



DEPENDENCY SCHOOL, THEORY OF INTERNATIONAL TRADE

# **UNEVEN DEVELOPMENT - DEPENDENCY**





THEORY OF INTERNATIONAL TRADE,  
NEOLIBERALISM

**POST-WAR MAINSTREAM THEORIES-  
MODERNIZATION SCHOOL AND  
DEPENDENCY PERSPECTIVE**




# Structure of the presentation

- 1) theories of growth
  - 2) theories of international trade – neoclassical and its criticism
  - 3) structuralist perspective - Prebisch
  - 4) new school of dependency studies
  - 5) world system theory - Wallerstein
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# Production- possibility frontier

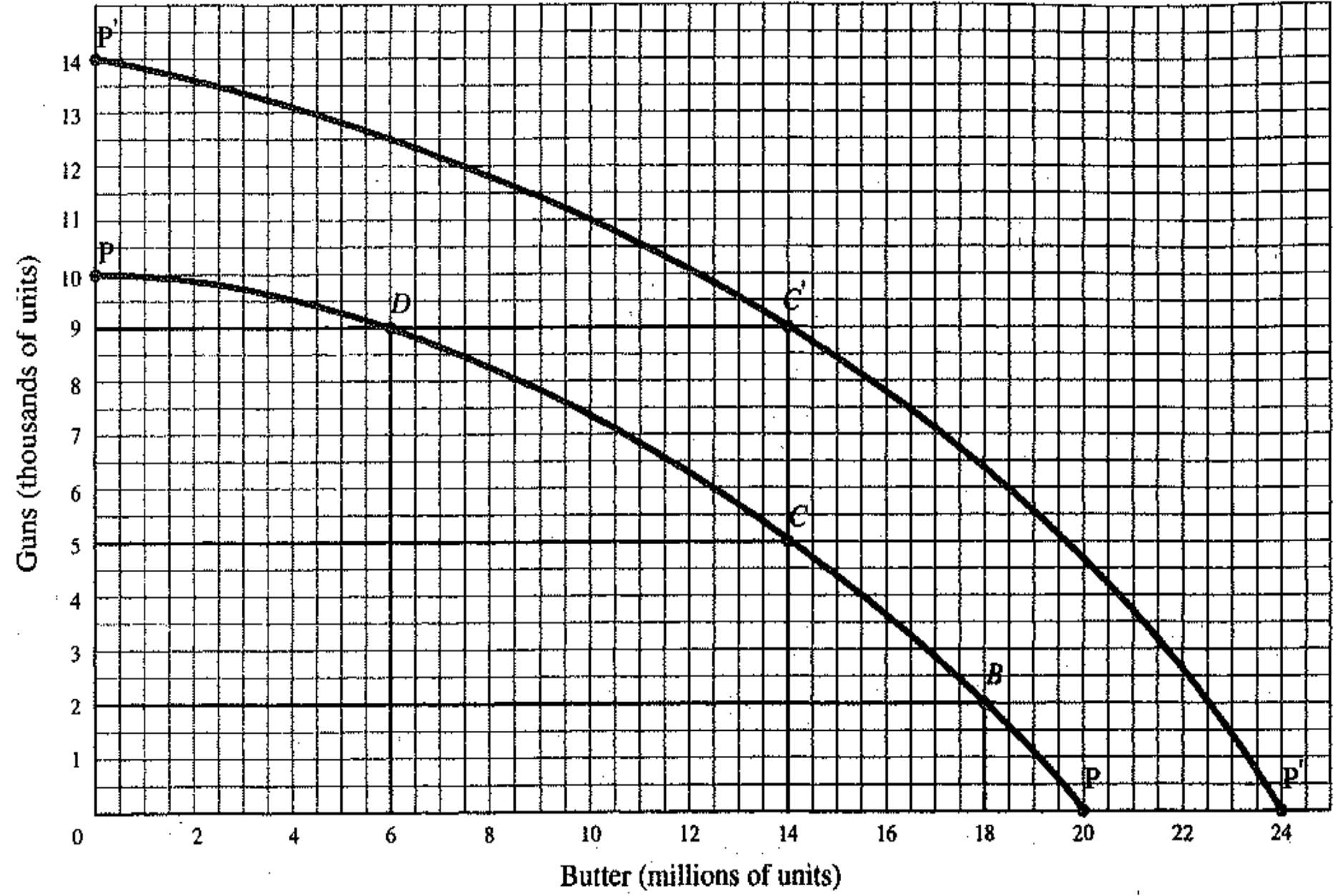
- PPF shows the **maximum amount of alternative combination of goods and services** that a society can produce at a given time when there is full utilization of economics resources and technology
  - The PPF **shifts outward** over time as more resouces become availabe or technology is improved
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# PRODUCTION-POSSIBILITY FRONTIER

- Economic problem of limited production – explained by PPF
- ECONOMIC GROWTH occurs when the economy's productive capabilities increase
- - growth depicted as an outward shift of PPF

# PPF and growth

- When production is at its maximum, increased output of A requires reduced production of other goods,
- there s **opportunity cost** to the increased production of A
- **Increasing opportunity costs** – continuous expansion in the production of A is secured by sacrificing increasing amount of other goods.





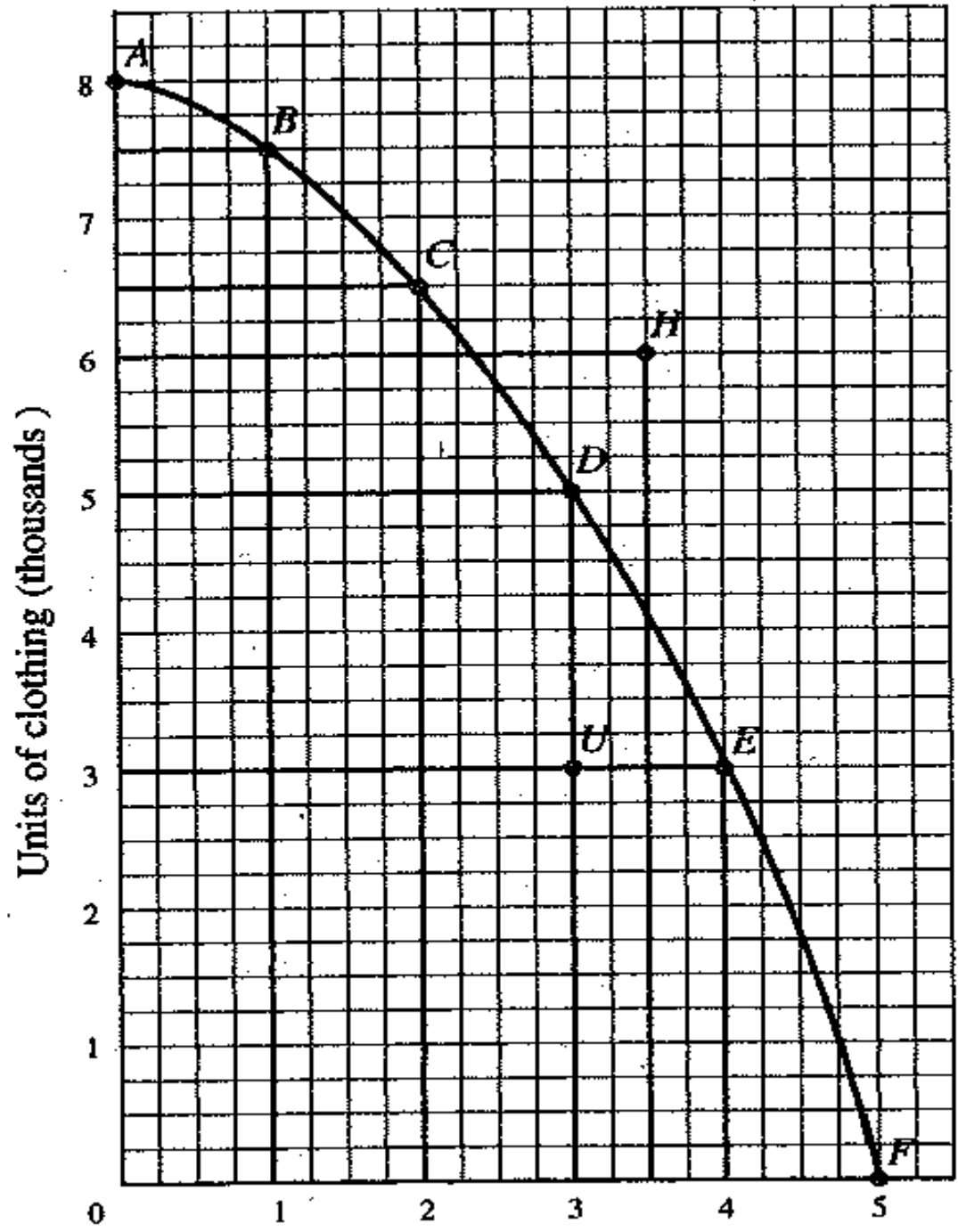
# Opportunity cost

- = the benefits forgone when a specific decision is made
- Of two options - the opportunity cost of the option chosen is the opportunity forgone for the other option
- (accounting vs. economic theory OP)



# Increasing costs


- Recourses are not homogenous - not equally efficient in the production of goods and services
- Not equally productive when used to produce alternative good
- This **imperfect substitutability** of recourses – due to differences in the skills of labour, fertility of soil, specialized function of machinery, buildings etc.



Units of food (millions)



# Post-war concepts of development

- BINNS, T.: *Dualistic and unilinear concepts of development pp. 91-95*, in: companion\_II.pdf.
  - Dualism or dichotomous nature of development
  - Advanced and modern sector of the economy coexisted alongside the traditional and backward sectors (Binns, 2008:82).
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# Truman's presidential address, 1949

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 areas. 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

# Truman's presidential address

... to 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 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 (Public Papers of the Presidents of the United States 1964: 114–15).



# Arthur Lewis


- 1954 : Economic Development with unlimited labour
- Proponent of dualistic structure of underdeveloped economies
- Goal - absorption of underemployed labour force in subsistence agriculture
- Very influential in the 60s and 70s

# Arthur Lewis

- Criticism: failed to appreciate the positive role of small agriculture
- Some successes of Green revolution – raising productivity in the rural subsistence sector - help development process rather than obstacle

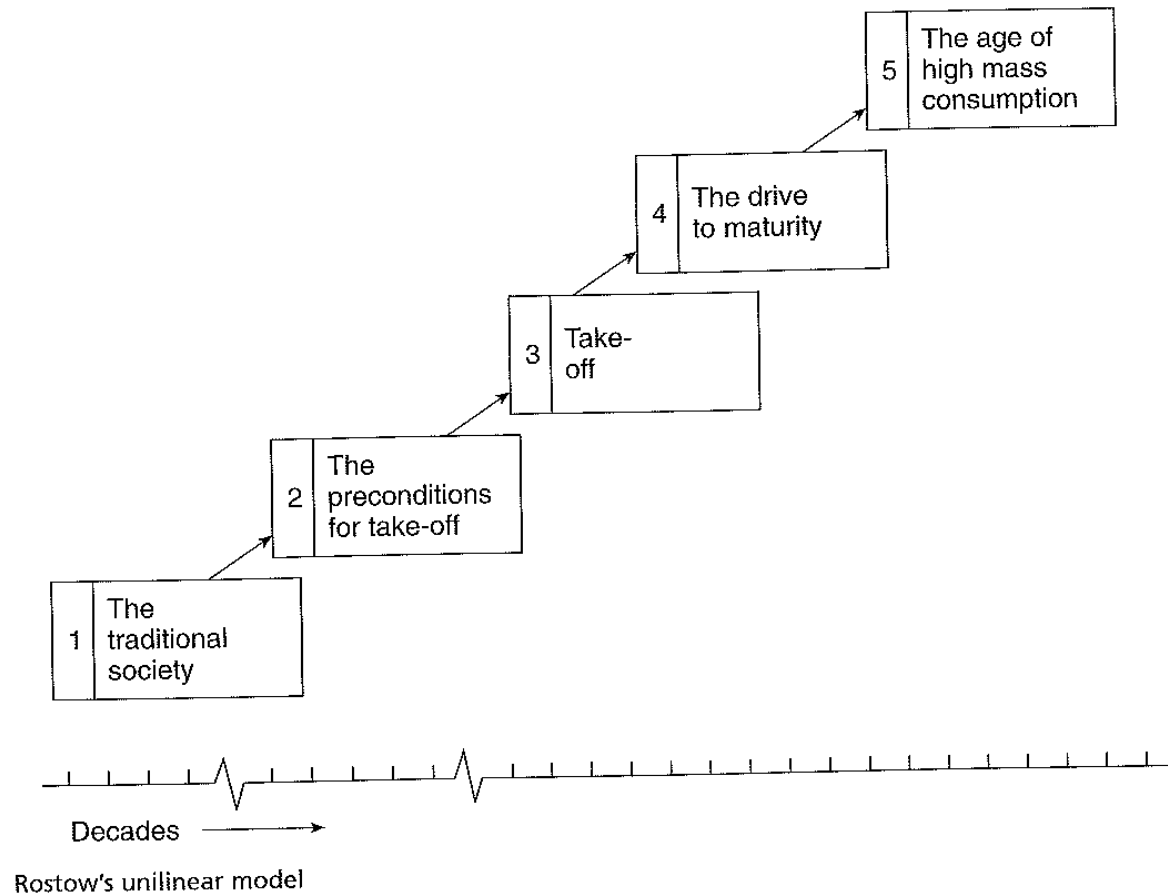


# Dualism in geographical concepts

- Early spation development models
  - Different qualities and potential of contrasting regions
  - Initial regional inequalities as a prerequisite for eventual overall development
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# Unilinear models - WW Rostow





# Institutionalists - Gunnar Myrdal, Albert Hirschmann

- Cumulative causation
  - Particular regions – by virtue of some initial advantages - moved ahead = new increments of activities and growth will be concentrated in those regions already ahead.
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# Criticism of Rostow's model (and similar ones)

- 1) unilinear development - 'things can only get better' x cf sub-Saharan countries and LA
- Sub-Saharan worse off than at the independence
- 2) eurocentric model – developing countries will imitate the development path in Europe and America
- 3) development occurs in stages

# Neoliberalism, SAPs

- Reading: SIMON, D. : Neoliberalism, structural adjustment and poverty reduction strategies, in : companion\_II.pdf, pp. 86
- Dramatic oil price increases – 1973 and 1979 – triggered a slowdown, severe recession and debt crisis 1981-2

# Crisis of Keynesian model

- Profound disillusionment - record of the state involvement in economic and social life
- Keynesian state involvement - inefficient, bureaucratic, unnecessary drain on public coffers (Binns, 2008:87)



# Opportunity cost

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- (accounting vs. economic theory OP)

# Dependency - readings

- Conway, D.; Heynen N.: Dependency theories: from ECLA to André Gunder Frank and beyond, in. Companion\_II.pdf
- International division of labour
- Based on Ricardo's model of international trade
- Factor endowment theory
- Specialization on the production of good in which particular country has comparative advantage

# FACTOR ENDOWMENT THEORY

- Different countries – different factor endowments
- Cf china, South Africa
- Heckscher Ohlin Hypothesis of international trade
- Specialization according to the prevailing factor endowments
- USA, UK – focus on what kind of goods?
- Sierra Leone?



# Raul Prebisch, Singer

- LA historical marginalization and resultant underdevelopment – perpetuated by such unequal commercial arrangements
- LA should benefit from export strategies
- Evidence showed otherwise
- Structuralist economists – argued that core countries benefited at LA expense

# Frank – development of underdevelopment

- Metropolis satellite relations occurred not only among states but also on region and sub-regional levels
- Dependence – perpetuated through global capitalism
- Importance of historical significance and transformative impact of capitalism's penetration into continents structures

# ISI

- Import substitution industrialization
- Prebisch - insisted on major structural changes in development policy
- Favoured switching to more domestic production under tariff protection
- as a means of replacing industrial imports ISI
- Capital goods, intermediate product and energy would be purchased with national income revenue from export of primary commodities (Conway, Heynen, 2008:93)

# New forms of dependency

- Multinational corporate power and authority over technology transfer and capital investment emerged as a new form of dependency (Conway, Heynen, 2008:93).



# Fernando Cardoso

- **Associated dependent development**
- Triple alliance
- Domestic elite in cooperation wt transnational corporation
- ISI under authoritarian regimes, state policies favoured multinational capital at the expense of labour



# Theory of international trade

- SAPSFORD, D.: Smith, Ricardo, and the world marketplace 1776-2007: back to the future?
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# Smith on international trade

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than buy... What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy of them with some part of the produce of our own industry, employed in a way in which we have some advantage (Smith 1776: 424).


# Classical dependency school

- LA – ECLA, Prebisch – head of ECLA
- Voices of the periphery
- Prebisch – criticized outdated international division of labour
- LA – asked to produce raw materials for industrial centers





# André Gundar Frank

- development of underdevelopment
  - Concepts of modernization school distilled from the categories derived from the Western world
  - Western categories are unable to guide an understanding of the problems facing 3W
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# Frank

- Modernization school ignores the historical experience of colonialism
- Metropolis-satellite relationship explain how underdevelopment works
- Replicated within countries
- Calcuta



# Frank


- Satellite flourishes when cut off from the centre
  - Industrialization during WWI WWII
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# Social destruction .

- Creation of client serving class
- Extension of the colonial power
- Corruption of local elites
- Disintegration of communities, social conflicts



# Hegemony

- Educational system
  - Did not enhance knowledge and technological advances
  - Ubiquitous knowledge
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# Baran – colonialism in India

- Politics of de-industrialization
- unfavorable terms of trade
- Appropriation of 10%
- Plus asymmetry of power -

# Raul Prebisch

- Structuralist approaches
- Critique of Ricardian theory of international trade - empirical evidence – did not prove
- LA – growth during both wars
- Close links with centers not beneficial to the growth of peripheries