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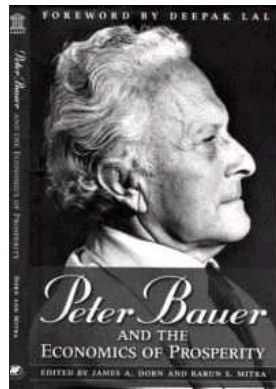
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*Peter Bauer, who strongly opposed government regulation in most areas of commerce, felt that the government should remain a political institution and refrain from making economic decisions for the people.*

*Being a non-conformist, Bauer was tagged an outlaw and a nightmare by conventional economists. But his economic analysis, coupled with the extensive fieldwork, was difficult to prove wrong.*



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Roudra Bhattacharya

For India and China, which have both shrugged off foreign aid and risen out of the cycle of dependence, the approach of the late Peter Bauer (1915-2002) to development economics seems consistent with the actual experience. Bauer had said that for development, trade has to first develop, leading to the accumulation of wealth as capital for subsequent investment by entrepreneurs in industry.

Interestingly, though his ideas are today reflected in the world's second fastest growing economy, for most of his career he was regarded a heretic within his own community. One of the first proponents of development economics, Bauer was also the most unconventional.

Sadly, a week before he was to receive recognition for his work with the Cato Institute's inaugural Milton Friedman Prize for Advancing Liberty, Bauer passed away in his sleep, at his home in London. He was 86.

For a generation that is used to the protectionist policies of today's nations, both in terms of trade in goods and the migration of people, this collection of essays is useful in understanding what's gone wrong with the world today.

The book examines many of Bauer's ideas, through essays written both by him and by his friends and colleagues such as Nobel Laureates Amartya Sen, Milton Friedman and James Buchanan.

Although Bauer contributed immensely to his chosen discipline, he was never thought worthy of a Nobel Prize. Caught up with pumping aid to the developing world, the West was probably too busy with self-congratulation to become the Third World poor man's saviour.

Little impact of aid

Bauer's strong warning against government-to-government aid was only recognised much later, when the West moved beyond its 'give and forget' formula and figured that aid money had, in reality, made no difference to the lives of the affected people. In fact, in some areas, people became worse off.

The World Bank finally accepted in the World Development Report, 1997, that "(with the aid money), Governments embarked on fanciful schemes. Private investors, lacking confidence in public policies or in the steadfastness of leaders, held back. Powerful rulers acted arbitrarily. Corruption became endemic. Development faltered, and poverty endured." Bauer's advice of supporting the poor in the developing countries directly through education and food programmes and building industry for long-term sustainable growth, rather than propping up illegitimate and corrupt Governments with aid money, finally seems to have found voice.

Lord Bauer (made a Baron in 1983 by his friend, British PM Margaret Thatcher) is one of those

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greats, like the artist Vincent Van Gogh, whose genius was never fully understood in his lifetime. Starting from his earliest works on the Malaysian rubber industry (1948) and West African traders (1954), Bauer's analysis was always based on first-hand experience of the circumstances of life in the poorer countries.

Being a non-conformist to the prevailing economic thought, he was tagged an outlaw and a nightmare by conventional economists. However, his economic analysis coupled with the extensive fieldwork, was extremely tough to prove wrong.

#### People movement

This book is able to successfully encapsulate Bauer's elaborate works of over five decades. Among his various ideas, an area where Bauer has voiced his strong opinion is the freedom of labour migration. This, he believes, is a key factor for the development of the world's economically backward regions.

Bauer, who strongly opposed Government regulation in most areas of commerce, felt that the Government should remain a political institution and refrain from making economic decisions for the people. The Government's job, he believed, was limited to safeguarding the rights of its citizens and strengthening the system of justice for the upholding of contracts.

All decisions relating to the movement of people and trade are best left to the dynamics of the market. Particularly, the free migration of people across nations, he said, ensures a steady source of labour for all regions of the world, while keeping labour costs in check.

Another pertinent issue, as underlined in the book, is Bauer's view on the population boom in the developing countries.

While contemporary economic thought argued that a fast-growing population binds developing nations to a 'vicious circle of poverty', Bauer argued otherwise.

Through his field research, he showed that however little an individual earned, he saved a certain amount to invest either in fixed capital goods for his business or on key enablers for improvement of life, like educating his children.

As part of his humanist approach to economics, he further pointed out the irrelevance of econometric analysis and top-down intervention in the face of various uncertain variables that play a role in real life. Many such variables, including religion or traditions, which apply only to particular circumstances of nations, are often discounted as being least important in economics. These variables, which cannot be measured in quantifiable terms, may have a totally unexpected impact in the final analysis.

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