ECONOMIC CONTROL OR ECONOMIC DEVELOPMENT?

P. T. Bauer

The John Bonython Lectures

The Centre for Independent Studies

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Introduction

H. M. Morgan

Managing Director, Western Mining Corporation

TONIGHT is the occasion of the sixth annual John Bonython Lecture, to be given by Professor Lord Bauer. Before telling you something of Lord Bauer, and his very important career, I must relate the history of the Bonython Lecture.

The Lecture is named in honour of John Bonython AO, the first Chairman of the Board of Trustees of the Centre for Independent Studies. The purpose of the Lecture, which was inaugurated in 1984, is, and I quote, 'to examine the relationship between individuals and the economic, social and political factors that make up a free society'.

The key words in that statement are 'individuals', 'society', and 'free'. The word 'freedom' is a very powerful word. John Bonython, who because of ill-health regrettably cannot be with us tonight, has throughout his career as an entrepreneur, as a newspaper man, as a citizen of Adelaide, as a custodian of sound values in business life, has done a great service for Australia in upholding freedom in this country.

A barrister of my acquaintance was telling me of the story he had heard from an open-cut miner, in another State, who was protesting at the outrageous treatment he has received from his union. The fundamental principle, to which ordinary Australian worker appealed, when legitimising his deep loathing for what his union was doing to him, was: 'Australia's a free country, isn't it?'

John Bonython has made a vital contribution in keeping that principle alive. It is entirely fitting that this lecture series should be named after him.

I now take up the task of introducing Lord Bauer. Lord Bauer's collaborator and colleague, Professor Basil Yamey, has told the story of the early 19th-century author, Augustus Hare, who strongly held that it was quite improper to praise a gentleman to his face. For this reason Augustus Hare crossed out of his Book of Common Prayer all those passages in which God is praised. Nonetheless, I shall try, this evening, to summarise the significance of Peter Bauer's illustrious career.

For some reason or other there seems to be a strong missionary impulse embedded deep in the Western spirit. We normally think of missionary activity as being connected with institutional religion, and the Catholic cathedral in Shanghai, today beautifully restored after the depredations of the Red Guards, and packed with worshippers at Sunday Mass, is a moving testimony to the missionary work of the Jesuits of the 18th and the 19th centuries.

But Christianity seems to have lost its illuminating power in recent decades, and the Western zeal for missionary work has taken different and, as Lord Bauer has shown, quite perverse directions. In former days the missionary societies of London, or Boston, or Rome, would despatch their evangelists off to Africa or the Far East, or India, or wherever. The funds to support those missionaries would be raised in all sorts of private and voluntary activities, nowadays easily satirised. I am reminded of the story of the lady of the house who used to sun-dry her used tea bags before forwarding them to Africa for missionary consumption.

Today, and it is a most regrettable development, governments have taken over the missionary impulse (along with much else), but instead of despatching evangelists, they despatch economists from the World Bank or some other agency, and instead of bibles or tea-bags they send large sums of money called 'foreign aid'. I think it was Peter Bauer who first said that foreign aid was a technique for taking money from poor people in rich countries and giving it to very rich people in poor countries.

Whether or not that is true, he is undoubtedly the man who has, over a lifetime of scholarship, painstakingly and irrefutably shown that the concept of 'the Third World' is a nonsense. He has shown that government-to-government foreign aid impoverishes both giver and receiver, and that those countries which accepted the economic orthodoxy of the 1950s and the 1960s, and embraced central economic planning, punitive taxation justified on the grounds of the primacy of capital accumulation, government control and regulation of export crops (amongst other things), have suffered, often terribly, as a result. Contrariwise, those countries that ignored this orthodoxy, and Hong Kong is the outstanding example, have prospered. In doing this very important work, Lord Bauer has made a lot of enemies.

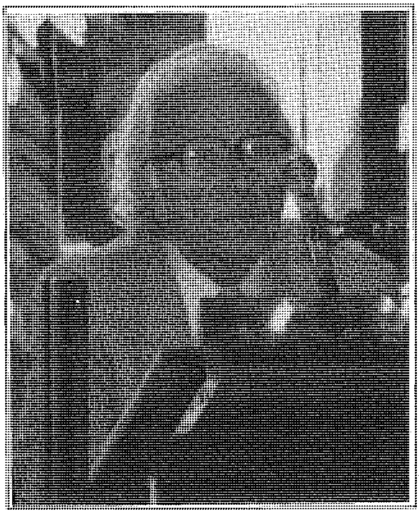
His career began in the rubber plantations of Malaya just after

World War II. This resulted in two seminal publications in 1948: *The Rubber Industry* and the *Report on a Visit to the Rubber-Growing Smallholdings of Malaya*, commissioned by the British Colonial Office. Then came the massive study on West Africa, again commissioned by the Colonial Office, entitled *West African Trade*, published in 1954.

An important part of this study was his damaging indictment of the operation of the state export monopolies that had been established by the colonial powers. These bodies, typically, had monopoly powers to acquire agricultural commodities produced for export. They are not unknown in Australia, although here their declared purpose is to improve farmers' incomes whereas, in Africa, their purpose was to impose horrendous taxes.

Today, Peter Bauer's arguments and analyses are fairly widely accepted, at least outside the various agencies that are involved in foreign aid. Twenty and 30 years ago they were rank heresy, and, furthermore, the economic ecclesiastics of governments and universities were not slow, in those days, to hunt down heretics. It is therefore most satisfying to see that Mrs Thatcher has elevated Professor Bauer to the peerage, and that his perseverance and steadfastness in holding on to reality, in the face of an almost total fixation with fantasy by his professional colleagues, has been rewarded with recognition and honours.

It is with very great pleasure that I now ask him to give the Sixth John Bonython Lecture.



Lord Bauer

P. T. Bauer was born in Hungary in 1915, and migrated to Britain in 1934. He has held senior academic posts at Cambridge University and the London School of Economics, where he was Professor of Economics from 1960 to 1983. In 1975 he was elected Fellow of the British Academy, and in 1982 he was elevated to the peerage.

His books include: *The Rubber Industry* (1948); *West African Trade* (1954, 1963); *Economic Analysis and Policy in Underdeveloped Countries* (1958); *Dissent on Development* (1972, 1976); *Equality, the Third World and Economic Delusion* (1981, 1982); and *Reality and Rhetoric: Studies in the Economics of Development* (1984). He is the author of the CIS Occasional Paper *Population Growth: Curse or Blessing?* (1990).

Economic Control or Economic Development?

P. T. Bauer

IT is an honour and a pleasure to deliver the John Bonython Lecture. The issues I shall speak about are not of a philosophical nature. But they affect the well-being and the livelihood of many millions of people in the contemporary world.

Since World War II far-reaching state control over the economy has been conspicuous in the Third World, particularly in Asia and Africa, much more than before the war.

The scope and instruments of control differ between countries and vary through time. But there are few in the contemporary Third World where economic life outside subsistence agriculture is not subject to close state control. The principal controls include: state monopoly of major economic activities including export, import, trade, transport and manufacture; close control over all external transactions through foreign exchange control; extensive licensing of commercial and industrial activity; state-owned and operated enterprises; state-supported, organised and directed so-called co-operatives; price control and wage regulation; large-scale fiscal measures for the purposes of economic control rather than the performance of necessary governmental functions. Some of these measures, as for instance state buying monopoly over major agricultural products, large-scale taxation and extensive licensing, provide governments with close and direct control over the livelihood of much of the population. These controls were introduced in an ad hoc fashion under pressures emanating from special interest groups in both public and private sectors.

Some Effects of State Control

Some results of the controls that I have recited are familiar: partial divorce of output from demand; raising of costs through quotas and restriction of entry; creation of contrived scarcities with the resulting divorce of prices from the opportunity cost of resources; and the emergence of privileged incomes and windfalls unrelated to productive performance in the operation of specific controls, such as import licensing and foreign exchange control.

These results are compounded by widely prevalent characteristics of the economic scene in Third World countries. Here are some of these characteristics. First, in many less developed countries (LDCs) there are pronounced ethnic, tribal or geographical differences in human and other resources so that measures which prevent or restrict movement of people between areas, jobs and activities or the expansion of efficient firms involve heavy costs to the people directly affected, as well as to society at large. Second, subsistence or near-subsistence agriculture is a significant part of economic activity in many Third World countries. Emergence from subsistence production is necessary for economic advance. Many of the state controls obstruct this process, and therefore keep people in poverty and backwardness: this is especially evident in much of Africa. Third, for political and administrative reasons in most Third World countries, effective price control at the retail level and effective rationing of consumers are difficult, even impossible. Hence, final consumers usually have to pay market-clearing prices. This ensures windfall profits for recipients of licences and controlled supplies. Therefore, attempts to control prices or to allocate supplies give rise to a scramble for licenses and supplies, without in any way benefiting the final consumer. Charges of favouritism, profiteering, corruption and other forms of misdemeanour inevitably arise, and provoke tension and conflict, especially in multi-ethnic countries.

Movement between places and jobs is a powerful agent of voluntary change in habits and attitudes, notably the erosion of attitudes, conduct and customs inhibiting material progress. Restrictive licensing of activities, including trading and transport, is among the types of control which impede or prevent such mobility and its beneficial effects.

Participation in foreign trade and other transactions plays a similar role which is especially important for Third World progress. Such contacts and transactions serve as vehicles for the movement of human resources, including skills. They also encourage new ideas, attitudes, crops, methods of production and new wants. Indeed, these contacts often first suggest to people the idea and possibility of a change in the existing scheme of things, including the very idea of economic improvement.

External contacts make possible such changes by voluntary adjustment. They therefore do not require coercion. Coercive change not only involves hardship, but is apt to invite resistance and backlash, even revolt. If such coercive change is pressed home, it is apt to leave behind a lethargic and inert population.

Thus there are good reasons for insisting on the significance of external commercial contacts and on the correspondingly damaging effects of their restriction which everywhere accompanies state economic control. It is notable that throughout the Third World the most advanced areas and sectors are those with the most extensive and diversified external commercial contacts. Large parts of the Third World have been transformed within a few decades under the impact of such contacts and opportunities. Witness the transformation of much of South East Asia and West Africa between the 1890s and the 1930s. The significance of these contacts and the consequences of their restriction are highly pertinent to any assessment of major types of state control.

How State Control Heightens Political Tensions

The controls bring it about that the economic opportunities of people and their living standards as producers, consumers, workers and traders come to depend largely on the decisions of the government, that is on the politicians and civil servants who run it.

This politicisation of life provokes and exacerbates political tension because it becomes all important who has the government. The stakes, both gains and losses, in the fight for political power increase greatly, a result which intensifies the struggle for power. This sequence largely explains the bitterness of the political struggle since World War II in much of Asia and Africa. This sequence is evident in countries where formerly different communities lived together peaceably, as for instance in Malaysia, East Africa and West Africa, when state intervention in economic life was very limited. The emergence and intensification of separatist forces is another result of the increase in the gains and losses from the operation of political power. This too is readily observable in much of Asia and Africa. The emergence of ubiquitous, often bitter and violent civil conflicts in the Third World cannot be understood without the politicisation of life since World War II.

Recent developments in Malaysia throw this into relief. Before the War it was a well-known saying in what was then Malaya that the Chinese did not mind who owned the cow as long as they were allowed to milk it. This old saw embodied simultaneously a widespread misconception and an important insight. The misconception was that the prosperity of the Chinese, most of whom migrated to Malaya as penniless coolies, was somehow extracted from other people, especially the Malays. This was patently untrue. The incomes and wealth of the Chinese were not extracted from others: they were produced, earned by themselves. The insight was that when a country is relatively lightly governed, ordinary people are not much concerned with who exercises political power, because they are not much affected by it. Ordinary folk are then not much concerned with who has the government. Few Chinese in present-day Malaysia would say that they do not much mind who rules the country in which economic activity is subject to extensive licensing and where ethnic quotas operate widely in employment, education and economic activity. Not surprisingly ethnic tensions in Malaysia are far more acute than they were before the war. (There is an illuminating article on this subject by Professor Thomas Sowell: 'Malaise in Malaysia', *CIS Policy Report*, August-September 1988, p. 28.)

When political action is all-important, the energies and activities of ambitious and resourceful people are necessarily diverted from economic activity to political life. This result is damaging to material progress, because the direction of the activities of able people necessarily much affect economic performance in any society.

The Fallacies of Comprehensive Planning

As I have already said, these state controls were introduced in an ad hoc fashion under the pressure of special interest groups, but they have often been defended as being components of a comprehensive development plan. This has given them spurious legitimacy in view of the widespread acceptance of a central proposition of postwar development economics, namely, that comprehensive central planning is indispensable for the progress of poor countries. This claim has often been advanced by prominent economists in unqualified and uncompromising terms. Here are two examples.

In 1956 Professor Gunnar Myrdal, Nobel Laureate in Economics and Executive Secretary of the United Nations Economic Commission for Europe, and one of the most widely respected contemporary social scientists, had this to say in a much-publicised lecture.

> The emergence of this common urge to economic development as a major political issue in all underdeveloped countries and the definition of development as a **rise in the**

> **levels of living of the common people**, the uncontested understanding that economic development is a **task for the governments** and that the governments have to prepare and enforce a **general economic plan**, containing a system of internally applied controls and impulses to get development started and to keep it going, is an entirely new thing in history...
>
> There are all kinds of reasons [why we should] expect numerous mistakes and in many cases total failure. But **the alternative to making the heroic attempt is continued acquiescence in economic and cultural stagnation or regression which is politically impossible in the world of today**; and this is, of course, the explanation why grand scale national planning is at present the goal in underdeveloped countries all over the globe and why this policy line is unanimously endorsed by governments and experts in the advanced countries. (Myrdal, 1956:63 and 65; emphasis in original)

In 1964 Professor Kitamura of Tokyo University advanced the same argument much more succinctly.

> Only planned economic development can hope to achieve a rate of growth that is politically acceptable and capable of commanding popular enthusiasm and support.(Kitamura, 1964:202)

Nor were these opinions of academic interest only. Mainstream development economics often insisted that development aid should be linked to development planning by the recipients. Official Western aid, both bilateral and multi-national aid, was often linked to formal development planning by the recipient. As I have argued, the various state economic controls in LDCs reflect pressure by special interest groups and especially that of politicians and administrators who benefit from close control over their subjects. But the academic insistence on comprehensive planning and its influence on Western opinion and on the allocation of aid has helped the establishment of state control in the Third World.

Advocacy of large-scale economic intervention as necessary or helpful for development is still alive and well. But for various reasons its presentation and tone have changed. The argument is often couched in technical jargon and mathematical notation. It has also become more muted and at times even combined with lip-service to the market system. This is especially so when the argument is aimed at Western taxpayers, particularly in the United States.

Gunnar Myrdal and other prominent advocates of comprehensive planning interpret this policy as government determination of the composition and direction of economic activity, notably in the market sector. It replaces the decisions of individuals, families and firms by the decisions of politicians and civil servants.

The claim that comprehensive central planning is essential for development is patently invalid. Comprehensive planning played no part in the development of Europe, nor in the development of America, Japan or Australasia. Indeed it played no part in the development of any one of the now highly-developed countries. Nor did central planning play any part in the advance of the many Third World countries which have progressed rapidly in the last 100 years or so.

Even if it is recognised that central planning is not necessary for economic advance, this still leaves open the question whether it promotes such advance. Does it do so? This is a rhetorical question because the answer is an unequivocal no. Look at the evidence. It is in the Soviet-type economies that comprehensive state planning is of the essence of economic policy. After decades of its operation general living standards remain extremely low in those economies, including the Soviet Union itself; they are almost certainly much lower than they would have been under a less centralised economic system. Any lingering doubts about this conclusion should have been removed by now. The contrast between the development of living standards in East Germany and West Germany is perhaps especially telling because the populations of the two Germanies are ethnically identical. More generally, in recent decades, Third World countries with relatively limited state control have progressed much more rapidly than more closely-controlled economies. Examples include Malaysia and Thailand compared with Burma and Indonesia.

It is not surprising that the claims made for comprehensive central planning have been refuted so clearly.

How Planning Concentrates Power and Wastes Resources

As I have just said, central economic planning replaces the decisions of private individuals and families by centralised decisions which direct production, consumption, saving and investment. Yet it is only the individuals, families and firms who know their own resources, capacities, circumstances and preferences. They take their economic decisions in the light of these determinants which they alone can assess. Central planners, on the other hand, cannot take cognisance of differences in resources, requirements, preferences and opportunities. Their decisions therefore obstruct the deployment of resources into directions yielding the highest economic return in terms of goods and services wanted by people. Development planning does not augment resources. It only concentrates power. It creates positions of power such as do not exist under a market system. Whatever their abilities, the politicians and civil servants who direct policy cannot create new additional productive resources. Yet the accrual of resources to the government or the development of a favoured activity are often treated as if they were an addition to resources or output, without noting that the resources have been diverted from other uses. Once this is recognised it immediately becomes questionable why and how the overriding of private decisions should promote economic progress.

It is even less obvious why such a policy should increase the flow of goods and services which are desired by consumers and which constitute the standard of living. Yet a rise in general living standards is habitually instanced as the declared aim of development planning.

Under state control much of output is unrelated to consumer demand and therefore to living standards. This divorce of output from living standards is by itself likely to retard a rise both in output and in living standards. This is so because the prospect of a higher and more varied level of consumption is usually an important incentive to higher economic performance through additional effort, saving, enterprise and production for the market. This is notably so in poor countries.

I may at this point forestall an often-heard objection or reservation to the foregoing argument. It is often said that wide income differences confer great power on the rich, a power no different from that exercised by politicians and civil servants under extensive state control. Indeed, according to this argument the power of the rich is more objectionable than that of politicians and civil servants because it is not exercised in the public interest. This argument is misleading on several grounds. In a market system there are, of course, rich people and large corporations. But their wealth does not by itself confer on them power in the critical sense of enabling them to restrict the choices of their fellow men. They have such power only when it is conferred on them as a privilege by governments. The market process as such does not bring about this kind of power. Moreover, it is naive to suppose that the interests of governments and civil servants necessarily coincide with those of society at large. In any case, the notion of the interests of society at large is at best hazy and indeed inapplicable in many Third World countries made up of very diverse and often bitterly antagonistic groups.

In LDCs as elsewhere, there are major difficult and complex tasks which governments should perform. There may be legitimate differences of opinion about the extent of these tasks. But even a minimum list would include the protection of people's lives and property (public security), the conduct of external affairs, the effective management of the monetary and fiscal systems, the establishment of a framework of law and enforcement of contracts. Adequate performance of these tasks would stretch the human and financial resources of most LDC governments. It is notable that many governments preoccupied with economic controls and so-called development planning do not perform these basic tasks. Indeed, they often themselves undermine public security either deliberately (for instance, by persecuting their subjects) or indirectly as a result of their policies.

The performance of the basic tasks of government does not provide rulers with the same hold over their subjects as does close economic control or so-called development planning. This may indeed be the reason why so many LDC governments prefer state control to attention to their basic tasks. They aim to plan but do not govern.

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Kitamura, H. (1964), 'Foreign Trade Problems in Planned Economic Development', in Kenneth Berrill (ed.), *Economic Development with Special Reference to East Asia*, London.

Myrdal, G. (1956), *Development and Underdevelopment*, Cairo.

The author expands on his arguments against central planning in an Appendix entitled 'The Myths of Central Planning' on pages 11-14.

Closing Remarks

Maurice Newman

Chairman, CIS Executive Board

IT gives me great pleasure to move the vote of thanks to Lord Bauer. Before I do that, I am sure Lord Bauer will not mind if I first extend a vote of thanks to all of you who are supporters of the Centre for Independent Studies.

Melbourne has always had a special place in the hearts and minds of all of us who are involved with, or close to, the Centre, because it was Melbourne that was so important in giving us our start.

Back in 1976 it was the spirit of people like Simon Clark and Doug Hocking who were at that time with Shell. Doug Hocking is with us tonight. Bruce Kirkpatrick, who was then with ICI, is also with us tonight, and so, of course, is Hugh Morgan. Hugh played a very influential role, and has provided so much support.

Many of you may not know that those of us in Sydney had an excellent person in Greg Lindsay, but no money to fund him, whereas in Melbourne we had plenty of money but no person. Inter-city rivalries were forgotten. The Melbourne money got together with Greg Lindsay and the Centre for Independent Studies became a fully-fledged organisation.

We continue to be grateful for the support you in Melbourne provide us.

Now to move on to Lord Bauer. During the talk I was struck by the similarities of some practices in Australia with those of less developed economies. Lord Bauer spoke about restrictive policies on transport, and I immediately called to mind our present airline problem, the genesis of which lies with our restrictive two-airline system. I also thought of the problems we are currently facing in our media industry, in particular the electronic medium. The restrictions on issuing additional licences has much to do with the present difficulties in that industry. All of this has led to concentration of ownership and political power, and we should all be aware of the dangers this poses to our individual liberty.

A great deal is done in the name of comprehensive planning. Lord Bauer sees this as an excuse for those so inclined to follow Professor Kitamura's argument that 'only planned economic development can hope to achieve a rate of growth that is politically acceptable and capable of commanding popular enthusiasm and support'. This kind of patronage is conducive to keeping everybody in his proper place.

Lord Bauer has illustrated vividly the lessons that we can learn from the Third World and its economic arrangements. The images that we see on our television screens of underprivileged and underfed people remind us of their plight but do little to shed light on why they are in that condition. Indeed, they divert our attention from the reasons and simple play on our emotions for sympathy and aid.

If we have learned nothing more from Lord Bauer's talk this evening than that we ourselves are not immune from the developments that lock less developed countries into their misery, his talk has been worthwhile. For this alone we are indebted to him. However, we would all do well to study and to absorb more thoroughly the details of his address, and I commend this to you.

I would now like you all to join with me in thanking Lord Bauer for delivering the Sixth John Bonython Lecture.

Appendix

The Myths of Central Planning

THE case for central planning is often taken for granted or is supported only by vague general arguments.

At times, however, more specific arguments are adduced in the academic literature, and these are sometimes echoed in political and media discussion. On examination they turn out to be ad hoc rationalisations advanced by advocates of closely-controlled economies. These ad hoc arguments tend to vary with political and intellectual fashion and the character of the audiences addressed.

I shall consider the following specific arguments: need to increase saving and investment; compensation for lack of enterprise; promotion of manufacturing; de-linking from international trade; correction of the price mechanism; population control; redistribution.

Central planning is sometimes deemed necessary to increase saving and investment which in turn are regarded as necessary for development. The case for this policy is no stronger than the case for conscription of labour. If the population agrees with the government about the value of the proposed investment expenditure, the government can finance it from loans issued on market terms without controls or special taxes. Moreover, saving and investment can be promoted by various measures encouraging private saving and investment. Further, component elements of development plans and also the repercussions of central planning obstruct saving and investment. Again, the projects financed from this special taxation are particularly apt to be unproductive. Finally, the volume of investable resources is not critical for economic progress.

The people of LDCs are often said to lack enterprise and to suffer from economic myopia. These deficiencies are adduced in support of planning. But if there is no entrepreneurial talent or inclination in the society where will the government get it from? There is, in fact, much enterprise in LDCs. But this manifests itself in ways appropriate to local conditions, including prevailing mores, government policies and the stage of cultural and material achievement. There is also ample evidence of people's readiness to take long views, where this is appropriate: witness the large areas planted to tree crops by small-scale local producers. And if for whatever reason the population were not prepared to take a long view in economic affairs, what right have the rulers to coerce them for this purpose? In reality, of course, the argument based on alleged lack of enterprise or of economic myopia is only a patent rationalisation.

Central planning is sometimes urged as required to encourage manufacturing, which again is deemed necessary for development. Manufacturing can be readily promoted without extensive state control. Again, development plainly does not depend on state-sponsored manufacturing or any particular form of manufacturing, such as the production of capital goods. Manufacturing is simply one form of economic activity. There is no reason why its expansion, rather than that of, say, transport or the production of cash crops, should be especially beneficial, let alone sufficiently so to compensate for the cost of its support at the expense of other sectors.

Both the economic costs and the wider repercussions of state export, such as increased politicisation of life, are ignored when the output of manufacturing is treated as an equivalent net addition to total output. It also disregards the political and social costs of state-supported industrialisation.

Counsel has been darkened further by referring to the importance of manufacturing in advanced countries. On that argument, accelerated development of the service industries ought to be advocated, as these are even more prominent there. Further, the advanced industrialised countries were already prosperous while still largely agricultural. The familiar references to correlation between manufacturing industry and economic prosperity confuse a statistical correlation with a cause and effect relationship. When manufacturing and economic advance are correlated, which is by no means general, both the presence of manufacturing and economic achievement reflect valuable resources such as skills and experience.

A brief digression may be in order here, which bears both on accelerated industrialisation and wider issues of development policy. In many LDCs a large agricultural sector, including agricultural production for the market, is likely to represent an effective deployment of resources for improved living standards. One reason is the familiar argument from comparative costs. Further, in the production of cash crops the difficulties of adjusting attitudes and institutions in the transition from subsistence production to an exchange economy are not exacerbated by the need to have to acquire simultaneously a knowledge of new methods and techniques of production. Manufacturing emerging from the production of cash crops and associated transport and trade is likely to be more effective and cheaper, in terms of both economic costs and wider social and political costs, than is state-sponsored industrialisation. This is particularly likely to be the case when the latter is attempted through pervasive controls or large-scale subsidies.

Comprehensive planning is sometimes urged in order to restrict external commercial contacts said to be damaging to LDCs. Yet throughout the Third World the most advanced areas are those with the most extensive commercial contacts with developed countries. This accords with expectations for reasons noted in the text.

Extensive state control is at times advocated to correct for market failure, reflecting monopolies or quasi-monopolistic situations, divergence of prices from social opportunity costs or the presence of externalities. If there are harmful monopolies the appropriate course is to remove their source by encouraging the movement of resources, and by undermining barriers to entry.

The most important instances of divergence between market prices and costs and social opportunity costs are a level of wages determined by statutory minimum wages or the activities of privileged trade unions, or by the operation of the social security system; or a foreign exchange rate maintained by exchange controls. In all these instances the appropriate action would be a removal of the causes behind the divergence between market prices and costs and social opportunity cost. When this is deemed undesirable or impracticable, relatively simple taxes and subsidies could be introduced.

Correcting for the effects of externalities should recognise that the transfer of resources whether through direction or subsidies implies a diminution of activity and of externalities elsewhere in the economy. The net effects are difficult to assess. They are unlikely to be sufficiently significant to outweigh the social, political and economic costs of close state control. In the unlikely event that the net effects or externalities can be assessed confidently, the desired result can be achieved by straightforward taxes and subsidies.

Rapid population growth is widely instanced as a major obstacle to economic advance and one calling for strict social and economic control. It is debatable whether it is legitimate for governments and their agents to put coercive pressure on people in their most private and vital concerns. It is pertinent also that economic achievement depends on personal, social, cultural and political factors, and not on physical or financial resources per head. Both in the earlier history of the West and in the contemporary Third World many countries and societies have combined rapid population growth and rapid economic achievement.

Much discussion of this subject has been vitiated by major shortcomings; neglect both of historical evidence and of recent experience in many LDCs; misconceptions about the determinants of development; and inter-country and inter-temporal comparisons of per capita incomes without standardising for age composition. Most important of all is the treatment of conventionally-measured per capita incomes as an index of welfare. This practice disregards life expectation and the possession of children as components of welfare, which results in evident anomalies. For instance, it registers the birth or survival of a calf as an improvement in welfare but the birth or survival of a child as a deterioration.

Finally, advocates of state-organised or controlled enforced restriction of family size often imply that people in LDCs are at the mercy of uncontrollable sexual urges and are ignorant of contraception. Such suggestions reflect distasteful and unwarranted condescension. In LDCs, as in the West, children are certainly avoidable. There is also ample evidence that people in LDCs generally know about contraception and that a great majority of children are wanted by their parents.

Redistribution of income is another argument behind central planning. But if removal or reduction of income differences is deemed desirable, this can be achieved by fiscal action targeted to this objective without comprehensive control over economic activity. Since World War II, in many LDCs in Asia and Africa the operation of economic controls in the name of planning has brought large benefits, including often pure windfalls, to favoured groups of usually well-to-do people. Well-qualified observers have argued that Indian economic planning has significantly widened income differences there.

Thus the real or alleged (mostly alleged) effects of the market system in the context of development, which are behind the specific arguments for central planning, in no way warrant this policy. Insofar as the defects are substantial, they can be removed without comprehensive state control. This policy is indeed likely to exacerbate these defects, and also issues in much more far-reaching untoward results.

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