Dependency Theory: An Introduction

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July 1996

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.
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> (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 industiral nations in the Organization 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 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.
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> 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 eonomic 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.
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> 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.
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> 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 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 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.

Globalization Is An Issue, The Power of Capital Is The Issue
by William K. Tabb

This paper was originally presented at the 1997 Socialist Scholars Conference.

The globalization hypothesis asserts that there has been a rapid and recent change in the nature of economic relations among national economies which have lost much of their distinct claim to separate internally driven development, and that domestic economic management strategies have become ineffective to the point of irrelevance. Internationalization is, in this view, seen as a tide sweeping over borders in which technology and irresistible market forces transform the global system in ways beyond the power of anyone to do much to change. Transnational corporations (TNCs) and global governance organizations, such as the World Bank and the IMF, enforce conformity on all nations no matter their location or preferences. The corollary to such thinking is that radical alternatives are not possible, and that in Margaret Thatcher's memorable phrase, TINA, "There is no alternative."

There is certainly evidence of an increased importance of the international economy over the last decades. The ratio of exports to GDP roughly doubled from 1960 to 1990 among the OECD countries (the richest 24 nations) from under 10 percent to over 20 percent. The stock of international bank lending rose from 4 percent of OECD GDP in 1980 to 44 percent in 1990, and daily turnover in currency markets of well over a trillion dollars dwarfs the reserves of central bank regulators. The fear of plant closings and job loss are a daily reality for working people everywhere and "globalization" has become the all purpose explanation.

There is a great deal of difference however between the strong version of the globalization thesis which requires a new view of the international economy as one that "subsumes and subordinates national-level processes," and a more nuanced view which gives a major role to national-level policies and actors, and the central position not to inexorable economic forces but to politics. In the second perspective, current changes are considered in a longer historical perspective and are seen as distinct but not unprecedented, and as not necessarily involving either the emergence of, or movement toward, a type of economic system which is basically different from what we have known.

It is important to see that the first version of the globalization thesis is based on a myth, has profound political implications which are defeatist, and is not based on a sound analysis of what is a more complex and contestable set of processes.1 Thus the discussion of globalization is best undertaken as a two step process. The first need is to critique the strong version of globalization which has disempowered much of the left. That is the task of this essay. The second step is to look more carefully at what is new in the present conjuncture. Capitalism is an ever changing system, and it is necessary to base political strategy on an awareness of the nature of developments in the present period. But first we must address the defeatist acceptance of inexorable global capital hegemony.

Much of the U.S. labor movement has embraced the strong version of globalization, placing almost exclusive emphasis on runaway shops and the threat of low wage production venues in the Third World to American workers. Capital will go anywhere in the world seeking the lowest possible wages. But this is at best an oversimplification. It misrepresents the actual investment

patterns of transnationals. Three-fourths of foreign investment and production by U.S.-based multinationals is in Western Europe, Canada and other high wage countries and this investment is overwhelmingly to service these markets from local production sites. As for capital leaving the United States, it is important to recognize that since 1990 the United States has been a net importer of foreign direct investment, as the TNCs of other nations have located production in this country and employed American workers. The huge American balance of payments deficit is largely a result of borrowing and the U.S. role as consumer of last resort, the market which absorbs imports paid for with borrowed money. The United States absorbs almost half of manufactured exports from what is anachronistically still called the Third World. U.S. corporations have benefitted from such policies and from the popular confusion between national well-being and the competitiveness of U.S.-based companies.

Production by TNCs outside their country of origin is important, yet 85 percent of industrial output is produced by domestic corporations in a single geographic location. The multinationals account for about 15 percent of the world's industrial output. Moreover, while much of the Left focuses on runaway shops to low wage venues, transnational capital avoids really low wage production sites, and indeed avoids investing in most developing countries. Nearly two-thirds of the world's population is basically written off as far as foreign investment is concerned. Growing inequality is a result of the marginalization of most of the world's population.2 Between 70 and 100 countries are worse off now than they were in 1980, according to UN figures. Greater incorporation into the international economy even for the so-called miracle economies does not necessarily last. A decade ago the development journals all produced special issues on Korea, the most successful of the New Industrial Economies. Today they carry stories about the parlous state of the Korean economy and the growing bankruptcies of the over leveraged chaebols. The fragility engendered by uncontrolled competition produces uncertainty at best, and often disaster for workers everywhere.

In any event direct labor costs are not a big part of the price of many products and low wages alone are rarely decisive for most producers (although they are important in particular industries, for examples for garment producers and electronics assembly.) The major factor in the loss of manufacturing jobs is technological change. Domestic U.S. manufacturing output today is five times what it was in 1950 even as fewer workers are needed by the manufacturing sector. This is overwhelmingly the result of labor displacing technology, not of runaway shops. The lack of unionization in the fast growing high tech industries weakens all workers. The importance of such growth has also contributed to growing inequality in the U.S. economy.3

The Longer Perspective

Capitalism has always been a global system even if the particular ways the world economy affects workers in particular places changes over time. Economic historians ask us to see the present in such a perspective. The world's political economy is not more globalized than it was a hundred or a hundred and fifty years ago. Rereading The Communist Manifesto makes the point.

The bourgeoisie has through its exploitation of the world-market given a cosmopolitan character to production and consumption in every country ... In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations ... In a word, it creates a world after its own image.

Such integration was clear even before cross oceanic telegraph cables integrated world markets and steel hulled steamers replaced wooden sailing ships; and such innovations in historical perspective were certainly more important in reorienting global production than air freight and containerization a century later. From such a large historical perspective one can conclude that: "If the theorists of globalization mean that we have an economy in which each part of the world is linked by markets sharing close to real-time information, then that began not in the 1970s but in the 1870s."4 As to the huge sums of money moving around the globe at the push of a computer terminal button, economic historians find greater openness to capital flows at the beginning of the 20th century (before World War One) than in the present period at century's end. Researchers find no increase in openness between 1875 and 1975, but rather a relative decline in capital movements. Bob Zevin concludes after a review of the evidence: "All these measures of transnational-securities trading and ownership are substantially greater in the years before the First World War than they are at present. More generally, every available description of financial markets in the late nineteenth and early twentieth centuries suggests that they were more fully integrated than they were before or have been since."5 Nontradables have grown as a proportion of total output between the beginning and end of the present century with the ever growing importance of locally consumed services (including those produced by governments).

Multinational manufacturing firms appeared in the middle of the 19th century and were well established by the beginning of the 20th century. Two world wars and a great depression created what Eric Hobsbawm in his work on the "short" 20th century has described as an interlude of national economics between eras of internationalized economics. In this reading, once recovery from world war and global depression were complete, what took place was not some new departure but a return to trend. Capital flows do not today influence economic development to the extent they did in the 19th century, and the world, as we have seen, is not more globalized today than a century ago. It is however in basic ways different than it was a half century ago and it is this lived memory which is the general referent for much of the discussion today. It is useful to see the ways in which the national Keynesian Welfare State political economy which emerged out of the trauma of war and global depression has eroded, and the extent to which we are back to pre-Keynesian economics and the ideological hegemony of laissez faire.

The Postwar Nationalist Political Economy

The Great Depression and the exigencies of war each in their own way discredited the market system and led to the acceptance of state planning and a major role for government in allocating resources. In the countries of the core, left-center social democratic regimes to one extent or another prevailed and liberal (in the American usage of the term)—labor alliances governed. A class compromise predominated in which capital was forced to accept unions and the role of the state in stabilizing the economy. This led to a post-war structure of accumulation in the context of successful economic rebuilding from wartime damage in Europe and Japan, and to U.S. global hegemony. Through the Marshall Plan and then through military alliances the United States "contained" both the "really existing" socialist states and the mass Communist movements of France and Italy. Non-capitalist regimes were isolated in the mutual militarized stand off of the Cold War, and concessions were made to labor in the advanced capitalist nations. In the newly independent former colonies a local bourgeoisie used nationalism to build its own position vis-a-vis former colonial masters, and kept the masses at bay with nationalist rhetoric and a purported commitment to planning and forms of socialist development, which, in practice

seemed to strengthen national elites rather than empower the masses.

As global growth rates slowed down in the economic dislocations of the 1970s, Third World elites found accommodations as junior partners to transnational capitalism. Privatization and export oriented development replaced import substitution and nationalization, strategies which had run up against the limits of the size of domestic markets given the stark inequalities of income and wealth. In the advanced nations, once the recovery from the depression and the Second World War was achieved, excess capacity and intensified competition led to a new low wage strategy that replaced the national Keynesian one of finding markets in higher domestic income and government deficit spending. Globalization reasserted itself as TNCs looked to interpenetrate each other's markets, and the high cost of product development and faster product cycles led to pressure to market globally.

Accompanying this shift from national Keynesianism to a global neoclassical economics was an undermining of the restrictions on capital which had been put in place in the crisis of the inter-war period. These restrictions developed to protect capitalism from the self-destructive logic of the system itself. As Karl Polanyi, and more recently George Soros among others have pointed out, true laissez faire capitalism means a degree of instability and insecurity which is intolerable to most people, and finally undermines the ability of the system to reproduce itself. The reforms from the 1930s which stabilized U.S. capitalism are all now under attack. These include social security, regulation of banking and the security markets, labor laws (such as the requirement that employers pay time and a half for overtime), and antitrust laws.

The New Triumphs of Laissez Faire Ideology and Policy

The current offensive of capitalist logic into all realms of social life undermine many of the legitimation functions of the state which have provided citizen loyalty for the accumulation patterns of the capitalist system. The demand that everything be done through the market (that college tuition not be subsidized by the state, that legal aid should be abolished, public housing discontinued, and health care provided through the market) all represent attacks on programs which have broad support. But the self confidence with which market ideologists attack any sense of public space, of solidaristic provision of services and shelter from the relentless individualistic values of the market, represents a measure of the defeat of democracy. Similarly, the devolution of service provision in the United States from the federal to the state to the local levels, and then to individual procurement based on ability to pay, undermines the limited solidarities which hold society together. These processes have little to do with globalization, and a great deal to do with the victories of capital over labor, and the resulting damage to the rights of citizenship.

After thirty years during which wages have lagged behind prices, for the head of the Federal Reserve to claim that job insecurity is easing and so it is time to slow the economy is one of the clearest indicators of the triumph of capital in our era.6 In point of fact, America's corporations, whose profits adjusted for inflation have gone up by 50 percent since 1991, continue to both lay off and hire new workers. The defeat of progressive social policies and the decline in union strength means U.S. capitalism can have lower unemployment without rising wages. Even though jobs are relatively plentiful, new jobs are mostly bad jobs. They pay less than old ones; on average workers who get laid off and find new jobs receive fourteen percent less pay in their new

jobs.

In 1993 27 percent of all U.S. workers were in jobs that didn't pay them enough to live above the poverty level, and only a little over a third of all workers had wholly employer financed medical insurance. The problem is not only high disguised unemployment and the growth of part time work, but the reality that full time jobs do not pay enough to live on. The working poor work harder, live in substandard housing, and lack health coverage. Twenty percent of all full time workers have no retirement or medical coverage. The fast growth of temps and part timers means growing insecurity. Meanwhile the average CEO, who in 1960 earned 40 times the income of the average U.S. factory worker, in 1993 got 149 times the income of the average U.S. factory worker. Welfare benefits to families with children which were 71 percent of the poverty line for a family of three in 1970 were 40 percent of the poverty line by 1992, and are less today. The real value of the minimum wage in 1994 was lower than in 1950. Real hourly wages in the United States were lower in 1994 than in 1968. The top one percent of American households have more wealth than the bottom 90 percent. Between 1977 and 1989 that top one percent enjoyed 60 percent of all the gains in after tax income.

A recent report by the advertising giant Saatchi and Saatchi advised investors to follow a Tiffany/Wal-Mart strategy in light of "the continuing erosion of our traditional mass market—the middle class." That is, avoid investing in companies which serve the shrinking middle. The richest one percent pays a smaller share of their income in taxes today than in 1979, while their share of the national income has doubled. "Americans," as Michael Mandel, the Business Week writer notes, "are living with a combination of growth and uncertainty they've never seen before."7 The stock market boom fuels upper class consumption. Over half of all new cars are sold to the top 20 percent of the income distribution. Class division is everywhere more visible. And even as the salience of marxist economics becomes ever more obvious, official economics has returned to pre-Keynesian orthodoxies.

It's Capitalism, Not Globalization

In this context the idea that the state is powerless to stop these trends is a powerful tool of capital. The idea that "globalization" has weakened the state ignores the continuous technical ability of the state to regulate capital. Money can flee to tax havens and to offshore banking centers only if the core countries allow it to do so. If the United States penalized banks (and depositors) in jurisdictions which do not allow regulators access to information necessary to tax capital transfers, most tax haven banks would shut down. There is no reason regulators cannot impose transfer taxes and other regulations. It is the governments of the advanced nations, especially the United States and Britain which have encouraged deregulation. This was a political choice, not a technical necessity.

By insisting on basic workers' rights, the United States (which has done so much to undermine those rights) has the power to raise wages and improve working conditions everywhere. It is a political choice that the United States, in the name of free trade, encourages a race to the bottom. A counter hegemonic outlook of solidarity and social justice points to a very different set of rules. It is the ideological and organizational weakness of the Left which has lent power to the claims of globalists. It is not that U.S. employers do not routinely threaten to close plants and move to Mexico and elsewhere. They do, and such threats are effective in the current climate of

labor regulation in the United States.8 But it is not international trade per se that is the problem but the political conditions under which that trade takes place.

Robert Blackburn in his new book, The Making of New World Slavery, informs us that by 1770 profits derived from slavery furnished a third of British capital formation. In what might be called a new international division of labor, slaves produced rice, coffee, sugar and other products central to the living standard and personal fortunes of many Europeans. What is interesting is not how much globalization changes things but the continuities in capitalist mentality and practices. As Eric Foner has written: "Today's Chinatown sweatshops and Third World child labor factories are the functional equivalent of colonial slavery in that the demands of the consumer and the profit drive of the entrepreneur overwhelm the rights of those whose labor actually produces the saleable commodity."9 Working people have always resisted such demands. At the end of the 20th century resistance will be stronger to the extent to which we do not allow the scarecrow of "globalization" to disempower us. The system is the same, its logic is the same, and the need for workers of the world to unite has never been greater. It is time for greater clarity in our critique of the basic workings of what are called "free markets" but are in reality class power. We need to counterpoise the need to control capital and to have the economy serve human needs rather than accept the continuous sacrifice of working people to such ideological constructions as competitiveness, free markets, and the alleged requirements of globalization.

NOTES

See Paul Hirst and Grahame Thompson, Globalization in Question: The International Economy and the Possibilities of Governance (Cambridge: Polity Press 1996).
See Hirst and Thompson p. 68
Consider: 20-25 percent of the real wage growth over the last year comes from high technology jobs. Industries such as computers, software, and communication, high tech sales and repair, programming media, information technologies of all sorts are driving the economy. In the past three years the high tech sector contributed 28 percent of the growth in GDP compared to 4 percent for cars and 14 percent for housing. Further the multiplier effects of consumer spending by technical-professional workers dominate whatever growth there is in the rest of the economy. Michael J. Mandel "The New Business Cycle," Business Week, March 31, 1997.
See Hirst and Thompson, pp. 9-10
Robert Zevin, "Our World Financial Market is More Open? If so, Why and with What Effect?" Tariq Banuri and Juliet B. Schor, ed., Financial Openness and National Autonomy; Opportunity and Constraints (New York: Oxford University Press, 1992) pp. 51-2.
Actually workers are aware of continued corporate downsizing and continue to be fearful that they will lose their jobs and be forced to take lower paying ones with fewer benefits. Every three months a University of Wisconsin survey asks a random sample of workers: "What do you think is the percentage chance that you will lose your job in the next twelve months?" In the most recent survey the average response was 17.5 percent, up from 16 percent a year ago. Aaron Bernstein "Who Says Job Anxiety is Easing?" Business Week, April 7, 1997 p. 38.
Michael J. Mandel "The High-Risk Society," Business Week, October 28, 1996 p. 86.
"NAFTA: A New Union-Busting Weapon?" Business Week, January 27, 1997, p. 4.
Eric Foner "Plantation Profiteering," The Nation, March 31, 1997 p. 28.

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Dependency Theory - Definition and History

Dependency theory posits that the cause of the low levels of development in less economically developed countries (LEDC's) is caused by their reliance and dependence on more economically developed countries (MEDC's) - i.e. the LEDC's are undeveloped because they rely on the MEDC's. Some proponents of dependency theory assert that LEDC's will remain less developed because the surplus that they produce will be siphoned off by MEDC's - under the guise of multinational corporations. There is, as such, no profit left for reinvestment and development.

As a corollary of this theory, LEDC's should cut off ties with MEDC's, retain their surplus production, and follow economically independent and socialistic ideas in order to further develop their economies, as the Soviet Union had done to great effect. Additionally, it also emphasises the virtuous circle of self-perpetuating benefits that the MEDC's gain from their existing prosperity.

Dependency theory, as a theory based on materialist and structuralist theories, has been criticised for placing too much emphasis on material and economic factors. The development of many asian economies that developed along capitalistic, open lines, also serves as an empirical contradiction to dependency theory. (This is not to say that many asian "tiger economies" did not follow the ideas propounded by development theory, for indeed many did - South Korea, Taiwan and others developed through a process of import-subsitution - backed up with heavy investment of American capital.)

Frank proposed an alternative to dependency theory - "Development Theory".

How does Frank's "dependency theory" differ from the traditional "development theory"?
The conventional view of the undeveloped countries denies them a history:

"To classify these countries as "traditional societies" implies either that the underdeveloped countries have no history or that it is unimportant." (Griffin 1969)

But it is increasingly clear that the history of the post-colonial countries has been crucially important in shaping their present underdevelopment. The most influential proponent of the thesis that European expansion and colonialism created the underdevelopment of these countries has been Andre Gubder Frank. Frank"s thesis is that underdevelopment is not basically a consequence of traditionalism. Rather, he argues that underdevelopment in Latin America-and by extension, parts of Africa and Asia- has been systematically created by colonist exploitation. Frank has documented "the development of underdevelopment" in Chile, Brazil, Mexico and Cuba.

What explanations are given in Paul Silletoe's article for the failure of development?
Conspiracy theories that suggest "development" is all a multi-national capitalist scheme to enslave the world, saddling many Third World countries today with international debts crippling economic growth.

Donors missing overseas assistance for flagrant strategic political ends, notably during the Cold War to support and reward allies, but continuing up to present times by tying aid to trade.

The neo-Malthusian argument that relentless population growth is wiping out any technological gains, despite the fact that yield statistics demonstrates that the world produces enough food to feed us all.

What was wrong with the "top-down" approach?
It is widely agreed that the "top-down" approach which many agencies took to development was partly to blame. Th e assumption that experts, notably economists, can diagnose problems and devise plans for governments to implement to improve people"s lives is questioned. The arrogance, the ignorance of the needs and aspirations of the poor, did great damage.

What does he mean by the "participatory" approach?
Agencies consulting more closely with their "target beneficiaries"- i.e. involve the poor themselves in problem identification and decision-making process, rather than trying to impose outsider-devised interventions on them.

How does indigenous knowledge differ from scientific knowledge?
Indigenous knowledge what "ordinary" folk know. This is local in geographical extent and cultural context. It is fragmentarily distributed, exists nowhere as a totality. Although more widely shared locally than specialised scientific knowledge, no one person, institution, or authority encompasses it all.

The example of the pumpkin vines in Bangladesh.
In Bangladesh, blights such as bacterial wilt, and fungal disease occasionally attack the profitable pumpkin crops. People attribute this to the "evil eye", and it is common to see inverted earthenware pots, painted black with white circles, hung up to protect the crop.

A role for indigenous knowledge research remains in the solution, to inform and perhaps correct externally-derived adaptive technical interventions. Such research can further understanding of the homestead system, where Pumpkin vines are customarily grown in a spreading tangle off the ground over bamboo frames. Although this is more of a piecemeal "happening" than a planned cultivation, such practices, built up through experience over many generations, may hinder the spread of disease.

Why did the Flood Action Plan have bad consequences for the poor "Jele" caste.
The spending of many billions in development assistance-funding scientific advances and associated technological interventions goes hand-in-hand with increased poverty. It bolsters the power of the wealthy elites who occupy positions interfacing with the international community. The poor are excluded and further lose control over their own lives. One clear link in Bangladesh is such that technological advances may increase the value of resources, attracting the wealthy and powerful who then seek to control them. Resources held in common which give uncertain or poor returns and are uneconomically labour-intensive are not attractive propositions. The poor often rely on such common land and water bodies to eke out their meagre livelihoods. If the wealthy evict them, following a scientifically informed intervention that increases productive capacity, the consequences can be dire.

The Flood Action Plan, for example, a multi-billion dollar engineering project of embankments and sluices intended to control monsoon flooding, has also made it more feasible to control what

have traditionally been common water-fisheries. When combined with development-assisted fish-stocking programmes, these become highly productive resources and poor jele caste Hindu fisherman find access restricted. Before the 1970s, the untouchable jele caste was almost exclusively involved in fishing, and fishermen followed traditional access customs.

How does the "Green Revolution" often work against the interests of the poor?
Green revolution- Dramatic increases in agricultural production from genetically engineered hybrid grains that produce high yields in return for high inputs of chemical fertilisers and pesticides.

ELDCs are importing three times more cereals from EMDCs because the green revolution has made these ELDCs increasingly dependant on foreign grain imports although the revolution was supposed to promote self-sufficiency.

Need for petrochemical fertilisers, mechanised farming, irrigation etc. Therefore except where the country transforming its agriculture is self-sufficient in oil, fertiliser manufacture and industrial capacity to produce tractors and other machinery. The Green revolution creates markets for the industrial countries and plunges under-developed countries into deeper and deeper dependency.

Consequences for rural populations- radical transformation in the agrarian class structure, The costs favour the large land-owner and relatively prosperous peasant farmer. Widens the gap between the rich and the poor. The poor are forced to sell their land to the expanding capitalist farmers and join the labour force. This causes rural depopulation as poor people seek jobs elsewhere; e.g. Pakistan, Thailand, Mexico, India, Philippines.

How did the development discussions make conflict worse in one Bangladeshi village?
The Bangladesh projects have followed established participatory approaches, striving to empower while facilitating technology transfer. Further, the scientists have adopted a problem-centred approach, generating a range of potential options from which "beneficiaries" might choose.

In one Bangladeshi village, the discussions catalysed conflict between stakeholder groups rather than facilitating progressive change. The rich landowners expected their poor and landless clients to go along with whatever they mooted, as usual. The wealthy saw the project as an opportunity to speed up this slow natural process to their advantage. When they were encouraged to speak out at segregated stakeholder sessions, the poor, particularly those who relied heavily on fishing, predictably opposed the suggestions which would deprive them of a common resource. A village leader, addressing a meeting, warned everyone against collaborating with the project and talked of protecting the "beel", as it was part of a British plot to retake colonial control of Bengal. More worryingly, the landowners forbade people to fish over their land over the lake. In another display of power, following elections, landowners refused to enter into sharecropping arrangements with poor member of their villages or employ them as day labourers, effectively depriving local people of an important source of income, by entering into arrangements with persons from elsewhere.

How can anthropologists help in this dilemma?

We need to urge development agencies to debate more openly the wisdom of ethics of interfering socially in other communities, imposing Western-informed notions of good governance, human rights and natural justice. We need to promote this kind of open debate or else the rich will continue to become richer, and the poor poorer. One of our consistent exports to egalitarian tribal societies around the world has been poverty. We should not allow politicians, to whom these issues are so familiar, to spin them away.

Backgrounders
Free Trade Versus Fair Trade
by Jeffrey Eisenberg

Free trade refers to a general openness to exchange goods and information between and among nations with few-to-no barriers-to-trade. Fair trade refers to exchanges, the terms of which meet the demands of justice.

Proponents of fair trade argue that exchanges between developed nations and lesser developed countries (LDCs) occur along uneven terms, and should be made more equitable. The Fair Trade Federation's Annual Report describes the fair trade movement as "a global network of producers, traders, marketers, advocates and consumers focused on building equitable trading relationships between consumers and the world's most economically disadvantaged artisans and farmers."

Fair trade organizations, such as the Fair Trade Federation and the International Federation for Alternative Trade maintain that fair trade practices alleviate poverty, enhance gender equity, improve working conditions, the environment, and distributive justice.

By contrast, free trade proponents believe that under a system of voluntary exchange, the demands of justice are met. Although free traders hope to alleviate poverty and improve conditions around the world, they prefer measures that are less intrusive than fair traders, who regard the unfettered market as injurious to these same goals.

Free traders argue that in the long run markets will solve – that is, when permitted to come to equilibrium, both rich and poor nations will benefit. In this way, free traders hold that free trade is fair trade.

The Case for Fair Trade
The Dependency Thesis

Proponents of fair trade maintain that trade between and among nations occurs in coercive and uneven ways. Even if nations trade freely, smaller nations become increasingly reliant on richer states, whose interaction with smaller countries depletes natural resources in those countries, and slows their progress. Dependency theory has many variations, and has undergone changes over several decades.

Here are the basics. Richer, powerful nations are collectively known as the "core," while LDCs and other very poor countries are known collectively as the "periphery." Dependency theories entertain the idea that periphery states depend for their well-being on the core. The core produces more luxury goods, while the periphery specializes in basic and industrial goods. Although there are many putative mechanisms driving the dependency – some of them highly disputed even among dependency theorists – the general theme is that such a dependent relationship exists, and is ruinous to the LDCs.

F.H. Cardoso and Enzo Faletto published Dependency and Development in Latin America in 1969, the first academic statement of dependency theory. In it, Cardoso and Faletto argue that "economic development has frequently depended on favorable conditions for exports." Argentina

in 1900 looked economically very similar to the United States of 1900, but Argentina's growth was severely depressed when compared to U.S. economic growth over the twentieth century. Cardoso and Faletto attribute this decline to unfavorable terms of trade relationships for Argentina.

Later versions of the dependency theory hold that governments mismanage money, while private investors regard the Third World as risky investment. So, the Third World finds itself perpetually disadvantaged. John Gray of the London School of Economics argues in False Dawn:

The increased interconnection of economic activity throughout the world accentuates uneven development between different countries. It exaggerates the dependency of 'peripheral' developing states such as Mexico on investment from economies nearer the 'centre', such as the United States. Though one consequence of a more globalized economy is to overturn or weaken some hierarchical economic relationships between states – between western countries and China, for example – at the same time it strengthens some existing hierarchical relations and creates new ones.
Dependency theory ultimately maintains that the terms of trade between center and periphery nations is unbalanced and therefore unfair.

Alleviation of Poverty and Human Dignity

Fair trade advocates maintain that nations that have limited export opportunities become poorer, and hard-working individuals and their children struggle to meet basic life needs. Fairtrade.org argues that trade introduces an exploitative mechanism which impoverishes those in the Third World:

Particularly in the field of trade, our area of attention, the law of the strongest is frequently the only law. In Asia, Africa and Latin America, both male and female craftsmen and farmers know all about this. If they cannot free themselves from the grasp of the numerous middlemen and buyers, who from their position of power prescribe the lowest prices, they will remain slaves of circumstances their entire lives.
According to the principles of fair trade, the prevailing terms of trade between rich and poor nations are unjust because prevailing market prices for the goods produced in the Third World are too low for the laborers to reap a wage reflecting their dignity.

Nobel Prize winning economist Amartya Sen, in Development as Freedom notes another problem of poverty: Many of the same people who have small incomes also have deficiencies in the ability to convert those incomes to useful life pursuits. In other words, there are "unequal advantages in converting incomes into capabilities." Sen continues, "the interpersonal income inequality in the market outcomes may tend to be magnified by this 'coupling' of low incomes with handicaps in the conversion of incomes to capabilities."

Poorer nations are thereby perpetually punished even further as they are less able to efficiently use the income they accumulate. Fair trade organizations take up the project of buying products from Third World producers at supracompetitive prices – prices that exceed the equilibrium price, as a form of poverty alleviation.

The Case for Free Trade
Voluntariness

Proponents of free trade argue that voluntary exchange meets the demands of justice because each party to the trade leaves the trade richer than he or she was before. Johan Norberg writes in his book In Defense of Global Capitalism:

It may seem odd that the world's prosperity can be augmented by swapping things with each other, but every time you go shopping you realize, subconsciously, how exchange augments wealth. You pay a dollar for a bottle of milk because you would rather have the milk than your dollar. The shop sells it at that price because they would rather have your dollar than keep the milk. Both parties are satisfied with the deal, otherwise it would never have taken place. Both of you emerge from the transaction feeling that you have made a good exchange, your needs have been provided for.
Advoates of free trade note that parties to a transaction participate freely because it improves their own lot. This lesson applies more generally to trade among nations. If producers and consumers in world markets adopt the same producing and consuming behaviors that they do as individuals, then exchange among nations is just and wealth increasing.

Other academics have focused on the connection between open exchange and the larger program of freedoms in society. Nobel laureate Milton Friedman writes Capitalism and Freedom in which he argues that there is a very real connection between economic freedom and the political freedoms. In this way, voluntary exchange is a component of a larger bundle of freedoms in society. Friedman illustrates this view tellingly:

No one who buys bread knows whether the wheat from which it is made was grown by a Communist or a Republican, by a constitutionalist or a Fascist... Instead of recognizing that the existence of the market has protected [the oppressed] from the attitudes of their fellow countrymen, [critics of free trade] mistakenly attribute the residual discrimination to the market. Discrimination can therefore be a self-punishing choice for producers – who select workers on the basis of something other than performance – and for consumers, for whom it is costly to determine the often anonymous sources of goods and services. Voluntariness permits incentive structures that accord with fairness.

Trade Is Enriching – To Everyone

Advocates of free trade find many economists in their ranks; economists nearly unanimously support measures to increase the flow of goods between nations, and thereby to make trade freer.

Countries, like people, are more or less talented at producing various goods.

When countries specialize in producing what they are relatively more talented at producing, they can trade with other countries doing the same thing, and all participating countries can enjoy a more extensive package of total goods and services than they did before. Economists call this the Ricardian trade model, and empirical evidence appears to confirm trade's enriching effect on participating countries.

Consider two fictional countries: Here and There. Here and There each have 10 units of Labor with which to produce gin and vermouth. Here and There fought some brutish wars many decades back, but they have come to terms with each other by finding their common ground: martinis.

Laborers in Here can produce gin at a rate 10 units per hour and can produce vermouth at a rate of 1 unit per hour. Over There, where grapes are abundant, Laborers produce vermouth at 10 units per hour, but produce gin at a disappointing pace of 1 unit per hour. Let's see what happens when Here and There stubbornly refuse to cooperate and make their own martinis:

In Here, laborers are divided evenly between gin and vermouth. At the end of one hour, Here gin producers (five of them) each have made 10 units of gin for a total of 50. The other five work on vermouth, and they can come up with five units at the end of the hour. At the end of an eight-hour day, there are 40 vermouths and 400 gins. In There, laborers are divided evenly. They end up with 400 vermouths and 40 gins.

Martinis are best when they're three parts gin to one part vermouth. That means Here can make 120 martinis before running out of vermouth to add to gin, and There can make approximately 13 martinis before running out of gin.

Of course, Here will have an excess 280 gins, and There will have an excess 387 vermouths, for a possible increase of 93 martinis between Here and There per day. If they trade, Here and There can both increase its number of martinis. If they don't, those 93 extra martinis vanish as surely as today will tomorrow.

This is hardly the strongest case that can be made to Here and There to trade. Instead of domestically producing gin and vermouth and selling each other some of its excess, Here could fully employ its workers in producing gin, and There could fully employ its workers at producing vermouth. When they "specialize" in what they have a "comparative advantage" in (this is econ lingo for producing what each country is least bad at producing), both countries can increase their daily martini intake.

Unless expanding a country's consumption opportunities is a bad thing, free trade must be a good thing. Here will probably always have more martinis than There as long as martinis call for more gin than vermouth. But There is not likely to be upset; There unambiguously has more martinis than it would under autarchy.

But what can we make of poverty in the meantime? Trade may be enriching, but what does that mean for those that are poor and will remain poor during this process.

Professor Deepak Lal is a pioneer in the field of development economics. He remarks that (.pdf) "for most of history poverty has been the natural state of Man."[viii] On the encouraging side though, Lal argues, "a liberal economic order which promotes labor intensive growth can cure the age long problem of structural mass poverty."

What Is Fair Trade Anyway?

Advocates of free trade sometimes oppose fair trade on the belief that the concept is incoherent. Suppose that an initial "fair" price for a company to pay workers could be agreed upon. But would the price (or wage) be fairer if it was higher? If it was lower? If higher, workers capturing the jobs at that wage would live better. If lower, more workers could benefit from being paid that lower wage. What conditions of fairness underlie the idea of a "fair" price?

University of Rochester economist Steven E. Landsburg, author of The Armchair Economist and Slate.com columnist, writes the following story which illustrates the problem of "fair" prices:

My dinner companion was passionate in her conviction that the rich pay less than their fair share of taxes. I didn't understand what she meant by "fair," so I asked a clarifying question: Suppose that Jack and Jill draw equal amounts of water from a community well. Jack's income is $10,000, of which he is taxed 10%, or $1,000, to support the well. Jill's income is $100,000, of which she is taxed 5%, or $5,000, to support the well. In which direction is that tax policy unfair?

… I have thought about the issue in those terms quite a bit and am still unsure of my own answer. That's why I hesitate to pronounce judgment on the fairness of tax policies. If I can't tell what's fair in a world with two people and one well, how can I tell what's fair in a country with 250 million people and tens of thousands of government services.
Buyers and sellers self-select into and out of markets based upon their preferences, their willingness-to-pay, and the costs of production. When the market "clears," there is no excess demand or excess supply, so no resources are put into storage and no resources are still desired at the prevailing price. This outcome is efficient. Free marketers regard this optimal use of resources as fair. That is what they mean when they say that free trade is fair trade.

More importantly, if nations trade freely and therefore have no grievances about the trade, on whose behalf do we find the trade unfair? It would seem peculiar to find the trade objectionable because of another party's disagreement, where that party was unaffected by this trade.

Concluding Remarks

Fair traders and free traders have a surprising amount of common ground. Both camps are concerned with global justice, both are concerned with poverty alleviation and global prosperity. The basic problems appear to be held in common. But free traders regard voluntariness as the chief component of justice. Fair traders regard the expression of human dignity as the chief component of justice.

Free traders believe the best way to alleviate poverty in the long run is to permit freer trade while fair traders think that opening trade even further would entrench trends of rich nations becoming richer and poor nations becoming poorer. Fair traders think global prosperity cannot forget to include the immediate needs of those in the least well off group, while free traders regard such targeting as potentially dangerous.

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