
UNIT 3 DEPENDENCY THEORY

Structure

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3.1 INTRODUCTION

In the earlier two units, you read classical and Marxian theories of development. In this unit, you will study the dependency theory of development. Dependency theory is a body of social science theories. It contends that resources flow from a periphery of poor and underdeveloped states to a core of wealthy states, enriching the latter at the expense of the former. It is a central contention of dependency theory that poor states are impoverished and rich states are enriched, by the way poor states are integrated into the world system. In the next unit, you will be reading the Gandhian theory of development, which is based on Gandhian thoughts.

After studying this unit, you should be able to:

- explain the dependency theory of development, and the basic characteristics of a dependent economy;
- distinguish between the Marxian and non Marxian approaches of dependency theory; and
- narrate criticisms of dependency theory.

3.2 THE DEPENDENCY THEORY OF DEVELOPMENT

Our discussion on the dependency theory of development is comprised of the characteristics of a dependent economy, approaches to dependency, and criticisms of dependency theory. Dependency theory evolved around 1950 as a reaction to some earlier theories of development. Dependency theory was popular in the 1960s and 1970s as a criticism of modernization theory. The main propounders of dependency theory are: Prebisch, Singer, Paul Baran, Paul Sweezy, C. Furtado, F H Cardoso, Gunnar Myrdal, A Gunder Frank, Girvan, and Bill Warren. Many of these scholars focused their attention on Latin America. The leading dependency theorist in the Islamic world is the Egyptian economist, Samir Amin.

Earlier theories held that all societies progress through similar stages of development. They say that at some time in the past, today's developed areas

were in a situation that is similar to that faced by today's underdeveloped areas. Therefore, the task of helping the underdeveloped areas out of poverty is to accelerate them along the supposed common path of development by various means, such as investment, technology transfers, and closer integration into the world market. Dependency theory rejected this idea, arguing that underdeveloped countries are not merely primitive versions of developed countries; rather they have unique features and structures of their own. They are weaker members in a world market economy and the developed nations were never in an analogous position. They never had to exist under the patronage of more powerful countries than themselves. Dependency theorists argued, in opposition to free market economists, that underdeveloped countries needed to reduce their connectedness with the world market so that they might pursue their own path, more in keeping with their own needs, and less dictated by external pressures.

Hans Singer and Raúl Prebisch, the prominent dependency theorists, observed that the terms of trade for underdeveloped countries, relative to the developed countries, had deteriorated over time. The underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports. This idea is known as the Singer-Prebisch thesis. Prebisch, an Argentinian economist at the United Nations Commission for Latin America (UNCLA), went on to conclude that the underdeveloped nations must employ some degree of protectionism in trade if they were to enter a self-sustaining development path. He argued that import substitution industrialization (ISI), but not a trade-and-export orientation, is the best strategy for underdeveloped countries.

The advocates of dependency theory believe that the theories of Smith, Ricardo, and the other European classical economists are not suitable to an analysis of the dualistic dependent structure of many nations such as Brazil, Mexico, and India. According to the dependency theorists, the less developed countries are to be understood as part of the global process. Their fate is merely to provide inputs for advanced nations. They provide low wage manufacturing under adverse terms of trade. Dependency analysis was built on the ideas of structuralists, more specifically, on the distinction between centre and the periphery made by Prebisch. The centre is viewed as the cause, and the periphery as the effect. Dependency theory found the causes for the lack of development to be external to the socioeconomic formations of the LDCs (Less Developed Countries). It does not treat dysfunctional institutions of the LDCs as the cause of backwardness. Internal institutional structures such as corruption levels, unproductive land holdings, concentration of wealth, and unresponsive political systems are never considered the causes of underdevelopment. Many dependency theorists advocate social revolution as an effective means to reduce economic disparities in the world system.

The basic premises of dependency theory are

- i) Poor nations provide natural resources and cheap labor. They are export destinations for obsolete technology and for markets for the wealthy nations, without which, the latter could not have the standard of living they enjoy. Poor nations are at a disadvantage in their market interactions with wealthy nations.

- ii) Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport, and all aspects of human resource development, including the recruitment and training of workers.
- iii) Wealthy nations actively counter all attempts made by dependent nations to resist their influences by means of economic sanctions, and, possibly, by the use of military force. The poverty of the countries in the periphery is not because they are not integrated into the world system, or not fully integrated as is often argued by free market economists, but because of how they are integrated into the system.

The Characteristics of Dependent Economy

After knowing the fundamentals of dependency theory, let us now discuss the characteristics of a dependent economy. Dependency is said to have been created with the industrial revolution, with the expansion of European empires around the world, and due to the superior military power and accumulated wealth of these empires. Some argued that before this expansion, the exploitation was internal, with the major economic centers dominating the rest of the country. The establishment of global trade patterns in the nineteenth century, allowed capitalism to spread globally. The wealthy became more isolated from the poor, because they gained disproportionately from imperialistic practices. This control ensures that all profits in less developed countries are remitted to the developed nations. It prevents domestic reinvestment, causing capital flight and, thus, it hinders economic growth.

The underlying conditions for dependency of any country are as follow:

- i) exporting firms are primarily owned by foreigners
- ii) exports are dominated by one, or a few commodities
- iii) the export sector dominates the economy, and imports are larger in relation to GDP
- iv) mineral and petroleum products are produced under conditions of vertical integration.

The characteristics of a dependent economy are as follows

- i) economic growth is not self activating
- ii) profits are normally repatriated, but not reinvested
- iii) the production of export industries is dependent on imported inputs
- iv) income, employment, and growth are determined by
 - a) the prices and the demand conditions of international market
 - b) the willingness of transnational corporation to invest
- v) income, employment and growth are conditioned by
 - a) changes in the prices and types of imports

- b) economic fluctuation abroad
 - c) changes in taste and fashion
 - d) changes in technologically created substitutes
- vi) backward and forward linkages of export activities are very rare
- vii) foreign capital, foreign technology, and management are dominant economic actors.

According to Vernengo (2004), the *sine qua non* of the dependency relationship is not the difference in technological sophistication as traditional dependency theorists believe. It is the difference in financial strengths between core and peripheral countries. In fact, the peripheral countries are incapable of borrowing in their own currencies.

So far, you have read about the dependency theory of development and the characteristics of dependent economy. Now, answer the following questions given in *Check Your Progress 1*.

Check Your Progress 1

- Note:** a) Write your answer in about 50 words.
 b) Check your answers with possible answers given at the end of the unit.

1) What are the characteristics of a dependent economy?

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2) Explain the basic premise of dependency theory.

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3.3 APPROACHES TO DEPENDENCY

There are two main streams in dependency theory: The Structuralist stream, typified by the works of Prebisch, and Furtado; and the Marxist stream, developed by Baran, Sweezy, and Frank. Thus, two approaches are developed by two classes of economists.

They are

- i) the Marxian theory of dependency
- ii) the Structuralist theory of dependency

This theory was developed from a Marxian perspective by Paul Baran in 1957 and is detailed in his book, *The Political Economy of Growth*. Dependency theory shares many points with earlier Marxist theories of imperialism. It continues to attract interest from Marxists. Celso Furtado of Brazil was one of the first economists to use the term 'dependency' and to argue that development and underdevelopment are two aspects of one economic structure. Both Keynes and Myrdal greatly influenced his thinking concerning the link between the economy and power, the crucial role of the state, and the ways in which the international economy influenced, or constrained, the development process of national economies. After a political coup in 1964, Brazil strictly followed the development strategy of industrialization which generated a social exclusion process in the country. According to Furtado, however, development should be a social process. So, he argued for the necessity of incorporating Brazil's vast population of poor workers, farmers, and marginalized people into a process of inclusive social development. In his view, industrialization can unleash new social forces and pressures which bring about a process of inclusive social development.

Being the head of National Bank of Brazil, Furtado focused on the northeast region and observed that the income gap between poor farmers and those residing in Sao Paul was greater than the income gap between the average income in Sao Paul and Europe in the 1950s. He created SUDENE (Superintendency for the Development of the Northeast), a Brazilian government agency created in 1959, which was designed to promote industrial development and land reform in the northeast region to counteract 'internal colonialism', as manifested in the exclusion of the northeast from Brazil's economic growth. According to Furtado, the northeast faced falling terms of trade for its commodity exports, and falling terms of trade in relation to its income earnings on the industrial goods bought from Sao Paul and Rio. Development and underdevelopment are one totality constantly produced within the structure of the economy. He maintained that there was a necessary link between FDI-led growth and rising internal inequality. To overcome dependence, the underdeveloped nations would have to create their own economic plans.

Marx believed that capitalism is characterized by creative destruction. It has two effects: destruction, and regeneration. Paul Baran emphasized the destruction side of capitalism in underdeveloped countries. He did not find evidence of regeneration. Rather, the monopoly capitalism of the twentieth century, unlike the competitive capitalism of the nineteenth century, had a vested interest in maintaining backwardness and dependence in the periphery. Baran's analytical contribution led to the flowering of the pessimistic and stagnationist school of dependency in Latin America and Africa. Baran's favourite example of the destructive effects of capitalism was that of India. He found that Indian social scientists, having experienced British imperialism, had developed concepts very similar to the dependency theorists of the late nineteenth century.

Baran's theoretical point of departure was an analysis of economic surplus. He defined economic surplus as the mass of resources (actual and potential) which a society could have at its disposal, in order to facilitate economic growth. It is the amount that might be reinvested in productive ways to

increase the future level of social output. This surplus is the residual from total income after society's basic needs for food, clothing, shelter, and human companionship have been met. But, this surplus may be grossly misused. It may be utilized to erect sumptuous and multiple residences for the rich, or it may be wasted through a variety of ways of conspicuous consumption. The military, or the church may make tremendous demands on the surplus, or it may be drained away by foreign power *via* plunder, or, by simple profit repatriation as a result of foreign control over less developed countries. The historical analysis made by Baran makes it clear that the sources of poverty of less developed countries are found in the extraction of this surplus under colonialism. Thus, colonialism blocked the potential for change. Backwardness and poverty is perpetuated in these regions. According to him, the oppression of the feudal lords was ruthless, but tempered by tradition. It was further worsened by the domination of both foreign and domestic capitalists.

According to dependency theory, the exploitation of the people is multiplied because the oppression and violence inherited from the feudal past is combined with the rationality and intelligent rapacity of the capitalists. The fruits of capitalism were not to raise productive wealth in many countries such as India. These fruits went abroad and served to support a parasitic bourgeoisie at home. People lived in abysmal misery, and they had no prospect of a better future. Poverty and underdevelopment continued. They lost their time honoured means of livelihoods, their arts and crafts. There was no modern industry to provide new ones in their place. They were thrust into extensive contact with the advanced science of the west, yet they remained in a state of darkest backwardness.

By reviewing the history of colonialism, Baran made the following conclusions

- i) profit margins fall due to the workers demand for higher wages
- ii) foreign capital becomes the targeted source of increasing state revenue (by imposing higher taxes and higher royalty payments, for example)
- iii) foreign exchange control is imposed to curb the funds flowing out of the country as repatriated profits
- iv) tariffs on imported wage goods are imposed to protect domestic manufacturing.

Theoretically speaking, the state could break this deadlock by opting for new programmes that would make import substitution industrialization (ISI) more successful and dynamic. But the state, in the backward regions, is incapable of making the decisions needed to move forward on any front of development ladder. Baran argued that political revolution is necessary to break this pattern. He argued that by following the capitalistic route, these countries are not expected to achieve Rostow's stage of 'high mass consumption'. Instead, these countries would head towards their economic and social graveyards. Thus, by following the socialistic route, the less developed countries could reasonably expect some relief from poverty.

The Structuralist Theory of Dependency

There is a group of structuralist dependency theorists who are not Marxians. They reject the perspective of stagnation. Amongst them, the most reputed

writer was Fernando Henrique Cardoso, an active Brazilian sociologist and economist of international repute. He argued that nations on the periphery suffer from a type of 'peripheral capitalism'. One of the important features of these economies is economic stagnation, or, in the words of Andre Gunder Frank, an eminent dependency writer, 'development of underdevelopment'. Cardoso says that the dependent countries are not stagnant. The societies and economies of the periphery are continuously evolving. There are three major stages in the economic history of LDCs.

The first is the agro-export stage of the colonial period, when economic dualism was prevalent. During this stage, precapitalist sectors of artisans, petty producers, and peasant producers accounted for the bulk of economic activity. At this stage, some sectors, such as precious metals, minerals, and tropical products are integrated with the world market. The production of these exportables takes place in modern and semi-capitalist enclaves.

The second is the stage of developmentalist alliances. After the Second World War, some LDCs experienced major transformation through import substitution industrialization (ISI). In this stage, a new social structure of accumulation is created which is based on the collective interest of industrial workers, peasants, and capitalists.

The third is a corporatist regime stage, where there are drastic curbs on democracy, unions, universities, and other areas of society where dissent might be encountered. The populist orientation of the second stage (in which social security, minimum wage legislation, public health care, and public education are expanded) is broken. There are drastic cuts in the state's budget for public services. Above all the TNCs (transnational corporations) are welcomed. They become pivotal in the new process of accumulation, and are central to the growth process.

According to the structuralists, one should not be surprised at some economic progress, nor should one think LDCs are powerless to shape their destiny. The third stage is not immutable either. There is no continuous stagnation. Under this new regime in which the authoritarian state and TNCs cooperate, some economic growth and development does occur. The TNCs keep costs down in the era of global competition. GDP rises, and even the standards of living of the masses may improve. There is a new process of capital accumulation which Cardoso terms 'associated dependent development'. Cardoso rejects the possibility of a political shift towards a revolution in these countries, during this stage. As the economic growth created by the new alliance between domestic capital and TNCs progress, some new possibilities for the working class, the techno-bureaucracy and the state open up.

The paradox is that the actual dependence of Caribbean countries became much more acute in the 1980s and 1990s. The heightened foreign indebtedness increased the economic vulnerability of these LDCs. It exposed them to pervasive external intrusions into domestic policy making in the form of conditionalities imposed by the Washington based international financial institutions, and bilateral donors. The establishment of WTO, in 1994, significantly constricted the policy space previously available to developing countries. National development, which was an accepted objective in the era of decolonization, was been replaced by the *mantra* of global integration. The new dependency associated with globalization is presented as

interdependence in an effort to conceal the asymmetries. Thus, the wheel has come full circle from the 1960s. According to Girvan, this new orthodoxy calls for renewed critical analysis from an updated dependency perspective.

These non industrialized countries are caught in a post colonial torpor. They continue to specialize in one, or a few raw material exports. These nations are described as dependent economies stuck on the periphery of progress. The centre- periphery relationship results in a dependent development pattern. They seemed incapable of autonomously altering their economic structures. This is characterized by the alliance of international and local capital. The state also joins this alliance as an active partner. The resulting triple alliance is a fundamental factor in the emergence of "updated dependent development".

According to the non Marxist version of dependency theory, a dependent system

- i) fosters financial /technological penetration by developed capitalist countries
- ii) produces an unbalanced economic structure, both, within the peripheral societies, and between them, and the centers
- iii) leads to limitations on self sustained growth in the periphery
- iv) favours structural imbalance and specific patterns of class relations
- v) requires modifications in the state's role.

Thus, the main characteristics of a dependent economic system are

- i) the regression in both, agriculture and small scale industry
- ii) the concentration of activities in export oriented agriculture and/or mining.
- iii) a rapidly growing tertiary sector, with hidden unemployment
- iv) chronic current account balance deficits
- v) structural imbalances in political and social relationships
- vi) the comprador element and rising importance of state capitalism and indebtedness
- vii) strong and self-repeating ups and downs, called business cycles

Many economists argue that political independence is sufficient to thwart all the impediments to social and economic progress. It gradually removes all barriers to development. The spread of capitalist methods of production sweeps away outmoded institutions and structures. Both, the advanced nations and the LDCs will grow. So a dependency relationship is not a zero sum game. Warren argues that capitalism sweeping into LDCs at a rapid rate brings an incomparably higher standard of living to the masses than any previous socioeconomic system. Warren's brash analysis has been overtaken by the facts of LDCs. The durability of retarding factors disturbed dependency economists. Therefore, many dependency theorists argue that becoming developed requires right decisions and proper policies. It does not just happen to a country, like *manna* from heaven, or, just as a consequence of the spread of capitalism. Thus, the economic growth of these LDCs is only possible by adopting appropriate economic policies.

3.4 CRITICISMS OF DEPENDENCY THEORY

Some free market economists, such as Peter Bauer and Martin Wolf, write primarily for non economists. They argue against the path of dependency theorists. Autonomous path of periphery countries leads to higher corruption, domestic opportunity costs, lack of competition and sustainability in these countries. By late 1970s, a chorus of voice dissented against dependence theory.

The arguments of dependency theorists are criticized as follows

- i) The countries on the periphery of development are not destined to stagnation. So, dependency theory is an incomplete and inaccurate description of the socioeconomic conditions of LDCs.
- ii) There are many dependent countries on the periphery. They do change their economic structure. According to Prof Warren, they have achieved very rapid economic growth.
- iii. This theory does not highlight how the countries that follow a dependent development pattern suffer from a variety of economic ills, such as regressive income distribution, an emphasis on luxury goods, underutilization and exploitation of human resources, over reliance of foreign firms for capital intensive technology, and the perennial problems of poverty and unemployment.
- iv) This theory has no relevance to many nations which are neither in the periphery, nor in the centre. They are called semi periphery countries.
- v) One need not accept dependency as a necessarily zero sum game in which the periphery loses, and the centre gains. The dependency condition provides opportunities for a win-win game, in which both developed countries and LDCs gain from each other.
- vi) With the economic growth of India and East Asian economies, dependency theory has lost its validity. It is more widely accepted in disciplines such as history and anthropology.

So far, you have read about the various approaches to dependency and the criticisms of dependency theory. Now, answer the following questions given in *Check Your Progress 2*.

Check Your Progress 2

- Note:** a) Write your answer in about 50 words.
 b) Check your answers with possible answers given at the end of the unit.

- 1) What are the main stages in economic history of LDC?

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2) Write two important criticisms of dependency theory.

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3.5 LET US SUM UP

At the outset, you studied the dependency theory of development. It covers the meaning and characteristics of a dependent economy. We studied the Marxian and the Structuralist theory of dependency in detail. Finally, we discussed the criticisms of dependency theory of development.

3.6 REFERENCES AND SUGGESTED READINGS

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3.7 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1) What are the characteristics of dependent economy?

Answer: The dependent economy has the following characteristics

- i) the economic growth is not self activating
- ii) profits are normally repatriated, but not reinvested
- iii) the production of export industries is dependent on imported inputs
- iv) income, employment, and growth are determined by
 - a) the prices and demand conditions of international market
 - b) the willingness of transnational corporation to invest
- v) income, employment, and growth are conditioned by
 - a) changes in the prices and types of imports
 - b) economic fluctuation abroad
 - c) changes in taste and fashion
 - d) changes in technologically created substitutes
- vi) backward and forward linkages of export activities are very rare
- vii) foreign capital, foreign technology, and management are dominant economic actors

2) Explain the basic premises of dependency theory.

Answer: The basic premises of dependency theory are

- i) Poor nations provide natural resources and cheap labor. They are an export destination for obsolete technology, and for markets for the wealthy nations without which the latter could not have the standard of living they enjoy. Poor nations are at a disadvantage in their market interactions with wealthy nations.
- ii) Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport, and all aspects of human resource development, including recruitment and training of workers.
- iii) Wealthy nations actively counter all attempts made by dependent nations to resist their influences by means of economic sanctions and, possibly, the use of military force. The poverty of the countries in the periphery is not because they are not integrated into the world system, or not 'fully' integrated as is often argued by free market economists, but because of how they are integrated into the system.

1) What are the main stages in economic history of LDC?

Answer: There are three major stages in the economic history of LDCs.

The first is the agro-export stage of the colonial period, when economic dualism was prevalent. During this stage, precapitalist sectors of artisans, petty producers, and peasant producers accounted for the bulk of economic activity. The second is the stage of developmentalist alliances. In this stage, a new social structure of accumulation is created which is based on the collective interest of industrial workers, peasants, and capitalists. The third is a corporatist regime stage, where there are drastic curbs on democracy, unions, universities, and other areas of society where dissent might be encountered.

2) Write two important criticisms of dependency theory.

Answer: Two important criticisms of dependency theory are:

- i) The countries on the periphery of development are not destined to stagnation. So, dependency theory is an incomplete and inaccurate description of the socioeconomic conditions of LDCs.
- ii) There are many dependent countries on the periphery. They do change their economic structure. According to Prof Warren, they have achieved very rapid economic growth.