

## Week 2 – Development Strategies

### Modernisation Theory – Gwynne 2009

- Body of theory prominent in the 1950s and 1960s regarding policies assisting poorer countries to ‘develop’ socially and economically
- Geopolitical context: Post WWII – the US the main power in the capitalist First world and the Soviet Union the leader of the ‘Second World’ ideologically aligned with capitalism – two competing ideological blocks
- Modernisation is necessarily comparative: between a traditional/backward society and the ‘modern society’

### Economic Theories on Modernisation

- **Walt Rostow** (American): all societies needed to pass through 5 stages of economic growth
  - 1) traditional society – agricultural dominance
  - 2) ‘preconditions for takeoff’ – political constitution of a national state, expansion of trade and an increase in the rate of investment
  - 3) takeoff – economic growth a party of society, rate of investment  $\geq 10\%$ , technological change embedded in society
  - 4) road to maturity – every aspect of the economy is modernised and makes use of new technologies
  - 5) high mass consumption – consumer goods and services dominant
- Empirical validity questioned
- **Alexander Gerschenkron** (Russian Jew): ‘as other countries modernise and backwardness in a country deepens, the underprivileged society will become increasingly sensitive to the contrast between itself and the successfully modernising state’ p. 165
  - Gootenberg put forward two concepts underlying Gerschenkron’s approach:
    - paradoxical advantage of backwardness: that industrialised countries could import advanced scientific and industrial techniques to remain globally competitive
    - substitutes: if an element or prerequisite for growth were lacking, societies could develop new institutions as substitutes
- Ger privileged ‘historical discontinuity’ whilst Rostow was concerned with ‘linearly conceived continuities’ p. 165 -- > relative backwardness could be overcome for ‘novel strategies’ despite lacking any prerequisites
- **Ger was explicitly relational: any newly industrialising country was different because it was affected by past industrialised countries**
- Whilst Ger made little effort to transform theory into development policy his arguments were more widely accepted by Latin American economic modernisers
- **Albert Hirschman**: theory of unbalanced growth
  - ‘a pattern of accelerated growth may be stimulated by concentrating development efforts on key industries and locations in lagging regions’
  - growth must also be geographically unbalanced: ‘master industries’ centralise growth but have the potential to generate linkages in and around the location of a key industrial plant p 165
- Growth is thus centralised in certain regions of a country
  - opportunity for effects to trickle down to regional areas
  - regional development conceived as a problem of unbalanced growth
  - where necessary governments would intervene to ‘rebalance’
- **Myrdal** much more pessimistic: the dominant force creating increasing inequality in countries was the ‘negative backwash’ i.e. movement from the periphery to the centre of capital, goods and people to increasingly centralise economic activities

### Sociological versions of Modernisation

- Contradictory effects of economic understanding of modernisation reason to question emphasis on economic version
  - eg resource conundrum: natural resource investment an important economic pathway for the USA, UK, Germany but countries such as Nigeria and Venezuela, whilst possess large

amounts of natural resources have not seen sustained economic development. Also ownership of natural resources insignificant for some developed countries eg Japan, South Korea

- Reason to argue that cultural and social variables are more significant
- Max Weber: idea of a traditional society, composed of the predominance of a traditional type of action (determined by a well-rooted custom) and a traditional type of authority (whose domination is based on the belief in everyday routine as an inviolable norm of conduct). This society is compared to the new 'rational' society
- **Parsons:** argued that every society possesses a set of 'role expectations' or the roles which the individuals within the society expect one another to perform
  - traditional society associated with polar alternative pattern variables to the modern society. The role expectations are protected by its system of rewards and retributions
  - these constitute a 'social value system' which, to a certain degree, conditions the activities of society's individual members
  - eg for economic growth to occur in a free market society, the behaviour patterns of capitalism (risk taking, profit motivation, the impersonal nonfamilial organisation) should **blend** with the society's prevailing value system and receive wide social approval
- Key critique: the concept of social approval exaggerated the cohesion displayed by societies as they experienced modernisation and economic change
- **Gino Germani:** social change within the context of economic growth was asynchronous (not symmetrical) and therefore different social forms can coexist within society that belong to different stages of modernisation – some parts of society remain fairly traditional and backward but exist alongside others which have already become modern p. 167
  - Implication: because of asynchronous nature of change (geographical, institutional etc) developing countries suffer from problems which did not exist in those countries which developed earlier
  - 1) in preindustrial societies most actions are prescriptive whereas in modern societies there is a predominance of elected actions
  - 2) change is abnormal and rare in traditional societies but expected in modern societies
  - 3) traditional societies possess few institutions performing many functions whereas modern societies possess specialised institutions which results in a highly differentiated structure
    - need to see specific and autonomous institutions appearing in the economy, operating according to principles of rationality and efficiency
    - social stratification must be formed based on achievement and performance as opposed to inherited attributes – inability for Latin America to 'develop' in 1960s as they had low social mobility with the elites in control
- Rostow (economic) and Parsons (social) tend to put countries into development stage 'boxes' based on varying attributes – more prescriptive

#### Latin American Structuralist School – Cristobal Kay 2009

- Analyse the development processes and problems of their region from their own perspective instead of from the perspective of the developed world.
- Raul Prebisch wrote a study, later termed the 'ECLA (Economic Commission for Latin America) Manifesto' by Hirschman, with a team of economists or political economists

#### Influences on, and of, Structuralism

- Structuralism ideas formulated from the late 1940s to the 1960s, aka developmentalism, the 'centre-periphery' paradigm
- Ideas not limited to Latin America and date back to before or during WWII
  - Northern economists influencing Latin American structuralism: Hirschman, Kalecki, Mandelbaum, Nurkse, Rosenstein-Rodan and Scitovsky.
  - Heterodox economists influenced by Keynesianism, institutionalism, or Marxism
  - Dudley Seers: the most prominent Anglo-Saxon development economist influenced by structuralism

### The Role of ECLA and Leadership of Prebisch

- Prebisch argued that the mainstream theories of the time, neoclassical and Keynesian were inadequate in explaining the reality of undeveloped countries eg disputed the classical theory of international trade based on comparative advantage(that everyone gains)
- Empirical investigations and 'new analytical categories and theories' to build a database for each individual Latin American economy and for the region as a whole
- As a UN organisation they were limited in their ability to critique government policies in the US etc, but the ECLA soon became the 'first major regional think tank' p. 160

### The Structuralist method of analysis

- Three fold:
  - 1) historical: contemporary problems are rooted in history
  - 2) totalising: analysis beyond the local and national to embrace the multiple links with the global and international system
  - 3) structural: arguing that particular economic, social, and political structures of LA had been transformed by the colonial encounter
- **Structuralist view: the underdeveloped and developed countries are partial but interdependent structures which form one world system p. 161**
- Difference is their level of autonomy, whilst developed countries exhibit a large degree, the undeveloped are constrained as their development process is partly shaped by the dominant developed countries
- --- > **the interdependence is between unequal partners as their interlinkages mainly benefit the dominant partner**
- Argued that the process of development is not one of a single growth trajectory with multiple stages, but that underdevelopment is part of the 'same global historical process which led to the development of the now developed countries' p. 161
  - the development strategy of the underdeveloped countries should therefore aim to seek a more equal relationship so as to 'enhance their capability for transforming their economy and society in the pursuit of higher standards of living for the majority of the population' p. 161

### Unequal Exchange between Centre and Periphery

- Prebisch divided the world into a small number of core industrialised countries (the centre), and a larger number of weaker non-industrialised countries (the periphery).
- While the centre exported industrial commodities to the periphery, the periphery exported primary commodities such as tropical agricultural products and mineral products to the former
- Prebisch argued that the income disparities between the two were perpetuated and widened through international trade (and apparent comparative advantage)
  - attributed to **the long-term tendency for the terms of trade (export prices/import prices) of the periphery to deteriorate.**
  - over the years, for the same amount of imported industrial commodities they had to export an increasing quantity of primary products in exchange -- > transfer of economic surplus from the periphery to the centre (opposite to what theory of comparative advantage would argue)
- The centre benefits: technical progress is easier, greater organisation of labour and higher degree of monopolistic or oligopolistic power of industrial firms means that both capital and labour can retain most of the benefits through higher profits and wages
- The periphery loses out: the existence of surplus labour and its weaker bargaining power combined with the higher degree of competition among primary producing enterprises means that even though technical progress is more limited, most of its benefit are transferred to the centre countries which import those primary commodities
- The price of the primary commodities exported by the periphery falls in relative terms compared to the price of industrial commodities exported by the centre
- Singer reached the same conclusion but attributed it to changing income elasticity of demand: as incomes rose in the centre they spent a proportionately less amount of their income on primary products, whereas for the periphery they spent proportionately more of their income

on the imported industrial goods -- > the demand for industrial products rose faster than the demand for primary products as incomes increased -- > increase in price of industrial commodities as compared to primary commodities

- Became known as the **Prebisch-Singer hypothesis**
- When Prebisch became the secretary general of UNCTAD in 1964 he hoped to establish a New International Economic Order that would
  - stabilise and improve the prices of primary commodity exports from developing countries
  - dismantle agricultural subsidies to farmers in the North & protectionist measures for farmers in the North
  - regulate the behaviour of multinational corporations
- Eventually left the UNCTAD in 1969 due to frustration with inability to make much headway, particularly attributed to the USA being opposed to measures which they perceived as being against their economic and political interests p. 162

From an 'Outward-Oriented' to an 'Inward-Oriented' Development Process

- Prebisch became an 'ardent advocate' of industrialisation of the periphery in order to create higher rates of technological progress in the periphery
- To be achieved through tariff barriers (to discourage the import of certain industrial commodities) aka 'import-substitution industrialisation' (ISI)
  - Also state investment in the country's infrastructure, financed through a state development bank to supply cheap credit to the entrepreneurs, and a state development corporation
- Attempts by structuralist to produce industrial exports (so as to generate foreign exchange to import inputs for industry) limited by 'insufficient government incentives, protectionist tariff barriers in the developed countries and the lack of competitiveness' p. 163
  - Though governments were warned about excessive protectionism and the lack of competitiveness of industry they were unable to match the power of the new industrial bourgeoisie (middle class)

The Rise of Neoliberalism and the Renewal of Structuralism

- Rise underpinned by difficulties related to industrialisation, debt crisis of 1980s and the failure of governments to control inflation
- Neoliberal policies adopted which saw the Latin American economies shift back to an 'outward-oriented development strategy'
  - achieving macroeconomic stability by controlling inflation and reducing government expenditure, by privatising state enterprises and by reducing tariff barriers, thus opening the economy up to the world market
- 'Neostructuralist' idea of thinking: emerged as structuralists understood the reality brought about by neoliberal globalisation
- Would require an internal restructuring of the economy and an investment in technological innovation to achieve sustainable 'systemic competitiveness', not relying on cheap labour and the export of unprocessed raw materials, but moving up the value chain
  - the state would need to invest in education and health to improve the quality and skills of the labour force
- Whilst some think neostructuralism is an alternative to neoliberalism, others think of neostructuralism as the 'human face of a reformed neoliberalism'

Dependency – E Hartwick 2009

- Critical theorists claim that dependency is a fundamental characteristic in human social existence
- Power accumulates in 'centers' by draining the 'peripheries' of people and wealth: this is exercised through knowledge and discourse, capital investment and financial expertise or as militaristic intervention and occupation of countries
- James Blaut: argued that a First World 'lens' placed on the world made it inevitably biased and ill-equipped to understanding global events

- conventional Western science is so closely interwoven with imperialism that it can only describe and justify, and not explain or control major events like wars or invasions
- set of historical beliefs and social-scientific generalisations about the world biased in favour of whites and congruent with the interests of White imperialism
- Europe makes history while non-Europeans play little or no crucial role in events and have history made for it
- whenever non-Europeans show evidence of progress, this is proportional to the European impact on their society

### Dependency Theory

- The development of Europe and North America was predicated on the **active** underdevelopment of the Third World. As a result, Third World countries can achieve at best forms of development that make them **dependent** on the First World for capital, technology, markets, loans and grants
- Inequalities are built into global space through the uneven development inherent in capitalism, caused by the exploitation of the peoples and societies of the peripheral regions
- Dependency Theory began with criticisms by Latin American economists of the claim to 'universal applicability' made by classical and neoclassical economics
  - conventional comparative advantage and trade theories expressed by the industrial 'center' were not applicable to the agricultural countries at the 'periphery'
  - instead what was needed was a new structuralist perspective that took into account structural differences among economies eg historical contexts, social structures, external relations
- Prebisch: whilst comparative advantage might make the periphery better off in theory, the production of primary goods in the periphery and exchange for industrial goods imported from the center had led to the lack of progress, attributed to the fall in the terms of trade, making international exchange work almost exclusively in favour of industrial producers
  - solution! Import substitution industrialisation (ISI)
- It was later criticised for ignoring class relations: state intervention into the economy (eg protection of infant industries from foreign competition by subsidies) could serve to make the middle class (bourgeoisie) richer, with consumer paying high prices for goods
- **Andre Gunder Frank**: leading critic of modernisation theory -- > idea that progressive change began in the center and spread to the periphery
  - argued that attributing underdevelopment to traditionalism, rather than capitalism was a historical and political mistake
  - the economic, political, social and cultural institutions of the underdeveloped countries resulted **from** the penetration of capitalism, rather than being original or traditional
  - Argued that 'external monopoly resulted in the expropriation (and thus local unavailability) of a significant part of the economic surplus produced in Latin America' p. 93
  - the region was **actively undeveloped** (made less developed) by the expropriation of its surplus product
  - at each step of a chain (from national metropolises to the regional centres, to large landowners, to small peasants or tenants) relatively few capitalists above exercise monopoly power over many below, expropriating their economic surplus
  - the center and periphery become increasingly polarised as capitalism developed the one, and undeveloped the other in a **single historical process**
- Real development entailed separation and autonomy from the global capitalist system: the development of national and regional metropolises was limited by their satellite status eg Sao Paulo, Brazil could only achieve a dependent form of industrialisation
- 'Underdevelopment was generated by the same processes which developed the center' p. 93, through the loss of surplus in the periphery expropriated for investment in the center's development
- Critics of Frank questioned the economic mechanisms of surplus extraction
  - whilst some cases were obvious eg European/ North American ownership of land, factories and resources in Latin American countries and withdrawing surplus as rent or profit or when the IMF or World Bank loaned capital to peripheral states and withdrew surplus as interest

payments

- but what about peasant producers, owning land and producing cash crops for export to center markets?

- Arghiri Emmanuel: theory of unequal exchange, argued that trade made poor countries poorer and rich countries richer
  - assumed perfect international mobility of capital, but immobility of labour between countries
  - peripheral countries exported large quantities of cheap labour and imported industrial products embodying small amounts of expensive labour -- > terms of trade favoured higher-cost products of the center, whilst devaluing low-costs exports of the periphery
  - peripheral countries not able to develop because they sold their goods at prices below values, whilst centre countries sold goods above value
- Peripheral countries borrowed back their own surplus to finance 'development'
- Europe's dependence based on conquest, colonial control and the stripping of non-Western societies of their people, resources and surpluses. **'The relationship between center and periphery assumed the spatial form of dependence' p. 94.** Dependence skewed Latin American's social structure so that local power was held by a small ruling class which used the gains from exporting for luxury consumption instead of investment
- Fernando Henrique Cardoso: in countries like Argentina, Brazil and Mexico spatial and sectoral dualism have emerged – space divided between advanced regional economies tied to the international capitalist system and backward sectors, isolated from progress p. 94

#### Exceptions to Dependency

- Apparent ability of Third World countries to industrialise and achieve nondependent forms of development
- Balassa: argued for a stage theory emphasising the choice of economic policy in setting a course through historical phases of industrialisation, said to begin as a response to the needs of the primary sector
  - the first stage of import substitution involved local manufacture of previously imported goods and a second stage involved the replacement of imports of intermediate goods (petrochemicals, steel), producer durables and consumer durables
- Export oriented policies were adopted by Asia (Japan, Korea and Taiwan) in the 1950s/60s, implementing free trade regimes and they increased industrial exports rapidly. Incentives for increased exports further lead to growth in manufacturing employment and higher incomes
- Countries that retained inward-looking strategies (India, Chile, Uruguay) remained at the bottom of the industrial growth league
- In the mid 1980s a wave of industrialisation in Indonesia, Malaysia, Thailand and China (later) seemed to confirm the view that dependency theory had been killed by developmental reality p. 95

#### Dependency Reasserted

- Argued that the development model of the New Industrial Countries (NIC) still retains aspects of dependency theory: reliance on FDI, importing technology from centers and paying licensing fees.
- But, the period of 1980-2006 saw recurrent debt in countries supposedly the exception to dependency
  - these NICs were given loans by international financial institutions, conditional on these countries adopting neoliberal models of development
- Dependency can also be thought of as control over the economic structure and trajectory of development – dependency is not dead, it has just changed its institutional form

#### Neoliberalism and Development – Murray 2009

- Success of neoliberalism in contributing to 'development' contingent on what 'developed' is conceived as. When thought of as an ability to exercise full human potential, it is argued that neoliberalism has eroded development prospects

## Neoliberalism, Globalisation and Development

- Argues that governments fail inherently: state intervention causes crowding out and inefficiency
- Alternatively, the most effective way to optimise welfare is to privatise and deregulate the economy, which is open to trade and inward investment -- > allows comparative advantage to work on a total scale, thus maximising global welfare
- Notion of a trickle down economy: the efficiency gains will eventually trickle down to all members of society
- Fundamentally a political ideology: promoting negative liberty (freedom to pursue individual goals without intrusion from others)
- Also a cultural paradigm: neoliberalism is far more mistrusting of the central regulatory function of the state and is tied to Western ideas of modernisation, civilisation, individualism, materialism, accumulation and rationality
- It is born of enlightenment 'doctrines of development'
- Does not acknowledge the role of good governance in the role of development, instead arguing that state developmentalism leads to inefficiency at best and corruption at worst
- Intimately tied to 'globalisation as currently practiced' - some argue that neoliberalism is a synonym for globalisation, but this suggests that the exploitation of the Global South is inevitable

## Historical Roots of Neoliberalism – Laboratory Chile

- Roots in the Chicago school of economics
- Following the Chilean coup of 1973 Augusto Pinochet enlisted right-wing Chilean economists trained at the Chicago school in an attempt to reverse the 'road to socialism'
- Developed a radical restructuring model: aggressive opening of the economy, devaluation, sharp reductions in public service expenditure and privatisation of mostly nationalised industries
- 'Macroeconomic miracle' of Chile – inflow of foreign investment & a surge in exports of primary products and non-traditional agricultural items,
- Corresponded with radically restructuring of the socioeconomy: small businesses and farmers, the poor and those most in need suffered.  
- Also the natural environment was ill-prepared for the new model and sustainability seriously threatened
- On paper an 'economic success': lowered inflation, increasing exports and competitiveness which would eventually (it was argued) trickle down to the masses
- Based on this success it was applied by the UK under Thatcher, the USA under Reagan and NZ as the post WWII welfare consensus was eroded by the recessionary impacts of the oil crisis
- Facilitated by SAPs (structural adjustment policies) applied to the periphery by financial institutions – mainly in countries under military dictatorships

## Neoliberalism and the Political Economy of Global Development

- Whilst proponents of neoliberalism have used the success of East Asian countries as proof that the ideology works, critics have argued that it involved market forces and processes monitored by developmental states that intervened actively to create the conditions necessary for capitalist growth
- Despite the promotion of neoliberalism by countries in the West, many of these countries have continued to protect their agriculture and industry behind high tariffs and quota walls esp EU, Japan and the USA
- Argued that the world economy is 'un free' – trapping much of the Global South into a primary product producing role
- Disparities are widening

## The rolling out of SAPs and the rolling back of the State in the 1980s and 1990s

- Rolling out of SAPs and World Bank/IMF loans conditional on countries adopting neoliberal policies: helped by the reform of the General Agreement on Tariffs and Trade (GATT) and

WTO which has the power to punish signatory countries that fail to deregulate and open their economy

- Major debt crisis due to oil supply shock 1980s: Western economies hit with inflation and recession and used supply side policies eg interest rate increases to restore equilibrium. This filtered through to LA countries with enormous debt (larger than GDP),
- Had to adopt neoliberal policies, also filtered through to African countries
- The World Bank and its backers gained neo-colonial power over the economic policy of nation states

#### The Nature of Neoliberal Development Models

(1) 'downsize': reduce taxation and public expenditure to lower deficits and raise incentives for private enterprise

(2) 'privatise': sell off state owned assets to introduce the profit motive into the economy

(3) 'deregulate': reduce state involvement in order to maximise efficiency and allow the free market to find its natural equilibrium

(4) 'globalise': reduce protectionist measures eg tariffs to allow foreign investment, facilitate the transfer of technology, attain economies of scale of exports and stimulate competitiveness

- Almost inevitable that poorer countries are at the bottom of the value chain as dictated by comparative advantage
- Poverty and inequality increased as austerity measures were put in place, at least in the short term
- Neoliberals have consistently argued these are transitory problems of 'adjustment' though there is little empirical evidence for this. More so SAPs have often left countries worse off in terms of holistic development eg environmental impacts
- Impacts on women, children and the poor strongest and most long lasting

#### Neoliberalism and beyond in Latin America

- 1980s referred to as a 'lost decade of development'
- Based on SAPs, LA countries were forced to exploit their comparative advantage in primary and agricultural production for export
- Despite ISI policies in the 1960s, this policy compounded the region's historical role as a resource periphery for the global economy -- > regressive developmental impacts (declining terms of trade, Dutch disease, enclave economies, vulnerability to the commodity boom and bust cycles)
- Shift towards export oriented, non-traditional production which had negative effects in rural areas – loss of land, concentration of ownership, increased vulnerability to external trends etc
- End of the Cold War saw dictatorships in the 1980s fall, leading to a watering down of the neoliberal agenda and the revival of regional cooperation efforts
- 'Neostructuralism' – governments now had to make concessions to social policy
- Asian Financial Crisis of 1997 – blamed on the Washington Consensus by some and attributed to corruption by others. The crisis solidified the critique of neoliberalism at all levels of society
- This has led to a shift to 'center-left' politics in many countries from the early 2000s, particularly in LA countries, though some have termed it 'left' politics
- The free market remains a central pillar, and as a consequence the general model in Chile, Argentina, Uruguay and Brazil -- > further right than the structuralist-inspired policies of the 1960s
- Renovated left leaders argue that global conditions have changed, ISI policies failed, globalisation is here to stay and that the market can be tempered and optimised p. 383
- In **most** countries there is still a reliance on primary product exports
- 'Neostructural' model unlikely to solve problem of the 'resource curse' – that any resource endowment is an impediment to development progress

#### The Future of Neoliberalism – Resistance and Reinvention



- Neoliberalism thought of as ‘globalisation as currently practiced’
  - growing popular dissent and the formation of transnational nongovernmental organisations (NGOs)
- Particularly prevalent thought in Latin America due to the impacts of neoliberalism, its association with rightist dictatorships, and the history with popular struggle
- Approach by lending institutions to development much more broad, focusing on broader sustainability in a social and environmental sense, and promoting the notion of good governance
- **Still the underlying idea of the inevitability of globalisation and the need for poorer countries to embrace it or sink**
- Neoliberalism is both facilitated by and facilitates globalisation
  - widening income gaps and all scales of analysis
- Need to develop viable alternative models if the inequity and non-sustainability of neoliberal development practice is to be challenged

## PODCAST – Why Nations Fail - Acemoglu

Three fold thesis:

- 1) What are institutions: argued against geography, cultural or ‘ignorance’ hypothesis
- 2) Why these institutions fail – political, self interest
- 3) How is it that these institutions change over time?
- Why don’t these self-interested leaders ‘increase the size of the pie’ and take more rather than taking more of the pie? – **changes that would make the pie bigger would also change the distribution of political power**
- Inclusive/extractive economic institutions – how these institutions stick: need all different age groups to have political power
- The government as a healthy institution: strong enough to impose law and order over its borders, regulate when necessary
  - but the government must also be held accountable and responsive to a broad cross-section of society (pluralism), ‘broad political equality’ in society
  - political power can not be concentrated in the hands of a narrow group, everyone must have political voice – this political competition to rule out policies/choices that benefit some at the expense of the rest
- Existing path of institutions interact with critical junctures -- > divergence
  - eg the black death – supply of labour decreased: the elites had an interest in extracting even more surplus out of labour. But once labour began more sparse, their political power increased (could bargain for higher wages)
- England/Spain/Netherlands all experienced growth which eventually led to the Industrial Revolution
  - yet Spain faded as a dominant power and Netherlands became ‘sleepy’
  - Spain is benefitting from new world trade, but it is the Crown who is benefitting. Whereas in England the Crown didn’t have a monopoly, the gains from Atlantic Trade realised
  - Beginning of inclusive institutions in England: changes in incentive/changes in market structure that underpin the IR
- Britain to US: weren’t able to subjugate the native population like they were able to in Latin America or how the Dutch were able to in the East Indies
- Maybe there’s something special about Britain?
- Very different to the Spanish experience in South America
- Botswana: unblemished democratic record, the colonial powers (British) did not interfere with existing institutions, an amount of pluralism
- Argentina became rich because of a resource boom but your institutions are extractive then this economic growth is unsustainable
- Russia & China:
  - interpretation of China: version of the Soviet Union – used the state power to channel

resource from the agricultural to industry, it could so because agriculture was so unproductive (lots of catch up)

- 'Catch up growth under extractive institutions': theory:: unless China is able to change its political institutions & the strength/reforms of its economic institutions its growth (like Soviet Russia) will be short lived
- Questioned the measurement of 'growth': agricultural growth very different to industrial growth
- Implications for foreign aid: can not be the solution but is also not the source of problems
  - question the ability of external interventionists to disrupt long standing institutions
  - spending money in another country **within a given institutional structure**
  - to an extent, aid enhances the political power of extractive institutions
  - aid has done gone (in transferring resources to places most in need) but it is not the solution
- What can we do to be a positive force towards institutions?
  - build civil society organisations, support formation of political democratic societies

## Week 2 Lecture – Development Strategies – Jeff Neilson

- 'Sets of government policies that shape a country's relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups' Gereffi 1989 p. 23
- History of ideas regarding 'the best way to develop' – these are presented to governments. The World Bank (as part of IBRD), the IMF
- Development as both an **intervention** and a **process** underpinned by 'developmentalism': philosophy of the need to intervene in people's lives to achieve 'betterment'

Gwyne (2009)

- Emerged from pre WWII thinking: idea of the need for colonisation to bring civilisation to the savages
- Cold War: binary US vs the Soviets both committed to the idea of modernisation, but wanted the Third World persuaded
- Walt Rostow: 5 stages of growth, first being triggered by an external influence (justifying intervention for development agencies). Linear
- In arguing that there's a certain cultural/social way of thinking to adopt in order to develop economically, it ignores any critique of neoliberalism/capitalism as the problem

Kay (2009), Hartwick (2009)

- Structuralist way of thinking: poverty and underdevelopment exist because of development somewhere else, it is world historical – there are certain structures between countries in place because of colonial history. This meant that certain countries are dependent on one another (import dependent countries now stuck structurally on process of import manufactured goods and exporting agricultural goods)
- Undeveloped -- > developing (modernisation theory implicit in these definitions)
- Underdeveloped is a process by which the rich become rich at the expense of the poor
- Prebisch: economic wealth concentrated in the core and extracted in the periphery (not a linear time scale but a relationship between)
- Terms of trade will decline in the periphery: Price of a basket of exports declines over time compared to price of basket of imports
- Critiques comparative advantage argument
- Dependency theory as a subset of structuralism
- Links to Dependency theory: inequalities are inherent in the uneven development of capitalism. They are caused by the exploitation of the peoples and societies of peripheral regions by the capitalist class of the centre

Structuralist solutions in practice

- International Commodity Agreements between 1954 and 1980 – maintain an international quota system for commodities eg sugar, tin, cocoa and natural rubber to restrict supply in order to artificially raise the price

- ICAs successfully raised coffee prices during the years that quotas were enforced but ultimately failed due to i) withdrawal of consuming country support ii) free-riding iii) costs of managing stockpiling and iv) disputes over quotas
- Import Substitution Industrialisation: incentivising countries to produce what they're reliant on importing, must have to change the structure of the economy eg tariffs, government subsidies, import quotas, manipulation of the minimum wage (make it low so that it's a competitive industry),
  - critique: protectionism led to overvalued exchange rates (an effective tax on exports) so exports declined and imports of capital goods and intermediate inputs were still needed to sustain industrialisation, leading to trade and ultimately fiscal deficits and debts
  - **limited internal markets meant industrialisation became 'exhausted'**
  - tendency for rent-seeking behaviour (monopolistic behaviour): ability to extract much higher prices than in a competitive market

#### Latin American debt crisis

- Ill effects of protectionism, ISI and rent seeking behaviour
- High debt at high interest rates for LA countries

#### Murray (2009)

- Post 1980s began beginning of neoliberal way of thinking
- Neoliberalism: privatise, deregulate the economy
  - increasing government intervention leads to a loss of our personal liberties (both economically eg assumptions about utility and welfare and politically eg the right to bare arms)
- The LA debt crisis during the 1980s prompted the emergence of SAPs – enforcing the neoliberal ideology eg the IMF loans money in exchange for lowering tariffs on imported goods, privatise public transport/ could also forgive debt
  - austere fiscal policy to help creditor banks to recapitalise their non-performing loans
- Washington Consensus: coined by John Williamson (1990) as a set of 10 policy reforms that most of official Washington thought would be good for Latin American countries, summarised in 10 propositions aka the neoliberal wish list
  - trade liberalisation
  - competitive exchange rate
  - deregulation
  - property rights
  - privatisation
  - fiscal balance
  - tax reform (lower marginal rates)
  - interest rate liberalisation
  - liberalisation of inflows of FDI
  - redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, education
- Post-Washington Consensus: by 2000 it had become clear to many that the SAPs had been less than successful
  - 'it's all about getting the prices right' – according to the market.
  - this idea slowly replaced by the need for institutions

#### Acemoglu podcast

- Institution: set of rules/norms that dictate behaviour, can be formal eg law or informal. Also includes their enforcement characteristics
- Argument for government intervention to correct market failure eg negative externalities
- The reason some nations fail is not because of 'geography', 'culture' or 'ignorance', but because of institutions
- Geography hypothesis: environmental determinism -- > but what about the natural resource curse

- Cultural hypothesis: Weber – Western and Northern Europe had a Protestant work ethic
- Ignorance hypothesis: countries don't know what the best policies are, justification for intervention by external agencies
- It's about institutions
- Extractive institutions: those in political power use that power to extract greater wealth (rather than increase the size of the pie, you take more pie) eg privatisation in Russia allowed oligarchs to grab wealth
- Inclusive institutions: merchant capital class challenged ruling aristocratic class, which created shared institutions

#### Resource curse

- Natural resources have created increased standards of living in some countries eg UAE whereas some countries eg Korea have developed without resources
- Argument that natural resources can be a curse: can become over dependent, haven't had to innovate to become competitive globally, instead they were able to develop for a short period - tends to create extractive institutions
- Related to Dutch Disease: currency inflow of a discovery of large oil reserves leaves to an appreciation of exchange rate, leading to other industries becoming less competitive (their other exports are more expensive now)

#### Tutorial 15/3

- Common but differentiated responsibilities: acknowledging the historical contribution of countries to 'climate change', as such 'developing countries' shouldn't have to contribute as much to addressing it
- In retrospect, modernisation theory clearly requires critical thought
- Structural analysis suggests a long term declining terms of trade
- Policy in response: import substitution industrialisation
- Negative: most countries don't have a comparative advantage to actually make the goods so there are inefficiencies
- Argument for protectionism: employment, pride, retains a skill-set (structural employment)
- Against: better to diversify and be more versatile
- Neoliberal: individual freedom – leave things to the market
- Moderated form of liberalism: institutions to enforce the rule of law, enforce norms of behaviour