

Dependency Theory: An Introduction

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Background

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 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. Such a possibility was not predicted by neoclassical theory, which had assumed that economic growth was beneficial to all (Pareto optimal) 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 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 around the extent to which the poorer countries actually had control of 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 solid economic practices and that as soon as they learned the techniques of modern economics, then the poverty would begin to subside. However, Marxists theorists viewed the persistent poverty as a consequence of capitalist exploitation. And a new body of thought, called the *world systems approach*, argued that the 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 penalized the poor.

How Can One Define Dependency Theory?

The debates among the liberal reformers (Prebisch), the Marxists (Andre Gunder Frank), and the world systems theorists (Wallerstein) was vigorous and intellectually quite challenging. There are still points of serious disagreements 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 (Osvaldo Sunkel, "National Development Policy and External Dependence in Latin America," *The Journal of Development Studies*, Vol. 6, no. 1, October 1969, p. 23). Theotonio Dos Santos emphasizes the historical dimension of the dependency relationships in his definition:

[Dependency is]...an 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.

(Theotonio Dos Santos, "The Structure of Dependence," in K.T. Fann and Donald C. Hodges, eds., *Readings in U.S. Imperialism*. Boston: Porter Sargent, 1971, p. 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 Organization of Economic Cooperation 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 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 industrialized countries can represent their economic interests abroad.

Third, the definitions of dependency all 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 internationalization of capitalism. Dependency is an ongoing process:

Latin America is today, and has been since the sixteenth century, part of an international system dominated by the now-developed nations.... Latin underdevelopment is the outcome of a particular series of relationships to the international system.

Susanne Bodenheimer, "Dependency and Imperialism: The Roots of Latin American Underdevelopment," in Fann and Hodges, *Readings, op. cit.*, p. 157.

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.

The 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.

Andre Gunder Frank, "The Development of Underdevelopment," in James D. Cockcroft, Andre Gunder Frank, and Dale Johnson, eds., *Dependence and Underdevelopment*. Garden City, New York: Anchor Books, 1972, p. 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 toward 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 centralized in the industrialized 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 Marxist 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.

Karl Marx, "The Future Results of the British Rule in India," *New York Daily Tribune*, No. 3840, August 8, 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. A 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 affords 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.

The Central Propositions of Dependency Theory

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 in 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 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.

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.