



# 3

## Theories of Development

---

### CHAPTER SUMMARY

The post-war development project emerged amid the Cold War and decolonization but this project must be understood in the longer historical perspective of the rise of modern capitalism. Aspirations to development—universal human progress—were rooted in and denied by capitalist industrialization. Production increased dramatically, but it rested on injustice and anarchy. Colonialism, under which colonizers produced high-value goods and colonies produced low-value goods, was its geopolitical face. With decolonization, which began in the late 1940s, newly independent countries attempted to address these international and domestic inequalities under the rubric of the development project.

A succession of development theories articulated this endeavour. Early development theories emerged from the United States as it sought to increase its influence in the hitherto European-dominated global order and to counter communism, while later theories, reflecting the experience of the developing world and the difficulties of development there, criticized them. However, for them all, industrialization was the main goal and, given the deep crises—two world wars and the Great Depression—that capitalism had just suffered, the nation-state, rather than the market, was to be the main agent of achieving it.

In the 1950s, Keynesianism focused on state corrections for market crises; by the late 1950s, modernization theory focused on the alleged social defects of developing countries that prevented development; then, in the 1970s, dependency theory pointed to the maldistribution of economic power in world capitalism. It was only in the 1980s that neoliberalism radically rejected state intervention and promoted free markets uncritically, while contemporaneous post-development theories rejected the idea of development altogether. However, theorists of the developmental state continued and expanded on the centrality of the state in promoting industrial development. The emerging economics

and geopolitics of the twenty-first century corroborate them, and point to the strengths of the dependency theorists of several decades earlier.

## VIDEO RESOURCES

***East Asia 2014 – Rethinking Economic Growth.* World Economic Forum, 2014.**

<https://www.youtube.com/watch?v=nQgkkH-o-aE>

**Time 01:18**

East Asian nations have figured prominently in a new United Nations report on human development. The twentieth edition of the United Nations Development Programme report found that countries such as Indonesia have powered ahead when it comes to improving income, health, and education. UNDP report author Jeni Klugman says Indonesia has moved into the report's top ten movers for the first time, because of its efforts to increase incomes at the same time as improving health and education.

\* \* \*

***Revisiting the Economics of John Maynard Keynes.* PBS NewsHour, 2009.**

<https://www.youtube.com/watch?v=vwsjPZgBOdU>

**Time 09:11**

As part of his continuing series *Making Sense*, Paul Solman takes a unique look at the legacy of economist John Maynard Keynes, who first introduced the concept of government intervention in the economy, and his countertenor Friedrich Hayek

\* \* \*

***Joseph Stiglitz against Adam Smith's Invisible Hand.* Foratv.**

[http://fora.tv/2010/07/26/Joseph\\_Stiglitz\\_on\\_Free\\_Markets\\_and\\_the\\_World\\_Economy](http://fora.tv/2010/07/26/Joseph_Stiglitz_on_Free_Markets_and_the_World_Economy)

**Time 1:29:49**

Visiting Nobel Laureate and global economist Professor Joseph Stiglitz believes Australia's good fortune in being sheltered from the worst of the GFC means we may not fully comprehend its impact internationally. On his tour of Australia, he comments on the state of the Australian economy, particularly in context of the Global Financial Crisis, the role of natural resources within this economy, and Australia's response to global warming. Professor Stiglitz travelled all over Australia for three weeks as the inaugural speaker for the Eminent Speaker Series, hosted by the Economic Society of Australia.

\* \* \*

***Joseph Stiglitz – "Market Fundamentalism is Dead."* Foratv.**

[http://fora.tv/2008/10/20/Naomi\\_Klein\\_and\\_Joseph\\_Stiglitz\\_on\\_Economic\\_Power](http://fora.tv/2008/10/20/Naomi_Klein_and_Joseph_Stiglitz_on_Economic_Power)

**Time 2:18**

What is the role of the US in the disposition of the world's economic and environmental resources? How financial markets are best defended from economic shock? Does liberalization ensure prosperity? Journalist Naomi Klein speaks with economists Joseph Stiglitz and Hernando de Soto in a conversation moderated by David Harvey, Distinguished Professor of Anthropology at the Graduate Center—City University of New York (CUNY)

\* \* \*

***Heaven and Earth: The Rise and Fall of Socialism.* PBS, 2005.**

[https://www.youtube.com/watch?v=xfWOF\\_ADqw/](https://www.youtube.com/watch?v=xfWOF_ADqw/)

**Time 2:41:32**

Much of the history of the past 200 years revolved around a single idea: that life could be lived in peace and brotherhood if only property were shared by all and distributed equally, eliminating the source of greed, envy, poverty and strife. This idea was called *socialism*. It became the most popular political idea in history. At its crest in the 1970s, roughly 60 per cent of the earth's population lived under governments that espoused socialism in one form or another. Then, suddenly, it all collapsed.

The socialist movement split and split again into diverse, sometimes murderously contradictory forms. There was social democracy, communism, Arab socialism, African socialism, and other Third World variants. There was even fascism. And there were those who built their own socialist communities, hoping to transform the world by the force of example.

Through profiles of the individuals that brought socialism to life, *Heaven on Earth* tells the story of how an idea arose, evolved, changed the world, and eventually fell.

\* \* \*

**Socialism for Dummies.**

<https://www.youtube.com/watch?v=ysZC0JOYYWw>

**Time 49:45**

Professor Richard D. Wolff explains in 50 minutes what socialism is NOT. Where does the American fear of socialism, communism, and Marxism come from?

## REVIEW QUESTIONS

1. Discuss how the Great Recession has influenced development thinking.
2. How does Walter Rostow understand the process of development?
3. Discuss the emergence of the term “Third World.”
4. Discuss challenges raised by Raul Prebisch against the assumptions of conventional economic development.
5. Explain the significance of “cyclical deficits of demand” in development economics theory.
6. Explain modernization theory of Talcott Parsons briefly, but clearly.
7. In what way is dependency theory distinguished from modernization theory?

## ANSWER KEY: REVIEW QUESTIONS

1. The Great Recession demands a re-thinking of current development thinking. It has for the most part discredited neoliberalism's faith in free markets, creating an opening for the return of theories of the "developmental state," which emphasizes the role of governments in economic and social development. This return to a more comprehensive approach to development rather than the accepted "catching up" framework will cause development to be understood as a historical process that begins with industrialization rather than the end of World War II. Additionally, as neoliberalism's faith in free-markets to deliver quality of life is discredited, development theory will need to be reintegrated into the wider body of modern political and social thought from which it originally emerged.
2. Walter Rostow's theory of economic growth was a precursor to more developed modernization theory. It transitioned from the purely economic approach of development economics towards the more social emphasis of modernization theory. Rostow thought that traditional societies pass through five distinct stages on their way to becoming "high mass consumption" societies (the three stages between "traditional" and "modern" were "preconditions for take-off," "take-off," and the "drive to maturity"). Along the pathway toward "take-off," Rostow proposed a number of necessary reforms, including the creation of a national state, increasing trade and investment, growing productivity, and economic diversification.
3. The term "Third World" is the product of the particular historical moment the "development" project represents. Unlike its frequently-used synonyms—"poor countries," "developing countries," "post-colonial," "underdeveloped," "Southern"—the term "Third World" captures the international tension of the Cold War period. Countries of in this group sought a "third way" that would deliver both the benefits of capitalism's attention to economic growth and the social goods of state intervention and planning. It also demonstrated this bloc of nations' desire to distance themselves from Cold War politics and focus on issues of development as demonstrated by the formation of the Non-Aligned Movement at the 1955 Bandung conference.
4. The economist Raul Prebisch raised two main challenges to the assumptions of conventional economic development theory. First he identified evidence that undermined conventional development theory. Prebisch argued that capitalism created a centre and a periphery in the world economy, two areas conventional development economics encouraged to trade. However, Prebisch pointed out that during periods of limited international trade including the two World Wars and the Great Depression, the economies of countries in the periphery (e.g., Latin America) in fact diversified and industrialized. Secondly, simultaneous to another theorist Hans Singer, Prebisch argued that conventional trade theory was flawed. Conventional theory argued that trade between industrial and agricultural economies would result, over time, in benefit to agricultural economies as technology transfer would reduce the price of industrial goods more quickly than agricultural products. The Prebisch-Singer thesis counters that industrial countries will keep the benefits of technical progress by keeping prices high.
5. Development economics saw low-level equilibrium as the central problem of development in Southern countries with high unemployment and scarce capital and resources. Development economics drew on the Keynesian policies that had been employed in Northern economies during the Great Depression to overcome the problems created by "cyclical deficits of demand." Cyclical deficits of demand were understood by Keynes as the recurrent and cyclical tendency of the economy during times of crisis to under-invest in industrial infrastructure as capitalists preferred to keep their capital "liquid." These troughs could be smoothed out by government implementation of fiscal and monetary macroeconomic policies. Borrowing from these experiences

with cyclical deficits of demand, development economists thought that growth could be accelerated in developing countries by injections of capital and macroeconomic policies. After a massive initial investment—likened to the effort required when an airplane takes off—developing economies could arrive on a path to self-sustaining growth.

6. Unlike Rostow's economic history, the principal modernization theorists employed sociology and political science, relying particularly on Talcott Parsons believed, implicitly but fundamentally, that modernity formed a coherent, unitary, uniform and worthwhile whole, and had to be apprehended by a social science that shared these qualities. He believed that development occurred when modern characteristics—values and institutions, in addition to capital and technology—from the formerly imperial “modern” were “diffused” to the ex-colonial “traditional” countries until they matched the former as closely as possible. Accordingly, theory the obstacles to “modernization” lay in local and inherited “tradition.”
7. Modernization theory studied countries, while dependency theory studied the whole capitalist “world system.” Whereas modernization theory assumed that the problem of development was an original state of non-development, dependency theory argued that a single and integrated historical process of world capitalist development developed some countries and underdeveloped others. Whereas modernization theory assumed that development would help “traditional” societies “catch up” with “modern” ones, the stronger forms dependency theory insisted that development was impossible under capitalism: socialism was the only solution. Whereas modernization theory saw the elites of “traditional” societies diffusing modern values, ideas, practices, and institutions to the rest, dependency theory saw them collaborating with imperialism to produce underdevelopment. Rather than conceiving the world economy as divided between “traditional” and “modern” societies, dependency theorists saw it as divided between an advanced industrial “core” and a largely agricultural “periphery.”