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## Dependency in the Eighties

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Dependency theory has recently been the subject of much criticism, and in some quarters the events of the 1970s are interpreted as undermining the very bases on which its arguments were constructed. This brief note will suggest: that many of the propositions of the original theory have been shown to be untenable, but that as concerns the essence of the approach much of the critique is misplaced and misconceived: that its alleged conflicts with Marxist analysis are more apparent than real; and that the events of the 'seventies actually strengthen the main propositions of the dependency approach, although they also demand their further refinement.

The theoretical and political diversity of the arguments which have been associated with this school of thought is such that it is no great task to find formulations and conclusions with which to disagree. What is more difficult, more rare and more useful is to distil the essence of the argument out of the stew of the debate and to subject it to scrutiny.

As will become obvious, the way one defines this essence has a direct bearing on how it withstands the subsequent scrutiny. First, it is important that the essence be understood historically, since dependency represents one step in a sequence which started from a disillusionment with the notion that development would proceed directly from the integration of the newly independent colonies into the global market, involving an early specialisation in primary products and progressing through some kind of product cycle towards development and industrialisation. It soon emerged that, for most developing countries, such a growth path was not sustainable since even the lowest politically viable exchange rates allowed the balance of payments to be brought into approximate balance only in a range which involved persistent deflationary pressures for the internal economy, with the result that a significant proportion of resources was excluded from direct participation in that economic sphere which operated on the basis of international prices. The result was aptly described, though not explained, by the notion of dualism.

This reality led to the almost universal espousal of import substitution policies, via balanced or unbalanced growth, along with analytical developments such as the two-gap models—stressing the special status of the foreign exchange constraints—and concerns about

dynamic comparative advantage. These all variously emphasised the importance of state intervention in a developing country's external economic ties, in order to accelerate the transformation of relative factor endowments over time.

However desirable such state intervention might be in theory, it soon became clear that in practice it frequently produced the opposite of its proclaimed objectives. All too often its consequences could not be justified on political, welfarist or strategic grounds, because it actually reduced the power of workers and peasants, and increased the relative incomes of the dominant classes, whilst inhibiting growth as well.

As one response, the free trade position re-emerged to proclaim the folly of state intervention, except when it was designed to facilitate the economy's responsiveness to international price signals, on the basis of 'undistorted' current opportunity costs. An alternative interpretation was that of dependency. It consisted of a broad spectrum of argument and analysis, which stressed the extent to which state intervention had to be understood as a necessary but not a sufficient condition for the accelerated industrialisation and development of the periphery.

From this common point of departure there developed a wide range of arguments to show that such state intervention would become more difficult insofar as the influence of international capital continued to be exerted through such channels as investment, technology, culture, aid or the military. Further, the thesis was developed that in most cases the states in question were dominated by internal interests which used the continued collaboration with international capital for their own short-term class interest, rather than any long-term national one, and that these two sets of interests stood in conflict with each other.

Although the conclusions which emerged were often one-sided and ahistorical assertions about the impossibility of development in the periphery, the inquiry itself was and is of central importance for the analysis of development.

Within this literature a central concern with the special problems arising from the integration of weaker economies into a system occupied by more powerful and technically advanced ones quite naturally gave

rise to an emphasis on the asymmetrical nature of the relationship which developed in that process. It emphasised the weak and relatively dependent position of the less advanced economies and, although here too there have been extreme and indefensible statements—especially those which imply that such dependence is always equally significant—such absurdities should not obscure either the truth or the importance of this fact.

If the dependency approach is understood as the approach which poses these issues, and poses them in a way which recognises the inseparability of their political, social and economic dimensions, it deserves further development.

Confusion arose because the debate tended towards a static view of the world as an immutable hierarchy, a discounting of the very possibility of national accumulation generated within the periphery, and an excessive use of various structural characteristics of industry to discount the significance of the industrialisation which was then occurring. These extreme positions were treated as synonymous with 'dependency' itself, and when the late 1960s began to produce rapid and sustained industrial growth in some peripheral economies it seemed to some that the basis of dependency had been destroyed. This was not so. Indeed an analysis of the international context within which the newly industrialising countries (NICs) developed, will show that the questions posed by dependency are still important.

## The Critique

A voluminous critical literature has developed over the past decade, much of it justified and constructive. The worst tendencies within the debate (which, it is hoped, have thereby been undermined) are those given to global and timeless generalisations, alleging the necessity of net losses from integration, the permanence of peripheral status and hence the impossibility of capitalist development, and the universal necessity for precisely defined socialist forms of state to achieve an improvement in the level of the forces of production.

Such ahistorical conclusions may have a certain role to play in particular political situations, but they are obviously not defensible as analytical generalisations. They will not be further discussed, except in the context of three points raised by Palma's recent review of dependency [Palma 1978], which is sufficiently authoritative and comprehensive to serve as a vehicle for introducing some qualifications into the existing critical debate.

The first point concerns Palma's discussion of the 'possibility of capitalist development' in the periphery. Palma's treatment follows a relatively familiar pattern, in that it begins with a somewhat technical definition of capitalism—'the increase in the productive forces of social labour, and the socialisation of that labour'—and then readily concludes that by that criterion capitalism is indeed developing in many, or indeed in most, parts of the periphery. This is surely true but of little significance until the nature of that 'capitalism' has been discussed and analysed. Indeed, the central concern of dependency must be the analysis of the specific features associated with a capitalist growth whose early phases occur in a context where there already exist powerful industrial centres of production with far superior technical capacity.

In Palma's discussion, this critical point is effectively obscured. Although, like Warren before him, he stresses that this capitalism which is developing represents capitalist development 'warts and all', and castigates those who 'hope that it could produce a just distribution of income, wealth and power', there is little or no attempt to grapple with the question of whether this capitalist development has the same warts under all conditions.

This is made more significant when, in Palma's description, the warts of capitalism turn out to be more akin to adolescent acne, since

*the increase in real wages which has taken place as capitalism develops in the advanced countries, and the internal inducement to invest provided by technological progress . . . . . have played a vital role in rescuing capitalism from the difficulties and contradictions which it creates for itself.*

He adds further that 'the periphery has [in his view] not played a critical role in producing this result'. When, after this, Palma ends with an agnostic aside to the effect that the capitalism which is developing in the periphery will not necessarily yield the same long-term results, he merely acknowledges and confirms the problem, since this, then, is politically and analytically the most important question. In comparison, the question of whether a technically defined capitalism—whose social and economic implications remain unspecified—is or is not developing, appears as an introverted academic dispute. In short when he inveighs against those who confuse the discussion with 'ethical' distinctions between growth and development or with 'a socialist critique of capitalism in Latin America', he is himself introducing a fundamental confusion. In effect, the 'analysis of the obstacles to capitalism in Latin America' is interesting and important only insofar as it moves beyond phrases about the warts of (an undifferentiated) capitalism, and makes its specific conditions and the consequent prospects the focal point of its analysis.

The second point emerges from a consideration of Palma's full and thorough discussion of the relationship between dependency and Marxist analysis. Here too there is an excessive concern with the question of the possibility of capitalist development, as against the particularity of capitalist development under specific conditions. Much is thus made of Marx's now famous passing reference to India's development prospects, and even more of Lenin's conclusion that capitalism was developing in pre-revolutionary Russia. At the same time little emphasis is placed on the irregularities and specificities of that process.

If the analysis of the specific obstacles to capitalist development in Latin America had been a more prominent focus of the debate, then the major emphasis might have shifted away from Lenin's conclusion that 'capitalism' was developing in Russia, to the special problems which, he argued, would attend Russia's 'late development', namely the weakness of its bourgeoisie, the effects of competition from the advanced economies and the resilience of traditional structures.

For the rest of the discussion of Marxian analysis, such a shift would have induced a greater concern with the phenomenon of uneven development which plays a significant role in that body of work. No doubt this would have rightly concluded that assertions about static and permanent peripheries were not compatible with the approach, but at the same time it would have found strong support for the notion that the contradictory aspects of capitalist development are always likely to be unevenly distributed over time, across space and between sections of the population. Insofar as that is the legitimate and proper concern of dependency, it stands in no conflict with Marxian analysis, but invites its application to the particular problems of 'late development'.

Nor is it true that militant assertions made in other parts of the literature about the conceptual adequacy of Marx's notions of reserve armies and surplus populations, challenge the appropriateness of analyses which stress the particular severity or intractability of these phenomena under certain specified conditions. It requires a rather pedantic turn of mind to suggest therefore that discussion of the problems of the 'marginalisation' of labour are incompatible with Marxian analysis.

Finally, one must address the question of the status of the generalisations to be arrived at. Palma inveighs against 'mechanico-formal' formulations, and along with Cardoso, seems to be driven back to a study of the uniqueness of each case. But, as Rodriguez points out below, this is an abdication, not a methodological advance. If taken seriously it would contravene the

very conditions which both writers state as essential for the dependency debate, such as the fact that

*the analysis therefore requires primarily an understanding of the contemporary characteristics of the world capitalist system.*

[Palma 1978:909, emphasis in original].

This task is necessarily a simultaneous one, and one which must constantly concern itself with questions which can be generalised, and with the appropriate level of generalisation. Certainly one may agree with the spirit of the broad conclusions reached by Palma, which are that one part of the further development of dependency requires a historical, political-economy treatment of specific societies. One must agree with him whole-heartedly when he says that only at this level can policy options and political positions be sensibly discussed, and it is right that the possibility of a wide diversity of results must always be recognised and more accurately defined. One may also agree with him when he deplores the way in which the manipulation of cross-sectional data threatens to engulf all sensible analyses of development. But one should be concerned that the solution of concentrating its analysis on what have been called 'concrete situations of dependency' is beset by the age-old problem of defining a methodology or a working set of hypotheses about the context within which these 'concrete' cases are to be studied. When he adds that

*without a considerable number of concrete studies any new theory which may be elaborated concerning capitalist development in Latin America will necessarily fall into the trap of the 'dialectic of thought'* [Palma 1978:899]

he surely is seeking an impossible escape from the dialectic of social scientific inquiry. Any advance must begin from the point we have reached to date, and this point includes the capacity to establish some generalisations and some hypotheses, however much these may be in need of refinement and development. Indeed this is the task which the 'concrete' studies must address.

## **The Lessons of the Seventies**

The developments of the 1970s have been dramatic and paradoxical. They have brought to an end the steady-growth, full-employment 'golden-age' of the post-war boom for the industrialised economies. They have created the rentier economies of the oil producers, combining underdevelopment with untold wealth. They have undermined and destabilised the precarious socio-economic balances on the basis of which many non-oil developing countries had maintained an uneasy and

often tenuous link between growth, balance in their external accounts and domestic developmental objectives. Finally, they have thrown up the phenomenal growth of the NICs, a heterogeneous collection of economies ranging from Brazil to Hong Kong, whose main common feature is that they have all achieved a remarkable and extended expansion of their manufactured exports.

For dependency analysis, as for other perspectives, these developments constitute a challenge and an occasion to enrich and to refine its approach. In general it is arguable that the two fundamental propositions of the dependency debate have been strongly reinforced by these developments: namely the central importance and the potentially inhibiting effect of the international context for the process of development, and the critical importance of 'national' policy (as earlier defined) in establishing the basis for a relatively more advantageous dynamic integration into the global market. At the same time, impossibility theorems, permanent categories of periphery and core, universal generalisations about the absence of technology transfer or of the total lack of national bourgeoisies in the periphery, have all been revealed as the gross over-simplifications they always were.

It may appear surprising to suggest that the 1970s have underscored the importance of the basic pillars of dependency analysis, when it is now widely held that the growth of the NICs constitutes powerful proof of the benefits of international integration and of the availability of those benefits to peripheral, technologically backward economies, provided these pursue appropriate 'export-promoting' policies. The discussion which follows will suggest that the apparent gulf between these two conclusions can be narrowed substantially.

First, there are some points not in dispute. These include the fact that over this period the pace of economic development has quickened dramatically in parts of the periphery, that in these economies industrialisation has advanced both absolutely and relatively, and that in a very few cases the process has generated a shortage of unskilled labour such that the real incomes of all income earners have been raised from extremely low levels, and these increases have been sustained by a movement up the product cycle. Furthermore there is no dispute about the fact that these changes have occurred in the context of a rapidly increasing volume of trade with the international economy. In short, the 1970s have suggested the possibility of capitalist development in the periphery, even Palma's rising-real-wage, technologically mobile advanced capitalism'.

However this cannot be understood primarily as the result of certain trade and export promotion policies defined in the peripheral economies. Indeed these developments equally emphasise the importance of the changing international context, its potential for inhibiting growth and the importance of national economic strategies as preconditions for the possible pursuit of more successful integrationist strategies in a disequilibrium world. The evidence on the association between certain types of trade policy and success in exporting manufactures [Bhagwati 1978] raises the awkward question of the direction of causality involved in such an association. It is certainly possible that the trade policies do not explain the success, but that relative competitiveness (at politically sustainable levels of domestic consumption and wages) will allow, or even encourage, such policies to be implemented. In that case attention should be focused on the determinants of that competitiveness.

In any case the fact that the NICs comprise a highly heterogeneous group, all of whose members experienced a sharp change in their growth and export performance within a brief space of time, and in conjunction with other dramatic changes in the international economy, suggests the need to analyse the phenomenon in its global context.

That context may first be described from a developmental perspective by contrasting it with the period which preceded it. Whereas in the earlier period international capital flows had been heavily dominated by intra-OECD flows, this is now sharply reduced. Whereas earlier private capital flows had declined steadily in importance, they now play a dominant role, with a shift from equity to loan funding. Whereas earlier capital flows had been essentially restricted to resource exploitation, or import substitution, the new flows more often involve production of manufactures for export. The NIC phenomenon was both an expression of, and a vehicle for, these changes. Their dramatic development was stimulated by the relocation of production, and consolidated by the associated development of marketing channels, and of a skill and infrastructural base where these were fostered and supported by means of appropriate national policies. It was underwritten by the quantities of international finance, which became available to those economies that emerged as the preferred locations in this process. An economy's emergence as a preferred location was dependent: first, on political reliability, hence the marked preference for strong military dictatorships; secondly, on strategic location, either in relation to the socialist bloc, to major markets, or to major reservoirs of raw materials; and thirdly, on the existence of an adequate base of technical and organisational skill.

The social consequences of such experiences have varied enormously, depending on the degree to which labour scarcity was generated, and to which further growth could be made compatible with the consequent real wage increases. While Singapore and a very few others have demonstrated the possibility of 'trickle down', in most cases this is a remote possibility. In such cases phenomenal growth rates have combined with something approaching absolute stagnation for lower income earners. The question which is posed is whether the benign sequence is likely, in the real world, to be generalisable and sustainable. The answer still looks likely to be negative for most developing countries.

The future development of the NICs will depend on both internal and external factors. Some of the internal factors are rather obvious, and include a continued increase in skills, investment and productivity. Others are less obvious. For example, the future is also likely to depend (in those economies larger than Hong Kong or Singapore) on the development of a viable agriculture to ease the pressures generated in the balance of payments and in the labour markets. This becomes the more important when international markets and prices are highly unstable, as that increases the importance of a reliable food supply and the significance of a more diversified domestic economic base. At the same time economic change creates an eventual need for a move towards more flexible and liberal forms of political structure, capable of maintaining stability and continuity—forms which have proved to be most difficult to implement or to control.

Just as changes in the international context set the process in motion, so they will be important determinants of the future course of this dynamic phase of peripheral capitalist development. Among the more important features will be continued access to developed economy markets, and to international finance and technology. Since each of these conditions is currently under threat it would be as foolish to extrapolate the 'euphoric' Singapore experience of the past 15 years, as it was to extrapolate the pessimistic experience of the period which ended in the mid 'sixties.

Such issues pose the question of why the international economy has changed as it has. The NIC phenomenon did after all occur in conjunction with a massive destabilisation of the international economy as a whole, which has involved slower growth, unemployment, large scale industrial over-capacity and sluggish investment, together with an international accumulation of financial capital which, in the absence of identifiable viable investment opportunities (at prevailing or anticipated prices of course) has fuelled inflation and speculation. This represents one part of a general

struggle by the accumulated and expanding stock of financial capital to generate a real return under conditions where production is expanding unevenly and slowly. Unfortunately that struggle itself helps further to worsen the investment climate, by increasing uncertainty while adding further to the stock of financial capital seeking its share of a relatively shrinking pie. The result is to be understood at various levels. Hence there is class struggle, which attempts to ease the pressure on capital by reducing labour's share of the pie through squeezing both the direct and the social wage (though as in Britain today this may be attempted in a way which reduces the pie so quickly that even if capital did manage to get an increased share this would represent an absolute reduction). The internationalisation of production plays a part in this process by effectively reducing the average 'international wage'. Then there are 'national' struggles which attempt to ease the pressure on national concentrations of capital by shifting the burden onto others. This can be done by running trade surpluses, which in such a context critically improve the national investment climate—hence raising relative productivity and strengthen competitiveness—or it may involve practices known in the 1930s as 'interest rate wars', 'competitive devaluation', or 'beggar-your-neighbour protectionism'. Finally, there are sectoral struggles in which those controlling the production and distribution of crucial inputs or products exercise their market power to shift relative prices in their favour.

Currently, the strains imposed by these developments are becoming critical. The conditions on which the development of the NICs depended are being undermined. Their access to markets is being eroded by protectionism and/or deflation: their access to credit is being eroded by the consequent doubts about the future ability of the debtor nations to pay; finally, access to technology is easing because of the increased technical capacities of some developing countries, but at the same time the pace of change may be accelerating while the move to greater secrecy by the non-seeking of patents is an ominous development.

How the various NICs will weather these storms will depend on a variety of factors. Certainly their ability to sustain their development may well turn out to be crucially dependent on the extent to which they pursued their past export strategies in the context of a nationally defined long term policy, which captured national dynamic and external economies, and which placed the premium on the development of national capabilities to apply and adapt technology, as a basis for creating the ability to develop it. It may be its very heavy emphasis on these issues which makes Korea's ability to confront current problems appear possibly stronger than that of Brazil, in spite of Brazil's access to foreign

exchange through its enormous quantities of primary resources. Only time will tell whether even Korea's state-directed economy can follow in the footsteps of Japan, but if it does it will surely demonstrate not only the possibility of peripheral capitalist development including some spread of material benefits, but also its cost, and its difficulty, and the importance of a cohesive, nationalist and internationalist state.

Finally it is hardly necessary to add that the 1970s have also amply demonstrated the problematic side of integration for the NOPEC/NONIC (non-oil exporting/non NICs) group, including most of the African economies. Whatever may be true of the NICs, for these economies premature integration could inhibit and retard their development, socially, politically and economically, though it need not necessarily do so.

### **Conclusions**

This discussion has suggested a number of arguments, without being able to develop them. Its message is that the critical evaluation and development of the propositions which arise from the dependency perspective should constitute a central task of development theory in the 1980s. The argument has emphasised the need to discuss dependency in terms of the question it poses, rather than in terms of the answers some of its exponents have at times suggested. These questions are important both politically and analytically, and they are questions which traditional approaches have frequently in practice ignored or treated as peripheral.

Even after the experience of the 1970s it is still important to consider the potential long-term social, political and economic problems which are raised by the international integration of technologically backward economies. Now, as before, that concern should not, however, obscure the fact that the ultimate objective must be for the society in question to achieve the ability to relate to that international system economically, socially and politically in a way which allows it to enjoy the undoubted benefits of such integration, but which is compatible with some politically defined developmental objectives. The desirable degree and form of that eventual integration must remain a matter for dispute and for historically specific definition and analysis. What seems clear is that, if the objectives include the provision for the mass of the population of a minimum income and of some genuine political power, then the struggle for state power and its use to modify the impact of international competitive pressures will remain of central importance.

The 1970s have strengthened the need for a clear analysis of the effects and the possibilities of integration into the evolving international systems. Such an analysis must deal with the process of development in its historical context, and it must recognise the ultimate unity of social, political and economic dimensions of reality. The dependency debate with all its inadequacies represents the major forum in which such an attempt is made.

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**note:** for references, see bibliography at the end of this *Bulletin*.