# Peter Bauer Was Not a Cultural Pessimist: Comment on McCloskey

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Deirdre McCloskey is an optimist, and rightfully so, when it comes to the development potential of poor countries. As she notes, the impressive records of India, China, and other countries in recent decades in achieving sustained, rapid progress justify that outlook. They also confirm the role of market liberalism in escaping mass poverty. She thus understandably admires Peter Bauer for his courageous advocacy of classical liberal policies at a time when that meant going against the grain in development economics.

McCloskey is bothered, however, by what she considers an oddity or a tension in Bauer's work that at once recognizes the ability of poor people to create wealth when they are given the freedom to do so, and that also recognizes that some widespread cultural factors in some societies can adversely affect progress. She states that "Bauer insisted on cultural pessimism." She compares his views to those of Banfield (1958, 1963) and Putnam et al. (1993) about southern Italy, which leads one to conclude, in McCloskey's words that, "No reigning in of bad government policy could solve the puzzle of culture inherited from the past."

Bauer did believe that noneconomic factors such as culture play an important role in development, but McCloskey pushes her point too far. He did not consider culture to be as powerful or permanent

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an obstacle to progress as she depicts. His views were rather more complex and, I would argue, made him an optimist on development. To be fair, McCloskey also qualifies her criticism by citing instances where Bauer notes how the poor have responded rationally to incentives such as price signals to better their situation. She takes this as evidence of an inconsistency in his mood.

In a career as long and prolific as Bauer's, it would be surprising if his views on some issues did not change or evolve. Bauer indeed admitted to having held mistaken opinions—for example, the belief in the primary importance of physical resources such as capital—especially early in his career. But he did not consider his views on the role of culture to be mistaken. On the contrary, he felt that the disregard of noneconomic factors was a major shortcoming of development economics and was impressed again and again with their impact on economic performance and the functioning of society more generally.

One of the reasons McCloskey may take issue with Bauer on his cultural views is that culture is a term that is often ill-defined or that may mean different things to different people depending on how the word is used. As I shall explain, Bauer's conception is probably nearer to McCloskey's understanding of cultural attitudes and changes than is at first apparent. Another reason for the difference of opinion is that McCloskey writes from the perspective of 2018, whereas Bauer began writing in the 1940s as a pioneer in a field that would largely disagree with him and even disparage him. This gave him both a different perspective on development than that of McCloskey and a different objective in his writings.

## Bauer as an Applied Economist

Bauer was an applied economist who regularly warned against abstraction and favored direct observation in the study of economic development. He was skeptical of national income and investment statistics in poor countries because their compilation was methodologically flawed, and they missed significant economic activity. It is difficult to find national growth rates, for example, in his writings on development. Instead, he discusses broad transformations such as the move from subsistence to exchange or the fall in fertility rates, and he cites specific, major examples of progress. This was evident from his work in the 1940s and early

1950s in British Malaya, the Dutch East Indies, and West Africa. There he documented vast wealth creation on the part of the poor (Bauer 1948, 1954).

> It was thus evident that the ordinary people of the ldcs [less developed countries] were not necessarily torpid, rigidly constrained by custom and habit, economically timid, inherently myopic, or generally deficient in enterprise. In the space of a decade or two, the illiterate peasantry of South-East Asia and West Africa planted millions of acres to produce new cash crops; and rubber, cocoa and kola trees, for example, take five years to become productive. In all, this represented large volumes of direct investment made possible by voluntary changes in the conduct, attitudes, and motivations of numerous individuals, in many cases involving the sacrifice of leisure and the modification of personal relationships. Yet Malays, Indonesians and Africans were precisely among those who were depicted (as they still sometimes are) as incapable either of taking a long view or of creating capital, and as being hobbled by custom and habit [Bauer 1984: 5].

Bauer was not a cultural pessimist. It was a constant in his career to point out widespread examples of formally uneducated poor people contributing notably to economic progress. He cited scholars' accounts of rapid economic change in the less developed world since the end of the 19th century to counter the prevailing view depicting poor countries as necessarily stagnant. He did so also to counter the "development orthodoxy" that assumed only state-led development could achieve high rates of growth.

Thus, when Bauer warned against lofty expectations of growth, he did so typically as part of a critique of forced industrialization and other dirigiste schemes. He and Basil Yamey lamented what they considered an ahistorical "belief, or at least the frequent statements, that most less developed countries can reach the level of material attainment of the West in a few years or decades" (Bauer and Yamey 1972: 681). Even with 21st century hindsight, their apprehension about such a pace of growth does not seem unjustified. The high growth that has occurred in many developing countries—which has resulted from market reforms rather than dirigisme—still has not brought many of those countries to Western levels, and in those that have become developed, the process took a couple of generations.

In that sense, McCloskey's concern for what Bauer considered unrealistic rates of growth seems misplaced.

## Noneconomic Factors and Cultural Change

It is true, as McCloskey claims, that Bauer drew attention to the bearing that culture had on development and that he often cited attitudes and customs that adversely affected material advance. But he viewed culture as one of many factors affecting development. "Economic achievement," he noted, "depends on personal, cultural, social, and political factors, that is, people's own faculties, motivations, and mores, their institutions, and the policies of their rulers. In short, economic achievement depends on the conduct of people and that of their governments" (Bauer 1991: 42).

McCloskey observes that "ignorance and custom are not always permanent." She refers to "the conditions that Bauer thought so sluggish [which] can suddenly become favorable" and asserts that "choice . . . can overwhelm the ignorance and custom." Yet Bauer would not disagree that culture can change, and that aspects of it can change rather rapidly. He provided numerous examples of such salutary changes that resulted from increases in market exchange. Indeed, he favored such conditions for cultural change precisely because they were more apt to succeed and because they avoided the coercion inherent in development planning. In the following passage, for example, he explains why—contrary to the prevailing orthodoxy—he approved of continued agricultural production in developing countries:

> There are various reasons why in many poor countries a large measure of continued reliance on agriculture, notably on agricultural production for sale, is likely to represent the most effective deployment of resources for the promotion of higher living standards. One reason is the familiar argument in favor of comparative costs. Another, less familiar, reason is that production of cash crops is less of a break with traditional methods of production than subsidized or enforced industrialization. Agriculture has been the principal occupation in most of these countries for centuries or millennia. Thus in the production of cash crops the difficulties of the adjustment of attitudes and institutions in the course of the transition from subsistence production to an exchange or money economy are

> not compounded by the need to have to acquire at the same time knowledge of entirely new methods and techniques of production. After some time spent on the cultivation of cash crops, people find it easier to get used to the ways, attitudes and institutions appropriate to a money economy. This greater familiarity with the money economy facilitates effective industrialization. In these conditions of transition from subsistence to a money economy, conditions widely prevalent in poor countries, production of cash crops and effective industrialization are thus complementary through time. The unfavorable contrast often drawn between agriculture and manufacturing, to the detriment of the former, is an example of a time-less, unhistorical approach to economic development, an approach which is inappropriate to the historical development of societies [Bauer 1972: 144–45].

Elsewhere he would note:

> If people voluntarily give up their beliefs and modes of conduct to secure material advantages, this implies that they value more what they receive than what they have given up. The change, therefore, will not produce a resentful people. Throughout the underdeveloped world, there are many examples of large-scale voluntary adjustment to new opportunities [Bauer 1972: 202].

Bauer never tired of citing the strong, positive impact of trade on progress. External contacts, he noted, "also engender a new outlook towards material possessions and the means of obtaining them. And perhaps most important, they undermine customs, attitudes and values which obstruct material advance" (Bauer 1972: 301). Bauer often referred to the ready development of economic attitudes favorable to the market and modernization. The kind of cultural features and changes that Bauer describes to support development seem consistent with the liberal values McCloskey advocates as supportive of economic progress in a diversity of cultural settings.

Since Bauer never specified exact time spans nor growth rates for his own expectations of poor countries' development, it is difficult to determine how far off his views on the potential pace of developing countries' progress were from those of McCloskey. Bauer was skeptical about anybody's ability to engage in such predictions, so he avoided doing so. He did, however, mention the long centuries

of institutional, technical and cultural development that Western Europe went through prior to its modern era of economic growth as a contrast to the developing world where such secular development had not taken place. Those features of his writing may explain in part why McCloskey interprets his views as pessimistic.

Another reason that might explain and to some degree justify McCloskey's judgment on Bauer was his view about Indian culture. Bauer believed that Indian attitudes and customs inimical to growth, such as the caste system and the religious encouragement of begging, were unique to India and especially pronounced. He considered the need to change those cultural features "more difficult, necessary and urgent than elsewhere, notably more so than in the earlier history of the developed countries" (Bauer 1961: 29). Here, McCloskey is on more solid ground, and of course we have now observed high growth rates, especially in this century (and after Bauer's death), and the erosion of the caste system.[1] Yet even in this case, Bauer cited evidence of India's capacity for economic advance and the abandonment of the caste system by Indians who emigrated to Malaya, suggesting the susceptibility to cultural change when exposed to increased economic opportunities.

## Group Differences and the Complex Role of Culture

Bauer's view on the role of culture in development was complex. He observed differences in qualities and performance among groups and individuals,[2] the importance of entrepreneurship within culturally distinct societies, and the necessarily uneven spread of economic advance. The interplay of these differences affected economic and cultural change within and among different cultural groups. The most alert individuals and groups respond first to new economic opportunities such as those presented by outside trade. This produces both what some have called inequality and an incentive for many more to create wealth. As Bauer (1972: 196) explained, "Differences in incomes are more often a condition of material progress and evidence of its occurrence rather than an obstacle to

[1]See, for example, Aiyar (2015).

[2]Bauer (1972: 298) referred to these as "conspicuous differences between individuals and groups in economic aptitudes, such as industry, enterprise, curiosity and ability to perceive and exploit economic opportunity."

its realisation. In Asia, as elsewhere, the prospects of material rewards have encouraged millions of people to work hard, save, experiment and invest, often in distant countries."

Just as Bauer did not see an inherent problem with inequality of wealth or income, he was not bothered by differences in group performance. As a corrective to Bauer's insistence on group differences, McCloskey implores that "Growth can occur, if given a liberal chance." Bauer would fully agree. He believed that a government that adequately performs its limited, essential functions "usually contributes substantially to the voluntary transformation of mores and modes of conduct harmful to material progress" (Bauer 1972: 203). That in itself does not guarantee that different cultures or societies will produce the same outcomes under a liberal regime, but, again, since Bauer did not specify expected rates of growth or levels of development, we cannot be sure how much his view about the prospects of development really differs from that of McCloskey. I suspect that they are not as far apart as McCloskey paints them to be.

The complexity of Bauer's beliefs about the impact of culture could also be seen in his critique of J. R. Hicks. Bauer's main complaint about Hicks is that general theories of history are fanciful, and that Hicks's version was so poorly constructed as to be "an unhelpful travesty of reality" (Bauer 1991: 175). With regard to the prospects of poor countries, Bauer was mainly bothered by Hicks's account of the growth process rather than by predictions about growth rates.

> Hicks envisages that the relationships between specifically economic activities and such factors as people's attitudes and social institutions are largely one-way. He regards the causal relationship as running almost entirely from the former to the latter, even when the reverse relationship would seem to be far more significant [Bauer 1991: 185].

Elsewhere, Bauer also noted the critical interplay between non-economic factors and economic policies in determining economic outcomes. "The neglect of cultural and political factors," he warned, "necessarily involves disregard of the reciprocal interaction between the familiar variables of economic analysis and these determinants of economic performance and progress" (Bauer 2000: 13). To Bauer,

institutions, culture, political regimes and policies all influenced each other in complex ways. He did not formulate a theory about that relationship (no one has), but he was way ahead of his time, and still is, in recognizing those reciprocal influences.

Surely, Bauer was right to bring attention to that complexity. It is all well and good for a country to adopt a liberal regime, but nothing guarantees that it will do so, or that once it does implement liberal policies, they will endure. Culture, prevailing institutions and other factors will play prominent roles in the adoption of economic policies and in turn will be influenced by those policies and the growth that they encourage or discourage. Liberalism has benefitted the world's poor, as Bauer would have expected, but other developments during this era of globalization also vindicate Bauer's views: the impossibility of predicting poor countries' growth trajectories; erratic swings in policy and political regimes in many developing countries; the rise of populism in rich and poor countries; and the large variance in growth rates among developing countries.

Bauer does seem more pessimistic as cited by McCloskey when he says that it would be naïve to think that the abandonment of protectionist policies in developing countries "would invariably bring about early and substantial material progress." Given Bauer's lifelong advocacy of free trade and its benefits, that statement may seem surprising.[3] But the key word here is *invariably*. Bauer (1972: 302) correctly cautioned that "External contacts by themselves are of course not sufficient to ensure progress if other factors are missing." He cited cases from Latin America and North Africa to bolster his point. More recent cases abound and would include Mexico, which has had an open economy since the 1990s yet has managed to achieve only mediocre growth rates. Parts of its economy are quite modern and large parts are not. Ideology, politics, flawed institutions, and even custom have conspired to prevent much needed reform in a way that would not surprise Bauer.

I doubt also that McCloskey is surprised. All in all, the differences between McCloskey's and Bauer's views on cultural change and on culture's impact on development may be more of degree than of kind.

[3]Bauer later revised that essay to say, "But it is naïve to believe that more favorable policies would bring an early, *worldwide* industrial revolution" (my emphasis) (Bauer 1991: 176).

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