P. T. Bauer and the Myth of Primitive Accumulation

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For many years, P. T. Bauer (1915–2002) was *the* "dissenter on development." Among other dissents, he demonstrated that foreign aid was ineffective. Today that view is held in higher regard than in his day, thanks to numerous contemporary scholars, but Bauer is seldom recognized as its originator.[1] An exception is Nobel Laureate Angus Deaton, who acknowledged Bauer was right on foreign aid and population. In *The Great Escape: Health, Wealth, and the Origins of Inequality*, Deaton (2011: 273) writes that Bauer was the first to show that "the hydraulic approach to aid is wrong, and fixing poverty is nothing like fixing a broken car."

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[1] Bill Easterly remarked that "it is amazing how much of the research and thinking of my like-minded co-authors and me was anticipated decades ago by Bauer, without us realizing it. A not so obvious example of this is Bauer's skepticism about investment and capital accumulation as a very important force in economic development, which people like Ross Levine, Lant Pritchett, and I have shared in several papers in the last decade." This quotation comes from a private email to Ian Vásquez (2007: 208).

Peter Bauer was an eccentric figure. His father was a bookmaker in Budapest. Happily, "one of his clients suggested to him that his industrious son might benefit from a British university education, possibly Cambridge." Having "no contacts" in that country, he "simply turned up" in Cambridge in March 1934 and "presented himself at half a dozen colleges." His journey as an economist began when he entered Caius College. He had little English and "found it very difficult to follow the lectures of even ordinary conversation." He "never read a book on economics or economic history before coming to Cambridge" (*The Caian* 1985: 33). Forty-nine years later he was raised to the peerage by Margaret Thatcher.

Basil Yamey has remarked that it was "largely by accident that Bauer's interest turned" to development economics (Yamey 1987: 21). After working in "a London firm prominent in the Malayan rubber industry," he "used a research fellowship to study that industry, and at the same time was commissioned by the British Colonial Office to prepare a report on rubber smallholdings" in Malaysia (ibid., 22). This research project resulted in his book *The Rubber Industry* (Bauer 1948).[2]

While economists' concern for "development" dates back to Adam Smith, "the term 'economic development' was rarely used before the 1940s" (Meier 1984: 6). From the beginning, Bauer was the dissenting voice within the field. A few years later the young Bauer was again summoned by the Colonial Office to study trading activities in West Africa with special reference to monopolistic tendencies. The result was a study of unusual length and scope for an empirical work of this kind: *West African Trade* (Bauer 1954). This work perfectly represents Bauer's many talents. It is profoundly empirical: it showers the reader with facts. It is argumentatively sharp: Bauer refutes one economic fallacy after the other. It is learned and fully conversant with the history of economic thought. Bauer was a most perceptive reader of Adam Smith's *The Wealth of Nations*, in a time when

[2]If Bauer today garners only limited appreciation, it may well be because he was a clear writer, who always aimed at a larger audience than technical economists. This strategy had its pay-offs. Yamey reports a rather amusing fact: novelist James Gordon Farrell commented that reading Bauer was most valuable to him in his attempts "to recreate the Far East of forty years ago" in his 1978 novel *The Singapore Grip*. Yamey notes, "This is a remarkable compliment to be paid by a novelist to an economist" (Yamey 1987: 22–23).

Smithian scholarship was not as ubiquitous as it is today. He was indeed a follower of the great Scot: Smith's understanding of men as "trading animals" pervades Bauer's thinking.

After the publication of *West African Trade*, Bauer found himself at the center of a battle surging around the concept of "economic development." While undoubtedly a pioneer of these investigations, Bauer has long been considered a "fringe" thinker. This has clearly to do with his *politics*. To paraphrase Deirdre McCloskey, Bauer thought economic growth required that people should be allowed to have a go, to be at freedom to follow their intuitions and needs rather than being "nudged" in the direction of this or that particular productive effort by government masters.[3]

Bauer—and his long time coauthor and friend, Basil Yamey[4]—were that rare thing: development scholars with no ambition toward social engineering. This didn't make them popular in a profession monopolized by wannabe central planners.

While Bauer's views on foreign aid and development grew out of his field research, they retain an importance that goes beyond the scope of development economics. In fact, they account for a forceful refutation of the historically crucial concept of "primitive accumulation," which was alas commonplace in development economics and informed the concept of the "vicious circle of poverty," Bauer's *bête noire*. As Curzon-Price (2002: 82–83) noted, "Although Marxism as a normative, prescriptive policy has failed . . . the positive Marxist assertion that the possession of wealth is the result of exploitation still holds great sway. It is doubtless the most durable of all the fallacies that Lord Bauer spent his long and distinguished career exposing." This article aims to illustrate that point.

The Myth of Primitive Accumulation

The question of how industrial capitalism came about has been with us for a long time. As you need capital to have factories and

[3]McCloskey (2015) writes: "The main, and the one proven, social discovery of the 19th century [was that] ordinary men and women do not need to be nudged or planned from above, and when honored and left alone become immensely creative."

[4]In interviews with the present author, friends of both testified that the cooperation between Bauer and Yamey was far more developed, constant, and important than their shared authorship of some works shows. It was indeed, for a good part of Bauer's life, a relationship of intellectual camaraderie bordering on symbiosis.

industrial establishments, the idea of a "primitive" or original accumulation of capital seemed reasonable to many. Since a single capitalist needs somehow to get hold of resources to invest before moving on with his entrepreneurial plan, why shouldn't the same be true for society at large? Shouldn't a society be thriftily saving so that it can transfer those savings into capital which can in turn generate development? While there are obvious differences between persons and groups, this idea appeals to us as we know many important processes in life are indeed cumulative, starting with that piling up of notions after notions that we call "learning."

Adam Smith is sometimes seen as the originator of the idea of "primitive accumulation." In the introduction to the second book of *The Wealth of Nations*, Smith ([1776] 1981: 276–78) somewhat casually notes that an "accumulation of stock must, in the nature of things, be previous to the division of labour." Smith's point is that "in that rude state of society in which there is no division of labour, in which exchanges are seldom made, and in which every man provides everything for himself, it is not necessary that any stock should be accumulated or stored up beforehand, in order to carry on the business of the society." But as labor becomes more and more *subdivided*, everyone needs to have "a stock of goods of different kinds," stored somewhere, in order to concentrate exclusively on his or her own activities.

This vignette is familiar and commonsensical: when the savage "is hungry, he goes to the forest to hunt; when his coat is worn out, he clothes himself with the skin of the first large animal he kills: and when his hut begins to go to ruin, he repairs it, as well as he can, with the trees and the turf that are nearest it" (Smith [1776] 1981: 277). But when the civilized man who knows how to manage his trade, and little else, demands something, he must be able to rely upon other people's produce. Coexisting labor is what makes, for Smith, a commercial society and offers the hope of economic growth. The more labor coexists (the more extended the market is), the better it is.

In spite of Wikipedia's claim that "Adam Smith's account of primitive-original accumulation depicted a peaceful process, in which some workers laboured more diligently than others and gradually built up wealth, eventually leaving the less diligent workers to accept living wages for their labour," Smith is hardly an originator of the idea of primitive accumulation. The biblical Parable of the Talents (Matthew 25:14–30), for example, speaks of accumulated wealth to be invested.

But for Karl Marx it was very important to assume that Smith was the originator. Marx ([1890] 2002: 2068) begins his treatment of the subject by pointing out that "original [i.e., primitive] accumulation plays in Political Economy about the same part as original sin in theology." Primitive accumulation plays the role of a foundational myth justifying that "through painful toil you will eat food from it all the days of your life" (Gen 3:17). In a note to Chapter 7, Marx makes fun of British economist Robert Torrens who, "by a wonderful feat of logical acumen . . . has discovered, in this stone of the savage the origin of capital." He quotes Torrens noting, "In the first stone which he [the savage] flings at the wild animal he pursues, in the first stick that he seizes to strike down the fruit which hangs above his reach, we see the appropriation of one article for the purpose of aiding in the acquisition of another, and thus discover the origin of capital" (ibid., 2375).[5]

And yet the concept may in fact have come from Marx. For him, primitive accumulation is key to "proving" that

> the process, therefore, that clears the way for the capitalist system, can be none other than the process which takes away from the labourer the possession of his means of production; a process that transforms, on the one hand, the social means of subsistence and of production into capital, on the other, the immediate producers into wage labourers. The so-called original accumulation, therefore, is nothing else than the historical process of divorcing the producer from the means of production. It appears as "original," because it constitutes the pre-historic stage of capital and of the mode of production corresponding with it [ibid., 2072–73].

Primitive accumulation is basically robbery on the part of future capitalists (or their great-grandfathers) of workers' properties. In fact, the theory is a way to attribute to the bourgeoisie a series of events, from the colonies and the protectionist system to trading monopolies to enclosures. For Marx, "The treasures captured outside Europe by undisguised looting, enslavement, and murder, floated back to the mother-country and were there turned into capital" (ibid., 2177–78).

[5]While Marx made of Torrens a subject of mockery, McCloskey (2016: 104) notes that Acheulian hand "axes" were indeed accumulated in massive amounts by *Homo erectus.*

As Deirdre McCloskey (2010: 156) pointed out, "it is not a good business plan" to steal from poor people. "Stealing from poor people" cannot explain economic growth, whether one steals from the poor living in her own nation or from people living in other nations.

Primitive accumulation plays a powerful role in Marx's theory. It is perhaps one of its key concepts, as Marxism is first and foremost a theory of history. And how could you really justify the "expropriation of the expropriators," if the latter didn't expropriate all that much?

But the consequences of this idea have extended well beyond the boundaries of Marxism. As Alexander Gerschenkron (1957: 33) noted, the vignette of primitive accumulation demands us to believe in "an accumulation of capital continuing over long historical periods—over several centuries—until one day the tocsin of the Industrial Revolution was to summon it to the battlefields of factory construction."

What kind of thief robs masses of stuff, saves it meticulously and waits for *generations*, relying on the power of compound interest, until the proper investment opportunity pops up? How farsighted such expropriators would be!

Primitive Accumulation and the Vicious Circle of Poverty

No matter how unrealistic, some version of this view had its triumph in development policy. Particularly after decolonization, significant amounts of foreign aid were transferred to poorer countries, with the aim of growing their stock of capital. There is no question that higher capital investment would make workers more productive, and higher productivity would make them more prosperous, if the capital were invested intelligently. But the key issue here is that it was thought that *massive* transfers were needed in poorer countries to equip them with the "proper" amount of capital required to make growth possible at all.

The often mysterious way in which ideas travel makes it by no means necessary to be an orthodox Marxist to advocate foreign aid. But the concept of primitive accumulation was the backdrop against which the advocacy of foreign aid was staged. I would rely here on prominent socialist commentator, and likely Soviet spy, Harry Magdoff: "For many of us in the field of economic development, this issue of accumulation, from the standpoint of capital or money, or reserves, has become the most important issue because of this discussion. Because this debate applies to underdeveloped countries and to economic development it is a perfectly proper question to ask" (Magdoff 2013).

The period following World War II was the zenith of the Keynesian consensus. Keynesian economics, by legitimizing evergrowing "state interventionism, provided many developing countries with a theoretical justification for a more active role of the government in the economy and emphasized the accumulation of capital as the foundation of economic growth" (Osiatynsky 1993: 185). This appropriation of Keynes is a bit of a paradox, as Keynesian economics, if considered charitably, aimed chiefly at counteracting cyclical fluctuations, not at preparing the seed corn for economic development in preindustrial countries.[6] Postwar theories of industrialization seem to be indebted to Marxist ideas in more than one respect. The consensus against which Bauer battled was centered around the idea that underdevelopment stimulates "circular and cumulative processes" that consolidate economic backwardness and make it impossible to break out of the "vicious circle of poverty" (Bauer 1965).

Indeed Ragnar Nurkse, a pioneer of development economics, framed the issues with poverty as "*Problems of Capital Formation in Underdeveloped Countries*" (Nurkse 1953). For Nurkse, the challenge for poorer countries could be reduced to the question of achieving a sufficient rate of capital accumulation. Maurice Dobb (1951: 7) claimed that "we shall not go far wrong if we rear capital accumulation . . . as the crux of the process of economic development."

There is more in this approach than the commonsensical view that higher levels of capital allow for greater productivity.[7] As Bauer himself remarked, "Insistence on the vicious circle of poverty and

[6]In a way, in his famous *The End of Laissez-Faire,* Keynes himself recognizes the merit of free market policies in "earlier" states of development, posing the questions of managing population and the business cycle in the context of a developed, industrial economy (Keynes 1926).

[7]This commonsensical view tends to assume that capital is employed in profitable endeavor, somehow presupposing those features of a free market that make for a sensible allocation of resources (though by no means impermeable to mistakes).

on the stagnation of the underdeveloped world has promoted the flow of foreign aid, which is a major object of policy for many people" (Bauer 1965: 48).[8] It makes sense if you assume that lack of capital is so severe that local populations would never bridge the gap, either by thrift or by saving and investing the profits of their trade. On the other hand, the success of such an accumulation depends crucially on employing capital just where it is needed—pouring money can hardly produce happy, entrepreneurial endeavor. The assumption thus shows clear marks of the Marxist idea that industrialization was possible *only* because of centuries of robbery and exploitation.

The "consensus approach" that Bauer battled against was best summarized by the slogan: "Aid, not trade." Here lies the idea that fostering development through trade, an approach that was reminiscent of the 18th and 19th century theory of *doux commerce*, of commerce breeding brotherhood and civilization, is only a hypocritical cover-up of economic exploitation on the part of the rich.

Bauer himself knew and pointed out that the "current orthodoxy" in development economics was heavily indebted to Marxist-Leninist views. So did Karl Brunner, who underlined how "the Leninist extension of the Marxian vision, with its stress on imperialism and the political 'avant-garde,' has found a particular echo in the Third World" (Brunner 1978: 7). "Whatever the exact process of their intellectual derivation, these views are widely and frequently expounded by well-known writers not regarded as Marxist or Leninist" (Bauer 1976: 173).

Bauer (1976: 165) traced such influence back to the following four key concepts:

> First, that the underdeveloped world is not only desperately poor but stagnant or even retrogressing; this notion is the current version of the doctrine of the ever-increasing misery of the proletariat. Second, that the exploitation of undeveloped by developed countries is a major cause of this poverty . . . . Third, that political independence is meaningless without economic independence; this is an extension of the suggestion that political freedom and representative government are meaningless

[8] The page number here is from the reprint of Bauer's 1965 essay found in the revised edition of *Dissent on Development* (Bauer 1976).

> under capitalism. Fourth, that comprehensive development planning is indispensable for economic advance . . . and especially for the industrialisation required for material progress.

The first two concepts are obviously related to the idea of the primitive accumulation of capital. Bauer opposed with particularly strong emphasis the idea that "contact with advanced economies is damaging to underdeveloped countries" (Bauer 1957: 65). The view has a Marxist background. In Marxist jargon, "The most important source of primitive accumulation, other than the exploitation of the peasantry, lay overseas in the exploitation of pre-capitalist societies. The process took a number of forms, principally *trade*, plunder and slavery" (Ure 1975: 29, emphasis added). In this scheme, the supposedly "unequal" exchange of values on the international market between highly productive "First World" countries and far less productive "Third World" countries is a mechanism of wealth transfer from the poor to the rich. It is consistent with that basic intuition which lies at the roots of Marxism: that inequalities signal exploitation.

The core of the argument is well known. Primitive accumulation in England, with enclosures, resulted in the transformation of peasants into future industrial workers: "the agricultural people" were "first forcibly expropriated from the soil, driven from their homes, turned into vagabonds, and then whipped, branded, tortured by laws grotesquely terrible, into the discipline necessary for the wage system" (Marx [1867] 2002: 2129).[9] A similar process continues internationally. As Rosa Luxemburg ([1913] 1951: 365) remarked, "Capitalism in its full maturity also depends in all respects on non-capitalist strata and social organizations existing side by side with it. . . . Capital needs the means of production and the labour power of the whole globe for untrammelled accumulation; it cannot manage without the natural resources and the labour power of all territories." The capitalist system could therefore not survive in the absence of foreign trade, as foreign entanglements with non-capitalist countries are providing it with the bulk of the resources it needs.

Luxemburg's views were not unanimously accepted by contemporary Marxists. It ought to be remembered that major attempts to

[9]Historical research suggests enclosures made for population growth and better hygiene—reducing diseases that spread easily, as all the animals of the village were turned out on the commons (see Philpot 1975).

update the theoretical underpinning of Marxism, including the substitution of the concept of the falling rate of profit by a law of increasing surplus, were made when capitalism entered its "monopolistic" phase (Baran and Sweezy 1966). But the new "dependency theory," intertwined with the Marxist understanding of monopoly capitalism, had nonetheless very similar normative suggestions. For Baran (1957), capitalism caused the misery of the developing world, as international oligopolistic firms impeded the growth of that surplus, which forms locally in poor countries and otherwise would be spent for local development.

These views, as Bauer knew well, had momentous influence and particularly impressed an entire generation of development experts. Bauer distinguished between Marx and his followers: Marx accuses "the metropolitan countries of plundering the colonies but he also regarded them as a progressive force in promoting modernization" (Bauer 1976: 164). It was Lenin and subsequent Marxists' analysis of imperialism that "extended" Marx's influence in the developing countries and attributed "the poverty of underdeveloped countries to exploitation by advanced countries" (ibid., 167). For it is not difficult to detect, as Bauer did, "a drop of Leninism" in the General Principle Number Fourteen of the First United Nations Conference on Trade and Development (UNCTAD): "the liquidation of the remnants of colonialism in all its forms is a necessary condition for economic development and the exercises on sovereign rights over natural resources" (Bauer 1975: 303).

The idea that economic development should come with "economic sovereignty" is at the intersection of socialism and nationalism, as they both tend to dismiss as propaganda the possibility of free trade being mutually beneficial. Such a view, though in milder forms, profoundly influenced the post–World War II consensus, which considered "external trade . . . at best ineffective for the economic advantage of less developed countries (LDC), and more often . . . damaging." It subscribed instead to the belief that "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" (Bauer 1984b: 1). It builds on an understanding that

> external factors [were] generally responsible for the poverty of LDCs, an example of the ancient and widely entertained

> fallacy that economic activity is a zero-sum game, that the incomes of individuals, especially of the relatively prosperous, are somehow extracted from others, rather than representing a return for services performed. This notion . . . long antedates Marxism, but its influence has been reinforced by Marxist ideology in which property incomes imply exploitation and service industries are regarded as unproductive [Bauer 1975: 299].

Bauer versus the Vicious Circle of Poverty

Bauer's first investigations in development economics were not "inspired by these topics" (Bauer 1984b: 1) His first works were research "boots on the ground" in Malaysia and West Africa. But in both cases,

> even before setting foot in South-East Asia and West Africa I knew that their economies had advanced rapidly (even though they were colonies!). . . . 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 cultivated by non-Europeans [Bauer 1984b: 2].

Bauer thus found in Malaysia and West Africa economies that, though "backward" as seen from the vantage point of European economists, were in fact dynamic. "A developed infrastructure was not a precondition for the emergence of the major cash crops of South-East Asia and West Africa," he noted, recognizing that the historical experience he came to know "was not the result of conscription of people or the forced mobilisation of their resources" (ibid., 4). This is the crux of the argument, as the Marxist idea (and its modern derivations) assumes that such labor was indeed conscripted.

Bauer was inoculated from the Leninist idea that "monopoly" capitalism was the landmark of imperialism by studying competition, monopolization, and the effect of marketing boards in the regions. His conclusion was that the economic landscape was far richer and more complex than it was typically understood to be.

By reading Bauer's West Africa Trade, which is in many ways his most ambitious empirical work, one immediately sees that Bauer had a supreme understanding of a principle Vilfredo Pareto (1896) made central in his theorizing—namely, the mutual interdependence of economic (and social) phenomena. Those phenomena are complex and tend to eschew mono-causal explanations. President Harry Truman apparently once asked to be sent a one-armed economist, being tired of economists relentlessly saying "On the one hand, this" and "On the other hand, that." Peter Bauer had two hands and used them both. Instead of feeling content with speculations upon the immediate, proximate, and deliberate consequences of any policy, he endeavored to understand, in Frédéric Bastiat's famous phrase characterizing the true economist, "what was not seen."

For Bauer (1979: 48), would-be central planners tended to practice "economics without prices and costs." They focused on grand narratives of top-down economic development, neglecting the nuts and bolts of real economic life. His opposition to foreign aid pretending to foster capital accumulation in less-developed countries was built upon a rich understanding of the interconnection of different phenomena.

For one thing, focusing on capital accumulation was a "one-armed" way of looking at growth. "In the planning literature, especially in recent Marxist-Leninist literature, economic advance is usually defined without reference to general living standards but primarily in terms of industrial development. . . . The advocates of large-scale industrialisation, and especially of massive development of heavy industries, hardly ever refer to prices, incomes, cost, demand or standard of living" (Bauer 1976: 172).

It is not that large government-to-government transfers (i.e., foreign aid) produce no beneficiaries. Indeed, foreign aid may enrich specific subgroups of a population, and perhaps it could even trigger developments and growth *in a particular field*. The mistake is to equate some particular development (i.e., industrialization) with *growth* of the entire economy, meaning rising standards of living. "Of course, state planning can augment the resources available to particular sectors of the economy, by expanding these at the expense of other activities. But this has nothing to do with the expansion of the economy as a whole. This is obscured in the ubiquitous practice of identifying the output or progress of one sector with that of the economy as a whole; this practice is followed by economists and officials who neglect costs" (Bauer 1977: 149).

Capital fundamentalism, or infrastructure fundamentalism, may obscure more relevant facts. "If all conditions for development other than capital are present, capital will soon be generated locally, or will be available to the government or to private businesses on commercial terms from abroad, the capital to be serviced out of higher tax revenues or from the profits of enterprise. If, however, the conditions for development are not present, then aid—which in these circumstances will be the only source of external capital—will be necessarily unproductive and therefore ineffective" (Bauer 1976: 97).

Neither can we assume that "more capital" is per se a panacea. As Bauer pointed out in *West African Trade*, "the comparative lack of local technical and administrative skill aggravates the effects of the scarcity of equipment; it is not lack of capital alone which retards development" (Bauer 1954: 13). In other words, without the necessary *human capital* we can hardly assume machineries (or roads) to increase productivity per se. And how can we know, ex ante, whether those skills and a certain capital will or will not match? As observed by Ben Powell (2014: 130), "The right capital is the capital that best complements the existing capital and labor to produce the greatest value for society in the ultimate production of consumer goods. To find out what capital is best, we need the market's competitive process to operate."

This is something well known to anybody who ever visited the South of Italy. In the aftermath of World War II, aid from the North financed businesses' investment (mostly by northern businesses) in ostensibly productive facilities, some of which were quickly abandoned as this river of transfers drained. Such factories located in regions with little industrial history and unskilled employees were named "cathedrals in the desert": temples waiting for a faithful people, who were very unlikely to show up. Italy, a country where per capita income has been and still is diverging between North and South for virtually all of its history, is a microcosm of aid failure as sketched by Bauer. In this sense, his lesson can be further generalized: development can't be forced by transferring resources, within or beyond the boundaries of the nation state.

P. T. Bauer's *bête noire* was the so-called vicious circle of poverty. For him, the vicious circle of poverty could not really be a circle, because rich countries did exist and all of them "started poor, with low incomes per head and low levels of accumulated capital, that is with the economic features which now define underdeveloped countries" (Bauer 1976: 165). Yet countries "have advanced, usually without appreciable outside capital and invariably without external grants which would have been impossible according to the thesis of the vicious circle of poverty and stagnation."

For Bauer the foremost sin of foreign aid is that it cannot avoid being politicized: "the granting of foreign aid necessarily draws the donor country into the internal politics of the recipient country" (Bauer 1961: 120). In particular, such meddling with grantee-countries grew the anti-market sentiment in those countries, because "what the Third World learns from the West, or about it or about present and past economic relations between the West and Third World countries, comes from or is filtered through opponents of the market" (Bauer 1978: 172). The "devaluation by intellectuals of voluntary exchange" (McCloskey 1987: 250) can't help economic growth.

In a sense, Bauer pointed to what might be called a "vicious circle of anti-capitalism." Lack of prosperity in less developed countries is interpreted, in more or less openly Marxian fashion, as the sum of damages inflicted by Western action (trade) or inaction (lack of aid). This sense of guilt of Westerners creates the political demand for foreign aid, which Bauer (1976: 115) noted, "is a process by which poor people in rich countries help rich people in poor countries." Donor-countries may bet on the importance of fostering capital formation, but they tend to ignore the circumstances of grantee-countries. Foreign aid thus doesn't drag the poor out of poverty, and thereby the circle starts anew.

For this reason, Bauer gallantly opposed what he regarded as a pernicious form of egalitarianism, even when practiced by the Catholic Church (Bauer 1984a). For this reason, he opposed the corruption of language by the means of dangerous metaphors. "Nation-building," for example, implies considering people "lifeless bricks, to be moved by some master builder" (Bauer 1984b: 5).[10] Likewise, the use of the expression "Third World" implies that all underdeveloped countries are alike. In fact, "without foreign aid initiated and organized by the West, there would be no Third World or South" (Bauer 1980).

[10]This passage seems reminiscent of Smith's famous description of the "man of system" who imagines that "he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board" (Smith [1759] 1984: 380–81), with which an avid reader of Smith such as Bauer was certainly familiar.

Besides being a sharp critic of his contemporaries, Bauer advanced his own theory of economic development—though not in a systematic fashion. As Jim Dorn (2002: 357) argued, Bauer sees "the essence of development" as "the expansion of individual choices":

> I regard the extension of the range of choice, that is, an increase in the range of effective alternatives open to people, as the principal objective and criterion of economic development; and I judge a measure principally by its probable effects on the range of alternatives open to individuals [Bauer 1957: 113].

In this context, what truly is key for Bauer is voluntary exchange. His view of economic growth is essential Smithian: "the division of labour is limited by the extent of the market," the more division of labor the better, the more extended the market the better. Very aptly his last book was titled, after one of its collected essays, *From Subsistence to Exchange*, because these are the two poles of development in Bauer's view. "Advance from subsistence production involves trading activities" (Bauer 2000: 8), and the growth of such activities produces, little by little, more knowledge and better coordination, thereby making possible increasing production.

Such a process, such a transition, is fostered by trading at all levels. Bauer appreciated, as few did, that the poor are *great traders*. If we need to summarize his thought in a few words, the best way to do it would be to point out that he didn't believe the poor were stupid. He thought we need to understand the specificities of local circumstances before proposing all-encompassing public policies. He thought culture had a great role in development (and anti-market prejudice could stifle it), but he didn't think that the "South of the world" was populated by irrational economic agents, in desperate need of our enlightened guidance. That was his view, whether he wrote about development, migrations, or so-called overpopulation. He never practiced paternalism, that eternal habit of the intellectuals.

Conclusion

"Through the 1950s and 1960s Peter Bauer's writings frequently aroused anger, if not apoplexy, but little reasoned criticism. He was ignored, dismissed, but not answered" (Desai 1982: 291). Bauer was indeed “a hero of the market revolution” (Dorn 2002: 355) when socialism seemed invincible. His ideas were never popular within the economics profession (Vásquez 2007: 208-9) and, though they were vindicated as times went by, they were very rarely recognized as path-breaking.

And yet path-breaking they were. By challenging the concept of a vicious circle of poverty—that is, by debunking capital fundamentalism—Bauer inflicted a strong blow to its Marxian underpinning. His analysis has an even wider relevance than his “dissent on development.” He made it clear that coercive transfers of wealth could not be justified with an appeal for economic development—nor should they, as they could not be seen as mending previous expropriations. By emphasizing the importance of trade, Bauer made his way back to the economics of Adam Smith.

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