

Chapter Summary

I have now discussed the historical milieu of growth theory, its logic of explanation, and have looked at two influential early applications of the position. It is clear that these theorists were sensitive to the difficulties of shifting established intellectual tools to the Third World and they appreciated that complexity of the issues themselves. Given the demand that they produce something by way of a theory of development, their procedure was what we would expect, which is to say that they began with the intellectual tools at their disposal and fashioned a plausible scheme around the economics of Keynesian growth theories. Second, we can note that their work subsequently fell out of fashion as it became clear that the basic metaphor was false, because tackling development was not like tackling unemployment. Streeten remarks that they miscast their starting point and confused complex problems of social, political and economic change with the range of technically detailed aspects of managing sophisticated economies.⁷⁸ It is also clear, thirdly, that we should not dismiss their work because their work saw both an initial restatement of some of the core concerns of the classical tradition of political-economy and relatedly the initial presentation of a series of ideas revolving around the ideology of authoritative interventionism which in the guise of modernization theory subsequently became part of the common coin of development studies.

The theory of modernization follows on from growth theory but is heavily influenced by the desire of the USA to combat the influence of the USSR in the Third World. The theory of modernization offers the new nationstates of the Third World an easy route to the status of developed economies and societies. The theory of modernization typically makes use of the work of all the social sciences to offer a general description of the shift to the modern world. The theory of modernization rests an optimistic version of economic growth models and on theories of stable change. A simple dichotomy is proposed between traditional and modern societies with modernization as the process of moving from one situation to the other. The theory of modernization was very influential in the 1950s and 1960s. However, modernization theory has subsequently been criticized for illegitimately generalizing the model of the West and more particularly the model of the USA.

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The Development Experience of Latin America: Structuralism and Dependency Theory

Overview of Structuralist and Dependency Theories

In the years prior to the depression of the 1930s the economies of the countries of Latin America had been oriented to exporting primary products to the European and American markets. However, the response of governments to the economic dislocation of the depression and subsequent war years had the effect of encouraging import-substituting industrialization. After the end of the Second World War this situation was theorized by Raul Prebisch and the social scientists of the UN Economic Commission for Latin America, ECLA. The standard theories of international specialization and trade which argued for a complementary international division of labour were rejected. A structuralist economics was formulated to model realistically local economies so that governments could effectively plan for national development. The influence of structuralist economics declined as the drive to industrialize faltered in the early 1960s and theorists came to stress the more radical political implications of the structuralist centre-periphery motif. As the material of structuralism was reworked the approach known as dependency theory emerged. On the dependency view the upshot of the historical experience of the countries of Latin America is that the region has come to occupy a position of subordinate incorporation in the global economy.

Latin America between the Wars

After the disintegration of the Spanish colonial empire in Latin America around the turn of the nineteenth century A. G. Frank¹ identifies the emergence of two factions amongst the newly independent peoples who came into conflict in respect of the future pattern of development: the 'Europeans', who were advocates of free trade and thus a continuing role as primary product exporters; and the 'Americans', who were nationalistic and advocates of industrialization behind protective tariff barriers.² In the event the views of the Europeans prevailed and the countries of Latin America embarked on a long period of economic development centred on primary-product exporting. In the years before the Great Depression of the 1930s Latin American countries pursued policies of primary-product export, an outward-directed pattern of development which looked primarily to Europe. Alongside this outward direction there was an available theory in the form of Ricardian ideas in respect of the nature of international trade. David Ricardo was a nineteenth-century English political-economist who was the key theorist of the rising industrial bourgeoisie in England.³ The particular element of Ricardo's work which was invoked in the context of Latin American debates in respect of economic policy was the idea of international specialization. Ricardo suggested that each country would have a specific set of local resources, a natural endowment of material, cultural and geographical opportunities, and that a country's economic development would benefit from specialization on these particular strengths coupled to widespread international trade. As each country maximized its own economic strengths and thereafter traded, the system as a whole would achieve a maximum level of operation. In a system of specialization and trade all would benefit.

This view of the benefits of international specialization was essentially an ideological reading and justification of the position of the UK within the world economy during most of the nineteenth century, when the industrial world economy was more or less equivalent to the UK economy. The theory guaranteed the industrial pre-eminence of the UK and relegated the rest of the world to the status of raw material suppliers and consumers of finished products.

In the depression years the economies of Latin America were very badly hit as demand for their products fell, in line with falls in production within the industrialized economies of the First World. As exports of primary products fell, so too did the income which Latin America derived from them. The automatic defensive reaction of Latin American governments seeking to adapt to these adverse circumstances had the effect of initiating a programme of import-substituting industrialization, as goods which had

1 A. G. Frank 1972 *Lumpenbourgeoisie-Lumpendevelopment*, New York, Monthly Review Press, ch. 4. A. G. Frank's work is discussed in ch. 13.

2 On the politics of identity in colonial and post-colonial Latin America see B. Anderson 1983 *Imagined Communities*, London, Verso, ch. 4.

3 W. I. Barber 1967 *A History of Economic Thought*, ch. 3.

been bought abroad were now produced locally. The Second World War continued and reinforced this pattern as the markets in Europe to which Latin America had historically looked were cut off by military activity. Once again the pressure to produce at home that which had usually been imported was reinforced. After the end of the wartime period there was a general revival in world trade and in the long period of remarkable post-war prosperity⁴ the economies of Latin America were successful and grew rapidly. The entire episode became the theoretical concern of a group of economists lead by Prebisch at the UN Economic Commission for Latin America, ECLA. A theory offering an explanation of the mechanisms of import-substituting industrialization was constructed and the governments of the region were urged to continue with their established development plans⁵ (see figure 12).

The Structuralist Work of Raul Prebisch

Raul Prebisch is widely taken to have been instrumental both in establishing the intellectual machineries of structuralist economics and in establishing an appropriate international institutional vehicle for the deployment of these lines of argument and policy.⁶ The crucial intellectual insight which came to be known as the 'Prebisch thesis'⁷ was that the global system was not a uniform marketplace with producers and suppliers freely making mutually beneficial contracts but was in fact divided into powerful central economies and relatively weak peripheral economies. The economics of structuralism rejected the formal model-making of orthodox economics and addressed the situation of peripheral economies directly and pragmatically. It was on the basis of these analyses that Prebisch was active in the newly established institutional mechanism which served to order the global system in the post-Second World War period. Prebisch was a key figure in the UN Economic Commission for Latin America (ECLA) which was founded in 1948, and made an important contribution to the early development work of the UN through helping to set up the first UNCTAD in 1964. It has been argued that the 'creation of UNCTAD was ... the result of Prebisch's personal efforts',⁸ and was concerned, they point out, 'to discuss the international economic relations linking industrialised and less-developed countries'.⁹

4 See E. Hobsbawm 1994 *Age of Extremes: The Short Twentieth Century, 1914-1991*, London, Michael Joseph, ch. 9.

5 An excellent overview is offered by M. Blomstrom and B. Hettne 1984 *Development Theory in Transition*, London, Zed, chs. 2, 3.

6 For an overview see L. E. DiMarco ed. 1972 *International Economics and Development: Essays in Honour of Raul Prebisch*, London, Academic Press.

7 L. E. DiMarco notes (ibid. p. 5) that there were two crucial early essays: R. Prebisch and R. Prebisch 1949 'The Economic Development of Latin America and its Principal Problems', *Economic Review of Latin America*, 7.

8 A. A. Dadone and L. E. DiMarco 1972 'The Impact of Prebisch's Ideas on Modern Economic Analysis' in L. E. DiMarco ed. 1972 op. cit. p. 23.

9 Ibid. p. 24.

Background concerns

The principal position against which Prebisch developed his views¹⁰ was the claim of orthodox Ricardian-inspired economic theories that international specialization conferred benefits upon all those involved.¹¹ Against this argument Prebisch used a version of the centre-periphery idea which was available not only in marxian but also in indigenous Latin American anti-imperialist writings which had been produced over the 1930s and 1940s. The lines of criticism of the orthodox view of the benefits of international specialization and exchange run back to the late nineteenth century when the USA, Russia, Germany and Japan all confronted the problems of being 'late industrializers' within a global system dominated by the British. In all these cases a preference for industrialization behind protective tariff barriers was favoured. In the light of these considerations, Prebisch argued that the orthodox theory condemned Latin American economies to a secondary and relatively declining position as primary product exporters. It was in fact the position which had been occupied in the years prior to the depression and which was inherited from the colonial period. Prebisch rejected the argument in favour of international specialization and in addition to challenging the orthodox conception of the appropriate position of Latin American economies within the world economy makes a concurrent reworking of the explanations of the nature of peripheral economies. The market equilibrium model of neo-classicism is rejected in favour of an empiricist-style, pragmatic and problem-oriented approach known as structuralism which insisted that the economies of the countries of Latin America should be analysed as a loosely integrated set of separate sectors, each of which had a particular role within the global system bequeathed by the dominance of the metropolitan economies. The new policy solution was to pursue a national programme of industrialization behind protective tariff barriers: precisely the pattern which had grown up in the wake of the crises of depression and war.

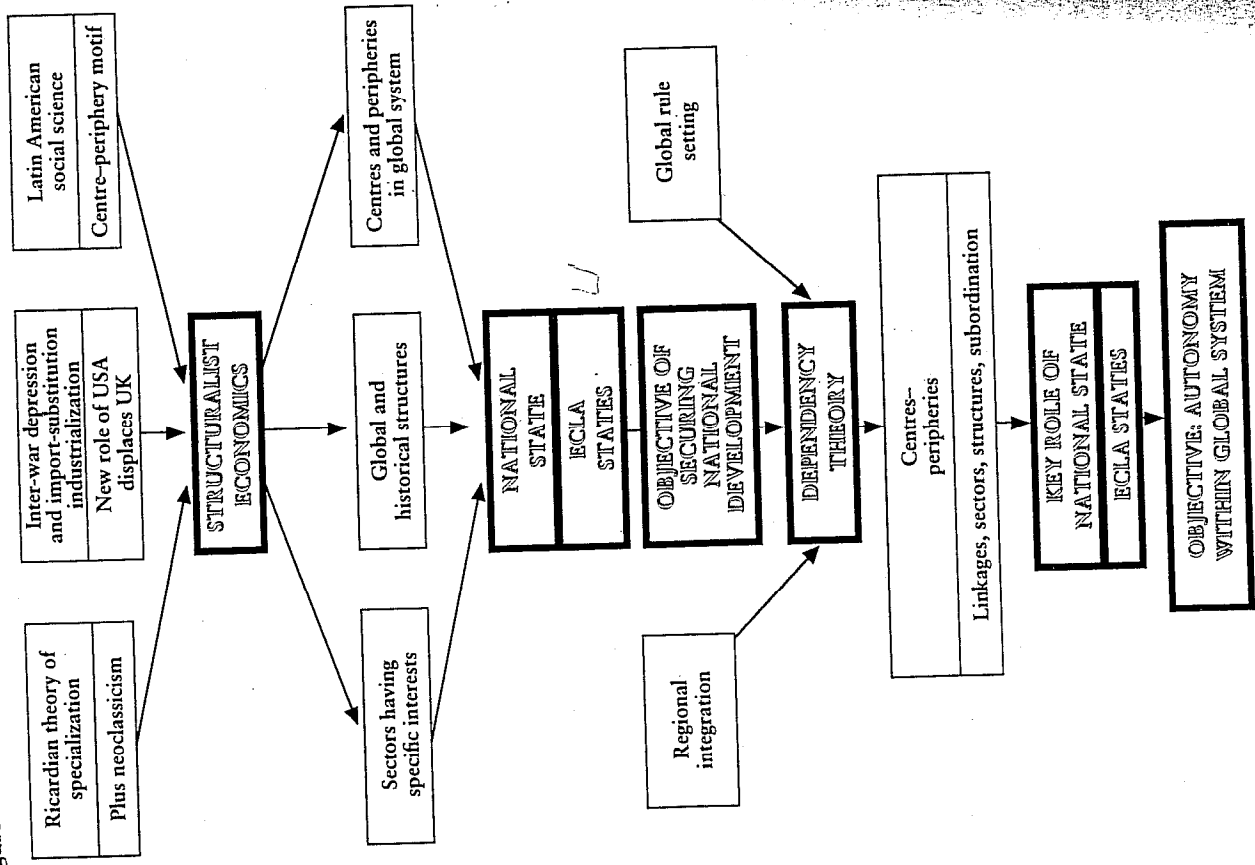
Structuralist economics

The structuralist approach starts with the attempt to model the local situation realistically rather than formally. In place of the orthodox neo-classical economics of the self-regulating market system with its predilection to formal models, the structuralists look to the actual historically generated pattern of real economic activity. As soon as this procedural change in strategies of social scientific explanation is made a very different story in respect of the economies of Latin America emerges. The putative single national economy is seen as split into a loosely integrated set of quasi-autonomous sectors. In place of the smooth interaction of the various elements of the single economy there is a diverse spread of conflicts of interest between the

10 R. Prebisch, 1950 *The Economic Development of Latin America and its Principal Problems*, New York, United Nations Publications.

11 See M. Blomstrom and B. Hettne op. cit. chs. 2, 3.

Figure 12 Structuralist economics and dependency theory



various sectors. In the actual historically generated economies of the countries of Latin America each of the various sectors of the economy of the present day represents either a residue of the historical process of the expansion of Western European capitalism or a present requirement of contemporary capitalism. The distinctively national and integrated economy does not exist and instead there is a collection of residues, enclaves and various parasitic forms. In the light of these analyses it can be argued that an 'underdeveloped country is underdeveloped precisely because it consists of different structures each with a specific type of behaviour'.¹²

The origins of structuralism lie in the concern which Prebisch had in respect of the relations between Latin America and the industrialized economies.¹³ The notion of the key relationship being between centre and periphery 'was derived from the preoccupation with economic cycles during the immediate postwar period'.¹⁴ It is clear that from this perspective 'the distinction... was principally inspired by the unequal role played by the two segments of the world's economy in the system's periodic fluctuations: the first playing an active role; the second a passive or reflexive role'.¹⁵ The distinction also pointed to the different roles assigned to 'primary exporters and industrial exporters by the international division of labour, whose end result was an unequal distribution of technical progress'.¹⁶ The upshot is that the powerful core economies both drive the system generally and tend to accumulate an ever greater technological lead in industry which in turn secures their dominance. Overall it became clear to Prebisch that the relative lack of advance of the economies of Latin America could not be explained in terms of deficiencies within the local economy but should be explained with reference to the debilitating structural circumstances of the economies of Latin America within the global system.

The major claims of the structuralist position were constructed on the basis of these analyses. There was a more particular occasion for the presentation of structuralist economics insofar as they 'dealt with the implications of the substitution of the US for the UK as the system's principal centre'.¹⁷ As the disruptions of the inter-war depression gave way to the greater systemic upheaval of the Second World War the metropolitan centre to which the economies of Latin America had looked over the long period of their independence, which had been secured from Spain and Portugal in the early nineteenth century, namely the UK, became enfeebled and was eclipsed by the USA. It was the USA which became the dominant centre to which the economies of Latin America looked in the post-Second World War period.

12 P. J. O'Brien 1975 'A Critique of Latin American Theories of Dependency' in I. Oxaal et al. *Beyond the Sociology of Development*, London, Routledge, p. 9.
13 J. Knakal 1972 'The Centre-Periphery System Twenty Years Later' in DiMarco ed. op. cit.
14 *Ibid.* p. 97.
15 *Ibid.*
16 *Ibid.*
17 *Ibid.*

In general terms the ECLA line of analysis involved a series of interrelated claims. The first claim was that the economy of the USA was relatively self-contained and therefore its responsiveness to the periphery was less in comparison to that of the previously more open economy of the UK. The shift in focus from the UK to the USA found a more advanced liberal market economy whose centres of power were not particularly disposed to continue the styles of interaction established by the British over their long period of association with the countries of Latin America. In brief, a new metropolitan centre entailed a new schedule of demands upon the peripheral countries of Latin America. The second area of concern was with the terms of trade between centres and peripheries which were seen to have moved against the peripheries as primary product prices fell relative to the prices of manufactures. In this situation the general position of the periphery is weakened significantly as the capacity to finance imports is reduced. The third related concern points to the capacity of the centre to import independently of its exchanges with the periphery. In other words the centre could source its imports from any number of locations within the global periphery. In the case of Latin America the freedom of the centre weakens the position of the periphery in vital trade relations. Again, fourth, the imports of the centre are of raw materials and their prices fluctuate sharply which is to the detriment of the periphery which cannot rely upon a steady stream of income. And finally, the theorists of ECLA took the view that the post-Second World War dollar shortage¹⁸ revealed that the USA is unused to a world role, in contrast to the UK, and that this impacted negatively on the peripheral economies. Overall, the ECLA analysis of the situation of the peripheries in relation to the new metropolitan centre of the USA was pessimistic in that the new centre was seen to be both powerful and unsympathetic.

It is with the addition of one further set of reflections that the full ECLA argument emerges. In this early formulation the role of global financial mechanisms was omitted but this was quickly remedied and it was pointed out that the major global sources of finance were controlled and regulated by the metropolitan capitalist countries, and indeed that the major new institutions of the Bretton Woods system were located within the American capital. It is at this point that the ECLA structuralist diagnosis of a global economy divided into a powerful autonomous centre surrounded by dependent peripheral economies was finally stated.¹⁹ The policy conclusions flowed from the analysis and revolved around the affirmation of a strategy of industrialization in the peripheries such that they could over time become non-dependent economic agents within an interdependent global system.

18 In the immediate post-war period the US economy was dominant and all other economies were war damaged. In this situation they could not export goods to the USA in order to earn dollars to pay for their imports - hence a shortage of dollars. In Europe the aid programme known as the Marshall Plan solved the problem.
19 Knakal 1972 op. cit. p. 100.

The broad sweep of structuralist analysis can be summarized in terms of the three key implications of the rejection of the Ricardian-inspired theories of international specialization and exchange: (a) the analysis of relationships in terms of centres and peripheries, rather than equal market players; (b) a focus on industrialization as a means to catch up and join in with the core economies, in preference to continued dependency; and (c) a concern for the social and cultural implications of dependency.²⁰ The crucial element of the overall position was the view that technical progress was concentrated at the core and in character was slowly diminishing the importance of primary product inputs – hence, over time, the declining terms of trade. The expectation was that industrialization would address directly the issue of the technical advantage of the core and would help mop-up unemployment by providing new industrial jobs. Government finances would be improved by broadening the economy and thus the tax base, and the balance-of-payments position would be improved by making at home what had previously been imported. These policies met with early success and there was extensive industrialization and urbanization. However, there were unanticipated problems in that industrialization depended on foreign supplies of sophisticated manufactures and thereafter served relatively small local markets. The benefits were thus less than expected and the financial costs were higher than expected. The strategy of import-substituting industrialization turned out to have only limited effect and in the case of Latin America a mix of overenthusiasm, incompetent and corrupt First World bankers and a subsequent flood of petrodollars led to economic, political and social problems which culminated in the debt crisis of the late 1970s and 1980s.²¹

The practical record

The practical record of structuralist-inspired policy advice has been mixed. In Latin America the move towards industrialization, which was begun in the difficult period of the depression and which continued over the wartime episode, has continued as a central concern of the policies of governments in the post-Second World War period. In all cases the drive towards an industrial developed economy continues. It is also clear that the record is uneven and shows a mixture of partial success and clear failure. The approach has seen as series of phases.

The reformist structuralism of ECLA belongs to the first of what the noted dependency theorist Celso Furtado has called 'three easily identifiable periods' in the economic history of post-war Latin America.²² The first

is characterized as one of rapid growth based on favourable terms of trade, accumulated reserves from the war years, and currencies strong enough to be able to withstand gradual devaluation in the face of already active inflationary pressures. However, by the mid-1960s the position had changed and the strategy of import-substituting industrialization was apparently failing. In this second period there was a sharp deterioration in the terms of trade and a slackening of the rate of growth. On top of this the Cuban revolution provoked widespread questioning of the nature of Latin America's recent development history. A third period is also identified in the early 1970s which saw something of an economic boom on the back of vast imports of capital as petrodollars were recycled and a little later the debt crisis of the 1980s emerged.

The deteriorating situation of phases one and two was interpreted by ECLA in terms of problems with small local markets, and the associated difficulties of securing overseas markets, and the disadvantageous nature for Latin American economies of established patterns of international exchange. In response to these problems ECLA pursued a two pronged strategy of pressure and persuasion in the 1960s: the first, on Latin American governments in favour of regional integration; the second, on governments of the developed countries for more liberal trade and financial policies.²³ However, by the late 1960s the ECLA model of development was in severe crisis.²⁴

A variety of problems were noted. There was, firstly, the continuation of economic dependency despite import substitution (as the drive to upgrade local industry progressed a strong demand for the import of First World sophisticated technology was created). Once the drive to industrialize was initiated the demand for further imports of technology and supplies continued to grow. The paradox of import-substituting industrialization was that it demanded a significant supply of foreign imports all of which had to be paid for by export earnings or by the accumulation of debt. In the wider economy, secondly, as the drive for industrialization continued the urban employment structure began to become sharply divided as those with employment in industries sponsored by governments, or overseas companies became relatively prosperous, whilst those in the unprivileged local sectors found their incomes falling behind. This situation was to become more problematical as inflation took hold and various groups moved to protect themselves from any loss of earning power. In the rural areas the established primary product operations continued but with diminished political support. As poverty increased there was pressure for rural-urban migration. It was clear that the impact of the economic developments of the period was that income inequality was becoming worse. So, thirdly, large sections of the population were marginalized as they shifted out of any formal

23. N. Girvan 1973 'The Development of Dependency Economics in the Caribbean and Latin America: Review and Comparison', *Social and Economic Studies*, 22.

24. O'Brien 1975 op. cit. p. 11.

20. H. Brookfield 1975 *Interdependent Development*, London, Methuen, pp. 139-42.

21. See S. George 1988 *A Fate Worse than Debt*, Harmondsworth, Penguin; P. Korner et al. 1986 *The IMF and the Debt Crisis*, London, Zed.

22. C. Furtado 1976 *Economic Development in Latin America*, Cambridge University Press, p. 298.

employment and into the myriad activities which are summed as the 'informal sector'.²⁵ Then, fourthly, the role of foreign capital was increasingly in evidence as the state, the industrial sector and the rural primary producers sought to support their activities by drawing in foreign capital. In general, fifthly, a consequence of the economic, social and political problems of the period was that the military came to seize political power in many places.²⁶ Overall, it could be argued that the approach favoured low-quality high-cost manufactures, neglected agriculture and entrenched the role of foreign capital.²⁷ In the light of these developments it soon came to be argued that the structuralist remedy was better seen as 'the cause of the economic illness'.²⁸

It was at this point that the argument moved out of the structuralist frame used by Prebisch to embrace work from wider traditions within the social sciences. A significant area of concern was the critique of the model of modernization which had been assiduously developed by US theorists in the late 1950s and throughout the 1960s. The exchange with modernization theory can be taken to have issued in the representation within Latin American social science of the concerns of the classical nineteenth-century tradition of social science with its concern to elucidate the dynamics of complex change.²⁹

A series of objections were made to the modernization theory analysis of the countries of Latin America. The idea that they were dual societies with a traditional and a modern sector was rejected (as the whole of the territories were influenced by the demands of the global system). The idea that modernizing impulses would spread to the backward areas was rejected (as the impact of global system on poor areas was at best unpredictable). The idea that the poor traditional areas represented a handicap to progressive national bourgeoisies was rejected (as such an elite did not exist).³⁰ The general strategy of looking to a series of stages of economic development was rejected in favour of a more richly elaborated historical analysis which would deal with the normality of the pattern of underdevelopment within Latin America given its particular position within the global system.³¹

It is out of this complex pattern of debate which revolved around the

25 On urban poverty and the vitality of the informal sector, see P. Worsley 1984 *The Three Worlds: Culture and World Development*, London, Weidenfeld.

26 On the collapse into military rule, see J. Linz and A. Stepan eds. 1978 *The Breakdown of Democratic Regimes*; see also for a discussion of the return of democracy, D. Reuschmeyer et al. 1992 *Capitalist Development and Democracy*, Cambridge, Polity.

27 R. Peet 1991 *Global Capitalism: Theories of Societal Development*, London, Routledge, pp. 43-5.

28 *Ibid.*, p. 45.

29 See for example, F. H. Cardoso and E. H. Faletto 1979 *Dependency and Development in Latin America*, University of California Press. See also J. A. Kahl 1976 *Modernisation, Exploitation and Dependency in Latin America*, New Brunswick, Transaction.

30 See R. Stavehagen 1968 'Seven Erroneous Theses on Latin America' in J. Petras and M. Zeitlin eds. *Latin America: Reform of Revolution*, Greenwich, Fawcett.

31 See O. Sunkel 1969 'National Development Policy and External Dependency in Latin America', *Journal of Development Studies* 6.

exchange of metropolitan centres and Latin American economies that the notion of dependency crystallizes. The theory of dependency is a response to the problems of structuralist analyses.³² In the dependency analysis the familiar structuralist themes in respect of the fragmented nature of the local economy are firmly lodged within an explanatory frame which details the historical development of the asymmetrical relationships of economic power between the metropolises and the peripheries and thereby locates crucial elements of local problems beyond the control of the local state. At this point the familiar themes of external dependency and the related internal debilitating stability of social and economic structures are presented.

The Dependency Work of Celso Furtado

The work of Celso Furtado encompasses a number of themes: (a) the slow revision of an early adherence to structuralist economics such that in the later work a dependency theory is produced; (b) the related slow shift in orientation of Furtado's work away from technical solutions cast in terms of economic policy towards analyses which are concerned with the sphere of the political; and finally, drawing on both these movements, (c) a shift away from narrowly discipline-bound work towards a routinely multi-disciplinary style of analysis redolent of the material of the classical nineteenth-century European tradition of social science oriented to the elucidation of the dynamics of complex change in the industrial capitalist system.

The revision of structuralism and the presentation of dependency theory

Furtado's *Development and Underdevelopment*³³ begins with a discussion of existing treatments of economic growth and from this he derives the idea that:

The theory of development endeavours to explain, from a macro-economic point of view, the causes and mechanisms of the persistent growth in productivity of the labour factor and the repercussions of this growth on the organisation of production and on the distribution and utilisation of the social product.³⁴

On the basis of this understanding Furtado goes on to identify two further related styles of enquiry: the abstract and the historical. Of the first,

32 O'Brien 1975 op. cit. p. 11.

33 C. Furtado 1964 *Development and Underdevelopment*, Berkeley and Los Angeles, University of California Press. In the preface the author explains that having begun as a neo-classical theorist he derived further inspiration from marxism and Keynesianism and came to move towards a structural analysis of development and underdevelopment. The intellectual movement from structuralism towards dependency theory is evident in the trio of works considered here.

34 *Ibid.*