Chapter 3

Post-1945 Capitalism and Development

The post-1945 period saw the emergence of the 'discourse of development' (Escobar 1995), which set out a framework for understanding the problems of poverty and underdevelopment in the 'Third World' and developed strategies to alleviate these problems. The *content* of post-war development emerged in a particular *context*, which was above all characterized by US hegemony, the Cold War and the end of Empire. This chapter will therefore examine both the context and the content of post-war development. It will first examine the nature of the post-1945 international economic order, whose foundation was laid at Bretton Woods, New Hampshire, in 1944. This will involve an examination of the nature of 'US-led multilateralism', the development of new international institutions, the selective promotion of free trade, and the regulation of international finance after 1945. In addition, it will include an examination of the impact and influence of the Soviet Union and the communist 'expansion' on the capitalist world in this period. The chapter will then move on to examine the post-war boom and the generalized development of mass production in the 'core' countries. Finally, and in more detail, the chapter will examine the promotion of development in what came to be called the 'Third World', with particular attention paid to import-substitution industrialization, modernization, and 'non-alignment'. The strengths and weaknesses of this development strategy will also be addressed, partly through a short examination of some case studies. The shift to neo-liberalism, an issue taken up in detail in the next chapter, is also touched on.

The Post-war International Settlement: Bretton Woods and the Cold War

The settlement at Bretton Woods in 1944 was intended to avoid the instability of the 1930s, which had paved the way for the Great Depression, which in turn had helped the Nazis to come to power in

Germany in 1932–3. Bretton Woods was based on an uneasy compromise between orthodox and Keynesian economic theory. In an effort to avoid the competitive devaluations of the 1930s, the delegates at Bretton Woods agreed that there was a need for an international currency that could provide stability and therefore promote international trade, which had collapsed in the 1930s. The British representative, John Maynard Keynes, argued for an international currency, the bancor. He argued that this currency could be used to redistribute finance automatically from countries that had a surplus in traded goods, to those that had a deficit. Keynes justified this mechanism by arguing that it would enable countries to maintain buying power in the world economy, and so they could continue to participate in international trade and buy the exports of surplus countries. An international clearing union would act as the agent of redistribution, transferring savings from surplus to deficit countries, and thereby maintaining effective demand in the world economy. This clearing union would act for the good of the system as a whole, but Keynes also argued that there was no conflict between the systemic good and the interests of specific countries. This was so for two reasons: deficit countries would avoid having to make cuts to their economies to restore balance of payments equilibrium, while surplus countries would continue to enjoy the benefits of sustained markets in the deficit countries, which would not exist if cuts had to be made to these economies.

However, the United States and its chief delegate, Harry Dexter White, rejected these proposals. The bancor was never introduced, and instead, the dollar became the international currency or means of payment. The 'dollar-gold standard' was introduced, whereby the prices of national currencies were fixed against the price of the dollar, and the dollar was in turn priced against gold (at $35 an ounce). This appeared to be a reasonable solution because the US was by far the most powerful economy in the world, and the rest of the world faced a shortage of foreign exchange. At this time, the US controlled 70 per cent of the world's financial assets and produced about half of total world output. Orthodox trade theory assumed that adjustment would automatically occur as, faced with higher costs, capital would leave the US and flow to lower-cost countries, thus relieving them of foreign currency shortages and in the longer run allowing them to buy US and other goods. But in fact US reserves increased in the immediate post-war era, and the US ran balance of trade surpluses until 1971. This meant that US companies could not run at full capacity unless overseas buyers were found. It also meant that the post-war economies of Europe and Japan could not immediately finance post-war reconstruction, which meant that political instability would continue. This was all the more dangerous in the context of communist revolution in Yugoslavia and (in 1949) China.

Communist parties were also very popular in Europe and Japan and there was a real fear of communist expansion. This threat was intensified by economic instability, which in turn was caused by a shortage of internationally acceptable money available in Europe and Japan. In terms of the economy then, there was a world-wide shortage of dollars.

The US resolved this problem – and held back communist expansion – by running balance of payments deficits, which meant that dollars flooded into Europe and Japan to finance post-war recovery. This was carried out initially through Marshall Aid to Europe, and later through very high rates of military spending in Korea (the 1950s) and Vietnam (the 1960s), as well as increasing rates of direct foreign investment by US transnational companies. In this way, the dollar shortage was averted between 1950 and 1958, and the foreign exchange component of world reserves increased by nearly $7 billion (Glyn et al. 1990: 69–70). This system benefited some of the US's potential competitors, as we will see. But, in the short to medium term, it also benefited the US, because of the international role of the dollar. Because this currency was both the US's national currency and the main international currency, the US could run balance of payments deficits on its overseas accounts without having to deflate its economy. Instead, the US could simply print more dollars to finance deficits. At the same time, in order to ensure that there were not significant and rapid shifts in the movement of money, most countries placed controls on the free movement of financial capital (Helleiner 1994).

It was hoped that under this post-war order of regulated liberalism, international trade stability would be maintained through the dollar–gold exchange system. Some countries would of course face short-term balance of payments difficulties, and at Bretton Woods it was agreed that a new organization, the International Monetary Fund (IMF), would provide short-term finance to ensure that such countries made the required adjustments necessary to restore economic stability. Keynes's argument that such stability should be maintained through countries with a surplus financing the payments difficulties of those with a deficit was rejected (see above), and so deficit countries would face the burden of readjusting their economies to ensure that deficits could be turned into surpluses. This was to become a major issue of contention from the late 1970s and early 1980s, when many developing countries faced massive deficits. Specific controversies did arise earlier, but not on the same level. Indeed, given that post-war reconstruction was financed by Marshall Aid, and given the growing significance of foreign investment, loans and aid in the developing world (see below), the IMF was not a particularly significant financier in the 1950s and 1960s.

The World Bank was also established at Bretton Woods as an agency that directly carried out programmes of development assistance or aid.

This role increased in importance with the establishment of the International Development Association within the World Bank in 1960. Aid is essentially a loan to a country at concessional or zero rates of interest. Critics of aid point to the conditions usually attached to it, an issue addressed in the context of neo-liberalism in the next chapter. But even before the resurgence of neo-liberalism, aid had its critics on both political left and right, the former regarding it as a form of imperialism designed to keep the developing countries in a dependent relationship, the latter arguing that it interfered with the efficiencies associated with the free market (Hayter 1971; Bauer 1971). While neither of these positions was completely convincing, there were certainly problems associated with aid. Much of the aid dispensed by developed-world governments was tied to the purchase of donor goods, and so was effectively a way of subsidizing domestic industries of the rich countries. Bilateral aid (from government to government) was also clearly influenced by strategic factors, and key Cold War allies were often the main recipients, irrespective of the needs of the poor in developing countries. Indeed, aid could be military as well as economic.

Despite these deficiencies, it was envisaged that the Bretton Woods agreement, which was designed to promote financial stability, which would in turn ensure free trade in goods and services, would thus avoid the growing protectionism that characterized the 1930s. The General Agreement on Tariffs and Trade (GATT) was established in 1947, in which various periodical rounds of meetings proposed tariff reduction and various other means of liberalizing international trade. It was an informal organization dominated by developed countries, and the majority of developing countries never signed up to the GATT. At the same time, this movement towards free trade was selective and managed in such a way that states could continue to protect some economic sectors from foreign competition, and particularly that from developing countries. This was theoretically designed to allow late developers some room for manoeuvre in developing new sectors through protectionist policies. As Gibbon and Ponte (2005: 46–7) suggest, in principle,

> GATT accepted developing countries' own definitions of their problems in relation to the international trading system. That is, development was seen in term of overcoming specific structural problems, notably those of industrializing within an already established pattern of international specialization and of managing economies where the balance of payments position was heavily dependent on the price of primary commodities.

In practice, then, this gave some room for protectionist domestic policies combined with assistance at the international level. There were limitations to these policies, including protectionist policies in the advanced countries implemented through the subsidizing of agriculture and introducing quotas on the imports of light manufacturing goods, particularly clothing. These measures particularly discriminated against exports from developing countries (see further below). But at the same time, the developing world did enjoy some 'special and differential treatment', which allowed for the principles of preferential access to developed countries' markets and some protection from foreign competition (Bello 2005: ch. 5). These included international commodity agreements, such as those involving cocoa (1972 onwards), coffee (1962 onwards), sugar (1954 onwards) and natural rubber (1980 onwards), although these ran somewhat erratically and suffered from non-cooperation on the part of producers and consumers, before, with the exception of natural rubber, petering out in the 1980s. There were also Generalized Systems of Preferences for certain commodities, but in practice these had only a limited impact on market access for primary producers, although they benefited some industrializing countries in East Asia (Gibbon and Ponte 2005: 50–1).

The idea of these and other preferential agreements, such as Lomé (discussed in Chapter 9), was to guarantee market access for developing countries' exports without insisting that they reciprocate, and to provide price support in instances of export earning shortfalls, as well as aid. The GATT system and the wider post-war international economic order had its limitations in providing effective support mechanisms, as aid was often tied, price support schemes failed to stop many commodity prices from falling, and preferential access was often limited particularly for manufacturing exports (which further locked some countries into primary exports). Nevertheless, for all their faults, some space for development was allowed, and the preferential systems now in place have been considerably watered down. This is discussed further in the context of structural adjustment (Chapter 4), the World Trade Organization (Chapter 6), and the European Union (Chapter 9).

Ultimate backing for the post-war system was provided by the military power of the United States, which spent enormous amounts of money and had large military bases overseas. This presence was justified by the need to protect the 'free world' from the supposed threat of communist expansion. US hegemony was therefore secured by both its economic and its military strength. However, and this is central to the arguments that follow, the US was a different kind of hegemonic power from its predecessors. As Panitch and Gindin (2005b: 106; also Wood 2003: 137–42) suggest, 'Something more historically distinctive was emerging than just the rise of a new power or the international extension of American capital: the American state was now acting as a self-conscious agent in the making of a truly global capitalism, overseeing the drive to universalize the law of value through the restructuring both of states themselves and of inter-state relationships.' In this new system of hegemony, the US was able to exert pressure on states through economic means, but it was also prepared to intervene militarily if necessary. Sometimes this was direct, as in the cases of (among others) Korea, Vietnam, and Guatemala, and sometimes it was through proxies such as in Chile and Nicaragua (Saull 2001: ch. 7). At the same time, the conflict between the US and the Soviet Union did provide Third World states with some bargaining power, and there were attempts to promote independence from both superpowers, through non-alignment, from 1955 onwards. In practice however, this was limited and most countries were effectively allied to one or the other superpower, even if these alliances sometimes shifted quickly from one superpower to another (Hoogvelt 1982; Halliday 1989: 21–2). But the existence of the communist alternative was important, and was central to understanding the post-war order. The usual argument made by most theorists of globalization is that 1945 was the highpoint of US hegemony and that this has declined in the era of globalization (Chapter 5). What is being argued here is that the communist alternative meant that, despite the US's 'preponderance of material resources' (Keohane 1984: 32) at the end of the war, there were strong limits to US hegemony. This was not only because of the direct challenge from Communism, but because this challenge had led the US to some forms of compromise at Bretton Woods. These were not as great as Keynes wanted, and this had implications for the later, post-Bretton Woods era, as we will see in the next chapter. But, although the US was clearly the hegemonic power, there were still some limits on this power.

In other words, the compromises at Bretton Woods, particularly over free trade and capital controls, were regarded as temporary, short-term measures, to be replaced at a later date (Panitch and Gindin 2004; Konings 2005). This is not to say that the US planned the turn away from Bretton Woods in the early 1970s, and that it was the contradictions of that system which culminated in its demise. But it is to challenge the standard globalization story of US strength simply giving way to decline in the era of globalization. We return to these questions in later chapters, but first we need to examine further the post-war years.

The Post-war Boom

The period from the late 1940s to the late 1960s was the so-called Golden Age of capitalism. The developed capitalist countries experienced high rates of growth in output and consumption, almost full employment, and varying but generally substantial welfare rights. A virtuous circle emerged in which high rates of profit facilitated high rates of capital accumulation, which in turn led to unprecedented economic growth, high productivity, high wages and expanding demand. Annual growth rates from 1950 to 1973 averaged 2.2 per cent (USA), 2.5 per cent (UK), 4.1 per cent (France), 5 per cent (Germany) and a massive 8.4 per cent for Japan (Glyn et al. 1990: 47).

This period from around 1947 to 1973 has been described as the era of 'high Fordism' (Harvey 1989: ch. 8), in which unprecedented rates of economic growth were facilitated by the extension of mass production systems to more and more sectors in the economies of the 'advanced' countries. These were initially financed by US balance of payments deficits, which, as we have seen, were consistently run from 1952. This system of Fordism drew on highly capital-intensive machinery, a rigid division of labour and specialization within the workplace, and massive production runs on specific products, which facilitated economies of scale whereby unit costs declined as production batches increased. The Fordist system also promoted the development of mass consumption of relatively standardized products. Although many sectors did not develop Fordist techniques, it was still quite widely diffused, particularly in the leading economic sectors such as car production, electronics, and light engineering. High rates of accumulation in these sectors were reinforced by the availability of low-cost primary products, particularly oil, which became the major raw material fuelling the post-war boom. From 1940 to 1974, the proportion of oil in the world's energy supply increased from 21 per cent to over 67 per cent. Before the oil price rises of 1973–4, oil prices were very low, with crude prices as low as $1.8 a barrel for much of the post-war era (Itoh 1990: 90–1).

The development of neo-Keynesian policies that maintained demand and therefore full employment, and of welfare states throughout the advanced capitalist world, were acceptable to capital so long as high rates of profit, accumulation and investment were maintained. Indeed, such arrangements even functioned effectively for capital in that demand for the products in the consumer goods sectors remained high. At the same time, poverty levels remained high, and within the labour market there was significant social differentiation. In particular, the expansion of labour forces due to rural–urban migration, increased female participation, and international migration provided a crucial source of cheap labour for capital, but also opened up a division between a relatively privileged core labour force, and those in less privileged positions in the labour market. But the boom was still important in opening up gains for labour, while at the same time trade unions generally accepted managerial controls within the workplace, and a de-politicization of demands beyond it. There was thus a trade-off between Fordist managerialism

and thus continued hierarchy within the workplace on the one hand, and concessions such as high wages, more consumer goods, and increased social protection on the other (Panitch 1981; Burawoy 1983).

Development and the 'Third World'

Post-war development was heavily influenced by all these factors. The Cold War, the international economic order, and the post-war boom stimulated – and hindered – development. A further central factor was the beginning of the end of European and Japanese empires. This was partly a product of the defeat of some colonial powers, such as Japan, which ensured that it could not hold on to its empire in Asia. It was also a product of the rise of anti-colonial movements that demanded independence. Independence was thus granted to (among others) the Philippines (1946), India and Pakistan (1947), Morocco (1956), Ghana (1957), Malaysia (1957), Nigeria (1960), Algeria (1962), Trinidad and Tobago (1962), Kenya (1963), Botswana (1966), Angola and Mozambique (1975) and Zimbabwe (1980). The US (itself a lesser colonial power) supported independence provided that postcolonial leaders were not too radical, and it did so because it saw itself as the leader of a new post-war liberal order of sovereign states, which in the long run would promote a free international economic order. There was thus a close connection between market expansion and the prevention of communist expansion.

Post-war development was thus closely connected to the Cold War. For its Western proponents, development simultaneously resolved two closely connected problems. First, there was the problem of the poverty and underdevelopment of the (former) colonies, and secondly, there was the problem of alleviating the attraction of communism. One major reason for the attraction of the second problem was the existence of the first problem. The United States thus simultaneously supported national liberation for the colonies, provided these were anti-communist, and promoted 'development' for the ex-colonies. In the words of President Truman in 1949:

> More than half the people of the world are living in conditions approaching misery. Their food is inadequate, they are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first time in history humanity possesses the knowledge and the skill to relieve the suffering of these people. . . . I believe that we should make available to peace loving peoples the benefits of our store

> of technical knowledge in order to help them realize their aspirations for a better life. . . . What we envisage is a program of development based on the concepts of democratic fair dealing. We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped countries. The old imperialism – exploitation for foreign profit – has no place in our plans. What we envisage is a program of development based on the concepts of democratic fair dealing. Greater production is the key to prosperity and peace. And the key to greater production is a wider and vigorous application of modern scientific and technical knowledge. (cited in Sachs 1992: 1)

In this way, development came to be associated with the idea of a Third World. Although this initially referred to a non-aligned third path between the capitalist First World and communist Second World, the connection to poverty and underdevelopment was equally crucial. As Peter Worsley (1984: 40) suggested, 'What the Third World originally was, then, is clear: it was the non-aligned world. It was also a world of poor countries. Their poverty was the outcome of a more fundamental identity: that they had all been colonized.'

This idea of development was linked to more academic ideas of progressive social change, such as Rostow's five-stage model of social development. He argued that all societies – which he assumed to be nation-states – pass through five similar stages in their development. These were defined as traditional society, preconditions for take-off, take-off, drive to maturity, and the age of mass consumption. Take-off was the critical phase, and Rostow (1960: 40) defined this as 'a period when the scale of productive economic activity reaches a critical level and produces changes which lead to massive and progressive structural transformation in economies and societies'. He therefore saw American society – the age of mass consumption – as the end goal of development. He was certainly hopelessly optimistic about the degree of consensus that existed in the United States in the 1950s, and the ease with which developing countries could catch up with the developed ones (Kiely 1995: ch. 3). What Rostow hoped was that contact with the advanced countries, through aid, trade and investment, would help to facilitate development. This was not only good for the Third World in that it would alleviate poverty, but also it would help to prevent the spread of communism. Indeed, Rostow's book was sub-titled *A Non-Communist Manifesto*.

In practice, most of the new Third World states rejected, or ignored, the open politicizing of works like Rostow. The leaders of these states were generally suspicious of 'the West', not least because of the recent colonial past. But at the same time, these leaders also accepted the need

to promote development policies and attempt to catch up with the developed countries. This was not quite the model outlined by Rostow's modernization theory, but it was also not a total rejection of it. For the new states, modernization would come about through the promotion of pro-industrialization policies, which would reduce dependence on primary commodity exports and manufactured imports, and thus reduce their subordinate and dependent position in the international economy (Prebisch 1959). In developing industrial capacity, the peripheral status that was a legacy of colonialism would be overturned. Although there was a great deal of rhetoric that suggested a commitment to socialist oriented development strategies, most countries attempted to develop along capitalist lines, albeit with considerable levels of state intervention. The basic development strategy adopted was known as import-substitution industrialization (ISI). The rationale for this strategy was thus rooted less in modernization theory, and more in the structuralist economics associated with the likes of Raul Prebsich and Hans Singer (1950), who both argued that there was a need for industrialization in order to overcome the colonial and semi-colonial legacies of specialization in the export of a few primary commodities. In other words, industrialization was necessary in order to alleviate the structured inequalities – including unequal net barter terms of trade (see Chapter 1) – that were created in the eighteenth and nineteenth centuries. Despite these important differences, both modernization theory and structuralism agreed on the requisite development strategy of ISI, and at least one prominent development economist clearly linked the two approaches (Lewis 1954).

This strategy had actually been utilized in independent Latin America in the 1930s, but it became more or less generalized in the post-war era. Import-substitution industrialization was based on three key ideas:

(i) the promotion of a domestic industrial base that would, initially at least, produce goods for the home market;
(ii) reduction in the dependence of expensive manufactured imports, and relatively cheap primary product exports;
(iii) the protection of new domestic industries through tariffs or import controls.

Industrial development would be promoted through offering incentives to investors, such as tax breaks and subsidies, as well as protection from foreign competition. In the longer term, once these industries had sufficiently developed, they could break into export markets and effectively compete with the established industries in the developed world.

ISI strategies were not exactly the same in each country and there were significant variations as well as similarities. Thus, Brazil carried out a policy of enforced ISI in the 1930s, which was essentially a response to the falling demand for Brazilian exports in the prolonged depression. After the war, a more conscious ISI strategy was promoted, particularly under President Kubitschek (1956–60). Systems of protection were introduced such as the law of similars, which limited the import of items that were either regarded as luxuries or were already produced in Brazil. The state also invested in new sectors such as steel and oil-refining, and in new infrastructural projects such as hydroelectricity. The private sector was also given incentives to invest, such as tax breaks. The Brazilian state was happy to attract foreign investment, which was justified by the employment and linkages that such investment would bring to the Brazilian economy. In the mid-1950s, direct foreign investment increased from $52 million in 1954 to $139 million in 1956. Transnational investment was particularly high in the automobile, chemicals and machinery sectors, as well as in light manufacturing and consumer goods. In this period, manufacturing output soared, and it replaced agriculture as the main sector in terms of value added to production (Kiely 1998: 85–90).

In the 1960s, there were increased social and political tensions which culminated in a military coup in 1964. From the late 1960s to the early 1970s, the Brazilian economy once again grew rapidly, with annual growth rates from 1968 to 1974 averaging 10 per cent a year. There was also in this period some breakthrough into export markets, but the focus remained on the domestic market. After the slowdown in world economic growth and the oil price rises of 1973–4, the Brazilian economy faced a number of difficulties, and increasingly borrowed money to finance continued growth and development. This was sustained until 1982, when interest rates soared and Brazil threatened to default on its debt repayment. At this point, Brazilian ISI strategy came to a halt, and there began a shift towards neo-liberal policies, which are discussed in the next chapter.

India also carried out an ISI strategy. This was planned from the time of independence in 1947, but it was from 1951, with the implementation of the first 5 Year Plan, that ISI really developed. The state played a leading role in industrial investment and in addition granted licences to the private sector to develop new industries. The state tended to concentrate on developing heavy industries, such as steel and machine-tool production. The private sector enjoyed state protection from foreign competition, and tended to concentrate on the consumer goods sector. However, unlike Brazil, the state restricted foreign investment and instead encouraged domestic capital investment. There was a suspicion that foreign investment would increase foreign control of the Indian economy, and thus colonialism would be replaced by neo-colonialism.

On the other hand, despite a great deal of socialist rhetoric, the private sector did play a leading role in the economy, accounting for as much as 80 per cent of the output of organized industry by 1966. Industrial production almost trebled from 1950 to 1964, and from 1951 to 1969 there was a 70 per cent rise in the consumer goods sector, a 400 per cent rise in intermediate goods output, and a 1000 per cent increase in the capital goods sector (Vanaik 1990: 28–9). However, growth slowed down from the mid-1960s, but then increased in agriculture through the diffusion of Green Revolution technologies, which increased output. In industry, growth continued but was generally slow and production costs were high, until the sharp upturn in the 1980s, an issue discussed in later chapters.

ISI strategies were therefore in some respects developmental. They were intended to allow developing countries the opportunity that had not been granted to them during the nineteenth century. That is, they were intended to develop industry, and with it sustained economic growth through high productivity and dynamic linkages to the rest of the economy, and thus reduce dependence on a few primary goods exports. As we saw in the previous chapter, colonialism and (in the case of Latin America) the vested interests of rich landowners had made this policy impossible for the periphery. It is also the case that ISI was developmental for the poorest countries. From 1950 to 1975, income per person in the developing world grew by an average of 3 per cent a year, including high rates of 3.4 per cent a year for the 1960s, which was higher than growth rates for the advanced countries in their years of take-off (Glyn et al. 1990: 41–2). Measured in constant (1960) prices, average GNP for all developing countries increased from $338 billion in 1950 to $1280 billion in 1980 (Bairoch 1993: 95). Although uneven, unequal and subject to regional variation, there were also significant improvements in living standards such as life expectancy, which increased from 35–40 years for all developing countries in 1950 to 56 years by 1980 (Todaro 1989: 195). Crucially, as should by now be clear, the post-war order did provide a favourable context for development to take place, not least because that GATT agreements allowed for some flexibility in terms of trade restrictions (see above). In some respects then, the post-war order can be characterized as one that, limited as it may have been, was 'development friendly' (Arrighi 1994).

On the other hand, the benefits of development were unevenly and unequally distributed. Successes in East Asia contrasted with much more limited progress in parts of Africa and South Asia, and increases in output in these places barely kept pace with increases in population. Figures produced by the International Labour Organization (ILO) in 1972 estimated that 39 per cent of the population in developing countries were 'destitute' and 67 per cent were 'seriously poor' (cited in Kitching 1982: 70). The economic record was also problematic. ISI strategies placed great financial burdens on states and they faced ongoing budget deficits. These were often accompanied by trade deficits, which resulted from an increase in the dependence on the import of machinery that was necessary to develop new industries. Thus, the displacement of dependence on the import of consumer goods often came at the expense of a new dependence on capital goods. The development of new industries was not sufficient to absorb the migration of labour from countryside to town, and so there developed massive informal sectors, living in squalid conditions in new shanty-towns. Moreover, even those who did get employment were often subject to authoritarian state controls, which were deemed necessary by states desperate to receive investment. These economic and social inefficiencies were central to the neo-liberal turn in development in the 1980s.

There were of course other explanations for the 'failure' of development. Underdevelopment and (some) dependency theories argued that the problems were not 'internal' to Third World societies, but were in fact a function of the continued hierarchies of the international economic order. Writers such as Frank (1969a, 1969b), Rodney (1972) and Amin (1975) thus applied their analyses of world capitalism from the sixteenth century (and earlier), and argued that development in the core was still promoting underdevelopment in the periphery. They agreed with Prebisch's analysis insofar as he emphasized structured inequalities in the international economy, but Frank and Amin in particular went further, and argued that Prebisch's proposed solution of ISI was actually part of the problem. This was because ISI was insufficiently radical, and did not propose delinking from the world economy (Amin et al. 1982). Instead, ISI strategies continued to support trade with, and investment and aid from, the developed countries. This led to new processes of surplus extraction from the periphery to the core. The mechanisms through which this process supposedly occurred were not altogether clear, and some Marxists argued that capital investment in the periphery was progressive as it developed the productive forces (Warren 1973). Ironically, leaving aside their differences over the impact of foreign investment, both this Marxist view and underdevelopment theory exaggerated the extent to which capital was actually relocating to the periphery, a problem that applied equally to neo-liberalism, as we will see. But for our present purposes, underdevelopment theory could not clearly explain the mechanisms of surplus transfer from periphery to core. Related to this point, nor could it explain why – in terms of trade at least – one of the more integrated regions of the world economy, East Asia, was experiencing rapid levels of economic growth.

Neo-liberals used the success of the East Asian miracle economies as validation of their theories. Indeed, they argued that there was a causal link between trade openness and economic growth in East Asia, an argument that continues to be used by those who suggest that globalization is good for development. This does not mean, of course, that the rise of East Asia explains the rise of neo-liberalism: first, because the idea that East Asia was a haven of neo-liberal policies is unconvincing (see below), but secondly, because the rise of neo-liberalism (and globalization) cannot be reduced to the realm of ideas, but is linked to the concrete material changes that occurred in the international order in the 1960s and 1970s, issues addressed in Chapters 4 and 5. Having said that, the East Asian miracle did provide important ideological support for neo-liberalism, and therefore some immediate consideration of this theory is required, before fuller consideration is given in later chapters.

The central neo-liberal argument is quite simple: it is that the international division of labour that emerged in the nineteenth century is not a problem. For neo-liberals, the problem was with the ISI strategies developed by Third World states. In attempting to develop new sectors that were protected from competition, ISI had prevented countries from developing through the exercise of their respective comparative advantages. It was no surprise that the new industries developed in India and Brazil were costly and inefficient, precisely because state protection discouraged any attempt to become efficient. For neo-liberals, this was in sharp contrast to the successful development experiences of East Asian countries like South Korea. The argument that South Korea was a neo-liberal model of development thus deserves some attention.

The developmental performance of South Korea has in many respects been a resounding success. From 1960 to the early 1990s, the four first-tier newly industrializing countries in East Asia (South Korea, Taiwan, Hong Kong and Singapore), together with three other high performers (Malaysia, Thailand and Indonesia), grew more rapidly than all other countries in the world economy (World Bank 1993: 2). While growth rates fell for many developing countries in the 1970s and especially the 1980s, growth continued at high levels in East Asia, averaging as much as 7 per cent a year (Wade 1990: 34). Moreover, as well as economic growth there were also important advances in social development. By the early 1990s, literacy rates had reached 97 per cent and life expectancy stood at 71, which contrasted with 82 per cent and 66 for Brazil, and 46 per cent and 53 for India. The number of people in poverty in East Asia in 1990 was just 5 per cent in the towns and 4 per cent in the countryside, compared with 38 per cent and 66 per cent for Brazil, and 38 per cent and 49 per cent for India (UNDP 1995: 76–7).

For much of the 1980s and early 1990s, neo-liberals argued that these miracle economies had followed neo-liberal policies. Protectionist ISI strategies were contrasted with competitive strategies of export-oriented industrialization, which focused on the world market rather than the protected domestic market, and which followed broadly free trade principles of openness to foreign trade and investment (Balassa 1981).

In the 1950s, South Korea essentially followed an ISI strategy. Industries were developed through protectionist measures, and the state carried out a land reform which redistributed land to the producers and therefore abolished the landowning class. This was designed to repel the attraction of communism, which had successfully developed in the North and led to partition in the late 1940s and early 1950s. Like Taiwan, South Korea was a major recipient of US aid, and this was designed to prevent the spread of communism from the North (or from China in the case of Taiwan). From 1946 to 1978, South Korea received almost as much economic aid from the US as the whole of Africa, and from 1955 to 1978, military aid to South Korea and Taiwan totalled $9 billion, compared with $3.2 billion for Africa and Latin America combined (Cumings 1987: 67). US aid to South Korea in the 1950s was equivalent to 75 per cent of fixed capital investment and 8 per cent of its GNP (Hart-Landsberg 1993: 44).

However, it was from the early 1960s that the miracle really took off, and it is from this point that neo-liberals claim that the correct policies were introduced. The contribution of manufacturing to GDP increased from 14 to 30 per cent, and the country successfully broke into export markets, exercising its comparative advantage in light manufacturing goods such as clothing, textiles, electrical machinery and telecommunications equipment. Neo-liberals argue that these successes were due to 'market friendly interventions' (World Bank 1993) such as the devaluation of the Korean currency, the won, in 1961 (and again in 1963 and 1971–2). Unlike ISI strategies, in which exchange rates were generally overvalued, this policy promoted exports, and thus avoided the difficulties of mainly focusing on the domestic market while remaining dependent on some imports.

For a brief period, the idea of an East Asian model was promoted. The shift away from the 'western model' supported by modernization theory (above) was replaced by an East Asian, neo-liberal model, at least until the financial crises that affected the region from 1997, discussed in Chapter 9. However, there are serious problems with such an analysis, not only because it is too optimistic about the prospects for replication by other late developers, but also because its analysis of East Asia itself is flawed. Above all, the idea that export promotion and import substitution are mutually exclusive strategies is mistaken. The state in South Korea subsidized industries and protected them from foreign competition. The state planned industrial output and used its control of the credit system – the banks were nationalized in 1961 – to target selected industries. Import controls were used to favour the most successful exporting companies, so that they were granted access to import licences for certain goods and recovered losses made on the world market through protected sales in the home market. These policies were used extensively in the 1960s, and in the 1970s when the state directed a shift away from light and towards heavy industries, which was extended to the high-technology sector in the 1980s. Foreign capital was restricted by the state, and the export of domestic capital was subject to strong state controls (Amsden 1989; Kiely 1998: ch. 7). It was only from the 1980s and early 1990s, under pressure from an increasingly powerful private sector, that there was significant liberalization, including of the financial sector.

South Korea's strategy therefore hardly conformed to neo-liberal ideals. Much the same point can be made about Taiwan, which if anything was even more interventionist than the Korean state, carrying out similar policies in terms of industrial strategy, nationalizing finance and direct state investment (Wade 1990). A revised neo-liberal interpretation of the state, known as the 'post-Washington consensus', will be examined in Chapter 8. But for now the implication should be clear – South Korea (and others in East Asia) did not develop through open policies and the exercise of static comparative advantage. Indeed, even labour-intensive sectors such as clothing and textiles were protected from cheap, Japanese import competition (Amsden 1989: 66). This has two implications. First, if South Korea had exercised its static comparative advantage, then its main export would probably still be rice. Secondly, even low comparative costs are not sufficient to attract large amounts of capital, or to promote a comparative advantage in labour-intensive goods. The path to development may not therefore lie in adopting neo-liberal policies – certainly the East Asian miracle was not a neo-liberal model. Indeed, its success was partly brought about by adopting the developmental strategy which neo-liberals so deride. Whether or not this represents an alternative model of state-led developmentalism is a question discussed in later chapters, but again it needs to be emphasized that South Korea in the 1960s to 1980s was not a model of neo-liberalism.

Conclusion

This chapter has shown how the post-war international settlement led to a new liberal order, but one that provided sufficient space for advances for both labour in the developed world, and development in the Third World. While the former benefited from full employment and important welfare measures, the latter promoted industrial growth as the main way in which to achieve convergence, and 'catch up' with the already developed countries. The international economic order gave sufficient space for such policies through a complex system of preferences and exceptions for developing countries. This allowed for some (limited) guarantees on market access to the developed world in traditional commodities, but more important, it also ensured that protectionist, pro-industrialization policies could be adopted. In this era, most of the developing world experienced high rates of economic growth, and indeed important advances were made in terms of health, education and other social indicators. If this was an era of relatively high rates of growth and capital accumulation, it was also one where states directed economic activity in consciously 'developmental' ways. In other words, it was an era where intentional and immanent development were combined.

On the other hand, the social, economic and political advances made from the 1940s to the early 1980s were far from unproblematic. Poverty and global inequality remained very high, and the benefits of development were both uneven and unequal. In practice, much of Truman's statement was either rhetoric or a concrete attempt to de-politicize the issue of what later came to be known as the North–South divide. There was no Marshall Plan for the developing world; aid was often tied to strategic and commercial interests; and development was to be carried out through attracting capital investment, albeit with some state protection. In the context of underdeveloped infrastructures, skills and technology, this effectively meant that cheap and controlled labour was a major attraction for investment, alongside market access to heavily protected economies. It is certainly true that some economic and social advances were made in this period in the developing world, but these were uneven and unequal and, with very few exceptions, did not amount to anything like a 'catch-up' to developed-country status. For many, development remained a largely unfulfilled promise. Nevertheless, both the promise of development and the limited social advances that were made were real. However, by the late 1960s and early 1970s, the post-war order was in crisis, and this had profound implications, both for US hegemony and for development. This is the subject of the next chapter.

Chapter 4

The End of the Post-war Boom and Capitalist Restructuring

This chapter examines the breakdown of the post-1945 international order, the beginnings of what came to be known as globalization, and how this affected development. The chapter starts by outlining the reasons for the end of the post-war boom. This includes consideration of a number of closely related issues: the decline of US hegemony, the end of fixed exchange rates and the devaluation of the dollar, the rise of competitive rivalries, the slowdown in accumulation, the resurgence of resistance and the spread of the communist alternative. It then goes on to examine the crucial role of the United States in restructuring, paying particular attention to the Reagan years and the increase in interest rates, unemployment and debt burdens, as well as the uneven shift to new modes of accumulation, based on (limited) relocation, flexibility and the defeat of organized labour. Above all, the chapter focuses on the reconfiguration of development in the South after 1982, through the origins and development of the debt crisis, and the central role of the IMF in policing that crisis. In doing so, it looks at the broad policies implemented by indebted developing countries, and how these meant the effective erosion of the 'developmentalism' of the ISI period, as well as how adjustment policies in the 1980s laid the grounds for the movement towards policies designed to promote global competitiveness.

The End of the Post-war Boom

(i) The decline of the dollar

As we saw in the last chapter, the dollar played a crucial role in the post-war international order. It was not only the US's national currency, but it acted as an international currency too. This meant that its value relative to other currencies ultimately depended on the competitiveness of the United States economy. If the US economy became less competitive, US gold reserves would erode, and it would therefore have to devalue.