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Reviews

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From Subsistence to Exchange and Other Essays, by Peter T. Bauer, with an introduction by Amartya Sen. Princeton, NJ: Princeton University Press (2000), xi, 153 pp.

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Peter Bauer has long been a champion of free enterprise, open societies, and minimal government intervention in economic matters. This book of twelve essays, most of which are reprints, is a compendium of his views on economic policy -- largely as applied to developing economies. Most of the essays are devoted to criticism of traditional positions and concepts -- such as a shortage of natural resources, high population growth, absence of external capital, and adverse terms of trade -- as impediments to development. He rejects the argument that foreign aid is necessary to break the vicious cycle of low growth due to low savings and investment and low savings due to low income. The keys to growth are free markets, the absence of governmental interference, and the incentives and will of all social classes to better their economic status. Production for subsistence should be abandoned and replaced by production for trade, both internal and external.

He argues that the failure of African countries should not be blamed on the legacy of colonial rule, overpopulation, inequality of income, exploitation by the West, or globalization. Bauer cites examples of successful developing countries that have achieved sustained growth despite both high population density and income inequality. He is especially critical of egalitarianism as promoted by governments, including efforts to equalize opportunities, which he regards as somehow stifling incentives and economic growth. Bauer deplores foreign aid in the form of grants or loans to governments, which he believes reduces incentives, perpetuates uneconomic governmental policies, and subsidizes failing programs. For this and other reasons he rejects the view that developed countries have an obligation to share their wealth with poor countries. He not only deplores the ethical argument for foreign aid, but takes umbrage at recent papal statements that economic inequality reflects injustice and is, in fact, ungodly. He argues that inequality is a natural condition and that efforts to redistribute wealth, whether within nations or globally, inhibit enterprise and the accumulation of capital, which in turn lowers living standards, including those of the poorest.

Regardless of how we may view the moral issue of whether the well off should assist the poor, the view that all foreign aid and all government efforts to reduce inequality are counterproductive is not supported by history. U.S. aid for the reconstruction of Europe and development assistance that has been wisely used can be shown to have benefited both donors and recipients. Bauer is right in identifying the social and governmental environment as the primary determinant of economic progress, but this does not mean that external aid and government programs for equalizing opportunities for advancement cannot be effective in improving both economic and social conditions. On the positive side, this book is worth reading as a critical review of the popular causes of development failures, some of which have been abandoned by modern development economists.