INTRODUCTION

DEVELOPMENT ECONOMICS AFTER 40 YEARS

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> The shortcomings prevalent in much of economics generally are especially prominent in development economics. In the mainstream development literature they have been combined with disregard of evident determinants of economic achievement, such as personal qualities and social and political arrangements. The role of external contacts in extending markets and widening horizons has also been largely ignored. . . . These lapses are not merely of academic interest. The analyses or studies lead to the espousal and implementation of policies which are inappropriate in terms of their proclaimed objectives.
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> —P. T. Bauer[1]

Dissent on Development

For more than 40 years Peter Bauer has explored the economic, social, and political landscape of underdeveloped countries, seeking to better understand the causes of poverty and material progress. His pioneering studies of the Malayan rubber industry and West African trade led him to question and eventually overturn many of the commonly held beliefs of development economics. In particular, his case studies refuted the notions that poverty is a vicious circle, that there is by necessity a widening gap between rich and poor countries, and that central economic planning and large-scale capital investment are prerequisites for growth. His studies also led him to conclude that foreign aid, restrictive immigration and population policies, and trade barriers typically hinder long-run advancement.

In his dissent on the state of development economics, Bauer has criticized orthodox development economists for ignoring important

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[1]Bauer (1981, p. 259).

individual differences in economic aptitudes and motivations, for failing to consider the role of institutions, for relying on simple statistical relationships to explain the many-faceted development process, and for neglecting basic economic principles. In his own work, he has given new direction to development economics by recognizing the importance of noneconomic variables, including the role of property rights, in shaping individual incentives and behavior. And he recognized early on the weakness of the public-interest view of government, which permeates the theory and policy prescriptions of welfare economics and rests at the foundations of orthodox development economics.

According to Bauer (1984a, p. 30):

> Whatever insights may be gained from the theory of welfare economics, in fact the literature of market failure has been used largely as a collection of sticks with which to beat the market system. The critics who propose replacing the market system by political decisions rarely address themselves to such crucial matters as the concentration of economic power in political hands, the implications of restriction of choice, the objectives of politicians and administrators, and the quality and extent of knowledge in a society and of its methods of transmission.

It is to government failure rather than market failure that Bauer therefore attributes most of the shortcomings of development policy, especially to the failure of government to provide a stable framework for individual initiative. In this sense, his work in development economics has anticipated more recent developments in public choice theory and constitutional economics.

The fetish of development planners with economic equality and their neglect of the role of markets and prices in coordinating economic decisions and bringing about mutually beneficial exchanges has long been a theme in Bauer's critique of development orthodoxy. Once basic economic decisions become politicized and markets become subject to government control, the quest for "social justice" turns into forced transfers, many of which benefit state officials and special interest groups rather than the poor. Indeed, the use of coercion to remove economic inequality ends up attenuating personal freedoms and in the process dissipates a country's resources and lowers its standard of living while enriching those in the seats of power. The experience of black Africa offers sad testimony to the ill effects of development strategy based on socialist principles of national economic planning and egalitarianism.

Consequently, Bauer (1981, p. 8) sees a basic contradiction between the pursuit of economic equality, as an end in itself, and an open society:

> In an open and free society, political action which deliberately aimed to minimize, or even remove, economic differences (i.e. differences in income and wealth) would entail such extensive coercion that the society would cease to be open and free. The successful pursuit of the unholy grail of economic equality would exchange the promised reduction or removal of differences in income and wealth for much greater actual inequality of power between rulers and subjects. There is an underlying contradiction in egalitarianism in open societies.

Dictating equality of outcome is therefore tantamount to destroying the wealth-creating properties of the competitive market process—a process that rests on the security of property and freedom of contract, including the expectation that the rewards and costs of alternative choices about the use of scarce resources will be concentrated on the individuals responsible for such choices. To neglect this linkage between the institutional framework and the process of wealth creation is, in Bauer's mind, to neglect reality.

In his major books[2] and numerous articles Bauer has made his distinctive mark on development economics, with economists from Amartya Sen to Thomas Sowell noting the significance of his work. "There are few branches of development economics in which Bauer has not had something interesting and important to say," remarks Sen (1982, p. 3). And Sowell (1984, p. 45) aptly notes:

> Professor Peter T. Bauer, of the London School of Economics, is one of those intellectually heroic figures who has stood fast against the fads and hysteria of his time. While the vast currents of "development economics" inundated us with "overpopulation" theories and "vicious cycle [circle] of poverty" doctrines that depicted massive foreign aid as the only salvation of the Third World, Bauer said "No!" loud and clear—but virtually alone.

That he is far from alone today in his criticism of conventional development theory and policy attests to the force of his arguments, buttressed by the mounting evidence against development planning as practiced over the last 40 years.

The essays in this Festschrift by leading economists from four continents are a testimony to the influence of Bauer's life work and a fitting tribute to his perseverance and discipline in questioning basic tenents of orthodox development theory and in bringing reality

[2]Bauer's books include: *The Rubber Industry* (1948); *West African Trade* (1954); *The Economics of Underdeveloped Countries* (with Basil S. Yamey, 1957); *Economic Analysis and Policy in Underdeveloped Countries* (1957); *Indian Economic Policy and Development* (1961); *Markets, Market Control and Marketing Reform* (with Basil S. Yamey, 1969); *Dissent on Development* (1972, 1976); *Equality, the Third World, and Economic Delusion* (1981); and *Reality and Rhetoric* (1984).

to bear on difficult policy questions.[3] As *Basil Yamey* makes clear in his essay, Bauer is both an outstanding economist and scholar—as evidenced by his mastery of economic theory and the breadth and depth of his research.

In his essay, Yamey traces Bauer's interest in less developed countries (LDCs) back to his initial studies of Malayan rubber production (1948a, 1948b) and West African trade (1954a). In these early studies Bauer observed at firsthand that economic progress does not require outside capital and large-scale investment and that individuals in LDCs neither lack entrepreneurial skills nor are unresponsive to market incentives. Bauer's early studies of agricultural marketing schemes (for example, 1939, 1941, 1948c) also convinced Bauer of the adverse consequences of politicizing market pricing. These observations and insights later provided Bauer with the foundation for mounting his offensive against orthodox development economics as it evolved in the postwar era.[4] The technical elegance of neoclassical growth models and the historical determinism of stages-of-growth models did not blind Bauer to the reality of noneconomic variables in the process of material advance, or to the inconsistency of these models with what he had observed in the real world. Neither was he impressed with attempts by development planners to circumvent the competitive market pricing mechanism in instituting their blueprints for development.

Bauer's appreciation of market-determined prices as transmitters of information about relative scarcities and preferences, as well as his recognition of the incentive function of prices and profits, made him skeptical of state export monopolies in British West Africa (for example, 1954b, 1956) and of government schemes to stabilize the incomes of primary producers (for example, 1952, 1954c).[5] As Yamey makes clear, Bauer thought that such intervention was self-defeating and that pricing decisions are best left to the free play of market forces.

Nowhere has the politicization of economic development been more evident to Bauer than in the parceling out of foreign aid. Such

[3]The papers in this Festschrift, except those by Mancur Olson, Paul Craig Roberts, and Alan Walters, were originally presented at the Cato Institute conference **Development Economics after 40 Years: A Conference in Honor of P. T. Bauer**, held in Washington, D.C., May 1, 1986.

[4]For Bauer's own recollection of the influence of his early work on his later writings in development economics, see Bauer (1984b).

[5]Bauer became even more skeptical of government attempts to "stabilize" prices and incomes after considering Milton Friedman's article of December 1954, "The Reduction of Fluctuations in the Incomes of Primary Producers: A Critical Comment," which was published in the *Economic Journal* (see Bauer 1984b, p. 40).

aid has often been used to enhance the wealth of Third World rulers and support their political ambitions rather than to promote the long-run economic health and independence of individuals in the LDCs. Such aid has also benefited domestic producers in donor countries, the so-called foreign-aid industry.[6] For these and related reasons, Bauer argued that without foreign aid there would be no Third World and perhaps no development economics—insights of major significance, says Yamey. In Bauer's words (1984a, p. 40): "The concept of the Third World and the policy of official aid are inseparable. The one would not exist without the other. . . . Thus, the Third World is a political and not an economic concept."

Bauer's penchant for bringing facts to bear on development theory led him to conclusions in conflict with mainstream development economics. Among the myths dispelled by Bauer, Yamey lists the notions that poverty is self-perpetuating; that contact with the West is detrimental to Third World development; that the terms of foreign trade necessarily deteriorate for LDCs; that government planning is the *sine qua non* of economic development; that population growth is a barrier to development; that escaping poverty in LDCs inevitably breeds balance-of-payments problems; and that without foreign aid economic progress in the Third World is doomed to failure.

Finally, Yamey points to Bauer's refusal to formulate a grand theory of development as a factor that distinguishes him from modern-day development economists who have searched in vain for such a unified theory. Economic development is a product of complex forces—a spontaneous process better left to individuals operating in the voluntary marketplace than placed in the hands of social engineers. Development policy that takes account of individual differences and establishes a framework for voluntary exchange and freedom of contract is therefore more likely to increase the material well-being of individuals than development planning aimed at achieving social justice via the redistributive state.

Reality Disregarded

In his provocative essay, *Peter Bauer* reflects on the retrogressions that have occurred in economics over the last 40 years as economists disregarded basic principles and evident reality. Bauer points to the "dollar problem" and the "vicious circle of poverty" as two early examples of retrogressions in mainstream development economics. In the first instance, economists disregarded the reality that the quan-

[6]For example, Donald May (1987, p. 12c) reported that nearly 80 percent of U.S. foreign aid returns to domestic producers.

tity of dollars demanded and supplied depends on the price of dollars, that is, on the exchange rate. Any dollar shortage, therefore, should be viewed as temporary, with the speed of adjustment to an equilibrium exchange rate dependent on how free the foreign exchange market is to respond to changes in the underlying conditions of demand and supply. Likewise, balance-of-payments problems cannot be systemic if market forces are allowed to prevail and governments adhere to a consistent set of rules conducive to international stability. In the case of the so-called vicious circle of poverty or poverty trap, Bauer notes that economists disregarded the reality that poor individuals and countries have escaped poverty by hard work, thrift, and prudent investments.

Further retrogressions in economics took place in the postwar era with the widespread acceptance of the idea that Third World impoverishment is the result of commercial contacts with the West—implying that market exchange results in exploitation or is a negative-sum game. But this belief ignores the principle of comparative advantage and the fact that *voluntary* exchange is mutually beneficial. As Bauer reminds us, those LDCs having the least amount of trade with the West have also experienced the lowest living standards.

The indiscriminate use of mathematics and econometric methods in modern-day economics has also led to the disregard of reality, observes Bauer. In particular, the mathematization of economics has resulted in bypassing important noneconomic variables that are difficult to quantify, overlooking the relevance of history, and passing over the time dimension in studying the process of development. Cultural factors, personal beliefs, and ambitions, as well as property rights, are all difficult to quantify but play an important role in material advance. Moreover, Bauer emphasizes that in trying to apply the methodology of the natural sciences to the study of society, economists have misunderstood the essential difference between these areas of inquiry. As a result, mainstream development economists have offered policy proposals that are unrelated to reality.

Bauer also points to the disregard of reality that has occurred outside economics as those molding public opinion have tried to legitimize envy by calling for a massive redistribution of wealth from the United States and other developed countries to the Third World in the name of equality and social justice. These opinion leaders have chosen to ignore the reality that wealth is dependent on productivity and that massive redistribution destroys incentives to produce. Instead, they have relied on feelings of guilt to promote their own development plans designed to create a "New International Economic Order," supposedly devoid of self-interest. But pointing to differences in

income and wealth without understanding the role of institutions, self-interest, individual abilities and attitudes, and a host of other important factors affecting material progress is to invite policies that inevitably undermine the very institutions and personal traits that have been instrumental in reducing world poverty and stimulating economic progress. As Bauer says, failure to look at the history of Western culture and its social and economic institutions, and to realize that the West itself was once underdeveloped, can only result in misguided development policy. Bauer therefore finds it disquieting that Western leaders have openly supported international organizations and Third World leaders advocating policies that are detrimental to private enterprise, embarrassing to the West, and unlikely to bring long-run prosperity to the populace of underdeveloped countries.

Along with the retrogressions that have occurred in economics and the evident disregard of reality that has plagued development policy, there has been what Bauer calls a "misuse of language." Nowhere has this been more glaring than in the use of the term "Third World," which is more of a political contrivance than a description of an existing homogeneous entity. And with such "noise" introduced into ordinary discourse, Bauer sees a further distortion of reality. Indeed, he warns that as the world turns from reality, it faces a new barbarism—one that depreciates the moral traditions of the West and the discipline necessary for progress. In Bauer's view, people in all countries would be better served by a return to reality and the use of ordinary language to describe that reality.

The Mathematization of Economics and Development

By treating economics as a precise science analogous to the natural sciences, mathematically oriented development economists—who rely on neoclassical growth models and simple statistical relationships to formulate policy proposals—have provided those ruling the Third World with a rationale for thinking that social engineering (fine-tuning the economy) is the optimal way to achieve economic development. In turn, the development process has in a sense become mathematized, subjecting a complex, highly individualistic process to the rule of "experts." National economic planning, with its emphasis on input-output models and large-scale social investment plans, has tended to be more popular with Third World leaders and their advisors than private ownership, market pricing, and entrepreneurs driven by the profit motive. The shortcomings of the mathematical/

social-welfare approach to development policy have been its public-interest view of government and its lack of attention to the impact of institutions on economic development. Moreover, this approach to development policy has failed to come to grips with the importance of competitive markets as processors of information about wants, resources, and technology—data that are constantly changing and often not available to the "experts."[7]

Deepak Lal draws out some of the implications of the mathematization of economics and development policy. According to Lal, it is the rhetoric of economists as mathematicians and econometricians rather than the rhetoric of classical political economists that has dominated the field of development economics. This helps explain why Bauer's work received so little attention in the 1950s and 1960s. It was the failure of development policy based on mainstream development models in the 1970s and 1980s, says Lal, that forced attention on Bauer's analysis and observations. In his essay, Lal avoids the nirvana fallacy and takes a comparative institution approach to development strategy.[8] He examines the relative importance of the market and the state in the development process, and notes that both neoclassical economics with its positivist methodology and the new political economy offer useful insights. In his view, the choice of alternative development strategies—whether the market or the state dominates the policy agenda—ultimately depends on experience. And in his view, it is clear that the pendulum has swung too far toward the state.

With attention largely focused on mathematical economics and the rhetoric of positivist social-welfare theorists, such as F. H. Hahn, who operate in the Arrow-Debreu framework, too little attention has been paid to the insights of classical political economy and its more recent manifestations in public choice theory, neo-Austrian economics, property rights theory, and constitutional economics. As Lal notes, the new political economy with its emphasis on government failure—due to the self-interested behavior of public officials who function in a nonmarket, common property regime—has proven to be a powerful rival to the paradigm of market failure with its public-interest view of government. The ruling elite in the Third World ("mandarins," as Lal calls them), in formulating grand designs for development, have too often ignored the realities of self-interested political

[7]The implications of F. A. Hayek's classic article "The Use of Knowledge in Society" (1945) apparently have not yet been fully appreciated by most Third World rulers and their economic experts.

[8]On the difference between the "nirvana approach" to public policy and the "comparative institution approach," see Demsetz (1969, p. 1).

behavior and the impossibility of duplicating the wealth-creating properties of competitive markets without establishing private property rights.

Today there is a wider appreciation of the informational and incentive advantages of the market pricing mechanism, observes Lal. But old habits of thought die slowly. Mathematical economics and mechanistic models of development continue to immunize brilliant minds against the insights offered by the new political economy.

Organization Size as a Factor in Development

In his paper, *Mancur Olson* examines a much neglected aspect of development economics, namely, the relationship between organization size and stage of development. Olson's argument is based on the perception that the technological and economic conditions in preindustrial societies are unfavorable to large-scale organization. Poor transportation and communication make localized production relatively more advantageous in most poor societies and increase the difficulty of monitoring and coordinating activities in large-scale organizations. The latter difficulty is most serious in activities, such as government, which require coordination over large areas. The lack of experience with large-scale organization, says Olson, generates cultural attitudes that are unsuitable to large-scale bureaucracy. Thus, he points out that nepotism and other forms of corruption were common in Europe in preindustrial times and are also characteristic in large bureaucracies in poor countries today.

According to Olson, cultural attitudes influence behavior considerably in bureaucracies, because the incentives facing individuals are often unclear and dependent upon the attitudes of others. These attitudes do not have as great an influence on individual behavior in markets, where the incentives facing an individual are usually less ambiguous. For Olson, trading in a bazaar in a poor country is not greatly different from that in the markets of rich countries. He accordingly rejects the commonplace contention that developing countries need different policies, with a lesser role for markets and a larger role for government bureaucracy, than developed countries. He argues that neither left-wing nor right-wing ideologies offer a satisfactory guide to public policy, but believes that the proper role for bureaucracy is smaller and for markets is larger in poor than in rich nations. Therefore, in spite of philosophical disagreements with Bauer, Olson concludes that Bauer's insights on the advantages of markets and the disadvantages of bureaucratic planning in developing areas have been profoundly valuable.

The Role of Property Rights

The term "property rights," when broadly understood, encompasses "one's effective rights to do things and his effective claims to rewards (positive or negative) as a result of his actions. These rights help shape his set of opportunities and therefore the tradeoffs that confront him" (McKean 1972, p. 177). Among the factors that influence an individual's effective rights McKean includes "explicit contracts, tacitly understood contracts, ethical precepts, behavioral rules or customs, and tradition, as well as legislation" (p. 177). When these factors change, or when an individual *expects* them to change, the perceived costs and benefits of alternative actions will change, affecting the individual's choices. McKean therefore notes that "in appraising special tools to increase efficiency, one should examine what happens to property rights and appropriability in order to form realistic expectations about the effects" (p. 186).

An important element of Bauer's work is the emphasis he gives to property rights, broadly understood, in determining the rate of economic progress. According to Bauer ([1972] 1976, p. 75): "[E]conomic achievement depends primarily on people's abilities and attitudes and also on their social and political institutions. Differences in these determinants or factors largely explain differences in levels of economic achievement and rates of material progress." The key role of property rights in economic development is clearly brought out in the papers by *Alan Rufus Waters* and *Alvin Rabushka.*

Property Rights and Economic Growth

Waters points out that Bauer's work has helped fill the institutional void left by traditional development economics and that much can be learned from incorporating property rights into traditional economic analysis. Private property, characterized by the owner's exclusive right of use and transferability, makes individuals accountable for their uses of scarce resources and provides incentives to move resources to their highest-valued uses. These are important functions of private ownership and essential to meaningful economic growth. As Waters remarks, those countries with well-defined and protected private ownership rights in land, labor, and capital have tended to outperform those adhering to socialism and state planning. The vibrant forces of market competition—the risk of loss for inefficiency and the promise of reward for socially beneficial uses of property—have proven more successful in promoting material advance than the stifling hand of government.

The security of property is important because it generates an expectation that one can retain into the future the fruits of present sacrifices

without state intervention in the form of oppressive taxation, regulation, or nationalization, notes Waters. By creating a climate conducive to the stability of ownership rights, LDCs can increase private savings and attract new investment, increasing their living standards—and conversely in those cases where private property rights are attenuated. Effective private ownership rights allow the flexibility needed for adapting to the dynamic process of economic growth by ensuring individuals the freedom to move their resources to higher-valued uses, adds Waters. Exchange opportunities are widened as a result, increasing individual wealth.

An important part of Waters's paper is his idea that "failure is a part of success." Attempts to conceal failure by instituting government subsidies, for example, destroy an important disciplinary force of the market—the imposition of costs on the owners of resources who fail to perceive changing patterns of trade. Economic growth cannot proceed without change, and change entails failure as well as success. In essence, failures tell us to move in directions that are now more profitable and that will yield net benefits to society over time. The role of the entrepreneur is to spot these new opportunities, and the profit/loss motive is instrumental in pushing him in the right direction. If state enterprises in LDCs are not allowed to go bankrupt, then an important element in the growth process will be absent, handicapping LDCs in their search for material advance. Thus, Waters notes with approval the recent focus on privatization as a method to stimulate economic growth.

Tax Policy as a Determinant of Development and Freedom

The legal structure of property rights is not as important as the *effective* structure of rights to use property, to sell it, and to capture the consequent rewards. In particular, as McKean (1972) emphasizes, *appropriability* is crucial in studying the impact of property rights on economic behavior; and in this sense the tax structure is of central importance. Tax rates and thresholds help determine the rewards an individual can take home from various actions and thus help determine his effective property rights. As such, tax rates and thresholds will have a bearing on an individual's uses of scarce resources. Supply-side economics has shown that high marginal tax rates that bite into income at a low threshold have significant disincentive effects on savings and investment decisions and labor-supply decisions, and that these effects can impede economic growth. Rabushka carries this theory to LDCs and gathers an impressive array of data to test the hypothesis that high marginal tax rates and low thresholds retard the development process. He also brings evidence to bear on the relationship between tax policy, economic growth, and freedom.

From his careful survey of the tax policies of a number of LDCs, Rabushka reaches the conclusion that those countries with high tax thresholds and low marginal tax rates have had better records of economic growth than those with relatively lower tax thresholds and/or higher rates. Moreover, LDCs with higher growth rates have tended to have better records of protecting political and civil liberties than low-growth countries. In examining growth and freedom measures for 93 LDCs over a 22-year period, Rabushka found that "once economic growth exceeds 3 percent, political and civil rights scores significantly improve." This evidence is by no means conclusive, but it does point toward a link between taxation and freedom operating through the growth mechanism. As Rabushka notes, if low tax rates and high thresholds foster economic growth and if economic growth is a necessary condition for democracy and freedom, then those countries with growth-oriented tax policies should also be more open societies.[9] Future research no doubt will shed further light on this oft-neglected area of development economics.

The Bogeyman of Economic Inequality

Those who mold public opinion in the Third World and elsewhere have used economic inequality as a bogeyman to incite fear, anger, and envy in people and to press for equality as an end in itself. Little consideration has been given to the process by which income and wealth is produced, to the impact of forced redistribution on incentives and wealth creation, or to the allocation function of prices. Instead, the redistributive state has been looked upon as the instrument to obtain economic equality and social justice while fostering economic growth. The inherent contradiction of this "egalitarian vision" has long been a theme in Bauer's work and is further explored by *Karl Brunner*.

In his paper, Brunner notes the difficulties with the end-state concept of social justice as exhibited in the cry for economic equality—in contrast with the classical notion of procedural justice, which does not aim at equality of outcome but rather at establishing a framework for free choice. Like Hayek, Brunner argues that imposing an arbitrary, politically determined notion of end-state justice on a spontaneous market order tends to destroy the wealth-creating properties of that order.

The end-state notion of justice, says Brunner, is flawed by the "manna syndrome," as well as the underlying "sociological model

[9]Using tax data and data on political and civil liberties in 49 LDCs, Rabushka found no significant relationship between the *overall* level of taxation and his measures of freedom.

of man" and public-interest view of government. Wealth creation is not independent of the institutional framework or exogenous to individual choices within that framework. Self-interest is a phenomenon that operates across the institutional spectrum, but with vastly different outcomes depending on the nature of the property rights structure. To ignore these facts and the nexus between production and distribution, says Brunner, is to invite social and economic disruption.

The implication of Brunner's analysis is that institutions matter. Development economics must take account of the effects of alternative property rights on incentives and behavior, and recognize that grand plans to redistribute income are bound to interfere adversely with the competitive market process—narrowing individuals' opportunity sets and lowering their wealth positions. Consequently, state action to achieve social justice (that is, a more equal distribution of income and wealth) via direct and indirect takings will have a negative feedback effect on economic growth. Furthermore, as Brunner observes, this negative effect will be compounded as political power becomes more unevenly distributed in LDCs pursuing so-called egalitarian policies, dampening the hopes for an open society. In sum, policies that call for massive redistributions of income and wealth are unlikely to achieve their stated goal of economic equality and in the process are likely to promote stagnation and attenuate personal and political freedoms.

Population Growth, Development, and Foreign Aid

Julian Simon considers the effects of population growth on economic development and examines the legitimacy of U.S. foreign aid for "family planning" programs in light of five criteria for foreign aid in general. According to Simon, there is no evidence that population growth is a drag on economic growth in the long run. Hence, government programs to control population growth with the hope of accelerating economic development are misguided. Moreover, insofar as such programs distract attention from the real sources of economic growth—especially the need for institutions supportive of market exchange and the price mechanism—they can harm the chances for development.

In the spirit of Bauer's work, Simon draws on the experiences of North and South Korea, East and West Germany, and China and Taiwan, as well as other countries, to illustrate that market-oriented economies generally have outperformed centrally planned and controlled economies; that economic development and population growth are not causally related; that relatively high population density is not incompatible with economic development but in fact facilitates it;

and that increasing population density does not impede the rate of population growth. Thus, from a long-run perspective, Simon concludes that a larger population *can* have a positive effect on a country's standard of living—especially in open societies where individuals can pursue their economic interests with a minimum of state intervention.

With regard to "family planning," Simon sees nothing wrong with providing individuals with educational information to help them make more rational choices. But he is critical of official "family planning" when it is used as a propaganda tool to divert attention from government failure and to focus attention on population growth and market failure as justifications for foreign aid. In his view, individuals in poor countries do respond to price incentives and typically make rational family choices when they have to bear the costs of their actions.

To test for the legitimacy of foreign aid in the case of "family planning" programs, Simon offers the following criteria: (1) The aid should be based on the recipient's "need," especially as revealed by a means test; (2) the recipient nation should reveal a definite want for assistance in terms of the resources it is willing to allocate to family planning; (3) there should be no ill effects from the assistance, that is, the disincentives to work, save, and invest should not outweigh the positive income effect, and aid should not divert attention from a long-run development strategy based on sound economic principles and institutional reform designed to foster individual responsibility; (4) the aid should be utilized efficiently, which is less likely the greater the role of bureaucrats in the aid process; and (5) the aid should not sour the relationship between recipient and donor. From his evidence, Simon concludes that foreign aid programs for "family planning" generally have not met these five criteria. Such programs, says Simon, "may have more ill effects than good effects, and should not simply be viewed as a charitable act that improves the situation of poor people in poor countries."

Orthodox Development Policy: A Case of Government Failure

Orthodox development policy with its emphasis on government planning and foreign aid, rather than on market coordination and private investment, has failed in many areas. The papers by *George B. N. Ayittey, Paul Craig Roberts,* and *Alan Walters* offer three examples of policy failure—all of which can be viewed as the failure of government to lay a solid foundation for long-run economic growth by protecting private property rights and allowing market forces to

register changes in individual preferences, resources, and technology. Government failure in the case of black Africa is examined in detail by Ayittey; Roberts discusses how government controls and foreign aid have discouraged direct foreign investment as well as private domestic investment in LDCs and turned many Third World countries into major debtors; Walters, meanwhile, points to the failure of government price "stabilization" schemes to achieve their proclaimed objectives. In each case, government officials have used their power base to politicize the development process.

The Experience of Black Africa

Although black Africa is endowed with abundant natural resources, its economic performance since independence in the 1960s has been dismal. Ayittey attributes economic atrophy in black Africa to the politicization of development policy and a fetish with orthodox development strategy. The political climate in post-colonial black Africa has hampered economic progress. Political leaders and their elites have disregarded traditional modes of production, interfered with market exchange by various controls and price-fixing schemes, coerced the peasant population, collectivized agriculture and nationalized other enterprises, and instituted destabilizing autocratic and kleptocratic forms of government. Overall, black African rulers have disregarded the role of property rights in the development process and suspended the free play of markets and prices. Under the spell of orthodox development policies and their own fascination with modernism, these rulers have embraced a "religion of development," says Ayittey—a body of beliefs about state-directed development planning that has not held up in the face of reality.

Nkrumah's socialist experiment provided a blueprint for the rest of black Africa, but the failure of this experiment is evident to Ayittey. The inefficient state enterprises and collectivized farms that dot the stagnant economic landscape of black Africa attest to the ineffectiveness of national economic planning under corrupt and autocratic governments. Political leaders in black Africa have engaged in rent-seeking behavior that has cost their peasant populations dearly, as illustrated so vividly in Ayittey's examples. Foreign aid in many cases has gone to enrich the elites and build their Western-style "monuments" rather than to assist the truly needy and promote meaningful economic growth. What these developments show, says Ayittey, is that black African rulers have lost touch with reality. Their unrealistic plans for economic growth and for imitating the West have blinded them to the fact that development must take place within the existing cultural and institutional framework and that economic progress is a slow and costly process.

Development strategy based on state enterprises, import substitution, and deficit spending offers little hope for black Africa, in Ayittey's opinion. It is therefore time, says Ayittey, for black African leaders to adopt a new development strategy that takes account of black Africa's cultural and social institutions and provides a stable political environment in which markets, not planners, dominate. By abandoning the socialist blueprint for development, black African leaders will be able to utilize indigenous methods of production and once again enjoy the fruits of free trade and free markets—institutions, observes Ayittey, that "have always been part of black African traditions."

The Third World Debt Crisis

Under the influence of development experts, LDCs have become major debtor countries and their debts are crowding out development, argues Roberts. In his view, the Third World debt crisis is directly tied to orthodox development strategy with its emphasis on social investment planning and debt financing—and its bias against private ownership, market pricing, and direct foreign investment. Instead of relying on the decisions of private entrepreneurs—guided by the profit motive and prices reflecting opportunity costs—to direct investment funds to their most productive uses, LDCs have politicized investment decision making by placing investment decisions in the hands of state planners who have neither the information nor the incentive to direct resources to their highest-valued uses. Debt, not equity, has been the favorite password of Third World development planners.

The restrictions on equity investment in the LDCs and the waste of resources through social investment planning have constrained economic growth and compounded the debt problems of LDCs, notes Roberts. "It is no accident," he says, "that the reliance on planning and borrowing has culminated in the debt crisis." Moreover, given the statist policies of Third World governments, Roberts sees the activist lending practices of large Western banks in the Third World as sealing the fate of the debt crisis.

In the face of this crisis, says Roberts, the IMF's austerity programs—directed as they usually are to tax increases, price freezes, and import controls—work against long-run economic growth and do virtually nothing to reduce Third World indebtedness. Rather, such programs precipitate political unrest and are used mainly as preconditions for acquiring additional debt. The key to regaining financial stability and setting the stage for a healthy economy, suggests Roberts, is that LDCs undertake a *credible* policy of moving away from

orthodox development strategy with its statist slant and toward a full-fledged market-oriented development policy. Such a policy shift would place responsibility where it belongs, on private entrepreneurs and other individuals acting within a private property regime. The lack of equity investment would then no longer be a barrier to development; and with the creative forces of domestic and international competition unleashed, economic growth would no doubt improve and help dissolve the debt crisis.

The Veil of Price Stabilization

The main point of Walter's paper is that what passes in theory as price "stabilization" is in reality simply a politicization of the pricing process that results in exploitation. He uses "moving average smoothing" (MAS) to illustrate the theory of price stabilization and points to experience with price "stabilization" in British West Africa, as well as European and American attempts at stabilizing agricultural prices, as examples of failed public policy. But his unveiling of the failure of price "stabilization" in Africa, Europe, and the United States merely serves to illustrate the general case against government price fixing, namely, that it interferes with free trade, distorts market prices, and redistributes income from politically less-favored to more-favored groups.

In Walters's view, price "stabilization" is just another word for price *control*. More specifically, price "stabilization" is used by politicians as a veil to conceal market forces, and thus to protect themselves and their favored interest groups from the reality of the marketplace. But the longer reality is evaded, the more costly the final adjustment is likely to be. Therefore, Walters observes that once entered into, price-fixing schemes will be difficult to exit. He concludes that, in practice, MAS policy has not promoted adjustment to world market pricing; it has merely provided "a veil of legitimacy and intellectual respectability for exploitation and inefficiency."

The Rhetoric of Development Economics

In the final essay of this Festschrift, *Donald McCloskey* examines the rhetoric of development economics and finds a variety of styles ranging from abstract mathematical reasoning to metaphor to straightforward reasoning based on observation and economic principles. It is the rhetoric of mathematical economics, however, that has played a key role in shaping orthodox development strategy, as was noted in reference to Lal's essay. Or, as McCloskey puts it, the "religion of Science" (in the sense of "Scientism") has been used to daze Third World governments into believing that social engineering is a fea-

sible approach to economic organization—an idea incompatible with classical political economy.

In McCloskey's view, it is beyond doubt that rhetoric, in the classical sense of the "art of argument," is important in development economics. Words matter; and as McCloskey notes, "Rethinking development economics requires rewriting the words." One need only consider the many continuing controversies in economics in general, and development economics in particular, to see the weight of McCloskey's argument. The efficiency-equity debate discussed in Brunner's essay is one such example.

McCloskey also reminds us that the style of argumentation will be influenced by one's perceived audience. Bauer's nonmathematical treatment of development economics is no less rigorous from the standpoint of logic than the mathematical approach of social welfare economists, yet Bauer's words largely fell on deaf ears until the audience was in tune with his arguments. And, as Lal makes clear in his essay, that audience is growing, both because of the evidence that has come to bear on Bauer's arguments against orthodox development economics and because of the force of his style of argumentation.

All economists are rhetoricians in McCloskey's usage, but to be more than a mere advocate requires not only that the rhetorician argue correctly but that he be of sound character and not disposed toward falsehood and deception. It is in meeting the test of a "good" rhetorician in both these senses, says McCloskey, that Bauer deserves the recognition he is presently receiving.

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