Peter Bauer: An Unusual Applied Economist

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When Peter Bauer first began to work in what is now called development economics, development economics itself was not recognized as a separate branch of economics or a separate specialization. There was not even one journal with development economics in its title. The novelty of the subject was, indeed, recognized by the fact that the World Bank included Peter in its first group of Pioneers of Development Economics—the Bank considered the subject to be of recent origin. This was, of course, a misconception, since Adam Smith, among others, wrote elegantly, with many insights, and highly instructively on the economic development of poor countries as well as richer ones.

Peter regarded himself primarily as an applied economist. His seminal work in Malaya and West Africa was that of an applied economist, dealing with subjects that at the time were of interest to the British Colonial Office, and which it believed required expert investigation by an economist.

But Peter was an unusual applied economist. He had an unusual combination of qualities and attributes. I will consider two of these.

Close Observation and the Time Dimension

First, for Peter it was imperative to observe closely at first hand, to the extent that this was practically possible. Where direct observation was not feasible, it was essential to use other primary sources—including, for example, travelers' accounts of the people and country in question, and the works of anthropologists and economic (and other) historians.

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The first few pages of his report on rubber small-holdings in Malaya set out what Peter did on a three-month visit to Malaya: his travels, the places he visited, and the people he interviewed or spoke to. It is exhausting simply to read this inventory of his doings. If one did not know Peter personally, one would have been inclined to wonder whether there was not some exaggeration. It is clear that there was not.

His travels, encounters, and conversations were not casual. They were well devised and purposive: his direct observation was extensive both in quantity and quality. He was observing closely and acutely all the time he was "in the field." The information collected and the ideas inspired by what he saw and heard were jotted down each evening as rather untidy notes in the thin exercise books he favored. These notes were in due course to provide the underpinning of the theorizing that Peter was to engage in so fruitfully.

The second quality of Peter, as an applied economist, was a negative one. He was *not* a victim of the prevailing tendency in intellectual circles toward what the late Ernst Gombrich, the art historian whom Peter much admired, called "the amputation of the time dimension." Peter's appreciation of the time dimension and his knowledge of economic history, together with his own direct observations in Malaya, West Africa, and elsewhere in the so-called Third World, enabled him to develop a theory of the process that transforms a subsistence or near-subsistence economy into an exchange economy. (Amartya Sen has aptly described Peter as a "profound theorist" of that process.) This was one of Peter's major achievements—it stands as a monument to his exceptional abilities, his originality and independence as a scholar, and his formidable intellect.

Significance of Noneconomic Variables

In his work in development economics, Peter was unusual in recognizing the significance of what are often called noneconomic variables or factors. He was even more unusual in insisting that an understanding of the *interplay* between those noneconomic factors, on the one hand, and, on the other, the variables included in conventional analysis, was essential if one wanted to explain how development occurs—or does not occur. The neglect of the noneconomic factors in mainstream development was apt, in his view, to vitiate much of the theorizing of mainstream development economists and to lead to the adoption in practice of seriously unfortunate development policies.

Peter emphasized the importance for economic advance of the

attributes, attitudes, and mores of people and groups. He had observed this at first hand in his studies of the multiethnic societies of Malaya and West Africa. He has shown that cultural and political factors are generally much more important than the factors singled out by development economists, such as the volume of (monetary) investment, the supply of education, or the presence or absence of natural resources.

Peter often spoke about a small but telling example. In Malaya he examined the records of the output of individual rubber tappers on a number of plantations. He found reliable records for several estates running over longish periods. He found, consistently, that Chinese tappers produced more tapped latex than their Malay and Indian counterparts. Yet, apart from their ethnic origin, the tappers were otherwise about as identical as one could hope to find for a sort of laboratory experiment in economics. They all used the same simple tools; and the co-operant factors of production were the same. They had virtually no formal education.

In the same context, Peter also sometimes mentioned a rather different example, with the same implications. During the troubles in Malaya, Chinese bandits betrayed their ethnic affiliation when they sacked a village. They were far more thorough and efficient than other bandits when they carried out their work. The difference in performance was visible.

Dissent on Development

Peter was a meticulous critic of influential theories of the economic development of poor countries, and of new analytical models and analytical concepts put forward by development economists in the 1950s and 1960s. A list includes the vicious circle of poverty, the detrimental international demonstration effect, the stages-of-growth theory of development, the theory of the unlimited supply of unskilled labor in poor countries, the big-bang theory of development, and the two-gap model.

His demolition work was firmly based on his own studies, his knowledge of economic history, and his command of basic economic analysis. Intellectually beguiling theories and growth models were shown to be essentially deficient, and their influence in some cases baleful. The same applied to the analyses and recommendations of international commissions of the great and the good that were set up to solve the problems of poor countries.

Peter did not himself propose an overarching theory or explanation of the economic development of poor countries, or of economic

progress more generally. He thought that the search for such a theory amounted to a search for a theory of history—and to do that was to chase a will-o'-the-wisp.

Insofar as Peter claimed to identify the engines of economic advance in poor countries, they were enterprise, trade, the enlargement of markets, and minimal government (to maintain "law and order"). His ideas were highly unfashionable when he first propounded, illustrated, and developed them.

Many of the mistakes or misconceptions prevalent in the early decades of modern development economics stemmed from a stereotyped view of people in poor countries. These people, it was believed, were slaves to habit, custom, and tradition. They did not respond, as rational economic actors are supposed to do, to changes in relative prices or to changing and evolving production and consumption opportunities. Their decisions were not based on cost-benefit considerations. Moreover, their incomes in any case were so low that they could not save and accumulate capital: indeed, they could not and they did not take long views. It followed, so it was claimed, that state intervention and planning were essential if such economies were to break free from the shackles of the vicious circle of poverty.

Peter's work showed that these views were mistaken. He showed that people in poor countries were apt to respond to market signals, to adapt to changing opportunities (often brought to them by traders), to take long views in establishing capacity to produce cash crops for local consumption or for export, and to accumulate capital (naturally, on a modest scale individually but large in total).

Peter's analysis and views came to be accepted slowly but progressively. They were gradually supported by the empirical work of other economists. In all, there has been a transformation, which I can illustrate by quoting from an article in the *New Palgrave Dictionary of Economics* published a few years ago. The author observes that in several microanalyses "the peasant . . . is no longer a creature of habit and tradition, but rather a relentless maximizer within the scope of the control variables at his disposal."

It is not so long ago that Peter's writings were derided by prominent development economists as being the work of an economic illiterate—or worse. Today, Peter's views on the behavior of poor people in poor countries are widely regarded as being obvious and indisputable. More generally, to quote Amartya Sen (2000: ix) again: "Many of Bauer's claims, while resisted at the time, have become a part of the new 'establishment' of ideas." (I agree with Sen. But Peter was certainly not cut out to be an establishment figure!)

Conclusion

Peter and I worked together for many years—characteristically, he could recall the place and date of the commencement of our collaboration. He knew that, when we first began working together, I was skeptical about his view that the work of development economists at the time was of poor quality and wrongheaded. To convince me, he would, among other things, sometimes read to me a passage from a book or article. I would say that the statement was absurd or obviously wrong. He would then, with a smile, name the author, a prominent development economist or even a famous economist.

Sometimes Peter insisted on including in a draft chapter or article points or views that I thought were so obvious that they were not worth being expressed again, let alone being emphasized. Peter's response was that the state of economics, notably of development economics, was such that George Orwell's dictum applied: "We have sunk to such a depth that the restatement of the obvious has become the first duty of intelligent men."

Peter occasionally said that his main function was to restate the obvious. But, of course, his contributions to economics went far beyond that, as I have shown. And, whatever he wrote, whether it was to restate the obvious (itself an elusive notion) or to enunciate something original, significant, and enlightening, was done clearly, forcefully, wittily—and with courage.

Reference

Sen, A. (2000) "Introduction." In P. Bauer, *From Subsistence to Exchange and Other Essays.* Princeton, N.J.: Princeton University Press.