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State of Development Economics

By STEPHEN A. RESNICK*

The current state of development economics is reflected all too well by that of neoclassical theory—both are in a mess because of the lack of reality of the assumptions upon which they ultimately rest. What we now observe in the field of development is a focus upon reducing market imperfections, especially in the financial and trade sectors, and increasing investment in human resources. Development economists seem to have taken the institutional and historical development data into their academic offices, beaten the theory out of it, and come out with an *ad hoc* policy package of applied micro theory, no more useful in this field than in any other. Yet there has been a continuity to development theory that explains why it tends to be useless in explaining the reality of poverty and inequality and why, despite a passing appreciation of historical phenomena, it is a field that is totally ahistorical. What all of development economics since World War II have in common is the failure to see that the poverty of third world countries was never independent of the relative affluence of center countries. Specifically, the economies of the hinterland have been systematically organized and this organization historically reproduced by political and economic forces within the center to pump out unpaid surplus labor.

This alternative view is in complete contrast to what might be called neoclassical development theory for it analyzes unequal distribution of income as an essential and endogenous part of capitalist development. The major difference between the two approaches, about which there is much confusion, is the use of the concept "capitalism" to modify development and its derivative "imperialism" to analyze the process of international development.

The basic contrast between neoclassical and Marxian development theory must be found in the different underlying theories of value upon which each rests and from which each draws its logical framework and tools of analysis. In the neoclassical view of development, relationships of exchange not only dominate or determine production relationships, but take on a life of their own in explaining changes in a society over time. These exchange relationships depend upon preferences or choices of individuals as revealed in the market and ultimately upon some subjective concept of utility. This is perhaps a strong statement for rarely does one observe the explicit assertion that this is the theory being used. Nonetheless, upon what else is it to be based? Certainly an explanation based upon class analysis or the concept of exploitation would be an anathema to neoclassical development theory. The theory might be based upon some nebulous sociological notions of how primitive societies operate, but few economists would get caught holding this view. Perhaps all that really matters is the planning of development by the manipulation of carefully calculated input/output tables or the pragmatic use of incremental cost/benefit exercises. Even if one makes the heroic assumptions necessary to use the technical coefficients and somehow assumes that these coefficients are independent of government development policies, use of the technical

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planning approach, no matter how complex the models, must quickly come into conflict with the reality of national and international political relationships. Moreover, once the matrices are inverted, there remains the bothersome theoretical problem of what determines the wage rate of labor and/or the entrepreneur's decision to save and accumulate capital. Sometimes the power of technique lies in its ideological dimension which allows the economist as technician to ignore both the theory upon which it ultimately rests and the political economy that produces that theory.

What we currently observe is a careful analysis of those necessary reforms, taken from neoclassical theory of perfect competition, to allow the smooth workings of supply and demand in all sectors of the economy. The attempt is to resurrect and use the perfectly competitive model to explain not only why twenty-five years of import-substitution industrialization and growth of national output have not succeeded in remedying poverty, but also why, as has been commonly rediscovered once more, the distribution of income and wealth is getting more uneven over time. The view rests on the notion that the state through its financial and fiscal instruments has produced market imperfections that frustrate the development of free markets in both factor inputs and commodity outputs, and this has led to a less than optimal allocation of resources.

A policy package that deals with the more obvious imperfections, such as monetary and credit changes that allow the market rate of interest to reflect the opportunity cost of capital, foreign exchange devaluation and tariff changes and major reductions in quantitative restrictions on foreign trade that produce a more uniform ad valorem tariff structure directed toward reducing overall levels of protection, and tax and expenditure reforms that remove differential incentives to favored groups, will ultimately allow a situation where market signals perform their proper allocative role. Once accomplished, the distribution of income will be determined by the logic of the impersonal market, such that each factor receives what it deserves in terms of its marginal contribution to output.

These changes are seen as gradually moving the economy to its potential production possibility frontier by allowing it to find its Ricardian comparative advantage in the export of labor-intensive manufactures and as facilitating the growth of agricultural output by removing distortions that discriminate against it. Reforms are also seen as releasing a good deal of entrepreneurial talent, especially that bottled-up in the so-called informal urban and rural sectors.

Neoclassical development has moved to this emphasis on the freeing of markets to reflect opportunity costs and consumer preferences from a previous approach that placed more emphasis on institutional change per se, big pushes whether in agriculture or industry, and the breaking of vicious circles. Yet the differences are more apparent than real for both views share the common faith that the developmental effort must be to minimize those barriers to the effective operation of supply and demand, whether caused by cultural factors, indivisibilities, or by government-induced distortions, so as to maximize the individual private enterprise of each agent in the society. Thus, these views are quite consistent with neoclassical theory.

What is wrong with this approach? First, the theoretical argument is invariably confined to the realm of exchange relations. It omits the underlying national or international relations of production out of which emerge a specific institutional environment and a specific set of supply and demand equations. Second, the policies advocated, consistent with the theory, are

seen as necessary reforms of distorted internal market relations that will allow the economy to independently break out of the postwar industrialization experience to compete effectively on the international market. However, this very international market serves as the principal vehicle by which units of production in the center exploit those in the hinterland and prevent their independent development.

Simply put, the neoclassical approach is misspecified because of the omission of production relations and thus yields biased policy conclusions and unreliable predictions. Further, although this approach has recently appended to its analysis the more obvious social and political issues, they are added as unexamined external givens never seen as the direct outgrowth of the underlying structure of production, i.e., the value relation between labor and labor power. Neoclassical development cannot analyze anything outside of a framework of market or exchange relationships because that is the theory upon which it is based; it is trapped not by inadequate data or lack of "better" models, but rather by its narrow focus on supply and demand and its total neglect of those historic forces that have produced international relations of production and technology based upon an exploitive system of one class over another.

In contrast, a Marxian approach to development begins with a theory of value based upon relations of production determined historically; it is these relations that determine or govern those of exchange. What we observe in the hinterland are those dependent social relations of production and underdeveloped forces of production produced historically and reproduced currently by international capitalist development. Capitalism develops the hinterland not by underdeveloping it in the sense of making producers independent of markets, but rather by integrating it into the world market. It is the specific role of imperialism to systematically develop, integrate, and coordinate production in the hinterland into a specific pattern of international commodity and capital flows. Historically, imperialism produced a complex network of production and finance that continually operates so as to keep the hinterland dependent on the center. International trade becomes the economic mechanism that links and binds together modes of production in different areas of the world, and the actual or potential use of force is the final political weapon that prevents them from falling apart. Thus it is the capitalist mode of developing the international division of labor that makes commodity production a universal category, thereby creating one capitalist world comprising two unequal but dependent subsections. In this process, the hinterland's needs and tastes are divorced from its own history and its own social development and, along with comparative advantage and prices, are made a function of the center's economic growth and political power.

Relationships between center and hinterland, however, are not static, but must be understood within the changing process of capitalist development. Otherwise what seems to be exogenous to the hinterland is in reality the internal development of international capitalism. Specifically, the quantitative and qualitative changes that have occurred since World War II in the hinterland cannot be understood or analyzed properly independently of the historic process of capital accumulation in the center.

Although imperialism has a long history, the form of exploitation has changed. In the early phases, the merchant capitalist often used coercion directly to pump out surplus labor from peasants. Plunder, looting, and slavery were used in this process of slash and burn capitalism to create those

fortunes that helped to finance the primary accumulation of capital in the center. Even during this period, there began to develop the exchange of food and raw materials from the hinterland for manufactures produced in the center's growing factories. The laws of commodity exchange started, but became the dominant characteristic between center and hinterland only when capitalist development emerged into its next phase of absolute concentration of production. From about the last third of the nineteenth century to World War II, the long-run tendency for the profit rate to fall in the center, as a result of increased competition among capitals produced by the accumulation and centralization of capital, became a basic contradiction of the system and led to a new phase of imperialism. It took the form of harnessing and then changing a precapitalist mode in the hinterland to the new raw material and export requirements of the developing capitalist mode in the center. International trade and finance became important mechanisms in combatting the tendency of the profit rate to fall.

Colonialism established the necessary social and physical infrastructure for the primary accumulation of capital within the hinterland. A variety of political and economic instruments were used to create an available and cheap labor supply for export production and to widen the market for the center's output. Thus, the colonial state produced those internal forces that led to the effective organization of supply or cost conditions, and the demand for commodities was governed by external forces dependent on the accumulation of capital in the center. What a colonial country imported and exported, and at what price, or what emerged as its comparative advantage, was dependent upon political and economic forces within the center over which it had no control.

There is an important change in the third phase of imperialism corresponding to the transition from absolute concentration to monopoly capitalism in the center. The interest of capital in combatting the tendency of the profit rate to decline has not abated, but its international aspect has taken on a new form. Formal colonialism no longer exists. The multinational corporation, itself a product of this transition, has become the outstanding feature of the new international system that continues the historic dependence of the hinterland upon the center.

National independence after World War II produced a situation where the state was first controlled and then used by a precarious coalition of landed and merchant interests, in whose hands wealth was historically concentrated during the colonial process, to create a profitable environment for the transfer of their nonindustrial assets into industrial claims on wealth. The state through a variety of trade and fiscal instruments endeavored to manufacture a class of entrepreneurs who would be willing to hold and accumulate industrial assets.

Differential access to credit, foreign exchange earnings, import licenses, and tax incentives for a favored class indicates the state's endeavor to develop industry within a ruling oligarchy of landed and merchant wealth. Market imperfections indeed existed, but were created for the use of one class over another. The rate of return for this class was high, as indicated by the growing income gap, so long as an alliance between rural and urban poor was prevented. Thus, repressive governments are required to keep the rural and the mass of nonprivileged urban workers in place while an internal colonial policy is used to foster the accumulation of capital.

This industrialization effort has not produced an independent capitalistic class nor has it made the economy independent of the international economic system. In fact,

during what might be called round one of the postwar period, the very type of forced industrialization experienced had deepened dependence on the center rather than reduced it. Increased imports of raw materials and capital goods and reliance upon the technology of the center are the results of import substitution. Indeed, the very survival of much of the manufacturing sector depends upon foreign inputs and, thus, the expansion of exports to finance these needs.

The national bourgeois class is as dependent upon foreign capital and its political power as is the industry established. The second phase of imperialism acted as a barrier to the development of local industrial capitalism and produced instead a class of traders, landed aristocrats, and government officials who had all the trappings and mentality of merchants, individuals more interested in the maintenance of their privileged position in the sphere of exchange than in seeking new forms of production to invest their accumulated surplus. They were the capitalistic children of the bourgeoisie of the center and would require a protected environment to develop, but they could not and cannot outgrow the environment and create one of their own. Their industrial experience begins within a setting of state-fostered oligopoly and monopoly power rather than competition, perhaps partly due to technical reasons of optimum plant size, but more likely because of the need for the state, as an engine of growth, to overcome a disadvantaged past. The process of capitalist development followed produced a new era of industry, but reproduced their dependence upon international relations of production over which they have no basic control.

The multinational corporation has become the chief agency in this third phase of imperialism, incorporating the local bourgeois class into its corporate hierarchy, as at best junior partners, and linking and integrating the hinterland's industry into a global network of capitalist production. Whatever legal organization is used to conform with national laws of ownership, capitals of the center use a variety of institutional mechanisms, e.g., foreign subsidiaries, joint ventures, and corporate devices (management fees, patent and franchise royalties, intracompany pricing, marketing fees) to effectively transfer profits to the center and maintain control over the production process. National industry may appear to be growing, but it is little more than national plants of multinational corporations whose local "owners" may have control over the day-to-day operations, but not over decisions on pricing, output, and investment. The structure of Canadian industry may be the future for the hinterland, but at present it looks more like Puerto Rico, a branch plant country of United States capital. In either case, the hegemony of the center has not been diminished. Yet for some countries, round one may be ending.

Taiwan and South Korea may be forerunners of a new form of dependent capitalist development in round two. The organization of industry, dominated by foreign capital, has already been established, and cheap labor power has been made available for wage labor employment in both agriculture and industry through the fragmentation of the natural economy in the agrarian sector. Politically these countries represent safe havens for capitals of the center to exploit the existing cheap labor supply because of their dependence on *U.S.* military assistance. This political stability and the economic reforms passed make it attractive and profitable for multinationals to exploit lower unit labor cost in these countries, as compared to the center, to produce and export manufactured commodities to the center and to other countries of the hinterland. Taiwan and

South Korea may represent a preview of the future as the import-substitution phase of round one gives way to the exports of manufactures of round two. This process completes both the dependency of production in the hinterland upon that of the center and the reproduction of colonialism without formal colonies.

The observed rise in employment of wage labor in these countries, generated by the rise in exports, indicates the qualitative and quantitative change in social relations of production. Individuals are increasingly forced to have the freedom to sell their labor power in the market. Correspondingly they become subject to the domination and uncertainty of international capital. The drain of surplus value continues. No doubt this new era is already undergoing change as frictions appear among competing capitals of the center, and the very proletarianization of the hinterland's labor force produces an endogenous agent of change. More analysis is needed to understand these forces now emerging. Yet the very lack of neoclassical development theory to understand how one class exploits another, duplicated in its lack of understanding of how one country can exploit another, makes it useless in this new endeavor.