Bauer on Culture and the Great Enrichment

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Preliminary version for the conference

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I first commented on Bauer thirty years ago, at a point I optimistically thought was his "resurrection" as a voice in the fraught field of development economics. I wrote in 1987 that his "story follows William James's three stages in the rhetoric of academic disputes: at first what Bauer says is plainly false; then it is trivially obvious; and finally it is so true that we, not he, invented it" (McCloskey 1987, p. 253). By now the joke has come true. Some of us have forgotten, but many know, that Bauer invented in the 1950s and 1960s, reiterating later, what has become trivially obvious from the experience of China and India, Ireland and Botswana, namely, that leaving people alone, while assigning the government to the few if important tasks that do not obstruct opportunity, is the path to wealth. What does not work is "socialism with Chinese characteristics," that is, political tyranny and unprofitable governmental enterprises. The economic liberalism of the competition for business among Chinese *xians* is what worked, leaving people alone to innovate, just as Bauer would have said (Coase and Wang 2013, and the later works of S. N. S. Cheung).

As Bauer remarked about his book of 1954 at its reissue in 1963, "the discussion of price stabilization and of the operation of the marketing boards [anticipating the political scientist Robert Bates] aroused much controversy at the time, but the analysis and the conclusions are no longer disputed" (Bauer 1954 [1963], pp. xviii-xix). Likewise his views about the corrupting effects of foreign aid, anticipating those of the political scientist Edward Banfield, and more recently the economist William Easterly (as Easterly has admitted), is now no longer much disputed.

Yet it seemed to us lefties of the early 1960s to be plainly false. Surely the way to wealth in Ghana, we thought in our admiration for Kwame Nkrumah, is giving massive aid to the Ghanaian government, out of, say, Norwegian taxes. Anything less would be cruelly selfish. Shame on you conservatives and classical liberals who doubt. But in 1954 when he was criticizing what Easterly fifty years later called, appropriately, the "capital fundamentalism" of the World Bank and other foreign aiders, Bauer wrote: "the comparative lack of local technical and administrative skills aggravates the effects of the scarcity of equipment. . . . For this reason indiscriminate import of capital, or even substantial capital accumulation in the hands of public organizations, alone would not necessarily improve the situation" (1954 [1963], p. 13).

Bauer's great advantage was that unlike many economists he understood "price theory," as we called it in the good old days at the University of Chicago (e.g., McCloskey 1985). That is, he understood the way an economy works through scarcity, entry, and supply and demand curves. Back in 1848 the field of economics, or rather "political economy" as it called itself then, had a reasonable grip on such matters, which guided liberals such as Mill and Bastiat and Cobden. The grip was strengthened by the marginal revolution in the economics of the 1870s.

But the 1870s was also the era in which theories of American protectionism and British New Liberalism and the German Historical School among other anti-economic movements started to take hold outside the price-theoretic and British/Austro-Hungarian core of the field. By 1975, Bauer noted with irritation, "some economists holding senior academic positions confuse free goods and scarce resources [e.g. in thinking that development spending is a net addition to national income, regardless of its opportunity cost], ignore the dependence of supply and demand on price [e.g. speaking of the numerical 'structure' of jobs or exports or the balance of payments without regard to their sensitivities to price elasticities of supply and demand], or neglect patent empirical evidence pertinent to their arguments [e.g. evidence of entry at the pull of profit]" (Bauer 1975b, p. 287).

Bauer was therefore not misled, as so many economists are, by the litany of "imperfections" in the market, of which I have recently counted fully 110 imagined since 1848—monopoly, externalities, inadequate aggregate demand, irrational consumers, informational asymmetries, and on and on, recently bearing fruit in many a Nobel Memorial Prize (McCloskey 2017a). Not one of them—startlingly in what purports to be a serious empirical science—has been shown to be a substantial obstacle to economic progress, except on the blackboard. All are used to recommend corrective governmental action by saintly geniuses able to predict and therefore to engineer the future without flaw for the good of us all. As Comte, the master of such thinking, put it in 1830, *Savoir pour prévoir, afin de pouvoir,* "Know in order to predict, to be able to act with power" in the state. Meanwhile the highly "imperfect" economy, chiefly by ignoring the statist advice of the increasing number of illiberal economists, yielded a Great Enrichment from 1800 and especially from 1848 to the present of 3,000 percent more goods and services for the poorest among us, uniquely in economic history. Three thousand percent.

The behavioral economist Richard Thaler is the best example of an un-Bauerish and illiberal approach to price theory and practice that human frailty is likely to yield (McCloskey 2018). He combines the 110 imperfections of the market with the 257 cognitive biases that the psychologists have discerned. He concludes that without governmental help we cannot be trusted to walk across the street, and certainly not to make any serious economic decisions, considering that the imperfection-crippled market will not offer us useful protections from our idiocy.[1] Therefore we need to be nudged to safety, like a two year old grabbed by his mother before he carries out his intention to run in front of a tram. The conclusion by most economists of the past century has been that we are little children, or idiotic adults, and need to be economically engineered, by those very economists. We naïve statists in the 1960s called it "fine tuning." Now "nudging." In other cases, socialism and fascism.

Like the agricultural economist and Nobelist at the University of Chicago, Theodore Schultz, and a few other brave souls writing in the 1950s and 1960s, Bauer didn't think that people in poor countries were little children or in other ways idiotic (Schultz 1964). For example, Bauer did not believe the racist assumption, widely if sometimes unselfconsciously held in the 1950s and 1960s, that Africans or Indians or whomever could not possibly achieve the Great Enrichment of 3,000 percent, available only to Europeans sporting melanin-challenged skin. We young students of economic development in the 1960s, at any rate if we were not studying at the LSE or Chicago with Peter Bauer or B. S. Yamey or Theodore Schultz, were taught that such folk would never grow rich, that they were caught in a low-level trap of the sort that Professors Myrdal and Nurkse exposited. After all, the Indians were mostly Hindus, or at best Muslims, and many of them in the south of India were dark fellows who could not possibly develop a world-supplying computer-service industry. The same held for the Chinese, those hopeless Confucians or Communists, and in any case, you will note, yellow, who could not possibly develop a world-supplying electrical-machinery industry.

Bauer, in other words, was a classical liberal at the height of a statism of the left or the right or the middle.

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But he was also a social scientist of his age, I think, in taking cultural obstacles as more powerful than subsequent experience suggests. Thus too Edward Banfield in his dismal, classic study of the "amoral familism" of Italy south of Rome (1958), followed by Robert Putnam and coauthors in their dismal, classical study of the same place (1993), felt that the South was hopelessly trammeled by its culture, and would always be. No reining in of bad governmental policy could solve the puzzle of culture inherited from the past. The Italian party of separation, once called Lega Nord per l'Indipendenza della Padania ("North League for the Independence of Padania," that is, of the Po Valley), believes the same to this day, and there has long been respectable opinion in the study of Italian history that the unification of the peninsula in the Risorgimento was a mistake (Mack 1958 [997[]).

Against the Banfield-Putnam pessimism about the South, though, it can reasonably be suggested—and I would in fact suggest it on the basis of recent

1 The number of 257 comes from the Wikipedia entry "Cognitive Biases."

experience such as China's and India's unavailable to such observers—that a more thorough liberalization of the peninsula would change the picture radically, despite the culture. After all, when Italians moved to New York or London from the Mezzogiorno in great masses, they did well within a couple of generations. Italian Americans had by the 1970s the third highest rate of university graduation by ethnic group, third only to Jews and Irish—both of whom in their turn had been despised as incorrigible by an inherited culture. The optimistic case can be suggested, too, against Bauer's similar pessimism about poor countries more widely: when Indians and Chinese moved to places in which they were permitted to have a go, they also flourished, yet did not abandon their culture. As Bauer in another mood said.

Consider a radical liberal policy for Italy. If the Mezzogiorno broke off from Italy, or was rudely broken off, and in particular broken off from the massive subsidies it now receives annually from Rome for its Rome-approved vote, and sat on its own bottom, a true-believing classical liberal would expect it to prosper mightily. Sicily is not inconveniently located for foreign trade, for example, and its sons and daughters in America have done exceptionally well.

After all, what is in effect foreign aid from the North, Bauer had said in 1977 about "technological" free lunches to be given to India, has the problem that it, like power, tends to corrupt. "When those who have to pay for the technology [or in the Mezzogiorno's case to pay for an *autostrada* to nowhere] spend their own resources, they are far more likely to purchase it [viz, the technology or the *autostrada*] selectively and in accordance with considerations of costs and feasible alternatives" (Bauer 1977, p. 154). The corruption from free money is elementary price theory, denied by many economists who, as Bauer elsewhere remarked in one of his stiletto footnotes, believe that "acceptance of nonsense may be necessary for participation in political decisions" (Bauer 1975, p. 312n29).

Yet early and late Bauer emphasized the obstacles that culture posed to the Great Enrichment of poor countries. He complains of John Hicks's economistic theory of economic history that "neither religion nor any other belief is mentioned as influencing either conduct or social institutions" (Bauer 1971, p. 166). Bauer believed that caste in India and witchcraft in Africa posed major obstacles. Of India he wrote in 1961 for example, in a surprisingly conventional way, about "the contemplative, non-experimental, uncurious, and fatalistic outlook of large sectors of the Indian population, especially the rural population and certain sectors of the intelligentsia" (1961, p. 26). True, in accord with price theory he hastened to add that "it should not be inferred . . . that the propositions of economics are irrelevant to India . . . . The Hindu peasant will not kill a cow, but he will sell his output where he can get the highest price" (1961, p. 28). Yet at about the same time, by contrast, the Indian professor of English literature Nirad Chaudhuri pointed out that Christian England was actually *less* profit-oriented in its prayer for daily bread than was the daily Hindu prayer to Durga, the Mother Goddess: "Give me longevity, fame, good fortune, O Goddess, give me sons, wealth, and all things desirable."[2] The businessman and public intellectual Gurchuran Das notes that the second stage of a worthy Hindu life is that of the householder. "The dharma texts recognize the value of the second stage, which was the indispensable material basis of civilization"(Das 2009, p. xxxiv).[3] Among the successive goals for a flourishing life in Hinduism is "a second goal . . . *artha*, 'material well-being,' which makes sense, for how can one be happy in conditions of extreme deprivation?" (Das 2009, p. xxxviii). How indeed?

Most social scientists in the 1950s and beyond looking at Holy India—and, I am saying, Bauer, too, despite his well-reasoned attacks on such a conventional view—saw only vicious circles of poverty. During the forty years after independence such a rhetoric of a Gandhi-cum–London School of Economics socialism held the "Hindu rate of growth" to 3.2 percent per year, implying a miserable 1 percent a year per person as the population grew. Nehru wrote with satisfaction in 1962 that "the West also brings an antidote to the evils of cut-throat civilization—the principle of socialism. . . . This is not so unlike the old Brahmin idea of service"(quoted in Lal 2006, p. 166). [4]

At last, however, such anti-commercial rhetoric derived from European thought of the 1930s and "the old Brahmin idea of service" faded. A profiting and bettering rhetoric took root in India, partially upending the "License Raj," as the Indians described the 44 years after Independence.[5] A third of a million Indians subscribe to the fortnightly Indian magazine *Business Today*, founded in 1992, which contains breathless articles praising enterprise. And so India commenced, after liberal economists took charge in 1991, increasing the production of goods and services at rates shockingly higher than in the days of five-year plans and corrupt regulation and socialist governments led by students of Harold Laski. By 2008 Indian national income was growing at fully 7 percent a year per person. Birth rates fell, as they do when people get better off and therefore have access to birth-control devices.

After 1991 and Singh's liberal allies, though, most of the *culture* didn't change, and probably won't change much in future. Economic growth, as the Japanese have long shown, does not entail becoming identical to Europeans. Unlike the British, the Indians in 2030 will probably still give offerings to Lakshmi and the son of Gauri, as they did in 1947 and 1991. Unlike the Germans, they will still play cricket, rather well. And in 2050, after merely two generations at the rates of growth possible for economies launching on the Great Enrichment by adopting liberal economic policies, average income will have risen by a factor of fully 16 over what it was in 2008. The level will then be well over what is was in the United States in, say, 2003. Even by 2050 in much

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2 Chaudhuri 1959, p. 178; see also his chap. 5, "Money and the Englishman." Chaudhuri made his first trip to England after the Second World War.

3 See also Das 2000, which he regards as his sympathetic treatment of the "householder" stage.

4 One is reminded of the old and vulgar joke in which the farmer says, "When I hear the word 'service,' I wonder who is getting screwed."

5 Adhia 2010, 2013.

of their talk and action the Indians will not have the slightest temptation to become like Chicagoans or Parisians, any more than the once appallingly poor southern Italians have taken on an American style of driving or a British style of food, though they are now by international standards rich. The Italians even of the Mezzogiorno did, however, adopt in part a northwestern European rhetoric about the economy, as the Indians have largely now. They entered the modern world, and the modern word, of a bourgeois civilization, and were made the better for it, materially and spiritually. And most assuredly, I say again, their rich cousins in the USA or UK or Australia did.

Yet Bauer insisted on cultural pessimism. In a review of the dismal effect of Marxism on theories of economic development he declared, contrary to what "both Marxists and non-Marxists often believe," that "men are obviously not equally endowed by nature in physical, intellectual or economic capacities" (1975b, p. 304). Yet such a truth individual-by-individual does not imply that groups are so radically unequal in, say, economic capacities, or at least have plenty of outliers in their number with entrepreneurial tastes, that growth cannot occur, if given a liberal chance.

The worry about culture and the optimism about price theory creates a persistent tension in Bauer's work that one does not see for example in the more cheerfully optimistic work of his American ally I have mentioned, Theodore Schultz. On the last page of Bauer's 1961 book for example he says again, as he had throughout the book, that "criticism of Indian economic planning . . . should not be mistaken for a plea for governmental inactivity in economic and social life" (1961, p. 141). He says it, I suppose, to fend off the accusation of anarchism that has come so easily to the lips of indignant statists since the Great War.

Admittedy, then he immediately takes it back: "what is required in India is essentially a redirection of the activities of government, away from policies restricting the energies and opportunities of its subjects, and away from acts of emulation of the pattern of the Soviet world" (1961, p. 141). The choice he says in the last sentence in the book was between ''the development of the opportunities of the people" or "the establishment of a socialist society." Yes. It is no accident that the optimistic part of Bauer's advice started to be heeded only after the fall of the Soviet Union, a few years after my premature announcement of his "resurrection." The ideological veil over socialism's inefficiencies and injustices put up after the Great War fell to the ground. Bauer was risen from the dead.

And Bauer was fiercely opposed to the notions of vicious circles of poverty such as Myrdal and Samuelson believed. In his 1975 essay his target becomes clearer, and the apparent tension I am pointing to is partially resolved. On the one hand he deprecates "the suggestion that the economic capacities of people are substantially equal, and differences reflect political manipulation or exploitation" (1975b, p. 311). But he is claiming that the egalitarianism he does not favor excuses, he thinks, socialist and protectionist policies. But he makes the point (1961, p. 28), as I have emphasized, that overseas Indians do just fine, which suggests that Culture can't be it. And he views as disastrous Indian policies such as minimum wages (1961, pp. 92, 93) and central planning (1961, Chps. II-VI, which is to say most of the book). "The large reserves of human energy and talent," so evident to us now in the growth of India after 1991, were "inhibited by the restrictive forces of custom," to be sure, but "enhanced [that is, made worse] at present [in 1961] by the restrictive effects of government policies," the License Raj and the attempts to apply social democracy straight away. Bauer is in tension with himself.

That is, Bauer was not quite as much of an egalitarian, optimist, and thoroughgoing liberal as was, say, the Blessed Adam Smith. Smith believed that all that was necessary to "carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things."

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It is quite typical of the imperfectionist and statist habits of economics since 1848—being in this quite unBauerish—that the political scientist Barry Weingast in quoting the famous sentence by early Smith adds the magic word for statists, "infrastructure": "If peace, easy taxes and a tolerable administration of justice represent the market-supporting infrastructure necessary to sustain markets, just how does this infrastructure come about?"[6] Pointing to the *Lectures on Jurisprudence* (1762-63), assembled from notes by Smith's students and finally printed in 1896, Weingast replies, "Markets without legal infrastructure work poorly at best and fail to develop in the absence of contract enforcement, secure property rights, and the division of labor. No so-called invisible hand has transformed modern sub-Saharan Africa or South Asia into rich, developed countries." Yet it is doing so now.

Weingast has argued on many other occasions that the visible hand of government supplies what growth needs.[7] True, non-predation by the very state is necessary, the "peace, easy taxes, and tolerable administration of justice" Smith spoke of. All of them are activities of government whose lack will indeed crush individual ingenuity. But to make out of this a claim that government must supply at first an "infrastructure" is to give to government an active role contrary to "all the rest being brought about by the natural course of things." True, Bauer emphasized in the brief Introduction to *Indian Economic Policy and Development* that "economic development [does] not emerge directly from the operation of market forces" (1961, p. 12). Yes, law is necessary. But China for centuries had peace, easy taxes, and a tolerable administration of justice, but without the liberal regime allowing ordinary people to have a go that Smith was recommending.

6 Barry Weingast webpage on the Smith Project at https://web.stanford.edu/group/mcnollgast/cgi-bin/wordpress/adam-smith-project/

7 I discuss his statist claims about the formation and protection of property in McCloskey DDDD.

John Hicks, whom Bauer criticized sharply in his review in 1971 of Hicks's *A Theory of Economic History*, believed that economic history "has a recognizable trend" (p. 7 of Hicks). Many economic and other historians assume it does have a trend of steady, gradual improvement. For instance, the group of excellent economic historians contributing to the Maddison Project do so, at any rate implicitly. They see English economic history of the past millennium as culminating, slowly, slowly, in the Industrial Revolution. But in fact the Great Enrichment, the follow-on to an industrial revolution not notably different from earlier efflorescences, as Jack Goldstone calls them, was an astonishing discontinuity, long, long after English law reigned, and occasional periods of peace (Goldstone 2002). A Rise of the Market spread over centuries, for example, is a false explicandum. As archaeologists are beginning to discover, from the earliest remain we Homo sapiens have always had markets. At least since the Middle Stone Age, an era receding in time with each new discovery, humans have imported shells for decorations and obsidian for spear points.

Again, Bauer agrees with Hicks, and with many others, that what Hicks calls a "custom and command" or "revenue" (for the lords) economy gave way in, say, the 17th century to a "mercantile" economy, and also agrees with Hicks that we seem to be returning to at last command and revenue, if not custom (1971, pp. 166-167). The chart of rise and fall resembles with some adjustments in timing Karl Polanyi's "double movement," from tradition to market to socialism. None of it, however, fits with the best historical research since Polanyi wrote. Close study of medieval peasants, for example, finds them, as Bauer would have expected in some moods and Theodore Schultz in all moods, acting rationally within their constraints (McCloskey 1976).

What was special, and discontinuous, was the abrupt rise of liberalism in the eighteenth century. In a trilogy on the Bourgeois Era (2006, 2010, 2016) I have chronicled the rise and its astonishing consequences. It inspirited widening masses of people, formerly indistinguishable from the most tradition-bound peasants of India and China, to have a go. Innovation after 1800 in places like Britain or the United States and then more widely exploded: mechanical reapers, railways, steel ships, electricity, forward markets, steam presses, universities, the germ theory, automobiles, autobahns, airplanes, ball points, containerization, the pill, the computer, the internet. One can try to make the coming endogenous to the economy by claiming that liberalism arose in part from the success of the early mercantile economy around 1700. It seems doubtful, considering that mercantile economies existed for centuries from Tlatelolco in Mexico to Osaka in Japan, and as Bauer observes from Phoenicia and Carthage to modern times, without any sort of liberalism springing up.

In other words, thanks to the rise of liberalism Hicks's optimism about economic growth, which struck Bauer in his pessimistic moods as quite absurd, proved in the end to be correct. Hicks spoke of "a couple of generations" (p. 157 of Hicks) as sufficing. Hicks had signed on, it would seem, to the "analytical egalitarianism" that Sandra Peart and David Levy have traced to the eighteenth-century social theorists, especially for example Smith (Peart and Levy 2008). Bauer expressed vexation with such a hypothesis, here and many places in his writings: "Hicks does not even so much as hint at possible differences in faculties, attitudes, mores and institutions anywhere in the world, in the past or in the present" (1971, p. 171; his vexation led to a rare slip in his late-learned and usually amazing mastery of English, the redundancy of "even so much as"). Hicks had pointed to protectionist policies in poor countries as the main obstacle to growth, to which Bauer responds indignantly that "it is surely naïve to suppose that their abandonment would invariably bring about early and substantial material progress" (1971, p. 172). He announces an alternative hypothesis: "Recognition of the relevance of economic policies should not obscure the limits set by parameters usually regarded as non-economic." In 1977 he disparaged the "idea or assumption that individuals, groups and societies are approximately equal as potential economic performers" (Bauer 1977, p. 144).

Let us test it. The world's laboratory for protectionism has been Latin America after Juan Peron in politics and Raul Prebisch in economic theory. Latin America has had plenty of apparent non-economic limits, such as native traditions and swollen militaries. But when the experiments in freer trade were tried, they regularly brought about early and substantial material progress (Reid 2017). And the biggest experiment has been in China and India, with similar results. Hicks's two generations does not look at all improbable set beside the history of the Asian Tigers, or the Celtic one, and above all China and India growing since 1978 and 1991 at 7 to 10 percent per year per capita. At 7 percent per year, of course, income quadruples in a generation of 20 years, and increases by a factor of 16 in merely two such generations.

No one would deny that deep ignorance as much as charming customs can obstruct the choices that Bauer put in the midst of his account growth. But ignorance and custom are not always permanent. They can change, sometimes with startling speed, in which case the conditions that Bauer thought so sluggish can become suddenly favorable. And choice—the profit motive that even a mere consumer exercises when she is free—can overwhelm the ignorance and custom. That's the dynamic extension of "price theory," the Austrian-Hungarian dynamics of discovery by free people.

It is an odd feature, in other words, of Bauer's courageous advocacy for ordinary people having a go, free from the arrogance of governmental planning and tariffs and industrial policy, that he was—sometimes—pessimistic on the cultural score.

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