<u>Dependency Theory of Development</u>

Dependency theory, a popular theory within the social sciences to explain economic development of states was developed during the late 1950s and over the following two decades, principally under Raúl Prebisch and Hans Singer. They observed the fact that economic growth in the advanced industrialized countries did not necessarily lead to growth in the poorer countries. Indeed, their studies suggested that economic activity in the richer countries often led to serious economic problems in the poorer countries. Poverty seemed persistent in underdeveloped countries because they exported primary commodities to the rich countries who then manufactured products form those commodities and sold them back to poorer countries. Marxists theorists like Andre Gunder Frank, Paul A. Baran, and Paul Sweezy viewed persistent poverty as a consequence of capitalism.

Most of our theoretical guides to development policy have been extracted exclusively from the historical experience of the European and North American advanced capitalist nations. It is generally held that economic development occurs in a succession of capitalist stages and that today's underdeveloped countries are still in a stage, of history through which the now developed countries passed long ago. But Dependency theorists show that underdevelopment is not traditional and that neither the past nor the present of the underdeveloped countries resembles in any important respect the past of the now developed countries.

It is also widely believed that the contemporary underdevelopment of a country can be understood as the product or reflection solely of its own economic, political, social, and cultural characteristics or structure. Yet historical research demonstrates that contemporary underdevelopment is in large part the historical product of past and continuing economic and other relations between the underdeveloped and the now developed metropolitan countries. Furthermore, these relations are an essential part of the structure and development of the capitalist system on a world scale as a whole. Dependency theory looks at the unequal power relations that have developed as a result of **colonialism**. In the colonial period, newly industrialized colonial nations expanded into areas that were unclaimed by other colonial powers. The natural resources of less-developed nations were used to fuel the colonial nations' factories through direct military and political control. Colonialism collapsed after the Second World War, but its legacy continued in the form of **neo-colonialism**. International finance and capitalism became the preferred methods of control over developing nations. As a result, many underdeveloped countries now owe developed nations a significant amount of money and cannot shake that debt. Others suffer from a reliance on importing finished goods and exporting natural resources.

Three main characteristics of dependency theory are salient. First, the international system is seen as the sum of two sets of states: dominant and dependent. Second, dependency theory holds that external forces are critical in terms of economic activity of dependent states. Third, relationships, based on strongly historical patterns between dominant and dependent states are vibrant process with exchanges taking place between the states playing a considerable role in the reinforcement of patterns of inequality. The 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.

This entry further describes dependency theory in contrast to modernization theory and other competing perspectives. It concludes with a brief look at the theory's limitations. *Dependency Theory and Modernization Theory*: Dependency theory is a mixture of various theories, including world systems theory, historical structure theory, and neo-Marxist theory. Collectively, these theories contrast modernization theory, an earlier theory of state development. Dependency theory can be seen as a critique based on the following question or problem: Why do some countries become rich while others remain poor? This question is posed against the previously held conception that economic development was beneficial to every country within the international system.

Economic prosperity in particular countries, however, often resulted in deep problems in terms of underdevelopment. Dependency theory holds expected outcomes for peripheral countries: (a) Economically, the outcome of development is continued underdevelopment; (b) socially, the outcome is inequality and conflict; and (c) politically, the outcome is the reinforcement of authoritarian government.

Modernization theory considers nature, economic situations, world market integration, and technological development or transfers of technology between developed countries and underdeveloped countries. The deficiency in this theory derives from its internal examination of development among underdeveloped countries. It assumes that such countries are underdeveloped simply because they are still at a very early stage of their own development, and to advance, they need to look at developed (particularly Western) countries. Western countries can be seen as standards, offering specific patterns or standards that countries can follow to achieve modernity. Dependency theory casts aside the suppositions offered by modernization theory that each and every country within the international system should pursue a predetermined path in order to become advanced and prosperous.

Alternatively, dependency theory describes the world in terms of a capitalist or imperialist core (also known as the wealthy states) and an exploited periphery. Countries at the core of the international system are referred to as the "haves," whereas those found within the periphery are called the "have-nots." Industries, government, social elites, financial power, and systems of education are key characteristics of the core countries. By contrast, periphery countries possess mining, forestry, agriculture, less power, poor systems of education, and low wages that are incapable of sustaining affluent lifestyles. These factors are central components composing the relationship between the core and the periphery.

Dependency theorists also describe the interaction of more than just the core and periphery. They argue that states perform different functions within the world economy, which are divided into four groups instead of two: center of the center (CC), periphery of the center (PC), center of the periphery (CP), and periphery of the periphery (PP). For example, the CC consists of the United States, the United Kingdom, and France. The PC includes advanced and industrialized countries, such as Canada, Japan, Italy, and Spain. Countries within this group have less global power and wealth than the CC countries. There are also CP countries, such as South Africa, India, Brazil, and Saudi Arabia. These countries have a reasonable amount of wealth despite the fact that they are still undergoing processes of development. PP countries are the poorest countries of the world and are the least advanced; they include the Democratic Republic of Congo, Liberia, Zimbabwe, and Burundi, among many others. The CC and the PC countries are the haves, whereas CP and PP countries are the have-nots. There are a number of key assumptions regarding this relationship. Underdevelopment is not a phenomenon directly related to the internal conditions of a country, as peripheral countries are actually dominated by the foreign interests originating within core countries. Although underdevelopment can be overcome, to do so, countries need to be disconnected from the dominance of core countries and the system or structure that their interests and policies produce.

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 toward the outside: money, goods, and services do flow into dependent states, but the allocations of these resources are determined by the economic interests of the dominant states, and not by the economic interests of the dependent state. In short, underdevelopment is not due to the survival of out-dated institutions and the existence of capital shortage in regions that have remained isolated from the stream of world history. On the contrary, underdevelopment was and still is generated by the very same historical process which also generated economic development: the development of capitalism itself.

<u>The Central Propositions of Dependency Theory</u>

There are a number of propositions, all of which are contestable, which form the core of 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 is a profoundly different historical context. These countries are not "behind" or "catching up" to 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 criticized 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: 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 through the satisfaction of corporate or governmental needs. Trying to determine what is "best" for the poor is a difficult analytical problem over the long run. 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.

The Policy Implications of Dependency Analysis

If one accepts the analysis of dependency theory, then the questions of how poor economies develop become 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. 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.

2. 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 noneconomic 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.

3. 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 benefitting 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.

4. 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.