Unit 9
Dependency Theory of Underdevelopment

Contents

Learning objectives

In this chapter you will critically analyse and evaluate:

- the contributions of dependency theories;
- dependency theory as articulation of the poorer nations; and
- relevance and critique of dependency theory.

9.1 Introduction

The units of Block II familiarised us with different perspectives on development such as modernisation theories, and liberal, Marxian and Gandhian perspectives on development. Now let us turn to the theories that generated as a response to growth model of development. The present unit deals with dependecy theory which was developed as a critique of western oriented development model. Dependency theories were one of the strongest critics of the growth-oriented theories which came largely from Western nations. The dependency theory, which came from the Latin American world, in that sense, is critique, which was from the south on the richer North. There are minor variations between the theories. What we will attempt in this unit is to try and present the core essential features of dependency theories. We will also examine dependency theories for the implications it has on economies of Third World countries and whether it has any relevance to present economic disparities between the richer Northern nations and the poorer Southern nations.

9.2 Dependency Theory: The Beginning

Dependency Theory developed in the late 1950s under the guidance of the Director of the United Nations Economic Commission for Latin America, Raul Prebisch. Prebisch and his colleagues were troubled by the fact that economic growth in the advanced industrialised countries did not necessarily lead to growth in the poorer countries. Indeed, their studies suggested that economic activities in the richer countries often led to serious economic problems in the poorer countries. Such a possibility was not predicted by neoclassical theory, which had assumed that economic growth was beneficial to all, even if the benefits were not always equally shared.

Prebisch's initial explanation for the phenomenon was very straightforward: poor countries exported primary commodities to the rich countries, who then manufactured products out of those commodities and sold them back to the poorer countries. The "Value Added" by manufacturing a usable product always cost more than the primary products used to create those products. Therefore, poorer countries would never be earning enough from their export earnings to pay for their imports.

Prebisch's solution was similarly straightforward: poorer countries should embark on programs of import substitution so that they need not purchase the manufactured products from the richer countries. The poorer countries would still sell their primary products on the world market, but their foreign exchange reserves would not be used to purchase their manufactures from abroad.

Three issues made this policy difficult to follow. The first is that the internal markets of the poorer countries were not large enough to support the economies of the scale used by the richer countries to keep their prices low. The second issue concerned the political will of the poorer countries as to whether a transformation from being primary products producers was possible or desirable. The final issue revolved round the extent to which the poorer countries actually had control over their primary products, particularly in the area of selling those products abroad. These obstacles to the import substitution policy led others to think a little more creatively and historically at the relationship between rich and poor countries.

At this point dependency theory was viewed as a possible way of explaining the persistent poverty of the poorer countries. The traditional neoclassical approach said virtually nothing on this question except to assert that the poorer countries were late in coming to sound economic practices and that as soon as they learned the techniques of modern economics, their poverty would begin to subside. However, Marxist theorists viewed the persistent poverty as a consequence of capitalist exploitation. And a new body of thought, called the world-systems approach, argued that poverty was a direct consequence of the evolution of the international political economy into a fairly rigid division of labor which favored the rich and penalised the poor.

9.3 How Can One Define Dependency Theory?

The debates among the liberal reformers -Prebisch, the Marxists -Andre Gunder Frank, and the world-systems theorists –Wallerstein (see Box 9.1) was vigorous and intellectually quite challenging. There are still points of serious disagreement among the various strains of dependency theorists and it is a mistake to think that there is only one unified theory of dependency. Nonetheless, there are some core propositions which seem to underlie the analyses of most dependency theorists.

Dependency can be defined as an explanation of the economic development of a state in terms of the external influences—political, economic, and cultural—on national development policies (Sunkel 1969: 23). Theotonio Dos Santos emphasises the historical dimension of the dependency relationships in his definition:

> [Dependency is]...a historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economics...a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected (Dos Santos 1971: 226).

There are three common features to these definitions which most dependency theorists share:

First, dependency characterizes the international system as comprised of two sets of states, variously described as dominant/dependent, center/periphery or metropolitan/satellite. The dominant states are the advanced industrial nations in the Organisation of Economic Co-operation and Development (OECD). The dependent states are those states of Latin America, Asia, and Africa which have low per capita GNPs and which rely heavily on the export of a single commodity, or a few commodities, for foreign exchange earnings.

Second, both definitions have in common the assumption that external forces are of singular importance to the economic activities within the dependent states. These external forces include multinational corporations, international commodity markets, foreign assistance, communications, and any other means by which the advanced industrialised countries can represent their economic interests abroad.

Third, all the definitions of dependency indicate that the relations between dominant and dependent states are dynamic because the interactions between the two sets of states tend to not only reinforce but also intensify the unequal patterns. Moreover, dependency is a very deep-seated historical process, rooted in the internationalisation of capitalism.

Latin America today is, and has been since the sixteenth century, a part of an international system dominated by the present developed nations. Underdevelopment in Latin America is the outcome of a particular series of relationships to the international system (Bodenheimer 1971: 157).

Box 9.1: World-Systems Theory

In the 1960s international financial and trade systems were beginning to be more flexible, in which national governments seem to have less and less influence. These were the new conditions under which the Third world was trying to elevate its standards of living. It is this which made people like Immanuel Wallerstein conclude that there are new activities in the capitalist world-economy which cannot be explained by old theories.

This school originated in Fernand Braudel Centre for the study of Economics, at the state University of New York at Binghamton. Having originated in sociology it extended its impact to anthropology, history, political sciences. Wallerstein and his followers felt that there were wider forces in the world that impacted and influenced small and underdeveloped nations and the nation-state level of analysis is no longer useful to explain conditions in underdeveloped countries. The factors that had greatest influence on small countries were new global systems of communications, the new world trade mechanisms, the international financial systems, and transfer of military links. These factors have created their own dynamic at the international level, and at the same time, these elements are interacting with internal aspects of each country.

In short, dependency theory attempts to explain the present underdeveloped state of many nations in the world by examining the patterns of interactions among nations and by arguing that inequality among nations is an intrinsic part of those interactions.

Reflection and Action 9.1

Read the Box on world-system theory carefully and answer the following questions:

1) Can we explain underdevelopment and development in purely economic terms?
2) Do you agree with world-system theory that the world is interconnected and therefore underdevelopment in one nation can be explained in terms of a series of factors which affect them that are located elsewhere. Explain with a suitable example.

9.4 Structural Context of Dependency: Is it Capitalism or is it Power?

Most dependency theorists regard international capitalism as the motive force behind dependency relationships. Andre Gunder Frank, one of the earliest dependency theorists, is quite clear on this point:

> ...historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now developed metropolitan countries. Furthermore, these relations are an essential part of the capitalist system on a world scale as a whole" (Frank 1973: 3).

According to this view, the capitalist system has enforced a rigid international division of labor which is responsible for the underdevelopment of many areas of the world. The dependent states supply cheap minerals, agricultural commodities, and cheap labor, and also serve as the repositories of surplus capital, obsolescent technologies, and manufactured goods. These functions orient the economies of the dependent states towards the outside: money, goods, and services do flow into dependent states, but the allocation of these resources are determined by the economic interests of the dominant states, and not by the economic interests of the dependent state. This division of labor is ultimately the explanation for poverty and there is little question but that capitalism regards the division of labor as a necessary condition for the efficient allocation of resources. The most explicit manifestation of this characteristic is in the doctrine of "comparative advantage".

Moreover, to a large extent the dependency models rest upon the assumption that economic and political power are heavily concentrated and centralised in the industrialised countries, an assumption shared with Marxist theories of imperialism. If this assumption is valid, then any distinction between economic and political power is spurious: governments will take whatever steps are necessary to protect private economic interests, such as those held by multinational corporations.

Not all dependency theorists, however, are Marxists and one should clearly distinguish between dependency and a theory of imperialism. The Marxist theory of imperialism explains dominant state expansion while the dependency theory explains underdevelopment. Stated another way, Marxist theories explain the reasons why imperialism occurs, while dependency theories explain the consequences of imperialism. The difference is significant. In many respects, imperialism is, for a Marxist, part of the process by which the world is transformed and is therefore a process which accelerates the communist revolution. Marx spoke approvingly of British colonialism in India:

> England has to fulfil a double mission in India: one destructive, the other regenerating—the annihilation of old Asiatic society, and the laying of the material foundations of Western society in Asia (Marx 1853).

For the dependency theorists, underdevelopment is a wholly negative condition which offers no possibility of sustained and autonomous economic activity in a dependent state.

Additionally, the Marxist theory of imperialism is self-liquidating, while the dependent relationship is self-perpetuating. The end of imperialism in the Leninist framework comes about as the dominant powers go to war over a rapidly shrinking number of exploitable opportunities. World War I was, for Lenin, the classic proof of this proposition. After the war was over, Britain and France took over the former German colonies.

The dependency theorist rejects this proposition. A dependent relationship exists irrespective of the specific identity of the dominant state. That the dominant states may fight over the disposition of dependent territories is not in and of itself a pertinent bit of information (except that periods of fighting among dominant states afford opportunities for the dependent states to break their dependent relationships). To a dependency theorist, the central characteristic of the global economy is the persistence of poverty throughout the entire modern period in virtually the same areas of the world, regardless of what state was in control.

Finally, there are some dependency theorists who do not identify capitalism as the motor force behind a dependent relationship. The relationship is maintained by a system of power first and it does not seem as if power is only supported by capitalism. For example, the relationship between the former dependent states in the socialist bloc (the Eastern European states and Cuba, for example) closely paralleled the relationships between poor states and the advanced capitalist states. The possibility that dependency is more closely linked to disparities of power rather than to the particular characteristics of a given economic system is intriguing and consistent with the more traditional analyses of international relations, such as realism.

9.5 The Central Propositions of Dependency Theory

There are a number of propositions, all of contestable, which form the core of the dependency theory. These propositions include:

1) "Underdevelopment" is a condition fundamentally different from "undevelopment". The latter term simply refers to a condition in which resources are not being used. For example, the European colonists viewed the North American continent as an undeveloped area: the land was not actively cultivated on a scale consistent with its potential. Underdevelopment refers to a situation in which resources are being actively used, but used in a way which benefits dominant states and not the poorer states in which the resources are found.

2) The distinction between underdevelopment and undevelopment places the poorer countries of the world in a profoundly different historical context. These countries are not "behind" or "catching up" with the richer countries of the world. They are not poor because they lagged behind the scientific transformations or the Enlightenment values of the European states. They are poor because they were coercively integrated into the European economic system only as producers of raw materials or to serve as repositories of cheap labor, and were denied the opportunity to market their resources in any way that competed with dominant states.

3) Dependency theory suggests that alternative uses of resources are preferable to the resource usage patterns imposed by dominant states. There is no clear definition of what these preferred patterns might be, but some criteria are invoked. For example, one of the dominant state practices most often criticised by dependency theorists is export agriculture. The criticism is that many poor economies experience rather high rates of malnutrition even though they produce great amounts of food for export. Many dependency theorists would argue that those agricultural lands should be used for domestic food production in order to reduce the rates of malnutrition.

4) The preceding proposition can be amplified as follows: dependency theorists rely upon a belief that there exists a clear "national" economic interest which can and should be articulated for each country. In this

respect, dependency theory actually shares a similar theoretical concern with realism. What distinguishes the dependency perspective is that its proponents believe that this national interest can only be satisfied by addressing the needs of the poor within a society, rather than the satisfaction of corporate or governmental needs. Trying to determine what is the "best" for the poor is a difficult analytical problem. Dependency theorists have not yet articulated an operational definition of the national economic interest.

5) The diversion of resources over time (and one must remember that dependent relationships have persisted since the European expansion beginning in the fifteenth century) is maintained not only by the power of dominant States, but also through the power of elites in the dependent States. Dependency theorists argue that these elites maintain a dependent relationship because their own private interests coincide with the interests of the dominant States. These elites are typically trained in the dominant States and share similar values and culture with the elites in dominant States. Thus, in a very real sense, a dependency relationship is a "voluntary" relationship. One need not argue that the elites in a dependent State are consciously betraying the interests of their poor; the elites sincerely believe that the key to economic development lies in following the prescriptions of liberal economic doctrine.

9.6 The Policy Implications of Dependency Analysis

If one accepts the analysis of dependency theory, then the question of how poor economies' development becomes quite different from the traditional questions concerning comparative advantage, capital accumulation, and import/export strategies. Some of the most important new issues include:

1) The success of the advanced industrial economies does not serve as a model for the currently developing economies. When economic development became a focused area of study, the analytical strategy (and ideological preference) was quite clear: all nations need to emulate the patterns used by the rich countries (see Unit 10 for more details on growth theories and its critics).

2) Indeed, in the 1950s and 1960s there was a paradigmatic consensus that growth strategies were universally applicable, a consensus best articulated by Walt Rostow in his book, *The Stages of Economic Growth.* Dependency theory suggests that the success of the richer countries was a highly contingent and specific episode in global economic history, one dominated by the highly exploitative colonial relationships of the European powers. A repeat of those relationships is not now highly likely for the poor countries of the world.

3) Dependency theory repudiates the central distributive mechanism of the neoclassical model, what is usually called "trickle-down" economics. The neoclassical model of economic growth pays relatively little attention to the question of distribution of wealth. Its primary concern is on efficient production, and assumes that the market will allocate the rewards of efficient production in a rational and unbiased manner. This assumption may be valid for a well-integrated, economically fluid economy where people can quickly adjust to economic changes and where consumption patterns are not distorted by non-economic forces such as racial, ethnic, or gender bias. These conditions are not pervasive in the developing economies, and dependency theorists argue that economic activity is not easily disseminated in poor economies. For these structural reasons, dependency theorists argue that the market alone is not a sufficient distributive mechanism.

4) Since the market only rewards productivity, dependency theorists discount aggregate measures of economic growth such as the GDP or trade indices. Dependency theorists do not deny that economic activity occurs within a dependent state. They do make a very important distinction, however, between economic growth and economic development. For example, there is a greater concern within the dependency framework for whether the economic activity is actually benefiting the nation as a whole. Therefore, far greater attention is paid to indices such as life expectancy, literacy, infant mortality, education, and the like. Dependency theorists clearly emphasize social indicators far more than economic indicators.

5) Dependent states, therefore, should attempt to pursue policies of self-reliance. Contrary to the neo-classical models endorsed by the International Monetary Fund and the World Bank, greater integration into the global economy is not necessarily a good choice for poor countries. Often this policy perspective is viewed as an endorsement of a policy of autarky, and there have been some experiments with such a policy such as China's Great Leap Forward or Tanzania's policy of *Ujamaa*. The failures of these policies are clear, and the failures suggest that autarky is not a good choice. Rather a policy of self-reliance should be interpreted as endorsing a policy of controlled interactions with the world economy: poor countries should only endorse interactions on terms that promise to improve the social and economic welfare of the larger citizenry.

9.7 Critics of Dependency Theory

Dependency theories have provided an alternative approach to looking at unilinear growth models. They have critically evaluated the continued unequal relationships between countries, which have their history partly in colonialism and imperialism. While the dependency theories have provided a welcome critique from the South about the North, they were not without some shortcomings and critics. The principal criticism of dependency theories has been that the school does not provide any substantive empirical evidences to support its arguments. There are few examples that are provided but many exceptions are there which do not fit in with their core periphery theory, like the newly emerged industrial countries of South East Asia.

It has also been said that dependency theories are highly abstract and tend to use homogenising categories such as developed and underdeveloped, which do not fully capture the variations within these categories.

Another point of criticism is that the dependency school considers ties with multinational corporations as detrimental, while one view has been that they are important means of transfer of technology. Another criticism which is leveled against the dependency theorists is that they base their arguments on received notions such as nation–state, capitalism and industrialisation. Some of the Eurocentric biases are inherited in these theories of dependency school: for example they assume that industrialisation and possession of industrial capital are crucial requisites for economic progress. There is an inability to think beyond the state as the primary and essential agent of economic development. Also there is a Eurocentric bias in overlooking or de-emphasising of production undertaken by women, and in not realising the hazardous implications for the environment of industralisation and over exploitation of resources. A singular criticism, which is charged against the dependency theories, is that they do not reflect the changed socio-economic and political situations of the contemporary world. While many of the criticisms are justified, what we need to ask ourselves is whether the essential ideas and the ideology behind the dependency theory has any relevance in the present context?

9.8 Relevance of Dependency Theories

Increasing globalisation, which appears an inevitable social condition and process, has pointed out to the interconnected nature of the world today. Never has there been so much flow of capital, finances, goods, people, ideas and so on. Some of these interconnections had been pointed out by the Economic Commission for Latin America and Caribbean (ECLAC) in the 1950s and by dependency theorists later, including the world-system theorists. "Both theories view the problems of underdevelopment and development within a global context, as interconnected economic, political and social processes. Dependency theory forecast that the world system will tend to concentrate production in the hands of relatively few transnational corporations, making the world an oligopolic market. From this, the theory also forecast a long trend to slow down production and to speed up income polarisation" (Rojas 1984).

The economic divide and income gap between industrialised countries and developing countries has widened continually. The polarisation between North and South is more pronounced than ever. The United Nations *Human Development Report,* 1997 shows that the share of world trade for 48 least developed nations, representing 10% of the world's population, has halved in the past two decades. There is a widening gap between the rich and the poor as these figures show: The share in the global income of the poorest 20% of the world's people has fallen from 2.3% in 1960 and 1.4% in 1991 to a current level of I.I %, while the ratio of the income of the top 20% to that of the poorest 20% rose from 30:1 in 1960 to 60:1 in 1991, and grew still further to a figure of 78:1 in 1994. In other words the rich are getting richer while the poor are getting poorer (see figure 9.1).

> These trends show no sign of slowing down, even though the United Nations estimates in the *Human Development Report* that it will take only 1% of the global income and around 2-3% of the national income in all but the most impoverished countries to fund a programme to eliminate world poverty. These figures call attention to the fact that these growing disparities between people and nations have to be accounted for and analysed (*Human Development Report* 1997).

Since the aim of uneven development, dependency theories or world-system theory has been to account for the international political economy which is an interconnected world, there is reason to examine these theories for their rationale, though on the face of it they do not seem to be reflecting contemporary circumstances and situations and some of their formulations have been questioned. However, in the face of growing interconnected economies and political economy, it is worthwhile to critically evaluate the theories.

Group of Countries	**1960**	**1970**	**1980**	**1990**	**1999**
Industrialised countries (21)	83.2	83.2	78.4	83.3	84.3
Sub-Saharan Africa (50)	2.5	2.3	2.8	1.4	1.1
South Asia (8)	3.9	3.1	2.2	2.0	2.3
Middle East and North Africa (9)	1.8	2.6	5.5	3.1	1.8
Latin America and the Caribbean (41)	6.7	6.8	7.7	5.9	6.7
East Asia and the Pacific (27)	2.0	2.1	3.3	4.4	3.8

Fig.9.1: GDP as percentage of aggregate GDP for 156 market economies

Source: World Development Indicators and *World Development Report*, several years.

Reflection and Action 9.2

1) Do you think the dependency theory can be used to explain the internal disparities in a nation?

2) Most development theorists think that state interventions are very important for the development of a nation. Do you agree with them?

   If you do:

3) Do you think, therefore, that the role of the state is undermined by powerful Transnational Corporations and agencies such as IMF and World Bank, who are known to influence state policies?

9.9 Dependecny Theory: An Overview

Apart from all of its methodological and definitional deficiencies, dependency theory has been empirically undermined by the recent historical experience of many less developed countries. Those who may still hold to its fundamental premise that underdevelopment is a process that perpetuates economic backwardness, rather than a condition from which Less Development Countries (LDCs) can escape, simply choose to ignore recent economic history. However, it has been contended here that dependency is useful in the limited sense that it offers an international political economy framework for understanding underdevelopment. Economics alone cannot account for many of the factors that restrict economic and social progress. A reference to political economy dynamics in both domestic and international arenas is necessary. Dependency analysis rightly emphasises the interdependence of economic and political relations in the international arena. If the political-economic dynamics it spells out are often mistaken, at least it gets the frame of reference right. In the final analysis, the study of underdevelopment is patently incomplete if we see the world through economic lenses alone. After fifty years of development experience since the discipline of development economics was born, scholars are increasingly coming to terms with the reality that underdevelopment is the result of a bewildering array of factors, not only economic and political, but also social, cultural, etc. We can say retrospectively that the dependency movement was simply too intellectually ambitious in seeking to account for underdevelopment with a general theory of political economy. As one of the pioneers of development theory, Albert Hirschman wrote thirty years ago:

> The attempt to produce general statements about the relationship between politics and economics is likely to produce only banality and frustration. For relationships at this level are either evident and hence uninteresting, or are so complex and dependent on so many other variables as to be unpredictable and inconclusive (Hirschman 1971: 8).

It would be difficult to phrase more succinctly what has doomed dependency theory to the dustbin of history.

Globalisation means that Latin American economies are subjected to the discipline of international financial markets as well as the threat of exit by local and international investors. Dependency theorists would predictably use this insight to validate their thinking by asserting that global economic integration restricts the room for maneuver of many governments in matters, fiscal and monetary. While this is undeniable, reduced freedom of policy action is not necessarily deleterious for development. In fact, many economists assert that the new discipline imposed on developing nations by international markets has weeded out the worst examples of irresponsible, populist policies of times past by tying politicians' hands. The international economic scene is quite different from when dependency tenets were first being formulated in the 1950s and 1960s. But again, it is up to Latin American governments to take advantage of the new opportunities and to limit the new risks that come with this new world economic landscape. Their policies give them some leverage as to the extent to which they want to control their individual economic destiny. That is the good news. Dependency theory, in a more pessimistic fashion, did not allow for that possibility.

9.10 Conclusion

In this unit we have learnt that dependency theories have a recent origin. It was developed during the middle of 20th century in Latin America, mainly as a critique of modernisation theories. They rejected the arguments of modernisation theorists that modernity and development reach bottom most in its own due course. They argued that the economic activities in the richer countries often led to serious economic problems in the poorer countries.

Here we have tried to define dependency theory and examined the social context that lead to the origin of dependency theory. We have also seen the central propositions of dependency theory and how they explain the causes and continuance of underdevelopment in the contemporary world. Finally the major criticisms against dependecy theory and their relevence in this globalisation era are also analysed in the unit.

9.11 Further Reading

Frank, A. G. 1973. “The Development of Underdevelopment” In Cockcroft, James P. (etal) (eds.) *Dependence and Underdevelopment*. Anchor Books: New York

Lall, S.1975. Is Dependency a Useful Concept in Analysing Underdevelopment?’ *World Development* Vol. 3