

Dependency Theory a Generation Later, by Andres Velasco October 2002

The scene is fresh in my mind. It was the early 1980s, and Reagan's antics in Central America and Grenada were reviving the campus left. The crowd filling a Yale common room sat in anticipation, fingering through dog-eared copies of *Dependency and Development in Latin America*, the *magnum opus* of dependency theory. Its author, Brazilian sociologist Fernando Henrique Cardoso, was about to walk in. His attire provided the first shock: Cardoso, then a senator from Sao Paulo, turned up wearing an impeccable blue suit, not the fatigues half the attendees had been expecting. After the short speech on Brazilian political tactics, not the ills of imperialism, a woman in a *poncho* fired the first question: did democracy mean anything in Brazil without socialism? Yes it did, replied Cardoso. And building socialism was no longer the issue; perfecting capitalism was. Students sitting at his feet stared in disbelief, and soon began milling out.

Dependency was a theory of underdevelopment: poor countries sitting at the *periphery* of the world economy could not develop as long as they remained enthralled to the rich nations of the *center*. It was also a religion. Dependency shaped the cosmology of a generation of Latin American leftists in the 1960s and 70s, and of leaders from Allende to the Sandinistas. As it would happen again with other half-digested foreign theories – deconstruction is the best example—on the American campus it was peddled with evangelical fervor. Mixed with Vietnam-era rhetoric it became a potent brew, which placed all blame for Third World problems on the *hegemonic center*, and particularly on the United States. Cardoso himself worried about this. In a 1976 article entitled “The Consumption of Dependency Theory in the United States,” he warned against oversimplifications, and against assuming that all of Latin America's problems were foreign-made.

So much for religion. What about theory and policy? Dependency came in two flavors: the radical one, cooked up by André Gunder Frank and Egyptian Amir Samin, claimed that the growth of the center came at the expense of the periphery. The only solution was complete delinking from the world economy.

From the start, radical dependency faced its share of troubles. Armies of graduate students tried to find a positive correlation between expansion in the north and recession in the south, but failed to find it. (Then, as now, a boom in the US and Europe often meant growth for developing countries.) Much less did they manage to prove a *causal relationship* between northern wealth and southern poverty. And the practical prescription of totally breaking away from the world economy was only tried by Albania and North Korea, with predictable consequences. Gunder Frank himself recently admitted delinking “has not been a very viable or fruitful policy.”

The mild version of dependency, pioneered by Cardoso and his coauthor Enzo Faletto, and by others like Chile's Osvaldo Sunkel and Mexico's Pedro Paz, was more useful. It maintained that under capitalism both rich and poor could grow, but need not benefit equally. As the most oft-quoted passage of *Dependency and Development* put it, “A real

process of dependent development does exist in some Latin American countries. By development, in this context, we mean capitalist development. This form of development, in the periphery as well in the center produces ... wealth and poverty, accumulation and shortage of capital, employment for some and unemployment for others.”

The practical incarnation of such views fell far short of revolution. As preached from the UN Economic Commission for Latin America (ECLAC) it was a mixture of protectionism and Keynesianism that became known as *import-substituting industrialization*. Behind a tariff wall, with generous state subsidies an active fiscal policy and a drop of central planning here and there, poor countries could hope to lessen their dependency on the center and develop *autonomously*.

Why did the world seem like such a hostile place? Because, as Argentine economist and ECLAC founder Raul Prebisch had earlier taught, there is a secular tendency for the price of primary commodities to fall relative to the price of manufactures. If you are stuck producing copper or cotton, then the purchasing power of your exports will fall (or at least stagnate), and so will your ability to import, invest, and grow. Over time, producers of primary commodities will become relatively poorer.

This view shaped development thinking for half a century at least. It also turned out to be wrong. Harvard economic historian Jeff Williamson has recently argued that between 1870 and World War I (the period Prebisch originally studied) there was no deterioration in the terms of trade for producers of commodities). A number of papers have looked at the evidence for the 20th century. The most recent is by John Cuddington, Rod Ludema and Shamila Jayasuriya from Georgetown University. They conclude—as have most other economists—that there was no systematic tendency then, either, for primary products to get cheaper relative to manufactures.

The idea was given a twist by Jeff Sachs and Andrew Warner of Harvard in 1995. Natural resources, they claimed, are a curse. Countries too generously blessed with them (think Brazil or Venezuela) are destined not to grow; resource-poor nations like Korea and Taiwan, on the other hand, have become growth tigers. Their data from the 1960s onward seemed to support this claim. But again the truth is subtler. Roberto Rigobon of MIT has cast doubts on their results, arguing that too much debt, not too many natural resources, explains the bad performance of many developing countries.

If the original theory had its failings, so did the policies it engendered. Turning away from the world economy was a good idea during the Great Depression, when the world was truly hostile. Latin countries that abandoned the gold standard, devalued their currencies and granted their local industries some degree of protections did better, as the eminent Cuban economist Carlos Díaz-Alejandro showed long ago.

But too much of a good thing can be nasty. Protection made less sense as world trade expanded after World War II. It also engendered inefficiency, and technological progress lagged. Few countries still managed to export anything but raw materials. In the 1950s and 1960s dollar shortages returned, and so did stop-go cycles and macro instability. The

import substitution decades were not a disaster when it came to growth. Some Latin countries, such as Mexico and Brazil, managed to grow quite a bit. Even regional averages look pretty good, especially from today's perspective (and especially when compared with the dismal 1980s). But after 40 years of experimentation (say, by the late 1970s), even the most ardent advocates of import-substituting industrialization recognized that it was not the panacea it had once been claimed to be.

The rest of the story we know. Latin America embarked on a course of drastic trade liberalization and opening to the world. Some industries –Mexican *maquilas*, Chilean fruit and wine-- boomed; others lagged behind. For every growth miracle like Chile's (and more recently the Dominican Republic's) there have been two growth disasters. Integration is no panacea either –no policy is.

Yet Latin American governments are persevering with it, cutting tariffs and signing regional agreements in spite of the global recession. This is partially out of conviction: countries that have opened up have fared better than those that stayed closed, most economists would tell them. But liberalization of trade and investment is also here to stay by popular demand: no Latin politician would want to deny the voting population those imported consumer goods it has become accustomed to, or the much-improved phone service provided by privatized (and often foreign-owned) telecom companies.

So popularly elected Latin American presidents attend WTO meetings calling for more globalization, not less. They line up for a free trade agreement with the United States as they duck the stones thrown by American and European college students who claim to be acting on behalf of the world's poor. Those Latin politicians are not naïve: they understand that globalization needs safeguards and regulations if it is to benefit the poor. Their position is pragmatic. The evangelical fervor, this time against globalization, once again comes from the North. Little has changed since the early 1980s.