ingenuity of small traders who actually managed to collectively farm more rubber than the colonials. Thus, Bauer is always to be found blasting what he famously called "the denial of the economic principle:" the fact that development economics considered Third World poor to be sub-



human—i.e., something less than *Homo Economicus*. To students of Lord Bauer, this 'denial of the economic principle' is nothing less than a crime against humanity: the construction of a politico-economic system stressing state power by assuming the people to be economically incapable and irrational. Go to any Third World market and you will see the poorest of the poor bargaining hardest and scouting around most energetically for the best deals—while the rich get easily conned! Notice also that politicians and bureaucrats in the Third World are corrupt, ignorant and that they command not respect, but fear. They possess no functional legitimacy: not a single function of State, starting from traffic regulation, is carried out well. It was Bauer who appreciated the poor, and first warned about what economic totalitarianism would degenerate to. It is high time the entire Economics profession stood firm against "the denial of the economic principle."

Bauer's appreciation of the economic abilities of the Third World poor had a very direct positive benefit: it led to academic interest in what has since come to be known as the informal sector. It is estimated that, in South Asia, the informal sector is growing much faster than its formal counterpart—and this is living testament to the economic skills of the people: something Bauer was the first to appreciate. His song was a "fanfare to the com-

mon man."

In India, it is now a horrific truth that the State is a predator on the informal sector. After an aggressive, high-profile campaign by Manushi, even the Prime Minister's office has been forced to concede that hawkers, street vendors and rickshaw pullers in Delhi alone

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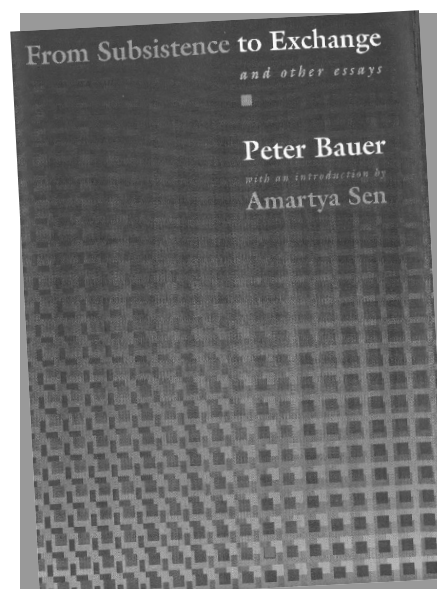
cough up 50 crore rupees every month in illegal bribes to police and municipal functionaries. So we have come a long way from "the denial of the economic principle." We have travelled all the way to "the predatory state". Everything Lord Bauer stood for has been vindicated; while the people in whom Gunnar Myrdal and Amartya Sen placed so much faith are now openly seen as members of Count Dracula's tribe: blood-sucking vampires.

But Bauer did much more than merely appreciate the economic skills of the people: he was the first to stress that they were an economic resource. He strongly opposed Malthusianism in the Third World—the "population problem" wallahs—and this was long before Julian

Simon hit the scene.⁴ Bauer noted that there was no correlation between poverty and population growth rates (or density). He also said that the First World had quadrupled its population since 1800, but incomes had gone up even more. Bauer's prescription for stabilising human numbers was simple: increased commercial contact between nations and people so that urbanisation and development would occur. This is a very important area where Bauer stands tall: he stood for the freedom of people to reproduce as they deem fit. To him: "The central issue in population policy is whether the number of children people have should be decided by the parents or by the agents of the state."⁵ The "population problem" *wallahs* unleashed tyrannical statist forces on the world's poor in the name of controlling human numbers. In India, Sanjay Gandhi's program of forced mass sterilisation is fresh memory. In China they enforced the "one-child norm" because of which an entire generation of Chinese have 'no brothers, no sisters, no cousins, no uncles, no aunts, two parents and four dotting grandparents'. In India, on the 50th anniversary of freedom from colonial rule, the Parliament of India, in an unanimous resolution, said that population was India's biggest problem: that is, the representatives of the people were saying that their constituents are a problem! This is a Parliament—against the people! With much fanfare, a little baby

girl, Aastha, was billed as India's "one billionth" citizen last year: then, the representative of the UN Fund for Population Activities (UNFPA) in Delhi said: This is not an occasion to celebrate. Are we supposed to celebrate death instead? The birth of a little calf brings joy to the cowherd. Is the birth of a little human not an occasion of great joy? Why did people in the old days say: May your tribe increase?

Bauer stands tall as one who argued against Malthusianism. With Julian Simon's work following him, and now with the bio-tech revolution, the last nails in Reverend Malthus' coffin have been hammered in. Soon, the Indian Parliament, the United Nations and an entire host of economists will stand in disgrace for having considered human infants a problem. Bauer will not be one of them. He was a friend of people, all people, and he considered them a resource and their children invaluable.

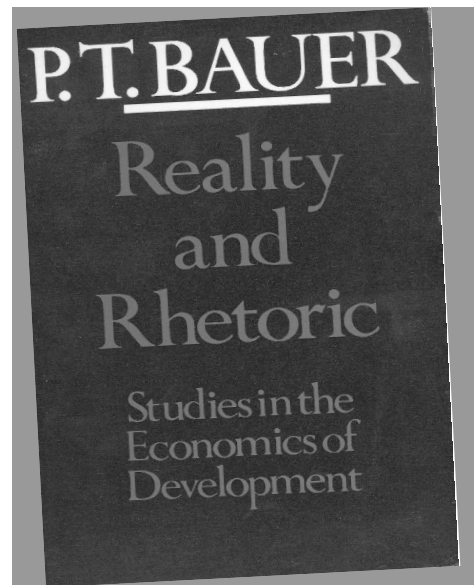


able. In the West, to win elections, one skill every politician must be able to demonstrate is the art of kissing babies. In the Third World, at least in India, where 'population problem' propaganda has made everyone look at every new-born baby with disgust, this skill is noticeably absent. Once Bauer's teachings have percolated far and wide, the Indian people will expect their representatives to value their offspring and at least ensure that the roads are safe. People are dying on the streets—over 2,000 people died on the streets of Delhi alone last year—and these morons don't care because they believe they are solving the "population problem". Who is a friend of the world's poor? Lord Peter Thomas Bauer? Or these aid agencies, these bleeding hearts, and these international development organisations like the UNDP, UNFPA, World Bank and IMF—which prop up these corrupt, ignorant regimes, and who are arbiters of knowledge in development economics?

The greatest enemies of poor people are those who oppose free immigration often under the guise of the "population problem." They divide the world into nation-states and expect people to be indentured to their governments. In the world of today, there are just a handful of good governments. A predominant majority of the members of the United Nations are predatory states whose policies keep people poor. It is fairly obvi-

ous that, if immigration were free, people would opt to pay taxes to governments of their choice and, in quick time, predatory states, tyrants, rogue dictators and the like would have no taxpayers left.

They would be out of business without any "global cop." Instead



of this happy scenario, in which government itself faces the market test, these anti-freedom forces keep the Third World poor locked in with predatory regimes which they prop up. And where they go about "alleviating" poverty. Are these people who travel all over the Third World in air-conditioned Pajeros true friends of the world's poor? Or is it someone like Lord Bauer, who carefully studied and reported on the adverse effects of immigration control in Africa when the continent was divided into nation-states?⁶

Only those who despise poor people believe in immigration control. They have nightmares about their countries being swamped by

the Third World poor. They do not consider these poor people to be resourceful and energetic economic actors who will soon generate wealth for themselves and their adopted homeland. America was built by poor refugees—and the Statue of Liberty says: *Give me your tired, your poor, your huddled masses yearning to breathe free, the wretched refuse of your teeming shore. Send these, the homeless, tempest-tost to me. I lift my lamp beside the golden door.* But not many Americans believe in these words any more. Immigration control has degenerated into a racket. Hundreds of Punjabi youth have reportedly drowned in the Mediterranean, off Greece, trying to enter Europe illegally. Punjab is India's richest state. Punjabis are great migrants:

National Geographic recently reported the case of a Sardarji operating a tea-shop in Anchorage, Alaska! Punjabi taxi-drivers are found in every Indian city. Punjabis are also superb entrepreneurs. If you travel through the localities of Delhi which were peopled by refugees from West Punjab (after the Partition of India)—they are all rich today. Punjabis are a valuable economic resource. But because of immigration control, this resource is being allowed to perish in the waters of the Mediterranean. Lord Bauer emerges as a true friend of poor people when he stands for free immigration and rubbishes the "population problem."

Having established that Peter Bauer was a real, true friend of the

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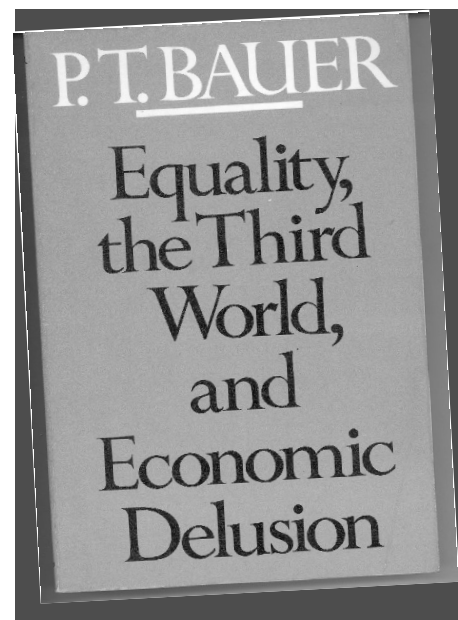
Third World poor, let us proceed to inquire as to what other contributions his acute powers of observation made to our understanding of the Third World. One particular observation that ranks very high in my mind is his noting of the fact that urban overcrowding and astronomical prices of urban land were not due to "overpopulation" but due to the absence of transport connections between cities and satellite towns. There was no real shortage of land; there was a shortage of roads. That is, the "population problem" was impressionistic: a false impression created by policies that did not allow the people to spread out evenly over the territory.

In his essay "Population, Welfare and Development: Gloom Dispelled" (cited above) he says quite clearly: "In any case, undesirable crowding in large cities is not a function of their size and growth, much less of the growth of the national population: it is the inevitable consequence of the pricing of housing and transport, unrelated to the scarcity of these resources." (p26).

This is particularly true in India. I live in Delhi—the capital of socialist

India. Here, the state has not invested in roads at all, although there is a lot of hot air about a National Capital Region comprising many adjoining towns. Delhi does not possess a seamless ring road. There are no proper roads to any satellite town. This is why the capital is bloating while the satellite towns are de-populating. All in-migration focuses on the city. And because transport connections do not exist, people have to live close to work—hence overcrowding. The state had made a monopoly out of housing, but it did not invest in roads.

This is true of every Indian city—all built in colonial times. They have all been destroyed while the State and its planners and development administrators pursue rural development and panchayati raj. Village Mangur is 20 kms from Indira Gandhi's Mehrauli farmhouse (which is now well within city limits)—but there is no road. The people own what could be valuable real estate—but they are poor. The same is true of Koppa, 20 km from Bangalore's Brigade Road. I could give examples from every Indian city and town. This is the story all over India. What are panchayati raj and rural development without road connections between villages and towns? Just the most perverted kind of clientelism. It was Bauer who pointed out that this was happening long ago. As a student of Bauer, I say: If I had money, I would build roads; if I had more money, I would build more roads; if I had even more



money, I would build even more roads. Take that, you who call for the role of the state in education. This State cannot educate people. It is itself in need of education. These planners have manufactured permanent poverty.

Another great contribution of Bauer is his definition of poverty. Poverty, he said, indicates just one thing: the absence of economic achievement. Then he went on to add: Economic achievements are made in markets. People are poor because they cannot access markets—as in the case of villagers without roads. Or, when they do go to market, the market is not truly open and free, and they are therefore unable to make as great an achievement as they would otherwise have. This is the case with Mr and Mrs Gupta and their three children going about courting death on a scooter. They

would have been safe in a car if the market had been free for second-hand car imports. People of the Third World are going about working hard, generating wealth. They are poor because markets are not free. This understanding of poverty that we have today is a great contribution of Lord Bauer's. It is therefore natural for Lord Bauer to ridicule the cornerstone of development economics: the theory of the Vicious Circle of Poverty (VCP). This little piece of nonsense holds that poor people and poor nations are trapped in poverty, from

which they cannot escape without State help, including foreign aid. This theory was the first thing taught to me as an undergraduate student in Economics in Delhi University in 1974. Things have improved since: they now teach this rubbish in Class 9!

Lord Bauer dismisses the VCP with a mere "if the hypothesis were true, the world would still be in the Stone Age." He adds: "Capital is the result of economic achievement, not its precondition." These are very important words. Every nation that is rich today started off poor—including America. History

is full of rags-to-riches stories. Indeed, inherited wealth is often a curse, and the children of rich people often settle down to a life of

idleness, luxury and vice. Instead of teaching the truth—that poverty is a motivator—the socialist State is teaching this complete nonsense and thereby destroying the vital élan in our youth. Eager, young minds come seeking knowledge. They do not get knowledge. They do not get truth. They are not told how wealth is created by

They do not get truth. They are not told how wealth is created by humans—and humans alone. Instead, they are taught that they and their brethren are the "population problem;" and, further, that poverty is inescapable

humans—and humans alone. Instead, they are taught that they and their brethren are the "population problem;" and, further, that poverty is inescapable. They are taught that the future for them and their nation is bleak.

Is Amartya Sen calling for a role of the State in education? My son entered Class 9 last year in one of India's best ICSE schools. I saw his Economics textbook and advised him to drop out of school. I gave him a guitar and said: "Son, learn music. If you have music in your soul, the rest will invariably look after itself. This 'education' will kill your brain." It is then that I decided to write a primer on Political

Economy for young children. Bauer stands tall as one who demolished VCP. He stood for Truth. In Lord Bauer's view, the rural people were not poor; they were needless. All that they wanted, they obtained from nature. Since they had no other needs, they did not work for the market. Bauer's prescription: not aid, not state-led "development", but the letting loose of traders with incentive goods. A poor villager would see a radio, desire it, and go about energetically climbing coconut trees, harvesting the fruit, selling it in the market, and making enough to buy the radio. Without the radio—without free trade and traders—there were no incentives to work in the market economy. This observation is particularly true of North-East India -the poorest and most underdeveloped region of socialist

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India. To develop, the people of the North-East require an internationalised economy. Today, they have to go to Calcutta to shop. They are not poor.

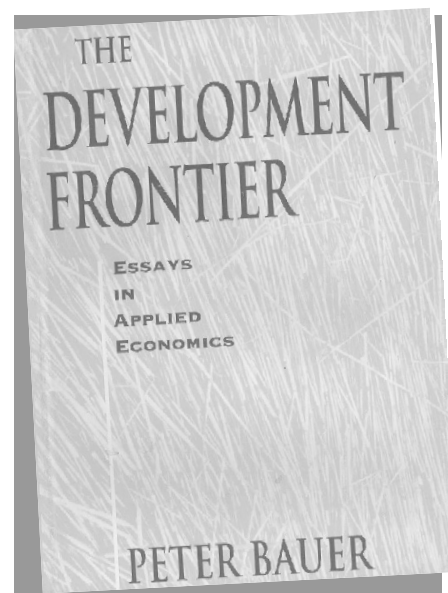
Another of Bauer's great contributions to our understanding of the fallacies of "planned development" is the unnecessary stress policy makers in the developing world have placed on export promotion. Bauer is the only one who said that countries like India are not poor because they cannot export; they are poor because they cannot produce! The shoddy infrastructure limits the ability of the people to produce. If that was tackled, and the market freed (and this includes the labour market) India could become one the world's leading manufacturing destinations. In his own words:

Neither in developed nor in underdeveloped economies is there particular merit in directing resources towards exports or import-saving activities instead of simply trying to ensure that they are deployed to contribute most to present or future output. The distinction between activities yielding or saving foreign exchange and other activities becomes material only if the national currency is overvalued in the sense that the foreign exchange earned or saved, expressed in local currency, understates the contribution of these resources to the flow of income. In the absence of an overvaluation of the exchange rate in this sense, any increase in national output makes

the same contribution to available goods and services, regardless of destination. Thus it follows that the capacity to export or to import does not set up obstacles for development distinct from those stemming from the limited capacity to produce.⁷

Export promotion is just a racket run by the ministry of commerce. If someone came into your shop and bought, say, a briefcase, would it bother you if he took the briefcase to the house next door or carried it all the way to Singapore? The destination (and the origin) of a good is of no consequence to any market transaction. This understanding of the Third World was a singular contribution of Peter Bauer.

So what was Peter Bauer's mantra for the economic upliftment of the Third World? To sum it up: free trade, free immigration, sound money and property rights. He stood for the eternal verities of classical liberal political economy. His emphasis on sound money makes him an honest economist, one who always opposed debasement. Bauer and BR Shenoy are the only economists who opposed the deficit financing carried out to fund Nehru's ambitious Second Five Year Plan. Bauer went on to repeat on many an occasion that India's subsequent balance of payments problems were all caused by this episode of money creation: debasement would be a better word. The emphasis on sound



money that marks Peter Bauer's work is something that is extremely relevant today, when many Third World currencies are collapsing. All these currencies are monopolistically issued by states.

The Bretton Woods system that created the IMF and World Bank had envisaged a planet divided into nation states, each with the essential trappings of sovereignty--which included a central bank. Developing countries do not need central banks. Corrupt regimes cannot be allowed to monopolistically issue money and control the allocation of credit. It is time the entire profession of economists came out strongly on this issue. The future of globalisation depends on it. Free trade is not possible without freely tradeable currencies. Globalisation, the freeing of capital flows internationally, and the consequent inability of many Third World central banks to cope, means that the Bretton Woods twins have outlived their

utility. They should both be closed down, and open currency competition instituted. Sound money is something Peter Bauer laid great stress on.⁸

Lastly, some words on the influence of Lord Peter Thomas Bauer. While paying a tribute to his friend, the economist BR Shenoy who opposed Nehruvian planning, Bauer wrote some telling lines on Shenoy's influence—and these words apply equally to Bauer himself. Bauer wrote that Shenoy will not be considered influential in the standard sense because his open dissent meant that the powers-that-be ignored him and let him languish in the backwoods. Looked at in this light, the economists who supported planning in India will be considered influential. Bauer said this assessment of a man's influence was not accurate.

The political unacceptability or unpopularity of an opinion does not mean that its proponent is less influential than are those whose views are more readily accepted. These latter are sometimes known as realists. There is often a high correlation between the advice tendered by economists and the policy adopted without this indicating that the advisers exercise influence in any meaningful sense. They may only advise policymakers to do what the latter intend to do in any case. Indeed, they may have been selected as advisers because the policymakers anticipated that they would tender the kind of advice

which makes it easier for the policymakers to carry out policies and measures which they had planned. I think this was the situation in India at the time of the Second Five Year Plan. The signatories of the Majority Report appeared to be influential since the plan accorded with their views. In reality, they simply endorsed what the government of the day wished to do in any case. So they had little influence either on thought or on policy. In contrast, Shenoy's conduct and views influenced a number of people in India and beyond.⁹

Those who meekly went along with the government did not exercise any influence of their own: they were mere yes-men. In the long run, it is people like Shenoy who really exert an influence on society.

The same is true of Peter Bauer.

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 - 1 The Development Frontier, Ibid. p.21.
- 5 "The Economics of Post-War Immigration Policy in British West Africa" in *Reality and Rhetoric: Studies in the Economics of Development* (Weidenfeld and Nicholson: London, 1984)
- 6 P T Bauer, *The Development Frontier: Essays in Applied Economics* (London: Harvester Wheatsheaf,1991,p. 150).
- 7 This emphasis is seen through all his work, beginning with his dissent on India's second five-year plan cited above.
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