THE MARKET IN THE DOCK

by

Prof. P. T. Bauer*

FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.

"Free Enterprise was born with man and shall survive as long as man survives."

—**A. D. Shroff**

1899-1965

Founder-President

Forum of Free Enterprise

FOREWORD

The Forum of Free Enterprise is delighted to publish this lecture by Professor P. T. Bauer, a scholar of international repute and Professor of Economics at the London School of Economics. His special field of study has been underdeveloped countries and their economic development. His books, such as "Economic Analysis & Policy in Underdeveloped Countries" and "Indian Economic Policy & Development" bear testimony to his deep and genuine interest in the problems of underdeveloped countries. The principal theme around which his analysis revolves (to quote Prof. Bauer himself) is: "It is often nearer the truth to say that capital is created in the process of development than that development is a function of capital accumulation". In consonance with this theme, his books bring into focus the social, economic and political issues which tend to influence economic growth—factors which conventional economists have tended to ignore. This theme comes to the fore again in his essay on "Foreign Aid: an instrument for Progress", where he has attributed the ineffectiveness of foreign aid and its failure to influence the social and institutional factors which block development.

Professor Bauer's preference for and devotion to an economic system in which the guiding force for decision-making is the market mechanism, is reflected in his many writings. His belief in the efficiency of the market mechanism stems from two of its merits, viz: a wide diffusion of decision making capacity and the existence of incentives that spur the economy.

The market economy is in the dock not because it has failed; it has not been tried out. The free enterprise system faces threats from many sources. The concept of the 'welfare state' built on the mechanism of conscious planning and bureaucratic manipulation has been the most tragic mistake of the twentieth century. The unfortunate truth is that the 'welfare state' has been oversold; to an extent that economies have begun to show signs of distortions resulting from undue subsidisation of the inefficient and unfair penalisation of the efficient. The net outcome is that these costly welfare systems are underpinned not by the creation of new wealth but by more borrowings at home and abroad. Reeling under the burden of inflation the Governments of these economies are perplexed by the ineffectiveness of their efforts either to spur growth or to curb inflation. In an environment in which the individual's responsibility from cradle-to-grave are assumed by the Government, the individual slips into a rut, created by a mutually reinforcing web of incremental doses of Government controls, with a corresponding loss of his individuality and personal freedom. The difficulty is that while the Government dominated economy is under fire and everyone agrees about tax cuts, no consensus is arrived at on which numerous heavily subsidised Government activities are needed to be curtailed. Somewhere along the line enough courage is not being mustered to choose freedom, against subsidies which ultimately undermine freedom.

Professor Bauer's lecture* entitled 'Market in the Dock' delivered on December 19, 1979, under the auspices of the Forum undoubtedly reinforces the need to resurrect the free market mechanism. His lecture is sure to kindle a healthy debate on a subject which can no longer stand neglect.

Bombay
January 12, 1981

MINOO H. MODY

* Mr. Mody presided over Prof. Bauer's lecture in Bombay.

THE MARKET IN THE DOCK

Prof. P. T. Bauer*

In a market economy, the decentralized decisions of the participants largely determine what is produced, consumed and invested. The participants form their decisions in keeping with their circumstances and inclinations, and on the basis of market conditions. Prices, costs and incomes serve both as guides for the direction of their activities and for the deployment of their resources, and simultaneously as devices for ensuring voluntary coordination of people's activities.

A market economy contrasts with a centrally planned, socialist or collectivist economy, in which these matters are determined by governmental decisions. It differs also from the kind of economy under which economic activities are governed largely by custom. All economies are to some extent mixed, in that economic activity is always influenced by both government and private decisions as well as by custom. But the differences are sufficiently pronounced to justify distinguishing between predominantly market economies, centrally planned or socialist economies, and custom-dominated economies.

During the hundred years before the Second World War, in the greater part of what is now the Third World -- i.e. Asia, Africa and Latin America — the market system was the principal form of economic organisation in the exchange sector and the predominant form in the foreign trade sector and supporting activities. There was large scale economic progress over much of this area, especially in the

---

* Prof. P. T. BAUER is Professor of Economics at the London School of Economics; Fellow of Gonville and Caius College, Cambridge; and fellow of the British Academy. His latest book, "Poverty, Poor Countries, and Perverted Economics", will be published in 1981 by Harvard University Press. This text is based on a lecture delivered by him under the auspices of the Forum of Free Enterprise in Bombay on 19th December, 1979.

Far East, South-East Asia, West Africa and Latin America. Some coastal areas of China, much of Malaya (now Malaysia), the southern part of the Gold Coast (now Ghana) and of Nigeria, and many areas of Latin America, were among the regions where under a market system the material conditions of existence of much of the population were improved radically. And although the impact of change was often accompanied by considerable strains, these were less violent than might have been expected in view of the extent and speed of change, as for example in South-East Asia and West Africa.

These favourable results should not obscure the inherent limitations of a market system. Neither a market economy nor material progress can guarantee either political or social contentment or personal happiness. Nor can the market system ensure substantial material progress everywhere: governments often pursue policies uncongenial to economic advance, as for instance by discrimination against productive groups or forms of economic activity; and large numbers of people may be unable or unwilling, for perfectly good reasons, to change their traditional mores and modes of life, or be reluctant to take advantage of emerging economic opportunities.

These are the limitations of a market system. They should not be regarded as defects. Supporters of the market have, however, often failed to acknowledge these unavoidable limitations which are not necessarily undesirable. This, in turn, has made it easier for critics of the market system to denigrate it by treating as defects matters which are only inherent limitations of a system of voluntary economic arrangements.

In criticising the market system, the academic visitors to the Third World and the Western development literature rarely acquaint their people with even the most basic and pertinent considerations which bear on the relative merits of the market system and the socialist system in the process of development. For instance, academic audiences in the Third World and the public at large are not told that central planning played no part in Western development. Nor are they reminded that many Third World countries progressed rapidly under a market system, i.e. without central planning. Indeed, they progressed much more rapidly than countries which rejected the market. Large areas of the Third World, particularly in South-East Asia, West Africa and Latin America, were transformed in the late nineteenth century and the first half of the twentieth century under a market system. This experience conclusively refutes the opinions of Professor Gunnar Myrdal and many other mainstream development economists who write that central planning is indispensable for material progress, especially in the contemporary Third World.

The achievements, real or alleged, of the Soviet Union and of the People's Republic of China are habitually extolled by Western academics and in the development literature reaching Third World readers. The public is not told that, after half a century of severe hardship and mass coercion, general living standards in the Soviet Union are extremely low, or that many people have to be forcibly prevented from leaving the country. It is perhaps indicative of living standards in the Soviet Union that in September 1970 three men were sentenced in Moscow to prison sentences of ten, four and three years, for blackmarket trading in second-hand clothes and chewing gum bought from Western tourists.

The routine commendations of the achievements of the Soviet Union and of Communist China ignore general living standards (not to speak of personal freedom), but emphasise matters entirely unrelated to these criteria, such as military or political success, or specific technical achievements, like the Soviet space programme. Academics who praise the Soviet or Communist Chinese systems usually say nothing about the rapid material progress and rising living standards in the many market economies outside Europe and North America, including Japan, Taiwan, Hong Kong, Singapore and Malaysia. Altogether their commendations of the Soviet Union and China ignore the far-reaching coercion and the widespread famines in both countries, as well as the attempts of large numbers of people to escape abroad in the face of formidable obstacles.

The Western and Westernised advocates of central planning assume or imply that this policy somehow enlarges the volume of productive resources, without explaining why. Central planning does not augment resources, but only concentrates power. Indeed it creates power, because in a decentralised system of decision-making there are no such positions of power as exist under central planning. Politicians and intellectuals in the Third World and the Western academics addressing them habitually take it for granted that central planning is necessary for raising incomes and living standards. This is entirely unfounded. The resources used by the planners are diverted from other public or private uses. It is certainly not clear why the overriding of the decisions of private persons should increase the flow of incomes, let alone the flow of goods and services which make up the standard of living.

The diversion of resources from the private sector to the agencies of the state does of course make it possible to enlarge certain sectors or activities, but this has nothing to do with raising the general level of incomes or the standard of living. In the advocacy of planning, which focuses on particular activities and disregards their cost as well as consumer demand, this basic consideration is regularly overlooked. It also ignores the wider costs and repercussions of the forcible collection of resources by the agents of the state, and the wider political and social costs and repercussions of coercive policies. Those who advocate the replacement of the market by a centrally planned economy also by-pass the question why some people should have the right to coerce others by restricting their range of choice as consumers and producers. This is especially notable and anamalous since the widening of people's choice is often and rightly envisaged as a major, or even ultimate, benefit of economic progress. As Sir Arthur Lewis has pointed out : "The advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice."

So far from being indispensable for material advance or rising living standards, the replacement of a market system with central planning actually obstructs material progress. Here are some reasons why this is so.

To take first what is perhaps the most important result of state economic controls. Close and extensive state controls politicise economic and social life. They bring about a situation in which people's economic activities and fortunes or even their economic survival depends on the decisions of politicians and civil servants. Such a situation leads to political conflict and to the diversion of people's energies and attention from economic activity to political life. This important result of state controls is rarely mentioned in discussions on economic planning.

State controls obstruct the movement of resources into directions where they yield the highest return and therefore obstruct their most efficient deployment. This familiar result is often compounded by such political and administrative pressures as the allocation of licences, supplies and employment permits according to ethnic, tribal and other group quotas. By restricting the movement of people between places and jobs, controls imposed in the name of central planning inhibit the spread of new ideas, crops, methods of production, new wants, and the uncoerced erosion of attitudes and mores adverse to economic advance. Central planning also reinforces the subjection of individuals to authority, which is in any case widespread and traditional in the Third World, and thereby discourage self-reliance, personal provision for the future, curiosity and experimentation, which are encouraged under a market system. These various adverse consequences are further aggravated by the controls on foreign trade and the resulting restrictions on external contacts which invariably accompany central planning.

This list of the adverse effects and implications of central planning as an instrument of economic policy and as a replacement of the market system could be much extended and developed. They are persistently ignored by the detractors of the market system, who in the face of simple general reasoning and of large-scale evidence keep on telling their Third World audiences that central planning is indispensable for development and welfare.

The rural population in the Third World, the great majority in most countries, and workers, clerks, or petty traders in the towns, evince little sustained hostility to the market. They protest when prices move abruptly against them, but this has little to do with persistent opposition to the market system.

In the country areas especially, people at large are not much interested in political affairs beyond the village or tribe. Still less can they influence wider political discussion of events. The difference in political effectiveness between the vocal and articulate groups and the organised inarticulate groups is usually much wider in the Third World than in the West. The makers of opinion and of policy are the Westernised academics, civil servants and politicians, professional men and intellectuals, media men and urban businessmen. In some areas, especially the Middle East and Latin America, religious leaders are also influential as political opinion-makers.

In many Third World countries, politicians, administrators and intellectuals are often closely associated. Their relative importance as agents of hostility to the market is often difficult to establish, and would in any case be often arbitrary because categories frequently overlap. On the whole, intellectuals and civil servants, including local representatives of Western organisations, especially of the official international organisations, tend to be more important than businessmen, or even politicians. The latter groups have less interest in general issues and fewer international intellectual contacts. They may acquiesce in hostility to the market and benefit from it, but they are less able to generate it systematically in public discourse.

The gulf between these groups and the rest of the population promotes a feeling of superiority in the former and a desire, often rationalised as a duty, to control the conduct, and especially the economic activities, of their fellow men. Moreover, planned and socialised economies promise positions of power and status to intellectuals which do not exist in a market system. For these reasons, intellectuals understandably tend to favour the replacement of the market by state control. Some of these ideas and attitudes are of course shared by the corresponding groups in the West. They are much more pronounced in the Third World where they can also be translated into practice more easily because of the discrepancy in political effectiveness between the articulate groups and the rest.

The difference in effectiveness there is underlined by factors other than those already mentioned. One of these is the more authoritarian tradition of most of the cultures of the Third World where the subjection of the individual to the authority of rulers and of custom is more extensive and unquestioned than in the West. In the former colonies of the Western powers the authoritarian tradition was to some extent reinforced by the attitude of colonial administrators, who often disliked the market and its most active representatives. In particular, they distrusted traders, whose activities they often did not understand, and who in any case were less amenable to orders and commands than were their own subordinates. Since the 1950s the inclinations and activities of the local representatives of international organisations and of Western aid agencies have worked in the same directions.

A major source of opposition to the market in the Third World is Marxist-Leninist ideology. The influence of Marxism and Leninism there dates perhaps from Lenin's **"Imperialism : The Highest Stage of Capitalism"** This has influenced many millions of people who know it only by hearsay. They know, however, that the book has been widely acclaimed; that its author had made himself master of a world power; and that he wrote that Western capitalists exploit the rest of the world. That book and its successors have served as a distinctive source of Third World hostility to the market.

Marxism-Leninism is an intellectual system which claims to explain society; an all-embracing secular messianic creed which promised salvation on earth but in the indefinite future, i.e., here but not now; and it is a programme for political action. This three-fold aspect of Marxism-Leninism is central to its appeal.

The major attractions of Marxism-Leninism to Third World intellectuals and politicians lie in the messianic creed and the political programme. The comprehensive messianic creed offers some consolation to Third World intellectuals for the loss of traditional beliefs and values. It serves also as a remedy, albeit often only a deceptive remedy, for alienation from the rest of the community. In the Third World the Western-educated, or semi-educated intellectuals, usually feel much superior to the rest of the community, but at the same time are anxious to belong to it. As a secular materialist all-embracing faith, Marxism-Leninism offers both a haven to intellectuals who have lost their moorings, and also a prospect of reunification with the rest of the community. As a political programme it promises power both to intellectuals and to politicians.

The doctrine of exploitation, especially exploitation by the West, has evident appeal for Third World politicians. This notion is of course part of the wider idea prominent in Marxism-Leninism, but long antedating it, that property incomes, business incomes and especially trading incomes are taken from other people, rather than earned. This long-standing misconception is rampant in the Third World, where it is often compounded with the doctrine of Imperialism. Many a local politician has found it useful to insist that the prosperity of the West has been achieved at the expense of his country. This suggestion also helps to explain away failures to meet political promises.

External contacts, certain ethnic minorities, expatriate personnel and foreign investment have been major agents of material progress in the Third World. The incomes of ethnic minorities and of locally resident expatriates have often been higher than that of the more nearly indigenous population. The emotional and political appeal of the idea that the incomes of the relatively well-to-do reflect exploitation rather than production is especially strong when the relatively well-to-do belong to an ethnic minority, or to some other clearly distinct minority. All this serves to strengthen animus against the market.

The official international organisations are a significant source of hostility to the market in the Third World. This influence extends over a very wide geographical area and taken in many different contexts. Some major UN organisations and affiliates operate globally, as for instance the UN Secretariat, the Food and Agriculture Organisation (FAO), the United Nations Conference on Trade and Development (UNCTAD), the International Labour Organisation (ILO), the United Nations Industrial Development Organisation (UNIDO), the United Nations Development Programme (UNDP), and the World Bank. Major regional commissions of the United Nations, notably the Economic Commission for Asia and the Far East (ECAFE), the Economic Commission for Africa (ECA), and the Economic Commission for Latin America (ECLA), between them cover the Third World. The United Nations Institute for Development and Planning (UNIDP) is in West Africa, but its catchment area is much wider. These various organisations issue and transmit a vast literature hostile to the market. They also offer patronage, publicity, platforms and other forms of support and influence to Western opponents to the market system. These organisations are of course in constant touch with one another, and generally also with opinion-makers unfriendly to the market.

The personnel and protégés of these organisations assiduously spread allegations but the inadequacies of the market, and the consequent necessity of central planning for development. They launched and propagated some of the most widely canvassed and influential notions hostile to the market and to the West. For instance, the UN Secretariat, ECLA and UNCTAD played this role in canvassing the myths that international trade with the West damages the Third World; that the market system inflicts unfavourable and persistently deteriorating terms of trade on it; and that its peoples benefit from extensive restrictions on external commerce with Western countries.

The United Nations and its off-shoots consistently favour Third World governments who try to establish state-controlled economies. They have also often provided them with the personnel for running state export monopolies, state trading companies, planning commissions and other instruments for replacing the market. Some of the ways in which the UN and its affiliates have fostered hostility to the market may have been even more far-reaching and significant than those already noted. These organisations have initiated and sponsored the concept of a broadly uniform less-developed world or Third World, with substantially identical interests in conflict with those of the Western market economies. Many of the most influential, energetic and purposeful staff members of the organisations consider themselves agents of the Third World, which they project as a united and loving brotherhood of societies exploited by the West. Colonial rule is not necessarily, or generally, unfavourable to a market system. The market flourished in North America before independence, and Hong Kong, one of the few remaining colonies, is perhaps the most market-oriented economy today. An effective but limited government, one that maintains law and order and respects voluntary arrangements, while not aiming at a closely controlled economy, may indeed be favourable for the operation of the market, even if the government is non-elective. In many colonies of the European powers over the hundred years or so before the Second World War, the governments were non-elective and often paternalistic, but nevertheless limited.

In closing years of British colonial rule, limited government was widely abandoned throughout British Africa and Burma. Far-reaching close state economic controls were then introduced, such as widespread restrictive licensing of economic activity in the exchange sector, strict control of external trade, and the establishment of state trading monopolies including comprehensive monopolies over all exports produced by the local population, of which those in British Africa and Burma were only the most familiar. Since their inception, these monopolies have had the sole right to buy in these areas and in many other such staple export crops as cocoa, rice, coffee, cotton and oil seeds. As no other buyers are allowed to operate, these monopolies have been able to pay the producers far less than the world market prices. These various controls, especially the export monopolies, have placed the livelihoods of much of the population at the mercy of the government.

The incoming independent governments of course welcomed these arrangements : and they could not have introduced, operated or maintained such far-reaching controls without the example set by the colonial governments, or without external encouragement and assistance, especially without the huge sums they were able to collect through the state export monopolies introduced by their predecessors.

The replacement of the market by controlled economies in many former colonies has proved durable and the repercussions have extended beyond these territories. The independent governments have maintained and, wherever possible, extended these arrangements which so greatly increase their power, and which provide them with ample money and patronage. Some of these controls, again particularly the export monopolies, have served as major power bases of Third World rulers, including outspoken and bitter opponents of the West and of the market system. For instance, the cocoa export monopoly established towards the end of British rule in the Gold Coast served for many years as a power base for the first ruler of independent Ghana, who promoted and even enforced Marxist-Leninist ideas and policies, and who became influential far beyond his country.

Some of the major controls introduced towards the end of the colonial period, including the export monopolies of Burma and British Africa, have now operated for well over a generation. The great majority of people there have never known a market economy in the export trade or, indeed, in much of the exchange sector. They take export monopolies for granted, and this reinforces the self-perpetuating tendency of a system of controls which benefits the rulers.

As is clear from the situation in Hong Kong and from much other experience, such an outcome is not a necessary result of colonial rule. Even in British Africa until the late 1920s, and in South-East Asia until much later, British Colonial administrators appreciated the role of the markets, the functions of traders, and often even commended and encouraged the latter. The change came about as a result of various influences, mostly familiar from elsewhere, which reflected the play of political, administrative, ideological and commercial interests and pressures. These influences included the spread of ideologies and intellectual fashions hostile to private economic activity, especially trade; growing insistence on the politicisation of economic life, especially on state economic controls, allegedly in the interests of the population at large, but in fact chiefly for the benefit of politicians and administrators, and also, at times, of influential commercial interests, both domestic and expatriate; and the increase in the number of technicians and administrators, who were remote from the realities of economic life and did not understand the operation of the market. In one or two instances, including the setting up of the export monopolies in West Africa which served as prototypes for many others, chance also played a major part.

The replacement of the market by controls was often thought to be only temporary, but as often happens, it has proved lasting.

There are other factors behind the bias behind the market and behind the hostility to it, which operates in varying degrees in many Third World countries.

The operation of official inter-governmental wealth transfers known as foreign aid is one such factor. Advocacy of official aid is apt to reflect and reinforce hostility to the market. Examples are the suggestion that aid is required to offset the harm inflicted on the Third World by international trade or by Western commerce, and the notion that international income differences reflect exploitation. The large role of the international organisations in the advocacy and organisation of aid also biases aid against the market.

The flow of official foreign aid itself tends to operate against the market. It goes to governments, and thereby strengthens and expands the state sector compared to the private sector. It also serves as a source of money and patronage. This inherent bias of aid is reinforced by the criteria of allocation, which tend to favour governments with severe and persistent balance of payments difficulties (which are regarded as evidence of need for aid), and governments which try to run state-controlled economies (which is regarded as evidence of the government's interest in development or welfare).

Native reserves, restrictions on the activities of traders and state monopolies for the purchase of cash crops, have all discouraged the operation of the market and increased the dependence of people on particular administrators and particular traders. They have greatly damaged the material interests of the population at large, and its chances of acquiring wider horizons. Yet these policies have often been favoured by genuinely well-intentioned people, in the belief that the market economy entails disruptive risks, which could be avoided by encouraging or forcing local people to produce food crops, or even remain subsistence producers. The underlying idea is that a subsistence economy, though backward, is somehow secure and snug, in contrast to the hazards of a market economy. This is not so. Famines and the worst epidemic and endemic diseases occur in subsistence economies, not in market economies, because the former are very poor, and unlike the latter, they have few or no accumulated reserves, nor do they have access to external resources and reserves. But although the hazards and hardships of a subsistence economy are much more severe than those of a market economy, they are much more readily accepted by the population at large. As grounds or instruments for stirring up discontent they are certainly less effective than the risks or misfortunes of a market economy. In the latter any adversity can be attributed with superficial plausibility to human incompetence or malice. The much more severe hardships of a subsistence economy appear unavoidable. Their immediate causes are evident and are not man made. The rains fail and the people starve. The more remote causes are indeed often man made. For instance, government policies may have retarded the emergence or obstructed the functioning of the exchange economy. But such connections are rarely perceived by the population, or mentioned in public discussion. On the other hand, the causes of economic reverses in a market economy — such as, say, a fall in export prices or a rise in retail prices — are more remote, more plausibly attributed to human greed or incompetence, and therefore more suspect. For instance, price fluctuations are more often thought to present a case for state control than harvest fluctuations, even when the latter cause greater hardship.

State controls in the Third World have not secured stability in any meaningful sense for the farmers or other economic agents subject to them. These controls and the consequent politicisation of life involve hazards more severe and less predictable than those of the market. After all, if agricultural prices fluctuate, it is possible for producers (or, for that matter, governments), to set aside reserves. No such protection is available against the withdrawal of a trading licence, the confiscation of income or property, or deportation.

Stagnation and progress in the Third World are used equally as sticks with which to beat the market. Comparative backwardness is instanced as failure of the market system to secure development or prosperity, even if the backwardness plainly reflects mores, attitudes and policies adverse to material progress. At the same time, rapid advance, such as that of many Third World market economies, leads to tension and dislocation. These are then also used to criticise the market. The advance of some of the market economies has entailed fewer and less acute strains than might have been expected, or which have indeed accompanied coercive policies by socialist governments — policies which moreover have not raised incomes or general living standards. The differences of experience are not surprising. In a market economy people stake their own resources, or those of their supporters. Their commercial success and survival depend on correct assessment of local conditions, The flow of official foreign aid itself tends to operate against the market. It goes to governments, and thereby strengthens and expands the state sector compared to the private sector. It also serves as a source of money and patronage. This inherent bias of aid is reinforced by the criteria of allocation, which tend to favour governments with severe and persistent balance of payments difficulties (which are regarded as evidence of need for aid), and governments which try to run state-controlled economies (which is regarded as evidence of the government's interest in development or welfare).

Native reserves, restrictions on the activities of traders and state monopolies for the purchase of cash crops, have all discouraged the operation of the market and increased the dependence of people on particular administrators and particular traders. They have greatly damaged the material interests of the population at large, and its chances of acquiring wider horizons. Yet these policies have often been favoured by genuinely well-intentioned people, in the belief that the market economy entails disruptive risks, which could be avoided by encouraging or forcing local people to produce food crops, or even remain subsistence producers. The underlying idea is that a subsistence economy, though backward, is somehow secure and snug, in contrast to the hazards of a market economy. This is not so. Famines and the worst epidemic and endemic diseases occur in subsistence economies, not in market economies, because the former are very poor, and unlike the latter, they have few or no accumulated reserves, nor do they have access to external resources and reserves. But although the hazards and hardships of a subsistence economy are much more severe than those of a market economy, they are much more readily accepted by the population at large. As grounds or instruments for stirring up discontent they are certainly less effective than the risks or misfortunes of a market economy. In the latter any adversity can be attributed with superficial plausibility to human incompetence or malice. The much more severe hardships of a subsistence economy appear unavoidable. Their immediate causes are evident and are not man made. The rains fail and the people starve. The more remote including attitudes, mores and institutions, as well as more specific market conditions. Those who attempt coercive large-scale modernisation of their societies are not so constrained. This is one reason why the disturbing effects of Western commerce on the Third World are partial and gradual, compared to the results of forcible modernisation attempted by socialist regimes.

But the large-scale advance in many Third World market economies has inevitably been uneven in that everywhere some groups and areas have advanced more rapidly than others. Economic change has also been accompanied by the prevalence, emergence or extension of economic differences between groups and individuals. Economic advance necessarily starts in some activities and areas, which are then ahead of the rest. This by itself entails the emergence of income differences. And the differences between people in aptitudes and motivations work in some direction. When social and economic change is rapid and when some people adapt to it much more readily than do others, considerable tensions may be set up, which are then attributed to the market. Stagnation or advance, success or failure, in contemporary discourse, the market is always to blame. It is always in the dock, more often than not on palpably unfounded charges. Of course, the same is true in the West also : witness the criticism of the so-called consumer society. But, as in so many other contexts, forces at work in the West stand out especially clearly in discussion about the Third World.

Finally, there are sources of hostility within the market system itself. Again, these operate also in the West, but they are often more conspicuous over much of the Third World, where people's economic fortunes, at any rate outside subsistence production, have so often come to depend overwhelmingly on government action.

Producers and businessmen generally are everywhere prone to press for controls to restrain competition. Restrictive tendencies were ubiquitous in the Third World long before the emergence of state controlled economies. For

As is clear from the situation in Hong Kong and from much other experience, such an outcome is not a necessary result of colonial rule. Even in British Africa until the late 1920s, and in South-East Asia until much later, British Colonial administrators appreciated the role of the markets, the functions of traders, and often even commended and encouraged the latter. The change came about as a result of various influences, mostly familiar from elsewhere, which reflected the play of political, administrative, ideological and commercial interests and pressures. These influences included the spread of ideologies and intellectual fashions hostile to private economic activity, especially trade; growing insistence on the politicisation of economic life, especially on state economic controls, allegedly in the interests of the population at large, but in fact chiefly for the benefit of politicians and administrators, and also, at times, of influential commercial interests, both domestic and expatriate; and the increase in the number of technicians and administrators, who were remote from the realities of economic life and did not understand the operation of the market. In one or two instances, including the setting up of the export monopolies in West Africa which served as prototypes for many others, chance also played a major part.

The replacement of the market by controls was often thought to be only temporary, but as often happens, it has proved lasting.

There are other factors behind the bias behind the market and behind the hostility to it, which operates in varying degrees in many Third World countries.

The operation of official inter-governmental wealth transfers known as foreign aid is one such factor. Advocacy of official aid is apt to reflect and reinforce hostility to the market. Examples are the suggestion that aid is required to offset the harm inflicted on the Third World by international trade or by Western commerce, and the notion that international income differences reflect exploitation. The large role of the international organisations in the advocacy and organisation of aid also biases aid against the market.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—**Eugene Black**

instance, xenophobia and opposition to external contacts have often played a part in restricting commercial activities in emerging economies, especially when external contacts were thought to endanger the position of the rulers or of other politically effective groups. Such influences are familiar from the history of China and Japan. Such factors subsequently merged with more specifically economic restrictionism, that is the pressure of interest groups to maintain or increase their incomes by restricting the activities of actual or potential competitors. As restrictionism is rarely effective without government support, those wishing to restrain competition are likely to press for state action to secure their objectives. In the 20th century these sequences have been conspicuous in many Third World countries.

Again, in the Third World, as in the West, people will support policies for more public spending if they themselves expect to benefit. Such pressures for restraining competition and for increasing public spending have become widespread in conditions of extensive government intervention and state control of economic activity. The familiar appeal of planning in the contemporary climate has helped the imposition of controls and the operation of restrictive tendencies. It is often patent that certain policies are simply instruments of restrictionism which reflect the desire of politicians or civil servants to enlarge their power or to increase their incomes. Such policies are more readily accepted if they can be presented as part of an overall policy called planning, sold to the public as a method which replaces a chaotic and ineffective system by one based on foresight, reason and method, and administered by a disinterested and competent elite. That this picture bears little relation to reality rarely affects the **ex ante** appeal.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

411

Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs 15/- (entrance fee, Rs. 10/-) and Associate Membership fee, Rs. 7/- only (entrance fee, Rs. 5/-). Graduate course students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary. Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.

Published by M. R. PAI for the Forum of Free Enterprise, "Piramal Mansion", 235 Dr. Dadabhai Naoroji Road, Bombay-1. and printed by B. D. Nadirshaw at Bombay Chronicle Press, Sayed Abdulla Brelvi Road, Fort, Bombay-1.

12/January/1981