The Rise and Decline of Latin American Structuralism and Dependency Theory

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Structuralism and dependency theory were the first significant contributions to political economy to arise from Latin America. Their enduring influence can be gauged by the casual manner in which the previous sentence uses the term 'periphery' – no explanation is required, because it seems to express an obvious feature of the contemporary world. Yet, on reflection, there is nothing simple about it: dividing the world into 'centre' and 'periphery' implies the existence of systemic and possibly insurmountable differences between rich and poor countries, which must themselves be explained, both historically and analytically. This is what these theories set out to do, initially in the context of the Latin American transition from primary export-led growth to import-substituting industrialisation (ISI). In spite of this geographically and historically specific frame of reference, the insights of structuralists and dependency theorists have been incorporated into a rich literature on development policy, and the condition of underdevelopment, spanning most of the world.

There is a close theoretical and historical relationship between these schools of thought. This is partly because they share key principles and perspectives on development and underdevelopment, and partly because prominent structuralists played an important role in the development of dependency theory in the sixties. In spite of their similarities, explained below, there is a fundamental difference between structuralism and dependency theory: while the former claims that capitalist development is possible in the periphery through industrialisation and comprehensive social reforms, the latter is more pessimistic, arguing that capitalism systematically *underdevelops* poor countries. For most *dependentistas*, socialism is the only alternative.

There is much to commend structuralism and dependency theory. They challenge mainstream economics perceptively and insightfully; usefully highlight the importance of interdisciplinary studies in the social sciences; rightly argue that activist state policies are essential for equitable and sustainable economic growth; forcefully bring out the connections between social relations and economic structure, policy and performance, and provocatively claim that democratic social and economic reforms are pre-conditions for development. Many paid dearly for holding these iconoclastic views, especially during the sixties and seventies, when military regimes held sway throughout Latin America. In spite of their important insights into the problems of underdevelopment and lasting influence among development theorists, practitioners and the wider community, theoretical shortcomings in structuralism and dependency theory have contributed to their declining popularity. The first section explains the context in which structuralism and dependency theory developed. The following section critically reviews the rise of structuralism in the wake of ISI, and its transformation over time. The third section outlines dependency theory and its main shortcomings. The last section concludes this chapter.

Latin American ISI

Most Latin American countries went through a process of ISI between the early thirties and the mid-eighties. ISI is an industrialization strategy based on the systematic deepening and horizontal integration of manufacturing industry, with the primary objective of replacing imports. Different countries experienced ISI in distinct ways, depending on the modalities and extent of state intervention, the form and severity of the balance of payments and financial constraints (especially the structure of exports, the efficiency of the domestic financial system and the role of foreign capital), the level and distribution of national income, the size of the domestic market, the composition of the labour force and other variables.

Under ISI, manufacturing expansion typically departs from the internalisation of production of non-durable consumer goods, such as processed foods, beverages, tobacco products and cotton textiles. It later deepens to include production of more complex durable consumer goods, especially household appliances and automobile assembly, oil refining, simple chemical products and cement. In a few countries, ISI can reach a third stage, when the manufacturing structure becomes 'complete' (in the jargon of structuralism and dependency theory) – the production of basic and capital goods and technologically advanced products, including industrial machinery, electronic instruments, and even modern ships and aircraft designed with domestic technology. Although no Latin American country 'completed' ISI in this sense, especially because of the insufficient development of their technological capability, most countries industrialized to some extent and, by the mid-eighties, Argentina, Brazil and Mexico had made significant inroads into the last stage of import substitution. At that point, ISI was interrupted, and most Latin American countries shifted towards a neo-liberal policy model. Although this policy change has helped to address some of the shortcomings of ISI, especially the propensity to high inflation, it has left unresolved other deficiencies of the previous model, particularly the extreme concentration of income and wealth and the chronic weakness of the local financial system. Neo-liberalism has also blocked employment creation in most countries, and led to the hollowing out of the manufacturing base of every country where it was implemented. Policy-induced de-industrialization was especially severe in Argentina, Chile and Peru, where local industry has been profoundly disarticulated or nearly wiped out.

In Latin America, ISI was not usually due to deliberate policy choices, although state support was essential for its continuity and relative success. In most countries, ISI was the outcome of the *success* of primary product exports, including sugar, coffee, cereals, meat, guano, bananas, rubber, copper and tin. Success in traditional activities fostered the expansion of complementary economic sectors, especially transport, storage, trading, finance and other service industries. It also led to the emergence of a professional urban middle class and the rapid expansion of the waged working class, whether through the state-managed transformation of the pre-existing (largely peasant) workforce or through state-sponsored mass immigration. Urbanisation, capital accumulation and income growth created markets for low-technology non-durable consumer goods that were too bulky or uneconomical to be profitably imported. For these reasons, manufacturing development was normally located near the centres of primary production, such as Buenos Aires and São Paulo, where the essential requisites for capitalist production were already present: wage workers, money capital, some degree of mechanisation of production, markets, transport and trade links, and finance (see Bulmer-Thomas 2003, Hirschman 1968, Thorp 1992). In sum, early manufacturing development was almost invariably pro-cyclical and non-dualistic: it depended heavily on the prosperity of the primary export sector, rather than being autonomous from, or antagonistic to it. At a later stage, manufacturing would expand during the downturns of the export sector, supplying the domestic market when imports were not available. At an even later stage, it could become largely independent of the fortunes of the primary export sector, finally becoming large enough to lead the economy.

The two world wars and the Great Depression powerfully accelerated ISI. These events were experienced in Latin America as strongly adverse exogenous shocks. The Depression caused a sharp contraction of the region's external markets and a reduction of its commodity export prices, leading to a substantial decline in Latin America's capacity to import. In most countries, the purchasing power of exports declined by at least one-third and, in some cases (especially Chile and El Salvador), by more than two-thirds. The World Wars also significantly reduced the availability of imports, because of the disruptions in the main sources of manufactured exports and in the Atlantic trading system. Less obviously, these adverse shocks also triggered large fiscal deficits in most Latin American countries, because import tariffs were normally the most important source of tax revenue (in many countries, tariffs generated 50 per cent of government revenue in the late twenties (see Bulmer-Thomas 2003: 178, 192).

In normal circumstances, trade and fiscal deficits would have been financed externally, but this was not possible during the wars or the Depression. Governments were forced to choose between accepting vigorously expansionary monetary policies and sharp devaluations of the exchange rate, or seeking to impose fiscal balance through harshly contractionary fiscal policies, that would inevitably worsen the economic crisis. In the large countries, where markets were relatively developed and there was unused capacity in the non-export sector, proto-Keynesian expansionary policies generally led to a rapid economic recovery based on domestic manufacturing growth. In contrast, in the smaller countries, where markets were relatively undeveloped and there was little unused capacity, expansionary fiscal and monetary policies frequently triggered inflation and the collapse of the exchange rate.

Latin American ISI was unquestionably successful on several grounds; for example, it fostered extraordinarily rapid rates of economic growth for over half a century, and led to profound economic, social and political transformations across the region. In several countries, primary exports ceased being the main dynamic force of the economy as early as the forties, allowing national income to grow regardless of the fluctuations of export revenues. However, the extent of this shift varied greatly, and manufacturing expansion was rarely smooth. It was frequently hampered by political instability, administrative incompetence, institutional inadequacies, poor infrastructure, lack of finance and skilled workers, insufficient market size and lack of consensus around the industrialisation strategy, either for economic or ideological reasons. Different combinations of these factors explain why Brazil and Mexico advanced further than Argentina and Peru on the road to industrialisation, while Paraguay and Honduras hardly moved at all.

Latin American economies showed increasing signs of stress from the fifties. Growth rates declined, political crises followed in rapid succession, and there was mass discontent in several countries. Political democracy, often closely associated with populism, exhausted itself and was replaced by military dictatorships almost everywhere between the mid-sixties and the mid-seventies. It was clear that ISI was plagued by severe shortcomings. Its decline was closely followed by the crisis of structuralism, and the swift rise of dependency theory. However, dependency did not thrive for long. When Latin American ISI entered into terminal decline in the seventies and eighties, through bouts of financial instability, foreign debt crises, economic stagnation and hyperinflation, dependency theory also yielded to the combined weight of its internal inconsistencies, persecution at home and ideological defeat abroad, as monetarism and neo-liberalism became hegemonic around the world.

Structuralism

The Second World War turned several Latin American countries into net creditors for the first time, and, by the end of the war, the region held large foreign currency reserves. Latin America seemed to be poised for a long period of sustained growth and, in fact, average GDP growth rates reached 5.8 per cent between 1945 and 1954, pushed by the expansion of the manufacturing sector. In spite of this, there were severe doubts in Latin America and abroad about the viability and economic efficiency of continuing industrialization.

In 1950, Raúl Prebisch, the Argentine central banker appointed executive secretary of the newly-created UN Economic Commission for Latin America (ECLA or, in Spanish and Portuguese, Cepal), outlined an innovative interpretation of the ongoing Latin American transition from primary export-led growth (*desarrollo hacia afuera*) to internally-oriented urban-industrial development (*desarrollo hacia adentro*) (Prebisch 1950). This report became the founding document of Latin American structuralism. In it, Prebisch reviewed the limitations of the previous growth model, explained the origins of ISI, rationalised the developmentalist (*desarrollista*) role of Latin American states, and submitted a compelling case for industrialisation in order to overcome poverty and underdevelopment. Prebisch’s report captured the spirit of the times and caused an immediate sensation. During the next few years, an extraordinarily talented group of Latin American economists would gravitate around the Cepal office in Santiago (Chile), among them Celso Furtado, Octavio Paz, Aníbal Pinto, Osvaldo Sunkel and Maria da Conceição Tavares. There, or in economic planning and finance ministries or development agencies throughout the region, structuralists produced influential papers, reports and economic plans that interpreted, legitimised and directed the region’s process of industrialisation. The next section reviews the principles of structuralism and its policy prescriptions, and the most important critiques of structuralism.

Principles and Policies
Structuralists were heavily influenced by Keynesianism and, at a further remove, by the Veblen school of institutional political economy. They claimed that markets do not always work well in poor countries (the food and labour markets are especially prone to failure), argued that the state should promote manufacturing growth at the expense of such primary activities as agriculture and mining, did not shy away from recommending the nationalisation of strategic industries, and vigorously advocated the democratisation of social and economic life, including the promotion of social welfare, rising wages and the redistribution of income and land. However, in contrast with their Keynesian colleagues in developed countries, Latin American structuralists did not suggest that states should fine-tune the level of demand in order to achieve short-term economic stability. For them, rapid long-term growth is more important than stability, and the state should focus primarily on the former, rather than the latter (see Bielschowsky 2000, Rodríguez 1981, Sunkel and Paz 1970; for didactic introductions to structuralism, see FitzGerald 2000, Kay 1989, Larraín 1989).

Latin American structuralism is dualist. Structuralists traditionally argue that the production structures in the centre and the periphery are very distinct, and that these regions fulfil different functions in the international division of labour. Dualism in the world economy is replicated within the peripheral countries. While productivity is high in all sectors of the economy in the industrialised countries, the peripheral economies are heterogeneous. In these countries, productivity is generally high in the primary export sector, but this sector tends to be a relatively small enclave, often owned by foreign capital, and only loosely connected to the rest of the economy. Although profits in this sector are high, they are also highly concentrated, and tend to be either repatriated abroad by exporting firms or wasted through luxury goods imports by the solvent classes. In addition to the highly profitable export sector, there is also a relatively inefficient sector in the periphery producing agricultural and manufactured goods for domestic consumption, as well as a vast subsistence sector, where masses of isolated peasants scrape a living outside the market economy. Dualism in the periphery and in the world economy is due to the exploitative social and economic relations imposed by the process of colonisation. These unequal relations are continually reinforced by commercial, financial and cultural exchanges between rich and poor regions; therefore, they do not tend to be overcome ‘spontaneously’ by market processes.

Structuralism is heavily critical of neoclassical economic theory, especially its presumptions that markets work, that countries should specialise in international trade according to their comparative advantage, and that economic efficiency can be ascertained by microeconomic cost-benefit analysis. Structuralists claim, instead, that markets do not work well in the periphery because of structural (non-market) factors. They include strong trade unions in urban areas, monopoly power in the manufacturing sector, concentration of power and income in society, and the prevalence of large unproductive landholdings in the countryside. These *latifúndios* are held for prestige reasons rather than economic profit, and do not respond to price signals. For example, they systematically fail to raise output when food prices increase due to the growth of urban demand, contributing to food scarcity and inflation (the subsistence sector also fails to respond to market incentives, squeezing food supplies simultaneously from two sides). Structuralists also argue that free trade and the existing international division of labour systematically benefit the centre at the expense of the periphery, because of the secular decline of the periphery's terms of trade (see below). Finally, they suggest that investment projects should be assessed macro-economically (presumably, by state agencies) because economic development generates strong externalities that must be factored into cost-benefit analyses. Loss-making ventures may therefore deserve subsidies, or may be undertaken by state-owned enterprises, because of their growth or employment-creating potential or positive implications for other sectors of the economy.

The deterioration of the periphery's terms of trade (the 'Prebisch-Singer hypothesis', see Prebisch 1950, Singer 1950) is one of the distinguishing features of Latin American structuralism, and has generated a vast and continuing debate. Terms of trade are the ratio between the unit prices of exports and imports of a given country. Starting from trade equilibrium and ignoring financial flows, a country's terms of trade improve if its exports become relatively more valuable, allowing it to accumulate trade surpluses (or import more) with the same quantum of exports. Conversely, if the relative price of the country's imports increases, its terms of trade decline. In this case, the country will run a trade deficit or, alternatively, it will have to export more in order to restore its trade balance. In a world with financial flows, the deterioration of terms of trade may also be temporarily compensated by foreign debt, foreign investment, or aid flows.

The deterioration of terms of trade can be analysed from the supply or demand sides. Let us start from the supply side. In the periphery, there is a large pool of unemployed and underemployed workers, mostly based in the rural subsistence sector, but also, increasingly, in urban areas, preventing modern (manufacturing and export) sector wages from rising – the employers can hire all the workers they need at the going wage. In this case, if there is productivity growth in the modern sector, unit costs decline and output prices tend to fall because of competition, transferring to the buyers (based in the centre) a large part of the benefits of productivity growth in the periphery. In contrast, in the centre, unemployment is low, the workers are unionised, and they resist nominal wage cuts. In this case, productivity growth reduces unit costs, but prices do not fall: the gains are appropriated by the workers and their employers through higher wages and profits. Since primary product prices tend to fall while the prices of manufactures remain constant, the periphery's terms of trade tend to decline over time.

Let us now shift to the demand side. Goods can be divided into necessities (food and other primary products) and luxuries (manufactures). The economic difference between them is that the demand for necessities grows more slowly than income (i.e., their income elasticity of demand is less than one), while the demand for luxuries grows more rapidly than income (their income elasticity of demand is greater than one). If the periphery exports necessities and imports luxury goods, as income rises in the periphery of the world economy, its ratio of imports to consumption tends to increase, leading to excess demand for imports, higher prices for manufactures, and balance of trade deficits. In contrast, as income rises in the centre, its ratio of imports to consumption tends to decline, primary product prices tend to fall, and the centre's balance of payments tends to improve.

Structuralists claim that the periphery can escape from this vicious circle only through industrialisation. Manufacturing expansion would allow peripheral countries to avoid the tendency towards the deterioration of their terms of trade and, instead, benefit from rising terms of trade. It would also alleviate their balance of payments constraint, permit export diversification, provide an alternative engine of growth, offer an important source of employment and contribute to rapid productivity growth, raising living standards and helping to eliminate poverty. Industrialisation would also modernise society through introduction of new technologies and new (urban, sophisticated, *developed*) values. For them, writing in mid-20th century Latin America, import substitution was the only realistic industrialisation strategy. Manufacturing exports to the centre seemed to be unfeasible, because of protectionism, the poor quality of Latin American goods, and their high prices, partly due to low productivity, and partly to the overvalued exchange rates in most countries (which cheapens the capital goods imports required by manufacturing development, but makes exports more expensive in dollar terms). Finally, industrialisation in the periphery could be successful only with state support. 'Spontaneous' ISI is limited, because of competition from established foreign producers, lack of infrastructure (which could not be supplied by a weak private sector lacking technology and finance), insufficient co-ordination of production and investment decisions, and resistance by powerful interests, preventing the indispensable transfer of resources from the primary sector. Industrial success necessitates state subsidies, affordable credit, trade protection for infant industries, foreign exchange controls, and the attraction of foreign capital and technology to the growing manufacturing sector.

Finally, structuralists claim that Latin American industrialisation is severely limited by the lack of savings to finance investment in the 'modern' sector. On the one hand, public savings are low because the tax system is both regressive and inefficient. On the other hand, private savings are insufficient because the periphery's large labour surplus and low average productivity limits incomes and savings; moreover, the wealthy groups tend to mimic the luxury consumption patterns originating from the centre, which drains away the country's savings and foreign exchange. Here, too, state intervention is essential, in order to stimulate the growth of savings and productivity, and direct resources away from wasteful luxury goods imports.

Critiques of Structuralism

Structuralism was criticised from different angles, especially by mainstream economists and the dependency and Marxist schools. Their arguments are briefly reviewed below.

The Neoclassical Critique

Mainstream economists often conflate structuralism with ISI (see, for example, Bruton 1981, 1998;, Little, Scitovsky and Scott 1970). Although this oversimplifies the process of industrialization in Latin America, and grossly exaggerates the role of structuralism in bringing about ISI, it facilitates the critique of structuralism because it can be blamed even for those shortcomings of ISI first highlighted by Cepal.

Neo-classical economists claim that structuralism and ISI were misguided theoretically and costly in practice. They argue that there is no harm specialising in primary exports because, first, attempts to demonstrate the Prebisch-Singer hypothesis have been either inconclusive or methodologically flawed and, second, the shift of incentives towards the manufacturing sector, in which Latin America does not have comparative advantage, misallocates resources in the present and reduces growth rates in the future. Manufacturing inefficiency is due to inadequate (excessively capital-intensive) technologies imported from the developed countries. These technologies are not conducive to cost-efficiency, because Latin America lacks the adequate combination of factors of production as well as market size needed for the efficient use of these technologies. They also lead to urban unemployment, since rural dwellers tend to flock into the cities looking for non-existent ‘good’ urban jobs. Since these causes of inefficiency could not be eliminated rapidly, Latin American industries would need to be protected indefinitely, which would be enormously expensive and hugely wasteful (it would be much more efficient to direct resources towards the further expansion of the primary sector, in which Latin America had comparative advantage). Moreover, blanket infant industry protection, as was often the case in Latin America, would foster the over-diversification of manufacturing, replicating the problems of technological inadequacy and economic inefficiency across several sectors, and leading to rent-seeking behaviour as entrepreneurs look for profit opportunities generated by protection, other incentives, legal loopholes or corruption. Finally, neoclassical economists claim that state economic activism is inflationary, because subsidies to private and state-owned enterprises, and ‘populist’ funding of public services, generate large fiscal deficits that tend to be financed by printing money.

In sum, although ISI may lead to a limited period of rapid growth, it is unsustainable in the long term because of its cumulative inefficiencies, and because it causes rising inflation and unemployment. Economic recovery requires a shift of investment towards the primary sector, export diversification, industrial rationalisation (eliminating the inefficient producers), and public expenditure cuts to control inflation and reduce the economic role of the state.

The Left Critique

Left-wing critics of structuralism, especially the dependency theorists and Marxists, had an altogether different view of structuralism and ISI.[1] Many had worked with Cepal or reformist governments, and their critique was often based on first-hand experience of the limitations of manufacturing development in Latin America, and profound familiarity with structuralist theory.

Dependency theorists and Marxists rightly acknowledged that structuralism could not be blamed for many of the shortcomings of ISI. Their critique was, therefore, largely conceptual. First, dependency theorists and Marxists claimed that the theory of structural duality does not provide a satisfactory account of the different forms of labour in Latin America, including the persistence of (low productivity) remnants of feudalism and slavery, the diffusion of subsistence production, and their intricate relationship to the (high productivity) modern sector.

Second, Cepal expected the urban bourgeoisie to lead the process of industrialisation, and the majority of the population was normally included in the analysis only as consumers or wage workers, rather than as independent social and political agents. This is insufficient, because structuralists themselves gradually realised that the local bourgeoisie is profoundly dependent on their foreign counterparts, and will never engage in a consistent (and necessarily radical) project of autonomous national development. Moreover, it gradually became clear that the fruits of manufacturing development would not spontaneously trickle down to the poor, as the structuralists initially expected. For the left-wing critics of structuralism, sustained manufacturing development and distribution of income, wealth and power can be achieved only through popular or socialist governments (see below).

Third, the Prebisch-Singer hypothesis is untenable and should be rejected. Its use of the undifferentiated concepts of 'primary products' and 'manufactures' is unhelpful, since they cannot be distinguished unambiguously (at what stage of processing does a primary product become a manufactured good?), and because no country exports 'primary products' as such – the international markets for coffee, copper, meat and other primary products are profoundly different from one another, and these differences should be taken into account in any study of price trends and their implications for specialisation. Finally, the use of international commodity prices is misleading. They are only loosely related to the farm-gate prices received by producers in the periphery and, therefore, cannot explain their economic behaviour.

Fourth, it became clear in the late fifties that ISI suffered from fundamental problems that structuralism was ill equipped to address. ISI had worsened the balance of payments constraint, both because the transfers from the primary sector (required to support industrial development) had sapped export performance, and because imports had become increasingly incompressible. While consumer goods imports can be cut relatively painlessly in the event of adverse fluctuations of primary product prices, industrial inputs are rigid. With ISI, crises affecting the export sector often triggered the contraction of manufacturing output and urban unemployment. ISI had also increased the concentration of income and the degree of foreign dependence, now including technology, finance, ownership of industry, culture, patterns of consumption and so on. Finally, being based on imported technology, the Latin American industrial plants normally had excess capacity, which contributed to industrial concentration and reduced competition. In sum, contrary to all expectations, ISI had *increased* the power of large players, and the economy's vulnerability to adverse external shocks.

Dependency Theory

Dependency theory was developed in the sixties and seventies by Fernando Henrique Cardoso, André Gunder Frank, Ruy Mauro Marini, Theotonio dos Santos, Immanuel Wallerstein and others.[2] They offered a radical critique of capitalism in the periphery, in the context of the exhaustion of the post-war boom in the centre, and the crisis of ISI, the collapse of populism and the theoretical decline of structuralism in Latin America. Dependency theory is concerned primarily with the exploitation of the periphery by the centre, including the different forms of extraction of economic surplus, and the mechanisms of surplus transfer to the centre. This approach rapidly became a leading paradigm in many countries and, even today, dependency theory continues to be influential among left-wing organisations and movements, for example, in the global justice, anti-globalisation and anti-capitalist movements.

Intellectual Sources and Features

Dependency theory was inspired primarily by Latin American structuralism and the US ‘monopoly capital’ school. The influence of structuralism hardly needs mentioning. It includes the division of the world economy into centre and periphery, the claim that polarisation is furthered by unequal exchange between these areas (drawing inspiration, in part, from the Prebisch-Singer hypothesis), the view that the existing distribution of assets (especially land) prevents the expansion of the domestic market in the periphery, the argument that economic development requires political autonomy, completion of the manufacturing base, independent technological capacity, and so on.

Monopoly capital theory was developed by the American economists Paul Sweezy and Paul Baran (see Baran 1957, Baran and Sweezy 1966) and their associates in the journal *Monthly Review*. This interpretation of contemporary capitalism is based on the theories of Marx, Keynes, Kalecki and Steindl. It claims, first, that modern capitalism is dominated by large corporations (monopolies). Concentration and centralisation of capital facilitates the increase of prices relative to wages, concentrating income and reducing the intensity of competition. The latter, in turn, slows down technical change and contributes to the stagnating tendency of modern capitalism (see, especially, Steindl 1952). Second, in developed capitalist economies, there is a problem of absorption of the (growing) surplus produced by firms. The actual surplus is defined at the macroeconomic level as the difference between actual output and essential consumption (with wages fixed at the subsistence level) while, at the level of the firm, surplus is the excess of revenue over costs, which includes profits and such ‘unnecessary’ costs as advertising and sales promotion expenditure. The surplus tends to rise because of the relative decline of costs, including wages, which creates a potential (macroeconomic) problem of lack of demand in developed economies. Insufficient demand can be addressed in different ways, including wasteful sales effort, state expenditure, militarism and imperialism (see Sawyer 1999).

Baran (1957) applied these insights to the relationship between centre and periphery. For him, development and underdevelopment are inseparable because the centre developed historically on the basis of colonialism, imperialism and plunder which, in turn, created underdevelopment in the periphery. Today, the centre profits from the capture of surplus from the periphery through unequal trading and financial relations, perpetuating the subordination of this area of the world economy. These elements were combined into several dependency approaches, whose core is summarised below.

First, dependency theory is historical and rejects dualism. It focuses, instead, on an integrated world system based on a network of exchange relations in which centre and periphery fulfil different, but inseparable roles. The periphery was incorporated into the world system by the expansion of commercial capitalism in the late fifteenth century and, since then, it has been subjected to different types of dependence: mercantile during the colonial era, industrial-financial from the late nineteenth century, and technological-industrial since the mid-twentieth century. During these phases, colonialism, imperialism and unequal trade and financial relations led to surplus transfers to the centre. There are no sharp differences between 'modern' and 'backward' areas in the underdeveloped economies – peripheral countries are capitalist by virtue of their articulation with the world market, even if (for functional or historical reasons) distinct modes of labour exploitation can be found there. In sum, the backwardness of the periphery is not due to the 'lack' of capitalist development, as argued by Cepal (and neoclassical economists), but to prevailing international relations of capitalist exploitation and subordination.

Second, dependence has created peculiar social structures in the periphery, especially a parasitic *comprador* ruling class, or *lumpenbourgeoisie*. Typically, this class manages the exploitation of the locals on behalf of the centre, exports the products of their labour (and the corresponding surplus), and purchases from abroad goods allowing it to live in luxury amidst the squalor of a despoiled land. Their high living standards, and the transfers to the centre, are possible only because of the extremely high rates of exploitation in the periphery; however, as a result, this region lacks both resources and markets for autonomous development. In sum, dependence is based on the coincidence of interests between the elites based in the centre and the peripheral *comprador* class, and marginalizes and impoverishes the masses.

Third, surplus is transferred to the centre by unequal exchange, profit remittances by transnational companies and financial transactions, especially debt repayment and capital flight. These transfers depress incomes, welfare standards and investment in the periphery, and produce a distorted growth pattern favouring the production of primary products for export and of luxury goods for domestic consumption.

For Frank and other *dependentistas*, the relations binding the centre and the periphery have generated a process of 'development of underdevelopment': underdevelopment is not a transitional stage through which countries must pass but, rather, a condition that plagues regions involved in the international economy in a subordinate position. For them, dependent capitalism is not progressive because it does not lead to the systematic development of labour productivity and the satisfaction of wants in the periphery, while capitalism in the centre is no longer progressive because it is parasitical on the periphery. Therefore, the periphery can develop only after radical political change including, for many *dependentistas,* the elimination of relations of dependence (and the *comprador* class) and the institution of socialism.

Critiques of Dependency Theory

Dependency theory has been criticised from several angles (see, for example, Brenner 1977, Laclau 1971, Lall 1975). In what follows, two critically important shortcomings of dependency theory are addressed.

Structuralism

The shortcomings of structuralist theory were reviewed above, and do not need to be repeated here; only two implications for dependency will be pointed out. First, dependency theory turns the evolutionist aspects of structuralism on their head. Drawing upon structuralism (and modernisation theory more generally), dependency writers often select certain supposedly progressive tendencies in Western capitalist development. These tendencies are transformed into a general model, and what is perceived to have taken place in the periphery is a distortion from the model, due to the exploitation of the periphery by the developed centre. Consequently, the usual conclusions are reversed: metropolitan policy and technology exports are malevolent, rather than beneficial, the net balance of payments' impact of foreign direct investment is negative, the local elite is an exploiting clique, rather than a modernising bourgeoisie, international trade perpetuates underdevelopment, and attempts at capitalist development bring stagnation and deepen the underdevelopment of the periphery.

Second, dependency theory is even more overtly functionalist than structuralism. It subordinates agency to structure, and assumes that the historical development and the social structure of the periphery can be explained by their functionality to Western capitalism. Development is ultimately impossible under capitalism because there is no scope for independent agency: dependent countries tied to the world market *cannot* develop. The obvious alternative is to *delink* from the capitalist world-system through a socialist revolution – however, this conclusion is never rendered compatible with the subordination of agency to structure at every stage in the analysis. More generally, dependency theory frequently fails to analyse how the social relations in the periphery change and how human agency in the centre and the periphery shapes the relationship between these regions.[3]

Monopoly Capital

The monopoly capital school argues that the concentration and centralisation of capital are defining features of modern capitalism, that they lead to monopoly, loss of economic dynamism and create a tendency towards under-consumption, and that these difficulties can be addressed only through wasteful expenditures and militarism at home, and imperialism abroad.

These elements of dependency theory are vulnerable on four grounds (see Bleaney 1976, Chattopadhyay 2000, Fine and Murfin 1984). First, dependency theory and the monopoly capital school do not define monopoly power clearly or consistently, and do not adequately explain how it arises and influences the reproduction of industrial capital, the circulation of money and the distribution of income. The theory of monopoly pricing is especially weak, being little more than a collation of the ideas of the Austrian Marxist Rudolf Hilferding and the Polish precursor of Keynes, Michał Kalecki. Monopoly capital and dependency tend to underestimate the role of demand in the determination of prices, and to exaggerate the importance of firm size, rather than focus on the (transnational) structure of supply chains, in which case, size would become a secondary and possibly unimportant issue. They also fail to consider the extent to which state regulation and the potential entry of (domestic or foreign) competitors might compel even large firms to follow competitive strategies, and to what extent monopoly power makes stagnation and crises inevitable. Finally, they pay scant regard to the counter-tendencies to the concentration and centralisation of capital, claiming that monopolisation is not only a basic, but also a largely unavoidable tendency in modern capitalism.

Second, the concept of surplus developed by Baran and Sweezy, and adopted by dependency theory, is analytically unsatisfactory. It rests on an arbitrary definition of 'essential consumption' on the part of the workers, whose level is determined normatively by the analyst, and on an external distinction between 'necessary' and 'surplus' elements of the social product (in which case, even adornments in otherwise useful goods, such as automobiles, are part of the surplus). This concept is, therefore, inevitably subjective.

Third, the monopoly capital and dependency approaches claim that all countries involved in international trade are equally capitalist, and that connections to the world trading system (and the ensuing surplus transfers) play a determining role in the underdevelopment of the periphery – leaving unexplained the economic development of such countries as Canada, Ireland, Japan and South Korea, and suggesting that relatively isolated countries in Latin America and sub-Saharan Africa are more likely to grow 'autonomously' than wealthier countries closely linked to international trade and financial flows.

Finally, dependency theory and the monopoly capital school make an inconsistent case for socialism, because their claim that capitalist development is impossible in the periphery is insufficient to support the case for revolution. At best, the argument that the periphery is exploited by the centre implicitly makes a case for *nationalism* for, if underdevelopment is due to international integration, the logical solution is not socialism, but a (delinked) national development strategy. Perception of this limitation in the dependency school is supported by the fact that only exceptionally does it address directly the domestic relations of exploitation. In practice, this approach leaves the state as the most important agent of national emancipation, which, again, is incompatible with their purported socialist strategic objectives.

Conclusion

Structuralism and dependency theory have shown the limitations of neoclassical development economics. They also demolished old (self-serving) prejudices about the periphery's place in the world that claimed that its specialisation in primary product exports was both 'natural' and 'desirable', and that these countries were unsuited for the industrial development. Structuralism and dependency also creatively explained the shifts in Latin America's productive structure since the colonial era, showed that comparative advantage is created, rather than divinely ordained, and outlined a compelling case for national economic autonomy. These approaches evolved over time and tended to become increasingly radical, in response to the limitations of ISI, the perceived deterioration of the economic, social and political conditions in the periphery since the sixties, and their increasing awareness of the obstacles to the realisation of Latin America's potential. They were, however, essentially *nationalist* and *developmentalist* theories, drawing upon Keynesian, Marxist and other insights, and focusing their hopes of economic and social change on different agents: in one case, the industrial bourgeoisie and, in the other, the state, as the vehicles for the realisation of the economic aspirations of the urban and rural masses.

Several reasons explain why structuralism and dependency theory lost the battle of ideas. They include, on the one hand, increasing political, ideological and economic pressure emanating from the centre, combined with the onslaught of local dictatorships against dissenting intellectuals, frequently leading to denial of employment, imprisonment, exile and (for those unprotected by fame or powerful connections) even execution. On the other hand, these schools of thought also failed because of their own theoretical insufficiencies.

For example, structuralism was unable to outline viable short-term stabilisation policies addressing the disequilibria induced by ISI, or consistent development policies after the exhaustion of ISI had taken hold in the late fifties and early sixties. The latter was especially problematic given the lack of interest of domestic capitalists in the structuralist strategy of market expansion through land reform, higher wages and regional economic integration. Structuralism also signally failed to evaluate in a timely manner the implications of the changes in the international financial system, which eliminated the scarcity of dollars plaguing the early post-war economy, and the evolution of the international division of labour, that created integrated production chains spanning the world. The collapse of the Bretton Woods system in 1971, and the international debt crisis from 1982, posed challenges that structuralism was simply unable to address. Its telling denunciation of the costs of structural adjustment could not mask the fact that structuralists had nothing new to offer. Many followers became disillusioned and adhered to the mainstream, or simply abandoned attempts to offer alternatives to the Washington Consensus. Cepal still produces insightful reports that must be read by anyone interested in Latin America, and its dataset remains indispensable, but its influence in academic and political circles has declined significantly, and it has been unable to provide a much-needed counter-weight to the hegemony of neo-liberalism in the region.[4]

In turn, dependency theory collapsed because of the theoretical inconsistencies explained above, and because of its inability to provide a convincing explanation of the changes in the world economy in the eighties and nineties, including the accelerated transnationalisation of productive capital and finance, the rapid development of many East Asian countries, and the continuing stagnation of other regions. Elements of dependency theory can still be found in several critical approaches, and left-wing NGOs and activist movements can readily incorporate dependency views, but they continue to lack consistent foundations.

The claim, made by structuralism and dependency theory, that subordination to the world market seals the fate of nations is wrong. Inequality, poverty, low productivity and sluggish growth in the periphery, their propensity to import luxury goods and transfer profits to the centre, and the lack of co-ordination of economic activity in many countries, are due primarily to the social structures prevailing in the periphery, rather than their international trade relations. One the most significant implications of this conclusion is that Latin American ISI was limited by an elite pact with two key features, that were perceived clearly only retrospectively. First, property rights were untouchable. Consequently, no significant land reform could be achieved (except through revolutionary processes), which limited the capitalist transformation of the region to the relatively undemocratic 'Prussian' path.[5] For the same reason, the reorganisation of the financial system for the adequate funding of rapid industrialisation was also impossible in Latin America. Second, the elite pact sheltered the agro-export interests and maximised their influence upon the state, to the detriment of the rising industrial capitalists and the urban middle and working classes (who were not party to the elite pact). While the industrial capitalists defended their interests through negotiations, brokered by the state, with other elite segments, the other urban actors found it difficult to be heard. Their attempt to bypass strongly conservative state institutions (especially the legislature and the judiciary) through populism was, however, limited and essentially conservative. The promotion of economic change and the management of social conflicts by a powerful populist executive hindered the consolidation of democratic representative institutions in most of Latin America, at least until the eighties.

In Latin America and other parts of the world, income, wealth and power remain concentrated in the hands of powerful elites. Limited democracy, weak states and stunted growth have also contributed to the perpetuation of the features of underdevelopment that originally motivated structuralism and dependency theory. Their concerns remain valid in the early twenty-first century, and there is scope for the development of alternatives to the mainstream, responding to old as well as other concerns, such as environmental sustainability, gender equality, the coexistence of underemployment, personal debt and overwork, and other urgent problems of rich and poor nations.

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Notes

[1] The most comprehensive left-wing critiques of ISI and structuralism are provided by Cardoso and Falleto (1979) and Tavares (1978).

[2] See, among others, Cardoso and Falleto (1979), Frank (1966, 1972), Marini (1973), dos Santos (1970) and Wallerstein (1974, 1980, 1989).

[3] Cardoso and Faletto (1979) sought to analyse concrete situations of dependence in Latin America, but with only limited success; see Weeks and Dore (1979).

[4] For a sample of recent work, see the Cepal website (www.cepal.org) and Ocampo (2002).

[5] For a detailed contrast between the 'Prussian' and 'American' paths of agrarian transformation and capitalist accumulation, see Byres (1996).