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THE POLITICAL ECONOMY OF INTERNATIONAL INEQUALITY:
A TEST OF DEPENDENCY THEORY

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ABSTRACT

This study reports the results of a test of "dependency" theory based on a statistical comparison of eighty-eight countries. The research grew out of a critical appraisal of prevailing paradigms of development and international relations which have been the major influence on American social science since the 1960s. Five alternative theories of international political economy were identified and compared, namely liberal theory, the position of economic nationalism, the internationalist perspective, the Marxist-Leninist tradition, and dependency theory. Subsequently, the Marxist-Leninist and dependency perspectives were reviewed and synthesized, culminating in a set of propositions relating external dependence to the increasing "gap" between the rich and poor countries. The major thesis states that the spread of capitalism from the West set in motion forces, acting at both the national and international level, that have retarded developmental processes in the Third World. The two major forces of underdevelopment were hypothesized to be the feudal-capitalist coalition within Third World countries and the vertical and feudal structure of interaction between the rich and poor countries. It was further hypothesized that these forces have weakened the ability of Third World countries to maximize the mobilization of resources, in the form of capital formation, resulting in an inefficient and skewed pattern of domestic resource utilization. The variables used in the analysis included measures of external dependence (trade, aid, and foreign investment), domestic resource mobilization and utilization (capital formation and sectoral income distribution), developmental performance (GNP per capita, literacy, etc.), and domestic inequality (land distribution). A unique aspect of
the operationalization is that the data set on trade dependence represents an original compilation. In total, data were compiled for nineteen variables, covering the 1960–1970 time period, and analyzed via multivariate techniques. Cross-lagged panel correlation analysis was used to test for causal preponderance between external dependence and developmental performance. Path analysis was used to test the central proposition relating external dependence, domestic resource formation and utilization, and developmental performance. The results of these analyses were consistent with the propositions and causal arguments assembled. However, conceptual and empirical anomalies were uncovered which suggest that further research is needed. The concluding section of the study deals with the normative and policy implications of the reported findings, with special focus on alternative developmental models.
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A major issue confronting students of contemporary international relations is the dilemma of increasing global interdependence alongside increasing inequality between and within states. This issue has been brought to the fore, both by the demands and actions of the Third World countries and the rediscovery of imperialism, by some social scientists, in the form of "dependency" theory. Representatives from the Third World have increasingly voiced dissatisfaction with the global economic institutional framework established following World War II and the pattern of economic transactions arising within that framework. Dependency theory represents a critique of, and alternative explanation to, the prevailing paradigms that provided the theoretical foundation for the postwar international economic order. The purpose of this study is to assess the merits of the dependency perspective by testing a theory of underdevelopment derived from the relevant literature. The majority of this chapter is devoted to a review of the major theoretical perspectives addressed to the problem of national development within the global economy. A concluding section outlines the research design employed herein.

1:1. North-South Dimension of International Conflict

There are three reasons for the lack of concern over the degree of international inequality in the first two decades after World War II. The first reason was the bipolar nature of the international system and the over-arching issue of the Cold War until quite recently. Interest in Third World areas was viewed primarily in terms of the strategic
competition between the United States and the Soviet Union.

A second and related reason was that the postwar reconstruction of the global economy was dominated by and designed to serve the interests of the developed countries (Blake and Walters, 1976). The primary purpose of the establishment of such institutions as the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF) was to open the international economy to a climate of freer trade. These agreements were of particular benefit to the United States, which enjoyed a clear and preponderant competitive edge. Given American political and economic domination in Latin America, plus the fact that decolonization was in its infancy in Asia and Africa, the Third World countries had only minimal input into the postwar economic reconstruction.

The third reason was that the Third World was, and still is, on the periphery of the international economy. That is, the vast majority of international economic transactions take place between the developed (Center) states. Although the expansion of capitalism into the backward regions incorporated the Third World into the global economy, the net result was a dependence of the Periphery on the Center rather than genuine interdependence. As a result, the particular problems of the Third World were simply not seen or given serious consideration in the economic reconstruction immediately after 1945.

Although the growth in world production and trade recovered from the disruption of World War II under arrangements formed during this period, several new problems have arisen over the last ten years. A new economic order is being constructed, and further reform is on the
agenda (Blake and Walters, 1976). In the first place, the preeminent position of the United States in the postwar era has been challenged by the economic revival of Western Europe and Japan. Second, and parallel to the first, the weakening of the dollar as an international currency has introduced instability into international economic transactions. A third problem is the "liquidity crisis," which refers to the difficulty of states to finance the ever-increasing rate of global economic transactions. Fourth, the expansion of multinational corporations has raised a series of political and economic conflicts between parent and host states. The increasing pressure of these four problems, further enhanced by the recent OPEC (Organization of Petroleum Exporting Countries) oil boycott and subsequent global recession, has resulted in growing concern over the future of the international economy. There is now an almost universal realization that reform of the global economy is desperately needed. Of particular concern has been the recent tendency for some countries to revert to neomercantile policies in the absence of new arrangements.

The major difference between the postwar reconstruction and current efforts at reforming the global economy is the more visible, if not effective, voice of the Periphery states in recent deliberations. The process of decolonization proliferated the number of nation-states and established expectations of national development in the Third World. Yet, the tendency for international disparities to increase during the United Nations First Development Decade of the 1960s sparked a divisive debate over the causes of and solutions to world poverty. The North-South dimension of international conflict has become increasingly competitive with the Cold War for international attention.
Many spokespersons for the Third World now argue that the source of the problem is not only the maldistribution of the world's wealth and resource consumption but, more importantly, that their developmental efforts are being stifled by the structure of the international economic and political system. The charges of "imperialism" and "exploitation" have been followed with action. One example is the formation of commodity cartels, such as OPEC, which represent attempts to challenge the traditional preeminence of the Center states in decision-making affecting the international market (Hveem, 1975). Another example is the call for the creation of a "New International Economic Order," as proposed by the Periphery states in recent United Nations deliberations (Dag Hammarskjold Report, 1975).

On the other side of the debate, defenders of the developed countries point to the deleterious policies pursued by Third World governments and their failure to deal effectively with such problems as population growth. Nonetheless, the unity of the Center states, in dealing with the Periphery states, has been weakened by the revival of economic nationalism in Center state relations (Blake and Walters, 1976). One possible consequence of disunity at the Center is the enhancement of Periphery capabilities to secure beneficial reforms of the global economy.

As noted above, the debate among world leaders over reform of the global economy is also reflected in social science research on Third World development. Before examining this debate in detail, it is necessary to elaborate upon the problem to which the debate is addressed.
1:2. Growth, Development and Inequality: the Gap

The two central concepts in this study are international inequality and external dependence. The issue of inequality refers to stratification both within and among countries. According to dependency theory, inequality is generated by the structure of relations across countries and groups (classes and sectors) within countries. Such a view does not deny that inequalities can and do arise from other factors, such as differences in national resource endowment. Furthermore, structural and natural sources of inequality are likely to be interrelated in that countries possessing natural superiorities, even if this be a head start, also possess the capabilities to establish a structure of relations perpetuating their dominance.

In this study, structured inequality will be analyzed in the context of the economic growth and development of nations. The relationship between the parallel but distinct concepts of growth is given by Chenery (1971:29):

When we think of 'development' as distinct from 'growth,' we normally have in mind the set of structural changes that are needed to sustain future growth of output and to respond to the changing needs of the society. While in the long run growth and development go together, they need not do so over periods as short as a decade. Thus an expansion of GNP based on the growth of primary exports without other changes in resource allocation constitutes growth with little development, while large increases in infrastructure and education that have not led to increased output in other sectors represent development without much growth. In determining the success of countries in achieving their long-term economic objectives, one must take account of both current growth and the structural changes that will facilitate - or impede - future growth.
The concept of inequality is distinguished from both growth and development in the analysis of national and international systems. Within countries, both growth and development can take place under conditions of extreme maldistribution of income and wealth. Such a pattern perplexed the classic theorists of political economy during the early phases of the Industrial Revolution in the West (Polanyi, 1957; Heilbroner, 1972). Similarly, the benefits of growth and development are often disproportionately shared within the Third World.

In comparing nations, great differences can and do exist in the level and rate of growth and development. As indicated above, the persistence of such differences has been a major factor in producing the present cleavage between the Center and Periphery states. There are several ways in which inequality among nations can be demonstrated. One of the most common is the notion of a "gap" (Ward, et al., 1971). Figure 1-1 depicts the increasing gap in the absolute size of per capita income between 15 OECD (Organization for Economic Cooperation and Development) countries and 69 Third World countries between 1950 and 1970. A second representation derived from the exponential nature of economic growth, is to compare the relative rates of growth among nations (Horvath and Horvath, 1975). In terms of relative growth rates, the aggregate output of Third World countries has been high in comparison to the historical patterns set by the Western states (Kuznets, 1971). Growth in per capita output has been less impressive, which is often attributed to the high growth rates of population in the Third World. More serious, especially for such economists as Kuznets, is the lack of, or slow rate of, structural transformation taking place in Third World economies. In the absence of structural change, the prospects for long-
Figure 1-1. The Increasing Gap: 1950-1970

Source: Calculated by the author from data in Rhee (1973) and sources listed in Appendix I. GNP per capita equals sum of GNP divided by sum of population for each group of nations.
term growth in the Periphery are reduced, which would result in an ever-widening of the gap.

Regardless of the statistical technique employed, what is being reflected is the absolute degree of poverty and human misery in many parts of the world. The glaring contrast in wealth and poverty throughout the history of capitalist development has continuously troubled social scientists studying the process. The poor have always weighed heavy on the collective conscience of modern civilization, as reflected by J.S. Mill's (1974:351) articulation of the dilemma for Western Christianity:

By Christianity, I mean what is accounted such by all churches and sects - the maxims and precepts contained in the New Testament. These are considered sacred, and accepted as laws, by all professing Christians. Yet it is scarcely too much to say that not one Christian in a thousand guides or tests his individual conduct by reference to those laws. The standard to which he does refer it is the custom of his nation, his class, or his religious profession. He has thus, on the one hand, a collection of ethical maxims which he believes to have been vouchsafed to him by infallible wisdom as rules for his government; and on the other, a set of everyday judgments and practices which go a certain length with some of those maxims, not so great a length with others, stand in direct opposition to some, and are, on the whole, a compromise between the Christian creed and the interests and suggestions of worldly life. To the first of these standards he gives his homage; to the other his real allegiance. All Christians believe that the blessed are the poor and humble, and those who are ill-used by the world; that it is easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of heaven...that if they would be perfect they should sell all that they have and give it to the poor.
There are at least five major schools of thought on international political economy. The most prevalent approach will be referred to as liberal theory, since it is derived from the British school of classical political economy. A second approach can be characterized as "economic nationalism," as originally formulated by Friedrich List (1966). A third approach is the internationalism of Myrdal (1957) and Prebisch (1964), who seek to correct the advantages accruing to Center states in the world economy by establishing strong international institutional frameworks to act as countervailing forces on behalf of Third World countries. The fourth theory represents variations of Marxist-Leninist analysis as reflected in the work of Baran (1957). The most recent contribution has come in the form of dependencia theory, a perspective associated with Latin America (Dos Santos, 1970; Furtado, 1973). In this section, these major theoretical perspectives are only summarized with more extended discussion of particular theorists reserved for subsequent chapters.

In its original formulation, the liberal world view stressed the notions of laissez-faire capitalism, the rights of property, limited government, and Social Darwinism. Assuming perfect competition, the unfettered market would produce maximum economic growth and development. The only unresolved problem was the scandalous degree of poverty that existed in the midst of the Industrial Revolution. Unable to resolve the anomaly of growth and poverty, the optimism of Adam Smith succumbed to the pessimism of Ricardo and Malthus. Except in what Heilbroner (1972) calls the "underworld of economics," the prevailing academic response to poverty became one of resignation. In the arena of public
policy, the response ranged from philanthropy at best to an arrogant disavowal of responsibility at the worse.

Temporary optimism for the future of capitalism was restored by J.S. Mill, who pointed out that distribution of the economic product was subject to institutional forces rather than the market (Heilbroner, 1972). Furthermore, the Trade Union movement suggested that the working class could achieve a decent standard of living without overthrowing the capitalist system. However, no sooner had Mill saved capitalism than Karl Marx pronounced its dismal fate. Marx's prophecy became all too real by the 1870s and 1890s, as the cyclical nature of boom and bust was added to the list of attributes describing the capitalist system.

It was only in the aftermath of the Great Depression, and under the influence of Keynesian economics, that the liberal view underwent fundamental modification. The reality of the "welfare state" has gradually gained ascendence over laissez-faire capitalism. Most economists no longer consider it illegitimate for the state to interfere in the market to promote stable growth and to correct the imbalances and dislocations produced by the imperfections of the market. As Keynes (1936: 373) noted, the implications of his analysis debunked the old order:

Thus our argument leads towards the conclusion that in contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed.

The change in orientation of liberal theory has been limited, however, to domestic policies. Liberal international economic theory remains grounded in the law of comparative advantage and continues to promote the doctrine of free trade. Combined with the unrestricted
movement of capital, free trade would maximize world production through optimal efficiency in resource allocation. Any maldistribution resulting from global economic transactions, conducted according to liberal principles, is considered to be only minor. Furthermore, under the assumptions of the theory, there would be an equalization of factor prices and a tendency toward an equalization of incomes (Ellsworth, 1969). Thus, free trade would also promote maximum world welfare. The tendency of international disparities to increase has not been a consequence of liberal principles in action, according to advocates of liberal theory, but has been the result of deviations from liberal principles in the form of irrational state policies.

One of the earliest and most significant critiques of liberal theory came in the form of Friedrich List's (1966) arguments for economic nationalism. Concerned with the slow rate of national development in his homeland, Germany, List made two major departures from the British school. First, he emphasized the role of the state in promoting economic growth and development rather than the self-regulating market. In particular, the state should eliminate internal barriers to trade, subsidize the creation of infrastructure, and promote home industry and the export of manufactures. It was in the area of home industry that marked List's second departure from liberal theory. He argued that free trade would perpetuate Britain's domination of the Nineteenth Century global economy. To prevent Britain from flooding the Continent and Germany with manufactures, List recommended protective tariffs behind which German industry could emerge. This line of reasoning is the now familiar "infant" industry argument.

List's formulation of economic nationalism had a profound influence
on the European Continent and the United States. Japan's economic re-
covery from World War II has followed the principles found in List's
analysis (Blake and Walters, 1976). A modern application of List's
political economy in relation to Third World development is reflected
in Clairmonte's (1960) study of India. In fact, the modern history of
economic relations among states has undoubtedly followed Listian prin-
ciples more closely than liberal theory.

It should be remembered, however, that List was not an opponent of
free trade in theory. He did contend that free trade was predicated
upon a relative equality in the level of economic development among
states. Until such a condition of equality was achieved, free trade
would be detrimental to the less developed states.

The two most influential critics of liberal theory in the contem-
porary era have been Raul Prebisch (1950; 1964) and Gunnar Myrdal (1957).
Although their respective arguments differ in specifics, the major
thrust of their criticisms is similar. First, liberal international
economic theory is criticized on the grounds of relevance. The factor-
price equalization argument assumes perfect competition and static
conditions, assumptions which obviously do not hold in the real world.
Second, Myrdal and Prebisch argue that even to the degree that these
assumptions do hold, the international market has and will continue to
breed inequalities. Third, deviation from the ideal model tends to
favor the Center states, reinforcing the disadvantages for the Periphery
states generated by the market.

It is this last criticism which both Myrdal and Prebisch emphasize.
Since there is no world government to intervene in the international
market to correct the uneveness of growth among nations, it is essential
that international institutions be created to deal with problems arising for the Periphery states. However, in the economic reconstruction following World War II, efforts to establish a World Peace Organization to handle such problems were thwarted by the Center states under the leadership of the United States. It was not until 1964, with the creation of the United Nations Conference on Trade and Development (UNCTAD), over the objections of the Center states, that an institution was created to deal with the plight of the Third World countries in the global economy.

A far more radical critique than that offered by Myrdal and Prebisch has been put forth by the Marxist-Leninist and dependency schools of thought. Both of these perspectives are based on a different set of assumptions from those that underlie liberal theory and the economic nationalist view associated with List. Although the importance of economic growth and development are not denied, Marxist-Leninist and dependency theorists place much greater emphasis on social equity and national self-determination. As a consequence, their respective theoretical positions differ fundamentally with that of liberal and economic nationalist perspectives.

Lenin (1939) argued that the expansion of capitalism into the Third World would recreate the conflict between feudal and capitalist classes that resulted in the transformation of Western societies. The failure of history to verify Lenin's vision represents the starting point of contemporary Marxist-Leninist analysis. Baran (1970:287-288) summarizes the dilemma of underdevelopment:
While in advanced countries, such as France or Great Britain, the economically ascending middle classes developed at an early stage a new rational outlook, which they proudly opposed to the medieval obscurantism of the feudal age, the poor, fledgling bourgeoisie of the underdeveloped countries sought nothing but accommodation to the prevailing order. Living in societies based on privilege, they strove for a share in the existing sinecures. They made political and economic deals with their domestic feudal overlords or with powerful foreign investors, and what industry and commerce developed in backward areas in the course of the last hundred years was rapidly molded in the straitjacket of monopoly - the plutocratic partner of the aristocratic rulers. What resulted was an economic and political amalgam combining the worst features of both worlds - feudalism and capitalism - and blocking effectively all possibilities of economic growth.

The coalition between feudal and capitalist interests is the key element in explaining underdevelopment for those within the Marxist-Leninist tradition. As long as Third World countries are ruled by this coalition, neither economic growth and development nor social equity and national self-determination can be realized.

Although Marxist-Leninist analysis identifies the Center states as a major factor in blocking Third World development, its primary emphasis is on the dynamics of class conflict within the Periphery states. On the other hand, dependency theory, accepting much of Marxist-Leninist analysis, places greater stress on the role of the Center. Blake and Walters (1976: 8) provide a cogent summary of the dependency position:

A poor state's open acceptance of foreign goods and capital, along with specialization in the production of those goods in which it enjoys a comparative advantage, is felt to generate a form of international economic relations in which unequal economic units are afforded equal access to, and compete for, markets and resources around the globe. The benefits of such international economic relations between rich and poor states are distributed
asymmetrically, in favor of the rich. This continued asymmetry in the distribution of benefits forms a basically exploitative relationship between dominant and dependent states that is seen... as the explanation for the existence and the widening of the gap between rich and poor countries. Hence, in a fundamental sense the major obstacle to the achievement of the national aspirations of poor states (most states in the world) is seen to be the nature of the international economic system itself.

The dependency perspective is a theory of "neocolonialism," or the most recent version of modern imperialist theory. The distinction between modern imperialism and earlier forms, such as Roman imperialism, is its association with capitalism. As capitalism matured in the West, factors evolved which generated expansion into the Third World. Some of these factors were economic, such as the search for raw materials, export markets, and investment profits. Others were political-military, as the European powers engaged in strategic competition and at the construction of empires. Dependency theory parts company with the traditional Leninist analysis of imperialism by noting that it is not the economic power of banks and private corporations which seek dominance in the current international economy, with a scramble for dominance among capitalist states, but rather that it is the capitalist Center as a whole which seeks to dominate the global economy.

According to dependency theory, it is the global expansion of capitalism which provides the key to understanding the problems of Third World development today. The backward regions of the globe were incorporated into the international capitalist system through the establishment of an international division of labor which remains the basic foundation of economic relations between the Center and Periphery states. The economic transformation brought about by the spread of capitalism pro-
duced the class relations described by Baran (1957), and propelled the Third World into a process of underdevelopment rather than development. The structure of economic relations between the Center and Periphery states forms the basis of support for the coalition between the traditional feudal and capitalist interests within the Periphery blocking autonomous national development. The Chilean economist Osvaldo Sunkel summarizes this historical perspective (Stallings, 1972:5):

> It does not view development as a "moment" in the continuous or discontinuous evolution of a society which is economically, politically and culturally isolated. On the contrary, it postulates...that underdevelopment is part of the global historical process of development, and that development and underdevelopment are two faces of the same universal historical process. Both processes occur simultaneously, and they are linked functionally; that is, they interact and mutually influence each other.

For dependency theorists, formal colonial political domination has been replaced by an informal system that perpetuates the economic dependence of the Periphery on the Center. Thus, dependence refers to a set of linkages between the Third World and Center states, resulting in development at the Center and underdevelopment in the Periphery. The structural characteristics of the contemporary international system generate and reinforce the tendency toward greater international inequality.

Several theorists, the most notable being Galtung (1971), have attempted to bridge the difference in emphasis between the Marxist-Leninist and dependency schools. The major thrust of Galtung's analysis has been to uncouple the notion of imperialism from a unique association with capitalism and ground it in the nature of the nation-state system,
which in turn overlaps the international class structure. Thus, Soviet imperialism no longer represents the anomaly that it is for Marxist-Leninist theory. Galtung's approach, referred to as "structural" analysis, will be discussed more fully in Chapter 4.

1.4. Alternative Policy Prescriptions

Third World countries are on the periphery of the global economy and, for liberal theorists, this condition is the basis of the problem, in addition to domestic bottlenecks. Thus, the liberal's solution is the further incorporation and integration of the Third World countries into the global economy. Economic nationalists have modified this perspective to stress the particular self-interest of each state, regardless of whether the optimal efficiency and production of the global economy suffers as a result. For internationalists, the problem lies in the imperfections of the world market which favor the rich countries. Their solution is the establishment of effective international organizations to compensate for the disadvantageous position of the Third World in global economic relations. Marxist-Leninist theorists see the feudal nature of Third World economies as the problem reinforced by Center-Periphery relations. Thus, the Marxist-Leninist solution to underdevelopment is the elimination of feudal elements. In its original formulation, the elimination of feudal elements was to occur as the inevitable consequence of capitalist development. However, because of the coalition between feudal and capitalist interests, contemporary Marxist-Leninist analysis dictates direct revolutionary activity, such as the Communist Revolution in China, as the solution to underdevelopment. For dependency theo-
rists, the source of the problem is the dependence of the Third World countries on the global economy in general and the Center states in particular. Further integration of the Periphery into the global economy would only magnify and deepen the structural obstacles to development, producing even greater international disparities. Thus, the solution for dependency theorists is the diminution of Center-Periphery relations.

Although the contemporary international economy does not fulfill all the liberal requirements, such as perfect competition, the liberal position dictates that the Periphery states accept these imperfections and seek second-best solutions. The high degree of international interdependence, coupled with changing conditions, provide opportunities, which when seized by the Third World countries, can be used to achieve maximum developmental performance. Because of the various issues involved, there are no specific policy preferences that can be cited, though export promotion is crucial. However, as Ellsworth (1969: 193) states, there is one general rule: "if a divergence from ideal conditions is of domestic origin, a domestic policy is appropriate, whereas if the divergence is of foreign origin, interference at the international level is appropriate. But a domestic distortion should not be remedied by interference with international transactions, nor an international distortion by intervention at the domestic level." Deviation from liberal principles is an irrational response and certain to bring about failure to achieve national economic goals and maximum world welfare.

The classic illustration of the economic nationalist case was the failure of import substitution policies (Hirschman, 1968). Under the influence of Prebisch (1950) in his earlier writings, import substitution
was a popular policy in the 1950s, especially in Latin America. This program, which restricted the imports of manufactured goods through tariff protection, was designed to induce domestic industrialization. The rationale for this policy was derived from two arguments. First, it was argued that traditional primary exports were not growing fast enough to finance the volume of imports needed for domestic developmental programs. Second, there was the familiar "infant" industry argument, as developed by List (1966). Both of these arguments were further justified by the tariff policies pursued by the Center states. That is, the Center states impose higher duties on a product in accordance with the degree of processing it has undergone (e.g. raw cotton versus textiles). Because of such policies, the promotion of manufactured exports was not considered to be a feasible option. Import substitution schemes are compatible with all of the alternative perspectives to liberal theory. Obviously, however, import substitution violates the general rule cited by Ellsworth (1969) as well as liberal principles in general.

In any case, import substitution had several undesirable consequences, which eventually resulted in its repudiation, even by Prebisch (1964). As a consequence of restricting imports to only essential foodstuffs and raw materials, luxury goods (e.g. automobiles) were, in effect, given the most protection. In addition to its inefficiency and undesirability, the production of luxury goods in Third World economies soon encountered the problem of limited markets. Import substitution is designed to stimulate production primarily for the home market. However, since a large majority of the population in Third World countries exist at the subsistence level, demand for luxury goods is
limited to the relatively small middle and upper classes. On the other hand, the firms developing behind the protective tariffs were often too inefficient to compete on the world market. Prebisch, who was keenly aware of this particular problem, saw the expansion of regional trade among the Latin American countries as the solution to this problem. For a variety of political and economic reasons, however, the Latin American Free Trade Association (LAFTA) was not able to provide this solution (Cockcroft, et al., 1972; Veliz, 1965).

In addition, there were two other consequences which compounded the defects of inefficiency and limited markets. One was the tendency toward monopoly, which simply reinforced the inefficiency of production. The other was the tendency of the Latin American countries to encounter balance-of-payments deficits. The primary solution to this latter problem is further restriction of imports. However, since imports had already been cut back to only essential goods, further contraction of imports cut off goods needed for further growth. As Ward (1971: 19) concluded: "the economy spins round and round the same unconquered obstacles like a gramaphone record with the needle jammed."

The liberal explanation for the failure of import substitution is straightforward. The policy, in most instances, resulted in the promotion of those industries in which Third World countries had the least comparative advantage. If the state insists on promoting a specific industry, it should do so through domestic policies, such as tax incentives and subsidies rather than tariffs.

From the perspective of economic nationalism, the failure of import substitution was due to inadequate state controls. The state should support those firms which in the long run will be able to
effectively compete on the world market. Although South Korea and Taiwan can be cited as cases which illustrate the proper role of the state from the perspective of economic nationalism, the validity of these two examples is clouded by the fact that their high rates of economic growth can also be explained by the volume of United States aid that they have received (Chenery, 1971).

Both Marxist-Leninist and dependency theorists offer similar explanations for the failure of import substitution, although again there is a difference in emphasis between external and internal factors (Cockcroft, et al., 1972; Veliz, 1965). First, the origin of import substitution in Latin America is dated at the 1930s rather than the 1950s. The Great Depression and World War II cut off imports from the Center states, forcing the Latin American countries to adopt import substitution policies. Following World War II, the various factors discussed above reinforced this direction. Thus, "incipient" industrialization has been underway in Latin America for a considerable period of time. Furthermore, several Latin American countries have achieved short-lived but impressive rates in industrial growth (Griffin, 1969). Marxist-Leninist theorists explain the eventual failure of import substitution on the basis that it did not lead to the break-up of the capitalist-feudal coalition and the elimination of feudal elements in Latin American economies. As a consequence, the maldistribution of income was lessened, effective demand was not able to keep pace with industrialization, and industrialization stalled in the face of limited markets.

In addition, dependency theorists argue that import substitution actually produced greater dependence of Latin America on the Center
states rather than reducing it. This has come about by increasing
dominance of Center state firms in Latin American economies. As
Johnson (Cockcroft, et al., 1972: 83) states: "The consequences of the
upsurge and pattern of foreign investment in the region is a trend
toward delatinamericanization of the industrial economy."

In contrast to import substitution, and more consistent with liberal
principles, the promotion of manufactured exports has become the leading
approach in current developmental policy (Chenery, 1971). Since 1964,
Brazil has followed such policies and has achieved growth rates in GNP
of 8 to 10 percent. The key to Brazil's success has been the ability
to attract foreign investment from Center state firms by providing a
stable political climate, low wages, and tax incentives.

The model of development illustrated by Brazil has been severely
criticized by the Marxist-Leninist and dependency schools (Cockcroft,
et al., 1972; Cardoso, 1973). First, Brazil's growth in GNP has
occurred in the context of denationalization of the industrial sector:
foreign firms account for "72 percent of total investment in the capital
goods sector, 78 percent of total investment in the consumer durables
sector, and 53 percent of total investment in the consumer nondurable
sector of the Brazilian economy." Second, Brazil's growth has incurred
high costs in the form of a decline in equitable income distribution and
social justice. From the perspective of its critics, structural in-
equality is a necessary consequence of economic growth, based on de-
nationalization of the economy. Brazil represents a case of the coal-
tion between endogenous feudal and capitalist interests, fused with
foreign capital. The extraction of the economic surplus by this coalition
and transfer of a large portion of it to the Center, deprives the host
economy of the potential capital upon which short-term growth could be transformed into long-term national development.

Putting these criticisms aside, however, there is yet another problem raised by the fact that only a handful of Periphery states have been able to achieve high aggregate growth rates through the promotion of manufactured exports. The source of this problem is the unwillingness of the Center states to open their markets to manufactured exports from more than a few Periphery states.

In light of this problem as an alternative to individual state action, the Periphery states have attempted various multilateral strategies. One approach has been to work through international organizations, such as UNCTAD, which has been the primary forum for Center-Periphery negotiations since 1964 (Gosovic, 1968). The major objective of UNCTAD has been to secure non-reciprocal tariff reductions by the Center states on manufactured exports from the Third World as a whole. This approach can be viewed as an alternative to formal aid programs and an indirect mechanism of redistribution. A major factor influencing UNCTAD's policy direction, in addition to the failure of import substitution schemes, has been the ineffectiveness and low level of support for the traditional economic assistance programs, which have been the prevailing feature of international efforts to deal with Third World problems. In fact, controlling for aid as a percent of donor's GNP and inflation, the actual flow of economic aid from the rich to the poor countries has decreased between 1962 and 1972 (Blake and Walters, 1976).

The retreat from aid by the Center states has been led by the United States. Several factors can be identified to account for this occurrence. First, the aftermath of Vietnam has resulted in disillusion-
ment with large aid programs, especially among members of the United States Senate who had heretofore supported large appropriations. Another factor is the limited detente with the Soviet Union, which undermined the traditional anti-communist rationale for aid. This factor has also exposed the weakness of humanitarian arguments in extracting aid from decision-makers in the Center states. Finally, the recent world recession has resulted in Center states' becoming pre-occupied with their domestic problems and a corresponding decline in interest for Third World aid programs.

In addition to declining aid flows, many Periphery states have incurred serious debt-serving problems. As Blake and Walters (1976: 134) state: "annual repayments of past debts by poor states as a whole are growing about twice as fast as their export earnings, from which these debts must be serviced. Hence, in years to come an increasing proportion of poor states' foreign exchange earning must be spent to retire past debts rather than to fund new development."

Finally, scholars from a variety of theoretical positions have recently launched a comprehensive critique of both bilateral and multilateral aid programs (Myrdal, 1970; Griffin, 1970; Hayter, 1971; Goulet and Hudson, 1971; Bhagwati, 1972; and Payer, 1974). These critics argue that aid has benefitted the rich countries while retarding development in poor countries. Aid is seen as perpetuating the dominance of the Center states over the Periphery. Thus, criticisms of past and present aid programs, plus the decreasing significance of aid, suggest that the future potential of aid in making a major contribution to Third World development is problematic at best.
It is the background provided by the failure of direct redistribution that explains UNCTAD's emphasis on non-reciprocal tariff reductions by the Center states. The purpose of such an agreement is to allow Periphery state firms to gain a greater share of the world market, and, as a consequence, thereby to stimulate the growth of Third World economies. Of course, the major obstacle to such an agreement is the unlikelihood that the Center states will allow such a broad and non-reciprocal liberalization in trade. Powerful business and labor interests in the Center states are continuously lobbying with their respective governments to prevent such agreements so as to ward off foreign competition (Blake and Walters, 1976). On the other hand, without such an agreement, it is very unlikely that firms in the Periphery will be able to successfully compete on the world market with Center state firms.

Another factor complicating UNCTAD's efforts is the denationalization of Third World industrial sectors due to the increase in investment from Center state firms (Cohen, 1975; Weinstein, 1975; Barnet and Muller, 1974). That is, the benefits derived from the non-reciprocal tariff reductions, as achieved by UNCTAD to date, may be going to the multinational corporations rather than Periphery state firms. Thus, although there has been some progress in this area, it is still unclear whether UNCTAD's strategy will succeed in attaining the goal of development through the promotion of manufactured exports.

In addition to international organizations, the Periphery states have employed various regional strategies, such as the foreign investment code of the Andean Common Market (Blake and Walters, 1976), and commodity cartels, as in the case of OPEC (Hveem, 1975). The former represents an
effort to place uniform and strict controls on the multinational corporations so as to make these firms' operations compatible with state objectives. The latter case represents an attempt to exploit majority control over vital resources to the global economy in general and the Center states in particular.

The major obstacle to the successful implementation of such policies is the degree of unity among Third World states. In the case of regulating foreign investment, the failure to have universal codes across the Third World allows the multinational corporations to shift operations to more hospitable areas. In the case of commodity cartels, lack of unity among the major producing states will deflate the monopolistic bargaining position. Even in the case of OPEC, it is an open question as to whether that organization will remain viable in the future. Furthermore, many of the commodities exported by the Periphery are much less vital than oil, which reduces the prospects for OPEC becoming a model capable of replication.

A more fundamental critique of both international and regional attempts by the Periphery states to reform the global economy is that such strategies tend to reduce focus on the structural obstacles to development within Third World societies. The theoretical positions covered in this chapter would all agree on this point. However, the implications to be drawn from this observation by the five schools are also all incompatible to varying degrees.

Liberal theory would be content with an improvement of the performance of the capitalist system, both at the national and international level. Thus, policies should be directed at removing obstacles to that improvement. The advantage of the liberal position is that, at
least theoretically, all nations would benefit if global economic relations were conducted in accordance with liberal principles. Economic nationalists accept the goals of liberal theory, but argue that a rough equivalence in level of development among nations is a necessary prerequisite, if the position of more advanced nations is not to be perpetual. Once rough equivalence is achieved, global economic relations based on liberal principles are compatible with national interests. On the other hand, internationalists argue that since the self-regulating market is an inappropriate mechanism for national development, it is an equally undesirable basis upon which to conduct global economic relations. Therefore, international organizations must play an analogous role to that of national governments in correcting the imperfections of the market.

Marxist-Leninist and dependency theorists reject the positions advanced by the above three schools on the basis that their respective formulations are grounded in capitalism. For the Marxist-Leninist and dependency theorists, the particular form in which capitalism has molded the domestic class structures and external relations of the Periphery states precludes the possibility of genuine national development in the Third World within the context provided by international capitalism. As a consequence, only revolution and socialism, coupled with counter-dependency policies, provide a realistic possibility for the Periphery states. Revolution would break-up the coalition between the domestic feudal and capitalist interests with foreign capital and eliminate the feudal elements blocking development. Socialism would bring about social equity and harness the human resources of the nation to the task of development. Counter-dependency policies would include
the refusal to accept economic aid on existing terms from the Center, the nationalization of foreign operations, and the nonreliance upon export markets to the Center, among others. Such insulation from the global economy is necessary if international capitalism is not to undermine domestic policies, as in the case of import substitution.

The case most often cited as illustrating the implications of socialist and counter-dependency development is Communist China (Gurley, 1971). For scholars involved in the issue of Third World development, Communist China is often viewed as the major alternative model to that suggested by Brazil (Berger, 1974; Goulet, 1975). The disturbing feature of both models is the implication that a relatively high degree of political control and repression is essential to impose the discipline necessary to achieve development under typical Third World conditions. Advocates of the Chinese model employ an end-justifies-the-means argument in that the exercise of control in China has been to achieve social equity rather than growth under conditions of structured inequality, as in Brazil.

In addition to the ethical dilemma raised by the cases of Brazil and Communist China, there is the problem of generalizing from these two cases. Both countries are large and endowed with plentiful natural and human resources. Most Third World countries are small and much less endowed. Although South Korea and Taiwan can be cited as comparable with Brazil, and North Vietnam and North Korea can be cited as comparable with Communist China, other Periphery states have been less successful regardless of the particular strategy that they have employed.

The question of feasibility is especially pertinent to the policy implications of dependency theory. The cases of Burma and Tanzania
illustrate the failure of counter-dependency policies to produce
growth and development when feudal elements of the society are left
intact (Blake and Walters, 1976). Cases such as these suggest the need
for bridging the theoretical gap between Marxist-Leninist and dependency
analysis. Another major question raised by counter-dependency policies
is whether the developmental performance of Periphery states would
improve if ties to the Center states were cut. Given the existing
degree of dependence on the Center, it is only logical that a radical
disruption would have immediate negative consequences. The collapse
of the Allende regime in Chile illustrates the extent to which the
negative consequences of radical counter-dependency policies can under­
mine developmental efforts (Blake and Walters, 1976). Finally, a pre­
ponderance of socialist regimes in the international system would not
necessarily preclude efforts by states to dominate one another, as in
the case of the Soviet Union's domination of Eastern Europe (Galtung,
1971). The issues raised by the various alternative developmental
strategies will be discussed further in the last chapter.

The brief evaluation of policy alternatives given above suggests
that the long-term prospects for eradicating world poverty and reducing
international inequality are indeed dim. Pessimism is further rein­
forced by the inability of the social sciences to produce reliable and
feasible policy recommendations addressed to Third World problems.
Furthermore, whatever strategy is selected, including counter-dependency
policies, the costs will undoubtedly be high. The total disruption of
the traditional institutional and social fabric of a country is a steep
price to ask of a generation, or future generations, who may never witness
the promised benefits. Considering what is at stake, then, it is
essential that the various theoretical and prescriptive positions ad­
vanced be given empirical examination. The increasing popularity and
legitimacy of the dependency perspective, coupled with its relative
lack of practical application, makes it a prime candidate for such
examination.

1:5. Logic of Inquiry

The remainder of this chapter is devoted to outlining alternative
research designs, gradually reducing the focus to the one employed herein.

Liberal theorists explain the failure of Third World countries
to achieve maximum developmental performance on the basis of irrational
state policies. "Irrationality" is defined by the degree of deviation
from liberal principles. Hence, testing the liberal model would entail
the categorization of states on scales measuring the degree to which
they follow and implement liberal policies, correlated with developmental
performance criteria.

Evaluation of the model derived from the position of economic
nationalism would require a similar approach to that of the liberal model.
In this case, however, emphasis would be placed on measuring the ability
of the state to successfully remove obstacles to internal trade, sub­
sidize infrastructure, and promote home industries. Particular
attention would be given to measuring the state's performance in pro­
tecting and encouraging domestic industry. The major difficulty in
constructing a research design for this perspective would be in develop­
ing a criteria upon which to evaluate state policy with reference to
those industries selected for protection.

An evaluation of both liberal theory and the economic nationalist
perspective would use the nation-state as the basic unit of analysis.
In contrast, a research design for the internationalist perspective would focus on international organizations. The first step would be to identify those issues of the global economy of the most interest to the Periphery states. The second step would be to develop indicators measuring the effectiveness of international organizations in dealing with global economic issues in such a way that the benefits of global economic relations for the Periphery states are maximized.

A research design for the Marxist-Leninist position would include two approaches. For non-socialist Third World countries, analysis would concentrate on the success, or lack of success, of the national bourgeoisie in gaining ascendance over traditional feudal elements. For socialist Third World countries, the analysis would be conducted on the ability of the state to adapt socialist programs, which were originally designed for advanced industrial societies, to agrarian and peasant societies.

The dependency perspective is an aggregate theory in that it hypothesizes that national development in the Periphery is conditioned by the structural characteristics of the global economy. Thus, the approach taken in this study is to attempt to identify those structural characteristics and then conceptually link and empirically test their relationship to the developmental performance of nations.

A major problem in the evaluation of dependency theory revolves around the selection of criterion variables. The most commonly used variables for measuring growth and development are total aggregate national output (GNP) and per capita output (GNP per capita). Obviously, such criteria are compatible with liberal theory and the position of economic nationalism. However, dependency theory also emphasizes the
distribution of output within the society. Unfortunately, this issue is problematic, since data on income distribution are extremely scarce and unreliable, especially for the Third World countries. Paradoxically, then, aggregate tests of dependency theory are forced to use liberal criteria (Galtung, 1971; Alschuler, 1976; Kaufman, 1975). As a consequence, most of the dependency literature is at the descriptive case study level. The major defect of this approach, however, is that case studies cannot achieve the degree of generalization to which dependency theory is addressed. In this study, the analysis is conducted in terms of comparing the level and rate of development among nations.

Chapters 2 through 5 are devoted to the development and specification of the causal model tested herein. Chapter 2 presents a review of the literature, divided into three parts. First, the literature on political and economic development is covered, with emphasis on critical appraisals of prevailing paradigms. The second part focuses on that portion of international relations theory relevant to Third World development in the context of world politics. The third section provides a more detailed explanation of the dependency and political economy approach to the problem of international inequality.

Chapter 3 discusses the historical background, both in terms of imperialist behavior and early thought on imperialism. In particular, the classical (Hobson, 1909) and Marxist-Leninist (Lenin, 1939) theories of imperialism are reviewed as antecedents to the dependency literature. The expansion of capitalism into the underdeveloped regions is also covered so as to establish the historical factors producing the current structure of relations between the Center and the Periphery.
Chapter 4 reviews modern versions of imperialist theory, as reflected in the dependency literature, gradually reducing the focus to its economic aspects. The "structural" theories of dependency, such as Galtung (1971), are compared with Marxist-Leninist interpretations, as reflected in the work of Baran (1957). The last part of this chapter presents an historical and causal model, primarily derived from Galtung (1971), attempting to explain the increasing disparities between and within countries.

Chapter 5 specifies the operationalization, propositions, and techniques of analysis used to test the conceptual framework. The study encompasses as many nations as the data base permits. The total comes to 88 countries; 15 are OECD, and 73 are Third World countries. Nineteen variables, measuring domestic and external characteristics of these countries, are employed, covering the 1960-1970 time period.

Chapter 6 presents the empirical results, testing the conceptual and empirical propositions established in chapters 4 and 5. Cross-lagged panel correlation and time-series analysis are used to test for causal direction and trends, respectively. Path analysis is used to test the causal model.

Chapter 7 summarizes the principal findings, reviews the compatibility between data and theories of development, and brings the study back to policy implications in the form of an essay evaluating counter-dependency strategies.
CHAPTER II
The Challenge of Orthodoxy

Was there ever any domination which did not appear natural to those who possessed it?

--John Stuart Mill

...it is to be regarded as one of the anomalies of our time that those methods of thought by means of which we arrive at our most crucial decisions, and through which we seek to diagnose and guide our political and social destiny, have remained unrecognized and therefore inaccessible to intellectual control and self-criticism.

--Karl Mannheim

Dependency theory lies outside the mainstream of American social science. As a consequence, much of the dependency literature is devoted to a critique of the prevailing paradigms that underlie much of the comparative and international relations research concerned with the problems of the Third World. The two quotations given above summarize the theme of the dependency critique of mainstream American social science. That is, dependency theorists argue that the prevailing paradigms represent an advocacy of the status quo and continued domination of the Periphery by the Center. In particular, it is argued that prevailing developmental scholarship has reified the American political and economic system, and, in attempting to apply the resulting model to the Third World, has emasculated its own research. Prevailing paradigms of international relations, as seen by dependency theorists, sanction the preeminent position of the Center states and avoid research which speaks to the needs and interests of the Periphery states. An alternative
perspective to the prevailing paradigms is introduced in the concluding section of this chapter.

2:1. The Capitalist and Democratic Bias in Orthodox Developmental Literature

Following decolonization, many Third World countries were left with political systems modeled after, and often designed by, the former colonial power. The twin goals set by the new Third World governments were nation-building and economic development within a democratic institutional structure. To this end, bilateral programs of advice and assistance came from the developed countries, often again the former colonial ruler. Experts from the West were imported to help guide the nation's development. Many Third World elites had been trained in the West, and an increasing number of students were sent to the West for an education, which upon their return could be applied to the problems of their country. All of this culminated in the United Nations First Development Decade. Unfortunately, the rate of economic and social change in the 1960s failed to meet expectations, and democratic government has all but disappeared in the Third World.

Simultaneously with the above process, a considerable amount of academic activity was occurring in American developmental research as theories of economic and political development rolled off the press, announcing the "great ascent." Analysis of the Western developmental experience easily led to the conclusion that it was simply a matter of diffusing the resulting model into the Third World and "take-off" would follow. Fed by the competitive spirit of the Cold War, there was little doubt that capitalism and democracy provided the best possible path to development.
There are basically two approaches to a critical analysis of orthodox views. The first assumes that the basic analytical framework was correct and that the lack of progress in the Third World is due to a failure of implementation within the Third World. The question which this approach raises is why there was such a failure. The second approach deals with the substance of the analytical framework itself. The critical literature summarized below answers the first question through the latter approach. That is, the failure of implementation was due to the inappropriateness of policies derived from orthodox models.

2.1a. Economic Development. The main lines of thought on economic development can be found in a variety of sources, such as the Praeger series on development, studies sponsored by such agencies as the OECD and the World Bank, and independent scholars, such as Rostow (1960), Heilbroner (1963), Meier (1970), and Kuznets (1971).

The major assumption underlying this literature is a linear conception of development in which the Third World is viewed as replicating the historical experience of the West. Rostow (1960) represents the most explicit formulation of this view, but it also underlies much of the remaining orthodox literature. There are two major fallacies in incorporating such an assumption into a theory of Third World development. First, the level of development achieved by the West before the Industrial Revolution was considerably higher than that attained by the Third World countries by the end of World War II (Kuznets, 1971). Furthermore, such problems as overpopulation are much more severe in the Third World than they were in comparable
periods of Western development. The second major difference between
the West and the Third World is that the basic economic structure of
the latter societies is a consequence of the economic expansion of the
former. As discussed in Chapter 1, Marxist-Leninist and dependency
theorists view the economic and social structures resulting from the
Western impact as inimical to the future growth and development of
Third World countries. These historical differences between the West
and the Third World suggest that the self-regulating market of the
capitalist model may not be appropriate for the need of rapid growth
and development in the Third World.

The inappropriate assumptions concerning growth and development
resulted in even less analytical rigor in dealing with the question of
social equity. Given a goal to increase production, the primary vari-
able identified by the orthodox literature is capital formation. The
necessity for a high rate of capital formation results in an argument
against internal redistribution on the grounds that the propensity to
save is greatest among the high income groups (Heilbroner, 1963).
Government efforts to achieve equitable income distribution and to
provide social services would disrupt developmental efforts (Galenson,
1959).

As a consequence of giving priority to capital formation, equi-
table income distribution is postponed as a long-range goal. This is
the familiar "trickle-down" argument, which states that high aggregate
growth rates will eventually lead to a tendency toward an equalization
of income by the natural forces of the market (Heilbroner, 1962). For
example, the low wages in the Third World are commonly seen as a
function of the relative abundance of labor in contrast to the scarcity
of capital. However, as capital becomes more plentiful as a consequence of growth, labor will become increasingly scarce, resulting in pressure for higher wages. Eventually, this process will gain further momentum through the emergence of organized labor and government taxation policies to ensure redistribution of income.

The assumptions underlying the above scenario again challenge the probability of its occurrence. First, orthodox theories assume that Third World countries can and will achieve self-sustained economic growth under existing conditions. It is just as logical to assume that equitable income distribution and structural reforms of the economy are the prerequisites for growth and development (Gurley, 1971). Second, the orthodox perspective assumes that the almost "unlimited supply of labor" (Lewis, 1958) in most Third World countries will not prevent a trend toward increasing scarcity of labor. Third, the scenario assumes that capitalist sectors in the Third World are not monopolistic, and would thus, respond accordingly to changes in the supply of labor. Fourth, orthodox analysis assumes that the coalition between feudal and capitalist interests in Third World societies will not block government efforts to protect and enhance the interests of workers. Unless these assumptions hold, and there is serious doubt that they do, then the reality of Third World development is not likely to proceed along the lines predicted by orthodox analysis.

The mainstream literature on development has not been unaware of the domestic bottlenecks to development, as reflected in the concepts of "dual society" and "non-economic factors" (Meier, 1970). Given the severity of domestic problems, orthodox theorists have traditionally
identified external inputs, in the form of trade, aid, and foreign investment, as decisive stimulants to Third World development. Aid and foreign investment will overcome the capital formation problem by supplementing domestic savings and investment. Trade will play a complementary role by providing an outlet for primary exports, which in turn, will finance the import of capital equipment needed for industrialization. Furthermore, external sources will promote the diffusion of technology and organizational skills to enhance productivity.

Again, the emphasis of the above perspective is on capital formation, which in turn will increase the rate of industrialization. As discussed in Chapter 1, however, the particular formulation of the role of external inputs has varied over time. In the 1950s, import substitution was the prevailing approach. In the 1960s, the emphasis changed to stress the promotion of manufactured exports. A major reason for this latter change in policy was the argument, put forth by economists such as Chenery (1971), that it was not the lack of resources, but the allocation of resources which was the major problem for most Third World countries. Import substitution policies had resulted in the misallocation of resources due to insulation from market regulation. The promotion of manufactured exports, on the other hand, requires a greater sensitivity to market conditions, and as a result, enhances the efficiency of production. Of course, such a perspective is in keeping with liberal principles. The failure of external inputs to have maximum benefit, according to orthodox analysis, is the consequence of Third World governments pursuing perverse policies deviating from liberal principles.
In contrast to orthodox analysis, dependency theorists view external inputs as perpetuating international capitalism, which in turn acts to retard Third World development. Gurley (1971: 331) articulates this position:

This pursuit of efficiency and private profits through building on the best has led in some areas to impressive aggregate growth rates, but almost everywhere in the international capitalist world it has favored only a relatively few at the expense of the many, and, in poor capitalist countries, it has left most in stagnant backwaters. Capitalist development, even when most successful, is always a trickle-down development.

The above quote indicates the degree of cleavage in theories of economic development. Economists observing the same process and marshalling the same facts derive fundamentally different conclusions. The dependency perspective will be discussed further in subsequent chapters.

2:1b. Political Development. The orthodox American literature on political development can be roughly divided into two camps, determined by the focus of concern. One group has been concerned with the compatibility between democracy and rapid social and economic change (Lipset, 1960). The second approach, referred to as Structural-Functionalism, has been to construct a framework for the comparative analysis of the developmental process, regardless of the differences between countries (Almond and Coleman, 1960).

The first approach was explicitly pessimistic about the probability that democratic institutions in the Third World would survive the strains of change. The accuracy of this view has been verified by the collapse of one democratic regime after another over the past decades since the end of World War II. Some theorists, such as Huntington (1968), have
responded to the decline of democracy in the Third World by an explicit espousal of authoritarian rule. Others, such as Apter (1971), have prescribed a middle course between conservative authoritarianism and socialism, with an emphasis on a technocratic elite guiding the nation's development. Still others, such as Kautsky (1968) and Rostow (1971), see democracy emerging only after the developmental process has matured.

The "conditions for democracy" approach has, however, been eclipsed by the rise of Structural Functionalism, which has become the prevailing paradigm in the study of comparative politics and development. Derived from the sociological theory of Talcott Parsons (1951) and applied to political analysis by Almond and Coleman (1960) among others, Structural Functionalism is based on the assumption that there are universal functions which all societies must perform in order to maintain the political system. Theorists within this school of thought have identified several functions relating to the formation and channeling of interest group demands into the political process as well as governmental response to those demands. As Almond and Coleman (1960) admit, these functions are derived from the study of Western political systems. On the other hand, the authors fail to note that the procedures developed in the West to perform these functions were designed to retard rapid change in that they are premised on long processes of deliberation and consensus building. The application of this Western-derived framework of political analysis assumes an underlying pluralism in which a multiplicity of interests have a relatively equitable chance to influence the decision-making process. This assumption flies in the face of Third World reality, in
which skewed distribution of both power and wealth preclude such a process from taking place. As a consequence, after more than ten years of empirical research and theoretical refinement, Structural Functionalism is little more than a taxonomic and jargonistic maze of questionable utility.

A major defect in the Structural Functional approach is that, contrary to the "value-free" jargon, it is simply a reified and idealized model of the American political system. An evaluation of other political systems, on the premise that the American system represents the standard of judgment, is bound to lead to the conclusion that non-Western systems are deficient and should apply more rigor in attempting to imitate the West.

A more important criticism than simply ethocentrism, however, is the conservative policy direction that the literature has adopted in the wake of the failure for democracy to take root in the Third World. Kesselman's (1973) review of the recent literature on development points out the trend toward favoring conservative authoritarian regimes by orthodox theorists. He states: "my objection is not to describing how authorities attempt to maintain dominance, but rather to the implicit espousal of their cause: the literature of political development might be assigned reading in Silone's school for dictators." The prevailing literature obviously directs its remarks to Third World elites and is certainly not interested in encouraging social revolution, whether it be peaceful or violent. The most disquieting aspect of such a value position is the claim of objectivity which, in his opinion, precludes the necessity for justifying that position.

Another work illustrating the conservative theme is Apter's
Choice and the Politics of Allocation (1971), one of the most influential studies of political development in recent times. Apter argues that the ideal polity is a "democratic-reconciliation" system, which is remarkably similar to the American political system. He goes on to argue that this system has to be modified when applied to Third World countries because of the social instability arising from modernization. This modification is basically a constitutional limitation on popular political participation and reliance on a technocratic elite to formulate national policy. The similarity between these prescriptions and those found in the prevailing economic literature should be evident. An effective limitation on the input of popular demands into the decision-making process allows the government to pursue a capital formation program based on widespread inequality, with the added benefit of avoiding any structural reform within the society.

Is it coincidental that regimes which promote capitalist development under authoritarian political rule, favored as they are by the prevailing literature, are the very same regimes least likely to restrict Center state business interests? One reason why this question can be raised is due to what is now a common complaint of the critical literature, namely, that the prevailing paradigms of political development have failed to incorporate the effect of external variables, such as the colonial heritage and the Cold War, on domestic political processes in the Third World. This omission is a general characteristic of the prevailing literature, which lacks any discussion of American influence on the politics of the Third World. Of course, it is the inclusion of external variables that
clearly differentiates dependency theory from the mainstream of American developmental literature. If one were to find a discussion of the role of external variables on domestic political processes, the logical place to look would be the field of international relations. However, as the review of international relations research below reveals, this is not the case.

2:2. Asymmetry and International Relations Research

The diversity of approaches in the field of international relations is much greater than in developmental studies. However, as inequality is the major point of contention in the developmental literature, inequality among countries forms the basis for criticism of the prevailing international relations research.

At the most general level, it can be argued that the major focus of international relations research is conflict resolution or global stability. Less attention has been devoted to the humanistic dilemmas of international stability, such as the problem of world poverty. This tendency is reinforced by a symmetrical interpretation of international behavior. Since the nation-state is the basic unit of analysis, and the nation-state is sovereign by definition, there is often a tendency to underestimate the effects of international stratification. For example, Morgenthau's (1967) approach is premised on a self-interest explanation of national behavior. Obviously, those nations with the greatest power also have the greater ability to make those interests dominant. Thus, the issue of equity is resolved through a process of Social Darwinism.

This argument can be further developed by an examination of
those perspectives conceptually related to the dependency viewpoint, namely, integration theory and the notion of linkage politics. In fact, some of the dependency literature has emerged as a response to, or variation of, this literature (Rosen and Kurth, 1974).

2:2a. Integration Theory. In a world clearly divided between rich and poor countries, there are basically three types of integration that can take place whether in a global or regional framework. First, there is integration among developed countries, such as the European Economic Community (EEC), which has been the most successful as well as the most studied case. Second, there is integration among Third World countries, which has been less successful as well as less studied. Finally, there is integration among Center and Periphery states, which has been generally ignored in integration research. The first two types of integration are symmetrical, whereas the latter is asymmetrical and has become the subject of the imperialist and dependency literature.

Although the level of international transactions is highest among the Center states, the history of Western influence upon Third World societies and the high degree of Periphery dependence on the Center, in terms of trade, aid and investment, suggest that the interdependence between the Center and Periphery states should be of concern to theorists of integration. Perhaps the best explanation for this lack of interest is the same which accounts for the general lack of interest in Third World problems in the era following World War II, as discussed in Chapter 1. That is, early integration theory was primarily concerned with European security, both within Europe
and in the context of the Cold War (Deutsch, 1954).

The basic causal model underlying integration theory is that
the prospects for preserving world peace will increase in accordance
with the increase in international interdependence and cooperation.
Eventually, the costs of violent conflict among state will outweigh
any possible benefits to such an extent as to preclude the possibility
of war. However, as a consequence of placing priority on stability,
the question of international distribution was almost totally ignored.
Except for the "functional" approach associated with David Mitrany
(1946), Philip Jacob, et al. (1972), and others, integration research
has been devoid of humanistic concerns and had tended to disregard
the asymmetrical aspects of global interdependence.

There are several features of integration research which demon­
strate this point. First, in studies of the EEC there is scant dis­
cussion of the consequences for the associated African states, with
a few notable exceptions (Galtung, 1973). Second, there is little
analysis of Third World dependence on the Center states as it affects
Third World integration schemes. Thus, there are several critical
questions which the literature on integration has failed to address:
As the world becomes more integrated, what is to prevent a closure
to any redress of present levels of international inequality? Will
not a more interdependent world enhance the dominant position of
the West? An affirmative answer to these questions is a major
implication of dependency theory.

2:2b. Linkage Politics. The field of international relations
has been slow to incorporate transnational interactions and organiza­
tions into the analysis of world politics. The traditional notion
of the nation-state as an autonomous unit has tended to locate the consideration of interaction between national and international systems on the periphery of research. However, there have been some relatively recent attempts to correct this omission.

One source of this effort is the notion of linkage politics. James Rosenau's study (1969) can be considered a pioneering work in this area. Rosenau defines a transnational linkage as "any recurrent sequence of behavior that originates in one system and is reacted to in another" (1969: 45). The remainder of the book *Linkage Politics*, under Rosenau's editorship, is devoted to specific applications of this definition to a variety of international problems.

A more specific use of this concept can be found in the work of Keohane and Nye (1973). These authors define a transnational linkage as "the movement of tangible or intangible items across state boundaries when at least one actor is not an agent of a government or an intergovernmental organization" (1973: xii). This definitional task is followed by a valuable set of descriptive case studies of various transnational organizations, such as the multinational corporation.

Although both of the above works appear to be dealing with the same subject matter, there is an obvious terminological confusion even at this early stage of theory construction. Rosenau's definition subsumes that of Keohane and Nye's, but the latter's formulation limits the scope of analysis to nongovernmental actors. This situation will certainly lead to many problems as efforts are made to operationalize the concept of linkage politics.
An even more serious problem, however, is the lack of any direction in the research in that, as of yet, there is no formal theory. Furthermore, both volumes contain scant discussion of the consequences of transnationalism for Third World prospects. This is an obvious issue, since many of the more important transnational organizations, such as the multinational corporations, represent Western interests.


As the title of this study indicates, the general approach adopted for the analysis of international inequality is that of political economy. It is important to clearly define this concept, as well as the others employed herein, since their use in the literature is diverse if not contradictory.

The term "political economy" has been used in four general senses. Originally, the term was associated with classical economic theory, which included Adam Smith and John Stuart Mill. As used by these theorists, the term implied the incorporation of political variables (e.g. the role of the state) into economic analysis. The importance given to the state was due to the goal of classical theory, which was to discredit the Mercantilist views of the time. The other three usages are more contemporary. The first of these, and perhaps the most common in American social research, is an approach which treats the political arena as a competitive market (Curry and Wade, 1968). Yet another approach stresses the importance of economic variables in political analysis (Ilchman and Uphoff, 1969).
The fourth approach represents a "radical" departure from orthodox social science. Radical political economy has two theoretical origins which have recently merged. As discussed in Chapter 1, the first is the tradition derived from Marxist-Leninist analysis, as in the case of Baran (1957). The second line is basically a reaction against prevailing paradigms of development coming out of American social research. This approach is referred to as "dependency" theory.

The approach taken in this study primarily falls into the latter framework, although other variations are also employed. At a general level, dependency theory is similar to other social science perspectives in that it can be defined as the study of social systems to ascertain the laws or regularities of social change and stability. However, to achieve this goal, the major thrust within the social sciences has been toward specialization and compartmentalism, especially with regard to developmental problems. Thus, in studies of political development there has been a tendency to ignore economic variables with a corresponding tendency to ignore political variables in the economic development literature. There has also been a similar tendency with regard to internal and external variables in that a majority of developmental studies ignore external variables. Although there have been some attempts to correct this tendency in the orthodox literature, it has only reached a preliminary level. Finally, the orthodox literature can be labeled as ahistorical, since background variables have been given scant analytical attention. This is an especially serious defect in the study of the Third World, given the importance of the colonial era in explaining subsequent Third World underdevelopment. Thus, the political economy approach can be
distinguished from other approaches in that it attempts to be multi-disciplinary and to incorporate background and external variables into the analysis of Third World developmental change.

In addition to the above, there are clear substantive differences between the approach taken here and the prevailing paradigms. As has been shown, the primary concern in the orthodox literature is with raising national output and achieving regime stability. What, then, are the value preferences of political economy? The basic assumption and ultimate rationale for political economy is that the human species is social in nature. Besides primitive survival, society is viewed as a necessary and sufficient condition for individuals to realize their fullest potentialities. Thus, the radical political economy approach places greater priority on social equity and national self-determination than on aggregate production and stability.

In the Western philosophical tradition this subject has usually been discussed in the context of the tension between social equity and individual freedom. Originally this question was decided overwhelmingly in favor of the latter as reflected in the ideology of laissez-faire capitalism and Social Darwinism. As discussed in Chapter 1, social welfare concerns have gradually gained ascendance over the individualistic ideology of the Nineteenth Century. Western societies, for the most part, have come to the conclusion that it is a legitimate function of government to interfere in the economy so as to bring about equal opportunity. Furthermore, the principle that minimal standards of food, health, education, and habitat are rights guaranteed by society has increasingly become a characteristic of Western societies.
On the other hand, a major lesson drawn from Western experience by the orthodox literature is that deferred gratification on a massive scale is a necessary prerequisite for the eventual achievement of social equity. It has been considered a valid generalization in orthodox analysis that inequality will widen in the early phases of development and growth and will only begin to narrow when the economy achieves consumer based status (Kuznets, 1965). The necessity for sacrifice is not denied by the political economy approach. What is denied by this latter perspective is that Third World countries must replicate the particular aspect of the Western developmental experience in which the lower classes assumed the primary burden of the sacrifice. Although the orthodox literature has taken cognizance of this problem by emphasizing "investment in human capital" (Schultz, 1967), this has been seen as only a means to the end of greater national output rather than an end in itself.

The humanistic value concerns of the political economy approach have been set forth in recent works by Gurley (1971) and Goulet (1973). Given the already high degree of maldistribution in Third World countries and the unlikelihood of capitalist development policies to provide any relief, these scholars argue that development can only occur if the society advances as a whole. Furthermore, equitable distribution becomes a prerequisite for such advancement rather than an afterthought.

Empirical evidence for this latter proposition has been presented by Oshima (1970), Adelman and Morris (1973), and Jarvis (1974). Of particular interest is Oshima's study of the relationship between income inequality and economic growth in the Asian countries during
the decades following World War II. He found that the countries with the lowest level of income inequality, namely, Japan, Taiwan, and South Korea, also had the highest per capita and aggregate growth rates. His explanation for this finding is that extreme maldistribution of income results in a low saving rate due to dissaving among the lower income groups. Furthermore, a more equitable income distribution does not necessarily detract from capital formation since "this need not lead to a rise in the rate of consumption because there is a large fixed overhead cost in human labour-costs in the form of consumption of food, clothing, housing and other necessities." Thus, Oshima concludes: "As for developmental strategy for the seventies and the eighties, the discussion in this paper...points to one quite different from those advocated in the fifties and the sixties by most economists in which modern industrialization was heavily emphasized. An undue emphasis on modern industrialization may lead to unemployment, underemployment, excessive urbanization and regional imbalance, excess industrial capacities, rapidly widening absolute income inequality...." Although the issue of individual freedom is not fully answered by the studies cited above, it will be argued in the final chapter that these studies do indicate the proper set of priorities if there is to be both development and equity.

Finally, the discussion of this issue in a global context has been a relatively recent phenomenon. Historically, this has been primarily due to the fact that tangible bonds have been greater within countries than between countries. However, with the increasing interdependence between nations, especially since the end of the Second World War, it has been necessary to focus greater concern on the
equity of the international system. This process can be viewed as the consequence of the sequential emergence of three problems in the forging of world community. First, the only "state-of-nature" to have existed in reality is the international system which was a by-product of community formation at the national level. The second problem has been a major factor in promoting global cooperation, as symbolized by the United Nations. On the other hand, the East-West conflict and the North-South conflict have been the chief obstacles to the full realization of a just world order. The latter conflict has become an especially formidable obstacle due to the third problem of an increasingly interdependent world becoming an increasingly unequal one. It is the major thesis of this study that the two phenomena are not independent of one another, but are interrelated: the source of increasing inequality lies in the system of international interdependence.
CHAPTER III

Historical Background

Although the model tested in this study is drawn from recent works in the field, the dependency argument has a long historical tradition in the literature on imperialism. It is important to examine this tradition, since contemporary theorists owe a considerable debt to the early formulations reviewed in this chapter. Furthermore, the causal ordering of the variables used in the empirical chapter is derived from historical interpretations. Thus, this chapter represents an essential component in the construction of the theoretical framework.

3:1. The Classical Theories of Imperialism and the Marxist-Leninist Tradition

For purposes of clarification, it is important to note that there are two basic differences between the classical theories of imperialism and the contemporary dependency perspective. First, the classical theories were primarily concerned with explicating the causes of imperialism originating in the contradictions of capitalism. Both modern Marxist-Leninist and dependency theorists, for the most part, are interested in the consequences of imperialist relations for the Third World. Thus, although the merits of the classical theories with reference to the causes of imperialism are not of critical significance to contemporary theories, they are important in substantiating the argument that it is the association with capitalism that differentiates the "imperialism" of this study from earlier forms.
Second, the classical theories dealt with the formal empires established and maintained by such powers as Britain in the late Nineteenth and early Twentieth Centuries. Modern theorists are concerned with "neocolonialism" or the informal system of dominance maintained more by economic mechanisms than by direct political and military control.

3:1a. John Stuart Mill. Of all the scholars which modern theorists of imperialism are indebted to, the one given the least credit is that of J.S. Mill (1909). Yet, in his study of political economy, Mill made three important contributions in understanding the origins and dynamics of imperialism.

The first of these was in the area of distribution (Heilbroner, 1972). Before Mill, the classical economists had resigned themselves to the inevitability of the poverty associated with the Industrial Revolution. The laws of production and distribution of wealth were immutable, similar to the laws of physics, and any attempt by the state to intervene would be to no avail. Mill was the first to pronounce the simple but profound truth that this was not so (1909: 199-200):

The laws and conditions of the Production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them. Whatever mankind produces, must be produced in the modes, and under the conditions, imposed by the constitution of external things, and by the inherent properties of their own bodily and mental structure. ...It is not so with the Distribution of wealth. That is a matter of human institution solely. ...They are consequences of the fundamental laws of human nature, combined with the existing state of knowledge and experience, and the existing condition of social institutions and intellectual and moral culture.
Thus, the study of inequality requires more than just economic analysis. As was evident from the discussion in the last chapter, distribution does affect the economic growth and development of society. It is perhaps the key issue in a theory of developmental change. Furthermore, mal-distribution in the capitalist societies of the Nineteenth Century was the "taproot" of imperialism in Hobson's theory.

Mill's second and most explicit contribution to a theory of imperialism was his analysis of the sources generating the expansion of capitalism (Spengler, 1960). For Mill, one of the most serious problems facing the future of capitalism was the rapid rate of population growth, especially in the lower classes. Colonialism provided a mechanism for removing excess population, at least for the short term. In addition, since the domestic rate of return on capital was low, the colonies also provided an avenue by which Europe could release its excess capital. The export of capital was to play an increasingly significant role in later theories of imperialism, especially those of Hobson (1965), Lenin (1939), and Luxemburg (1951).

The third contribution made by Mill was in the area of the gains from international trade (Ellsworth, 1969). The gains from trade were first established by the classical economists, Adam Smith and David Ricardo, through the law of comparative advantage, in which it was shown that all countries are better off with than without trade. However, Smith and Ricardo addressed neither the question of proportional gains from trade nor, as known today, the terms of trade. Both issues were first discussed by Mill (1909: 596-606), in which he showed that under certain conditions the disproportional gains from
trade could be extensive.

It is the difference in the proportional gains to be derived from trade that accounts for the long-standing gap between economic theory and economic reality (Emmanuel, 1972). The major policy implication of the law of comparative advantage is free trade and yet countries have continued to follow protectionist policies throughout modern economic history. Mill, of course, was an advocate of free trade and argued that any losses for a particular country from free trade would be negligible. Furthermore, small and less-developed countries would benefit the most from trade, since their domestic level of trade would tend to be low.

In addition to this last point made by Mill, the benefits of free trade for the Third World countries were considered to be especially promising due to their specialization in the production of food and raw materials (Clark, 1942). It was a popularly held assumption in the years preceding World War II that food and raw materials would become increasingly scarce relative to manufactured goods, and, as a result, the terms of trade would tend to shift in favor of the Third World countries. However, in the decades following World War II, the tendency for just the opposite to occur has been a major source of conflict in North-South relations (Blake and Walters, 1976).

3:1b. John A. Hobson. The first principal theory of imperialism is found in the work of the English economist, J.A. Hobson (1965; originally, 1902). His formulation had a major influence on subsequent theories of imperialism, especially Lenin (1939) and those in the Marxist-Leninist tradition.
An evaluation of Hobson's theory requires an examination of his critique of capitalism and the linkage of that critique to imperialism. Hobson argued that imperialism was a policy, not a necessity as later argued by Lenin, pursued by the European powers in an attempt to avoid the domestic consequences of "underconsumption and overproduction." This syndrome of capitalism had become an increasingly inexplicable problem by the late 1800s. The cause of this problem, according to Hobson, was the extreme maldistribution of wealth, which made it impossible for the poor majority to consume the ever-increasing production of the capitalist system which, in turn, led to a glut in savings among the rich minority. The failure for the savings of the rich to find its way into productive investment broke the circular flow of income, resulting in a drop in income and, thus, the depressions of the 1870s and 1890s. From Hobson's perspective, there were basically two options for dealing with this problem. The first was government interference to correct the degree of maldistribution. The other option was to export excess capital to the colonial areas. It was the selection of this latter option by the powerful interests in England that Hobson decried.

At this point in history, orthodox economic theory lacked an explanation, let alone a cure, for the cyclical nature of capitalist development. Nevertheless, Hobson's explanation was condemned as heresy by the orthodox economists of the time. Government interference to correct the degree of maldistribution, the policy favored by Hobson, was completely at odds with the tenets of classical theory. As Furtado points out (1964:29):
It was assumed to be an unquestioned truth in the classic economics that on a long-term basis the rate of profit tended to decline. Deduced from the 'population principle' of Malthus and the law of differential rent of Ricardo, it went on to demonstrate that any attempt at an arbitrary increase in real wages would be to no practical purpose.

Yet, Hobson, as in the case of Marx, also shared the assumption that the rate of profit would tend to decline. As a consequence, Hobson was never able to establish his "underconsumption and overproduction" argument on a consistent basis. It was not until some thirty years later, in the work of J. M. Keynes (1973), that the cyclical nature of capitalist development was properly understood. On the other hand, and as discussed in Chapter 1, Keynes identified in his analysis the same structural obstacle to the future growth of capitalism as did Hobson, namely--the maldistribution of income. Keynes also came to the same policy implication as that advocated by Hobson--governmental taxation programs to provide a continuous redistribution of income.

As for Hobson's theory of imperialism, subsequent research by orthodox economists has attempted to pick his theory to pieces, most notably, the work of Fieldhouse (1967). Reduced to their core, these criticisms argue that there is no logical or temporal connection between the profit motive and colonialism, and that, in fact, the colonies simply did not pay. To a certain extent, such criticisms have validity. However, the attacks on Hobson's theory have, for the most part, been overstated. In response to Hobson's critics, Heilbroner offers a balanced appraisal (1972: 194-195):

But they simply missed the point. True, some colonies did not pay--in 1865 a Committee of Commons actually recommended the abandonment of all British holdings save one on the west coast.
of Africa on the grounds that they were highly unprofitable ventures. But while all colonies did not yield a profit, some colonies were fabulously rewarding: the tea gardens in Ceylon, for example, would return fifty percent dividends on invested capital in a banner year. And while all industry did not benefit from overseas markets, some important industries could hardly have existed without them: the classic case in point is the dependence of the British cotton industry on the Indian market. When the Japanese eventually undersold the British in India, the Lancaster cotton mills suffered a blow from which they have never fully recovered to this day.

To be sure, there were other imperialist motives generously mixed in with the purely economic, and the economic compensatory effect of imperialism was not quite so simple as J.A. Hobson had described it. But by and large one could hardly find an explanation for the thrust of European power into Africa and Asia that did not contain some flavor of economic necessity. In the case of Holland, for example, the huge plantation economy of Java and Sumatra offered a field for profitable investment of great importance for Dutch capital; in the case of Malaya, invaluable and cheap raw materials provided John Bull with a lucrative international monopoly; in the case of the Middle East, there were oil and the strategic control over shipping through the Suez Canal. From country to country the motive might differ, but the common denominator of economic gain was to be found in all.

The overall loses from imperialism were borne by the majority of the population in the advanced capitalist countries. The gains were derived by a small minority that had the political power to make its interests dominant. Thus, the historical inevitability of imperialism as well as its overall profitability are irrevalent within Hobson's framework. Furthermore, the European elite was able to perceive, if not understand, the structural maladjustments occurring in the capitalist system, and it responded with what appeared to be a forthright solution--economic expansion abroad. It was this subjective interpretation of reality that resulted in the objective
phenomenon of imperialism. An identical form of logic has been employed by elites in the United States to justify American economic expansion abroad (Williams, 1972).

With the exception of Hobson, most other early theories of imperialism were linked to Marxist analysis (Lenin, 1939; Hilferding, 1923; Bukharin, 1929; and Luxemburg, 1951). It is to this Marxist-Leninist tradition that we now turn.

3lc. Lenin. Hobson's theory of imperialism was subsequently adopted by Lenin in an attempt to resolve the contradictions of classical Marxism. The basic contradiction was the failure of class conflict to manifest itself historically according to Marx's predictions. First, World War I had been a blow to the belief that universal proletarian solidarity would emerge and triumph over nationalism. Second, and even more devastating, was the failure of proletarian revolution to emerge at all in the advanced capitalist societies. On the contrary, the first socialist revolution occurred in Russia, a relatively backward pre-capitalist society. To resolve these contradictions, Lenin introduced the notion of imperialism.

According to Lenin, the failure of proletarian solidarity and revolution in the West was a consequence of the rise of monopoly capitalism and its expansion into the backward regions of the world. At this point, Lenin's theory becomes a bit too neat, as the rise of monopoly or finance capitalism did not appear until more than twenty years after the major period of colonial expansion (Fieldhouse, 1972). In any case, through the exploitation of these backward regions, the bourgeoisie in Western nations were able to "bribe" the proletarian class and, thus, to prevent revolution. The internal contradictions ascribed to capitalism
by Marx failed to rise to the fullest because they were transplanted to the Third World. In essence, Lenin applied the Marxist analysis of capitalism within nations to the international level.  

A logical deduction from Lenin's interpretation of imperialism is that socialist revolution would occur first in the backward regions; this is the "weakest-link" theory. To substantiate this view, Lenin introduced the idea of "uneven development," both between and within countries (Meyer, 1962). Differences in the level of development among the advanced countries would lead to war, as the internal contradictions of capitalism forced the "late comers" to carve out their own empires (e.g. Germany and Japan). Weakened by war, the advanced countries would be unable to suppress revolutionary challenges in the colonial areas.

Socialist revolution in the Third World would be an outgrowth of a multifactor conflict between the endogenous capitalist and feudal interests with foreign imperialists, between the endogenous capitalist and feudal classes, and between the capitalist and proletariat classes. As Third World countries moved into the capitalist stage of development, the power of foreign interests and the feudal aristocracy would diminish, setting the stage for the classic Marxian proletarian revolution. Without their colonies, the advanced capitalist societies would also collapse amidst revolution. Eventually, the global structure of capitalism and imperialism would perish.

As with Marx, the realization of Lenin's vision of the future seems somewhat distant. Lenin made two critical mistakes. First, instead of examining the substance of Marx's analysis, he simply injected another variable, imperialism, to resolve any difficulties.
As in the case of Hobson, the basic flaw in Marx's scheme was the assumption that the rate of profit would tend to decline (Furtado, 1964). Although Marx was the first to recognize the tremendous increase in production to be had from increasing the application of capital to labor, he underestimated its long-term effects at the same time. Based on the assumption that the rate of profit would tend to decline, Marx deduced his laws of the accumulation and concentration of capital. Within this process, the capitalists would be forced increasingly to exploit the workers, the only source of profit. As a spin-off of this exploitation, a "reserve industrial army" would be created, which would prevent a rise in wages by the natural operation of the market. In reality, however, labor actually became scarce relative to capital, producing a natural tendency for higher wages. Of course, the most important aspect of Western development with reference to this point was the rise of organized labor and government interference in the form of taxation to redistribute income and anti-trust action to curb monopolies. History has shown that the rate of profit does not tend to decline, and that the capitalist system continues to grow under conditions of decreasing income inequality. In fact, as Keynes noted, great inequality of wealth is likely to impede growth.

Furthermore, Lenin failed to note that the major thrust of British capital flow and trade expansion was with the United States, Canada, Australia, and Argentina—land-rich, labor-scarce, and high-wage countries rather than poor Third World countries. Even today, the Center states have been growing as usual, with the vast majority of their capital flows and trade expansion taking place among one another (Blake and Walters, 1976: 18-19 and 79). Thus, the rise and
continuation of imperialism, at least theoretically, has been indepen-
dent of capitalism's survival and was not an historical inevitabi-
ity, as Lenin thought. In this regard, Hobson's view of imperialism
as a policy of conscious design is more accurate.

The second flaw in Lenin's analysis was his belief, shared by
Marx, that social development was a linear and progressive path
through capitalism to socialism. In particular, Marx and Lenin viewed
imperialism as a liberating force which would free the backward regions
from the yoke of tradition, initiating the forces of change and
progress. It was the failure of this to occur which modern Marxist-Leninists have had to explain.

3:1d. Paul Baran. Lenin's unrealized vision of the future has
formed the legacy of the Marxist-Leninist tradition. Baran's (1957)
study represents the classic statement within this tradition on the
historical origins of Third World underdevelopment. Baran attempts
to explain why the spread of capitalism into the backward regions
of the world did not result in a similar type of development that had
occurred in Europe. As mentioned above, liberal theorists explain
this failure not on the spread of capitalism per se, but rather due
to the weakness of that expansion. For Baran, however, underdevelopment
is explained through the analysis of class conflict. In the case of
Europe, the conflict between commercial and land-based feudal interests
resulted in the supremacy of the former. This victory produced
mercantilism, which eventually evolved into the system of capitalism.
However, in the Third World, development has been arrested due to the
formation of a coalition between feudal and capitalist interests.
Furthermore, the linkage between this domestic coalition and the
bourgeoisie of the West has remained far more compatible and stronger than was foreseen by Lenin. Colonialism has been replaced by a system of neocolonialism in which Western and Third World elites both benefit from the domination and exploitation of Third World labor.

Baran's basic tool of analysis is the concept of "economic surplus," which is the difference between society's aggregate output and its necessary consumption. This surplus represents the primitive capital accumulation necessary in a society's drive toward economic growth and development. It is Baran's contention that imperialism has retarded Third World development by expropriating a good deal of the economic surplus of the Third World as well as setting into motion socio-economic forces which block the rational utilization of the remaining surplus. Baran attempts to demonstrate this point by tracing the evolution of capitalism in Western Europe and its subsequent expansion into the rest of the world. This historical transformation is discussed in the following section.

Of course, the most significant implication to be derived from Baran's reformulation lies in the area of revolutionary change. Due to the arrested nature of Third World development, it is futile to wait for capitalist development to run its course. The conditions for a classical Marxist proletarian revolution will simply not arise within such a framework. In order to overthrow the feudal-capitalist order, social revolution has to be created and guided by professional revolutionaries, even in the most backward peasant societies. The Chinese Communist Revolution and the "practical" ideology of Mao Tse-tung illustrate the policy implications of modern Marxist-Leninism (Schurmann, 1968).
3:2. The Legacy of Colonialism

The major contribution of the Marxist-Leninist tradition is its historical treatment of imperialism. Beginning with mercantile imperialism, Europeans interfered, disrupted and dismantled local social, economic and political systems. They undermined values, forced new methods of production, and imposed new class structures. Even the positive aspects of imperialism, such as better medical care, aggravated the underlying problem of over-population. Finally, even with all these changes, there was little or no effort to lay the foundations for autonomous growth and development. It is indeed difficult to argue that the quality of life for the majority of Third World people has been improved by the experience. Perhaps the real tragedy of imperialism is that it has made people aware of, and socialized them to expect, a way of life which they seem unable to achieve. Thus, in order to understand underdevelopment it is necessary to understand the historical process that produced it.

Before proceeding, however, two cautionary remarks are in order. The analysis presented below is not intended to demonstrate that conditions in the Third World today would be better if imperialism had never existed. Rather, it is an effort to understand the origins of contemporary Center-Periphery relations. As will become clear from subsequent analysis herein, it is virtually impossible to construct a causal model of dominant/dependent structures, so as to explain the widening gap between the Center and Periphery states, without an understanding of the historical forces that have shaped the present age. The second point is that the term "colonialism," as used herein, refers to a process broader than one of territorial expansion. That is, Marxist-
Leninist and dependency theorists focus on the overall impact of the West on Third World societies, rather than just the degree of formal political and military rule. Thus, the formal colonial status of India is not distinguished from the semi-colonial status of China. This point is particularly relevant for the Latin American countries, which traded formal colonial rule by the European powers for a semi-colonial relationship with the United States. This is not to deny the importance of decolonization upon subsequent Third World history, but the thrust of the argument is on the continuities of Center-Periphery relations rather than its discontinuities. Thus, the analysis in this section deals primarily with Center-Periphery relations prior to World War II. Postwar Center-Periphery relations are covered in the remaining chapters of this study.

In general, there are three broad areas in which the effects of capitalism's expansion into the Third World can be discerned, namely, savings, the internal and external market, and class structure. The first of these is summarized by Ward (1960: 15-16):

"Saving is, of course, the key to all forms of modernization. It is only by putting something aside from current consumption that men and materials are made available for the new techniques—for agricultural research, for roads and railways, for longer education, for the new machines. ...But how are men to save when they have barely enough to live on as it is?...the Western epoch helped to create this dilemma. In such areas as India or Indonesia, peace, internal security, and better health measures doubled and trebled the population—in Java the increase was tenfold. But no vigorous action was taken—as in Japan—to get the economy moving at the same pace. Population soared away above resources and each decade made saving more difficult."
Of course, the ability of a society to save as well as to utilize those savings in the most effective manner is affected by political and social forces in addition to economic factors. This leads to the other effects of colonialism.

The most significant consequence of the Western impact upon Third World societies was the fusion of market and social structures through the establishment of the international division of labor (Clairmonte, 1960; Baran, 1957). The colonies became a source of cheap raw materials as well as a market for manufactured exports and investment capital from the West. This characteristic remains the basic foundation of economic relations between the Center and Periphery states to this day.

To establish and maintain this division of labor, two prerequisites were necessary. First, small-scale handicraft industries of the colonies had to be displaced but industrialization had to be prohibited. The second requirement was the commercialization of agricultural production. The classic example of the first requirement occurred in India wherein the local production of textiles was banned in favor of imports of machine-made textiles from Britain (Clairmonte, 1960).

However, probably the greatest impact of colonialism on the social fabric of Third World countries was the commercialization of agriculture, which undermined the traditional patron-client relationships of rural society (Scott and Kerkvliet, 1975; Page, 1975). Patron-client relationships refer to the traditional, pre-colonial system of rural social organization, typical of most Third World areas, in which the landowning class provided social authority and security against famine in return for a portion of the peasant's production. Commerciali-
zation and the application of business ethics, brought about by the incorporation of the Third World into the international capitalist system, eliminated the traditional obligations of the landowning class while increasing the exploitation of the peasants. A major consequence in many areas was the pauperization of the rural masses.

In most instances commercialization of the agricultural sector resulted in inefficient production (Page, 1975). The major characteristic of these sectors became the high degree of concentration in land ownership and production. The contradiction manifest in such a system is that they are often economically unsound by market standards. Economies of scale do not apply in agricultural production unless that production is highly mechanized. Given that most of this production is labor intensive, comparative advantage would dictate a small-holding type of production. Yet, most Third World agricultural export sectors exhibit just the opposite pattern of organization. Thus, in order to maintain profitable production, the landowning class must continually increase its exploitation of peasant labor. As a consequence, peasant unrest in the agricultural export sectors is often continuous and violent. In order to preserve their position, the landowning class has to rely on the power of the state.

Another consequence of commercialization and the corresponding concentration in land holdings was a reduction in the need for agricultural labor, which in turn produced surplus labor and rural unemployment. Yet, the ban on industrialization imposed by colonial administrations, or the failure of industrialization to keep pace with the increase in rural unemployment, resulted in an inability of the industrial sector to absorb the surplus labor. Where industry did
develop, it was of the "enclave" type, usually in the major port cities and under foreign ownership or control. The endogenous elite tied to foreign interests, referred to as the "compradore" class, the "bridgehead of imperialism," and in modern times as "clientelism," eventually emerged as the national bourgeoisie of Third World countries. As Baran (1957) notes, however, the tenuous position of this fledgling capitalist class required that they form a coalition with the more powerful feudal landowning class to preserve the existing order against revolutionary challenges from the peasants and workers. As Baran also notes, even after decolonization the reform efforts by Third World governments have been blocked or subverted by the coalition between feudal and capitalists interests. For example, land reform either is not implemented or fails for a lack of government support after an initial redistribution. The consequence has been a continuation of inefficient rural production alongside massive rural poverty and overurbanization, exhibited by the teeming slums of Third World cities.

The market and social structures of Third World countries are mirrored in their external relations. As colonies, the Third World countries were prohibited from trading with other than the imperial power, resulting in a lack of trade diversification still prevalent today. Furthermore, the colonies were usually relied upon to provide only a few commodities, and this commodity production was dominated by a small foreign and endogenous elite. Thus, through trade and foreign investment, powerful interest groups in the Center states also have a stake in preserving the existing social and economic order in the Third World. This combination of internal and external
structures has produced a skewed pattern of domestic resource utilization and sectoral imbalance, which is the prevailing characteristic of most Third World economies today.

The major break in the static nature of Third World underdevelopment described above came in the wake of the Great Depression and World War II, during which the international capitalist system was disrupted. As discussed previously, import substitution policies became common during the war throughout the Third World. Decolonization in Asia and Africa after the war accelerated the drive toward industrialization as a consequence of a conscious design by many of the new Third World governments. Over the last ten years the nature and pattern of investment from the multinational corporations has shifted from primary sectors to intermediate industrial sectors. The question raised by these changes is whether they signal a fundamental transformation taking place in Third World countries with corresponding modification in Center-Periphery relations? It is to this issue that we now turn.
CHAPTER IV

Conceptual Framework

In this chapter some of the major contributions to a theory of dependency are covered. Put forth in the decades following World War II, the dependency literature contains the major alternative perspective to that of the Marxist-Leninist's. This review includes a discussion of perhaps the most influential of these contributions, namely, Johan Galtung's structural theory of imperialism, which is compared with the Marxist-Leninist formulation. Without denying that there are significant differences between the two approaches, it is argued that aspects of both are essential in constructing an empirical causal model of underdevelopment. The final section presents the causal model to be evaluated in subsequent chapters.

4:1. A. O. Hirschman

The earliest and least well-known contribution to the development of dependency theory is Hirschman's (1945: 15) study of foreign trade as an extension of national power:

But commerce can become an alternative to war also - and this leads to a less optimistic outlook - by providing a method of coercion of its own in the relations between sovereign nations. Economic warfare can take the place of bombardments, economic pressure that of saber rattling. It can indeed be shown that even if war could be eliminated, foreign trade would lead to relationships of dependence and influence between nations.

Hirschman illustrated this thesis through a study of Germany's foreign economic policy under Nazism. The following quotation describes some of the main features of this policy (1945: 36-37):
Germany's attempt to concentrate on exports of finished products, on the one hand, and on exports to agricultural countries, on the other, had obviously the result of giving her exports a quasi-monopolistic position so far as the productive system of her trading partners was concerned. In addition, to maintain this position, it was one of the great principles of German foreign economic policy to prevent the industrialization of her agricultural trading partners. ... By offering a stable market for the agricultural surplus production of these countries, she tied landowners and peasants, the most powerful social groups in these countries, to her own interests.

The possibility that this same quotation could be used to describe the economic relations between the Center and Periphery states today forms the basis of the argument that North-South relations are imperialistic. It is also worthwhile to note that Hirschman could find no evidence that these policies were part of a consciously designed program by the Germans. They were simply the result of Germany's attempt to maximize her own national interest. This is an important consideration, since modern theories of dependence are not based on a question of motivation. On the contrary, it is argued that the present structure of the international system acts inadvertantly to retard national development in the Periphery. The major characteristics of the contemporary international economic structure were inherited from the colonial past, as discussed in the previous chapter. Although Hirschman hoped that the postwar international economic system would regulate itself in such a way as to avoid such patterns, there is a growing body of evidence that his hopes remain unrealized.

Finally, Hirschman made several methodological contributions in measuring dependence with trade indicators. His analysis is reflected in recent works on dependence, such as Caporaso (1974) and Galtung
4:2. Raul Prebisch

Since Hirschman did not explicitly apply his analysis to the Third World, we must turn to others for more detailed explanations. Two of the earliest and most influential critics of the postwar international economic order have been Raul Prebisch (1950; 1964; 1969) and Gunnar Myrdal (1957; 1970). As discussed in Chapter 1, Prebisch and Myrdal represent an internationalist perspective in that they advocate the establishment of strong international institutions to counteract the disadvantages accruing to the Periphery states in global economic transactions. The basic premise underlying their perspective is that only equals can compete on an equal basis; thus, the Periphery states must be granted preferential treatment by the Center states.

According to Prebisch (1950; 1964), the basic structural problem in the global economy is the long-term decline in the terms of trade for the Periphery states. The major factor producing this deterioration is the increasing productivity in the Center states, which is associated with higher wages and input costs of commodities exported by the Center. Of particular importance is the strength of organized labor in the Center, which provides an effective institutional force for propelling wages constantly higher. As a consequence, the prices of commodities exported by the Center remain constant or increases. On the other hand, increases in productivity in the Periphery do not result in higher prices for their exports, due to surplus labor and the weakness of organized labor in the Periphery. In a study by the
International Bank for Reconstruction and Development (1974), it was indeed found that the terms of trade for the Periphery states had consistently fallen, relative to the Center states, in the 1950-1971 period.

To offset their declining terms of trade, the Periphery states must constantly increase the volume of their exports to pay for the imports needed from the Center. However, in attempting to do so, the Periphery states have encountered yet another obstacle, which arises from their specialization in the export of primary products. Since the income-elasticity of demand for primary products is lower than manufactured products, increasing the output of primary goods onto the world market just tends to reduce prices further. Thus, the liberal prescription of free trade would not eliminate the structural bias of world trade disfavoring the Periphery states: it would only tend to preserve the inequities of the present system.

A major strategy for overcoming declining terms of trade would be for the Periphery states to promote the export of manufactured goods. However, as discussed in Chapter 1, such a strategy is hindered by discriminatory tariff practices of the Center states. Thus, in his earlier writings, Prebisch advocated import substitution to promote Third World industrialization and to reduce dependence on the Center states. Due to the limitations and failures of import substitution schemes, Prebisch (1964), without changing the basics of his analysis, reoriented his prescriptions to emphasize the promotion of manufactured exports in addition to other recommendations listed below:

1. expansion of Center state markets for primary exports from the Periphery,
2. international action to stabilize the prices of primary exports,

3. the establishment of an international fund to compensate Periphery states from adverse movements in their terms of trade,

4. the establishment of procedures to prevent Center state custom unions from adversely affecting Periphery state trade,

5. reduction of Center state tariffs on manufactured exports from the Periphery,

6. non-reciprocal tariff reductions,

7. expansion of trade among Periphery states

Obviously, the primary burden for the implementation of the above recommendations lies with the Center states. Although there has been some progress in these areas, they remain pious prescriptions for the most part (Ingram, 1966; Blake and Walters, 1976). As discussed in Chapter 1, there are powerful political and economic interests in the Center states which would be adversely affected by the implementation of such recommendations. The failure to implement Prebisch's recommendations has been a major factor in producing the more radical prescriptions coming out of the dependency literature.

4:3. Gunnar Myrdal

Myrdal's explanation of underdevelopment is linked to that of Prebisch's by the identity of their major thesis, which is that the capitalist system, unchecked, will tend to increase rather than reduce inequality. Myrdal's analysis is based on the principal of "interlocking factors and circular causation with cumulative effects" (1957: 14). This principal is first applied to domestic development and then to the international economy. The clearest way to explain this
principal is through two conceptual constructs made popular by Myrdal, namely, the "backwash" and "spread" effects. Spread effects refer to the movement of capital and skilled labor from advanced to backward regions, and backwash effects refer to just the opposite pattern. The higher the level of development attained by a society, the stronger the spread effects. Thus, the process is circular as well as cumulative, resulting in ever increasing economic growth and development. Nevertheless, backwash effects are also in operation, accounting for the uneven development between regions even in the most advanced countries (e.g., Appalachia and parts of the South in the United States). Backwash effects are also circular and cumulative, resulting in either stagnation or even decline. It is only through national integration programs and the transfer of resources initiated by the state that these backwash effects can be controlled. Left to its own devices, the self-regulating market will increase rather than reduce inequalities.

Of course, in the international system there is no state to regulate market forces. Given the great differences in the level of development between the Western and Third World countries, one may expect the backwash effects to be considerable. As with Prebisch, Myrdal argues that international trade reflects backwash effects (1970: 297):

international trade ... will generally tend to breed inequality, and will do so the more strongly when substantial inequalities are already established. ... Unregulated market forces will not work toward reaching any equilibrium which could imply a trend toward an equalization of incomes. By circular causation with cumulative effects, a country superior in productivity and income will tend
to become more superior, while a country on an inferior level will tend to be held down at that level or even to deteriorate further - as long as matters are left to the free unfolding of the market forces.

Myrdal's work represents one of the most influential non-Marxist critiques of capitalist economic theory, especially with regard to its equilibrium and free trade components. The major criticism of Myrdal's analysis is that it does not explain how some areas become developed and others underdeveloped in the first place (Brown, 1974). Myrdal's answer to this criticism is that exogenous variables can either set in motion an ascending or descending circular and cumulative process. In the case of the Third World, a descending process was set in motion by colonialism. As with many of the other scholars discussed in this study, Myrdal places great emphasis on the vested interests established during colonialism as a major obstacle to subsequent Third World development.

As with Prebisch, Myrdal was an advocate of import substitution in his earlier writings. In his later writings, Myrdal gave the following explanation for the failure of that strategy (1970: 39):

The more serious difficulty with the import-substitution policy is, however, that the choice of line for substitution is usually not open for rational planning. Ordinarily, the first thing that happens is that an underdeveloped country gets into exchange difficulties; it then is often forced to introduce import controls or one type of another. For natural, and, indeed, rational reasons it tries to curtail imports of the least necessary goods, which thus automatically get the highest protection. From a development point of view, this is unplanned protection. That the result, in spite of all sorts of discretionary controls, generally tends to be non-competitive, high-cost industry is also natural.
In addition to the removal of external obstacles, then, Myrdal has become a major advocate of comprehensive rational state planning as an essential requirement for the solution of Third World underdevelopment. In addition, and paralleling Prebisch's later writings, Myrdal also places great emphasis on the "responsibilities of the developed countries."

The international perspective, as represented by Myrdal and Prebisch, assumes that cooperation and compromise among the Center and Periphery states and effective international institutions to regulate the global economy would result in a reduction of international inequalities. We now turn to the dependency perspective, which challenges this assumption.

4:4. Latin American Dependency Theory

The most active and recent scholarship on modern imperialism comes from the Latin American school of dependency theorists (Frank, 1969; Sunkel, 1969; Dos Santos, 1970; Furtado, 1971; and Cardoso, 1973). Although the effects of external dependence on development is a primary focus for these theorists, they can be distinguished by the considerable emphasis they place on national autonomy per se. Thus, even if dependence could not be shown to be particularly harmful for national development, they would still object on purely political grounds. The dependencia position is an obvious reaction to the long history of United States influence and intervention in the domestic affairs of Latin American countries, with the overthrow of the Allende regime in Chile a very recent example.

Another major characteristic of this literature is the attempted
The merger of both the Marxist-Leninist and dependency approaches, as typified by Frank (1969) and Dos Santos (1970), respectively. The synthesis of these two approaches form the basis for the causal model presented in section 4.7.

The most often quoted definition of dependence is that by Dos Santos (1973: 109):

By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or negative effect on their immediate development.

The "conditioning" process, referred to by Dos Santos, has its origin in the expansion of capitalism into the Third World, as discussed in the previous chapter. The outcome of this historical process is an asymmetrical structure of relations between the Center and Periphery states, accounting for the widening gap in levels of development. This asymmetry is manifest in a diversified pattern of interaction for the developed countries, as compared with a concentrated pattern for Third World countries. Furthermore, the international division of labor has produced a system of exchange between the Center and Periphery which, due to the differential returns from that trade, creates a tendency for international inequalities to increase.

However, as discussed in Chapter 3, the pattern of Periphery dependence on the Center has undergone extensive changes over the last ten years, reflected in the increase of industrialization in the Third
World. Perhaps the best illustration of this "new dependency" is the case of Brazil. Cardoso (1973) refers to Brazil's recent developmental experience as associated-dependent development, which signifies a process of externally induced economic growth gained by curtailing or reducing domestic mass consumption and welfare. As previously noted, such a policy is derived from classical and neo-classical economic theory, with its emphasis on capital formation. If the government can effectively implement such a policy, it can also attract foreign investment by providing low wages among other incentives. Thus, even within a structure of dependence, associated-dependent development policies can maximize aggregate economic growth.

A recent study by Evans (1976) presents data consistent with Cardoso's thesis. Traditionally, Brazil illustrated a typical Periphery economy in that production was concentrated in the primary sector, especially coffee. Yet, between 1960 and 1970, the value of coffee as a percent of total Brazilian exports decreased from 53% to 25%. The decline of the role of coffee in the Brazilian economy reflected the upturn in the production and export of manufactures, which has been financed by foreign investment. In 1950, United State investment in Brazil's manufacturing sector was 44% of total American investment in Brazil. In 1973, this figure had increased to 69%. Finally, income distribution has become more skewed over this period. Between 1960 and 1970, the share of national income held by the lowest 40% of the population decreased from 11.2% to 9.0%. The share held by the next 40% decreased from 34.3% in 1960 to 27.8% in 1970. Of course, the interpretation given to these findings by Evans is that Brazil's aggregate growth is being achieved by increasing the exploitation of
labor. Furthermore, this new dependence is tying the capitalist interest in the Periphery even closer to their counterparts in the Center via foreign investment, thus increasing the "harmony of interests" between the elites in the Center and Periphery.

Nonetheless, the implication of Cardoso's and Evans' analyses for this study is the possibility that dependency would not necessarily be associated with low growth. Another question of interest is whether such policies can lead to a reduction in the aggregate gap between the rich and poor countries. If not, would there be any significant differences in growth among Third World countries? If Cardoso's and Evans' analyses can be generalized, we may expect to find divergent and contradictory results in the empirical analysis. Finally, if it is found that high growth is associated with a high degree of dependence, then it should be possible to explain such a finding on the basis of a decrease in domestic equality.

4:5. The Structural Analysis of Johan Galtung

The major defect in the dependencia literature is its failure to achieve the degree of theoretical and operational specification demanded by modern social science. For example, the few statistical studies of dependency dealing with Latin America have been conducted by scholars outside of the dependency school (Kaufman, et al., 1975; Alschuler, 1976). The basic contribution of the dependencia literature has been at the descriptive case study level.

The major breakthrough in the scientific treatment of dependency is found in the work of Johan Galtung (1971). His approach, referred to as "structural analysis," is derived from stratification theory in
sociology (Galtung, 1970). This structural approach is basically a post-World War II trend in the social sciences that has been shaped by three factors. The first source of influence was the attempt by scholars, mostly European, to deal with the weaknesses and inconsistencies of Marxist analysis. Perhaps the best known of these attempts is Dahrendorf's (1959) study of class conflict in modern industrial society. The second, and probably the most important, was dissatisfaction with the normative and theoretical perspectives of orthodox American social science dealing with the Third World. This critical attitude ranged across the fields of anthropology, sociology, economics and political science. In Chapter 2, much of this critical literature was reviewed. Imbedded in this latter source is the third factor, that being the Cold War. Faced with the pressing problems of under-development, many Third World leaders and intellectuals have been attracted to Marxism, both as an analytical and policy instrument. Attraction to Marxism was further reinforced by the rather impressive economic progress of the Soviet Union and, later, of Communist China. Because American foreign policy may be interpreted as an attempt to counteract this trend, much of orthodox social science can be interpreted in a complementary fashion, as illustrated in the work of Rostow (1960) and Kautsky (1968). Thus, structural analysis, aware of the limitations of both the Marxist and orthodox approaches, becomes a third alternative.

**Structural analysis** is the attempt to discover those systematic patterns of interaction between actors which take on a uniform and continuous character. The identified structures are then employed to explain the distribution of, and conflict over the values competitively
sought by the actors. Thus, structural analysis has a good deal in common with the mainstream of social science. However, much of orthodox social science is concerned with pattern maintenance, whereas structural theorists have tended to adopt as their normative perspective the disintegration of patterns preventing more equitable distribution. Thus, the basic difference between the structural and orthodox approaches is a normative one. As applied to the Third World, it is argued that the external and internal interaction patterns, as discussed below, represent obstacles to national development, and that they must be dismantled if any significant change in the degree of global maldistribution is to be achieved.

More specifically, Galtung's formulation is based on a Center-Periphery model of the international system. On the basis of wealth and power, he divides the global system into four hierarchical classes. At the top is the elite of the developed countries followed in descending order by the elite of the Third World countries, the masses of the developed countries, and the masses of the Third World. The system of imperialism is defined by the harmony or disharmony of interests between these classes (Galtung, 1971: 83):

Imperialism is a relation between a Center and a Periphery nation so that (1) there is harmony of interest between the center in the Center nation and the center in the Periphery nation, (2) there is more disharmony of interest within the Periphery nation than within the Center nation, (3) there is disharmony of interest between the periphery in the Center nation and the periphery in the Periphery nation.

The core of contemporary imperialism is the first relationship described by Galtung; often referred to by other authors as "clientelism."
Transposed into the nation-state system, the imperialist or dependency proposition states that the increasing gap between the Center and the Periphery is a consequence of the system of exchange and interaction between the Center and Periphery states sustained by elite ties.

Galtung goes on to analyze this relationship in terms of the "vertical" and "feudal" interaction structure of the international system. The vertical nature of the international system can be further decomposed into "the value exchange between the actors: inter-actor effects" and "the effects inside the actors: intra-actor effects" (Galtung, 1971: 85). Prebisch's terms of trade thesis is an example of inter-actor effects, whereas Myrdal's notion of spread and backwash effects illustrate the latter. Galtung places greater emphasis on the intra-actor effects because of the difficulties in establishing criteria to measure inter-actor effects and, more importantly, because "there may be some balance in the flow between actors, but great differences in the effect the interaction has within them" (Galtung, 1971: 86). Intra-actor effects manifest themselves in a variety of forms, from psychological dependence and inferiority versus self-reliance and relative autonomy to the level-of-processing gap engendered by the international division of labor. In the next chapter we shall concentrate on the operationalization of intra-actor effects in terms of economic dependence.

The second component in Galtung's theory is the feudal interaction structure (1971: 89):

If the first mechanism, the vertical interaction relation, is the major factor behind inequality, then the second mechanism, the feudal interaction structure, is the factor that maintains and reinforces this inequality by protecting it. There
are four rules defining this particular interaction structure: (1) interaction between Center and Periphery is vertical, (2) interaction between Periphery and Periphery is missing, (3) multilateral interaction involving all three is missing, (4) interaction with the outside world is monopolized by the Center, with two implications: (a) Periphery interaction with other Center nations is missing, (b) Center as well as Periphery interaction with Periphery nations belonging to other Center nations is missing.

Within the vertical and feudal structure, the process of development for the Center and underdevelopment for the Periphery is circular and cumulative. Only through the displacement of the center of the Periphery can these simultaneous processes be overcome and the degree of inequality within and between countries be reduced.

There is a considerable degree of similarity between Galtung's perspective and that of the Latin American dependency theorists. As discussed in Chapter 1, Galtung's formulation represents an attempt to abstract the theory of dependence so as to uncouple the necessary link between international capitalism and structures of dominance/dependence found in much of the dependency literature. The perspective developed by the dependencia theorists is rooted in the historical expansion of capitalism, with particular focus on the interplay between the process of capitalist development and Latin American underdevelopment. It is the relationship between capitalism and underdevelopment in the dependencia perspective that links that perspective to the Marxist-Leninist position. In the remainder of this chapter as attempt is made to synthesize the above three positions, namely, Galtung's structural theory, the dependencia perspective, and the Marxist-Leninist tradition. It will be argued that such a synthesis eliminates the
weaknesses and inconsistencies peculiar to each perspective. In addition, the synthesis will provide us with a causal model which will be empirically tested in subsequent chapters.

4:6. The Dependency and Marxist-Leninist Approaches Compared

In addition to the disagreements among theorists within the general literature on dependency and imperialism, the increasing popularity of dependency theory has evoked a considerable number of critical reviews in the orthodox literature (Cohen, 1973; Ray, 1973; Deutsch, 1974; Lall, 1975; Bauer, 1976). A major problem in responding to this orthodox "backlash" is that the individual reviewers tend to focus on a particular formulation of dependency theory. For example, Deutsch focuses on Galtung, whereas Ray deals with the dependencia literature. Yet, all of the orthodox critics tend to generalize their criticism to cover all of the dependency literature. The approach taken here will be to deal with the weaknesses peculiar to each of the dependency perspectives identified above, and then, to demonstrate how a synthesis of those perspectives eliminates those weaknesses.

The deficiencies in the Marxist-Leninist and dependencia perspectives have already been mentioned. In addition to the continuous and tortuous reformulation of Marx's original theory necessitated by changing historical conditions, Marxist-Leninist theory has been unable to deal with the dilemma of imperialistic relations among socialist countries. The major weakness in the dependencia perspective has been the lack of conceptual and operational specification. Although Galtung's structural theory corrects the above deficiencies, the degree of abstraction of his formulation in turn has created further problems.
There are four major problem areas that can be identified in Galtung's analysis. The first is the ahistorical fashion in which he presents his theory. This raises the question of the degree to which the structure of hierarchial relations in the international system is an extraneous variable with regard to levels of inequality and developmental change. The extraneous nature of external variables is implicit in orthodox developmental studies in that external variables are held constant or ignored altogether. Thus, it could be argued that dominance/dependence structures are a consequence rather than a cause of inequality. In order to establish, at a conceptual level, the causal order posited by Galtung, it is necessary to draw upon the historical processes out of which the contemporary international political economy arose. Of course, this is the basic method employed by the Marxist-Leninist and dependencia literature.

The second problem, also arising from the ahistorical approach adopted by Galtung, is the question of what determines relations of dominance/dependence and what are their origin. Galtung (1970) speculates that heirarchy is engrained in the human species, which would seem to indicate that heirarchy is inevitable. However, such a conception represents such a degree of abstraction from reality that it explains everything without explaining anything. It order to construct a causal theory, structures of dominance/dependence must be given historical meaning. Thus, a causal theory of Third World underdevelopment requires one to trace its origins to the expansion of Western capitalism and the colonial era. This, in turn, brings us back to the Marxist-Leninist and the dependencia contention that dependency is necessarily linked to capitalism. The structural approach allows one to deny the
uniqueness and inevitability of this linkage, but it does not allow one to deny the historical origins of underdevelopment.

A third criticism of Galtung's formulation is the level of aggregation involved in this conceptualization of the global class structure. For example, does the center of the Periphery represent one unit of analysis or several? That is, can any of the four classes be treated as a whole? As discussed earlier, Marxist-Leninists view the elite class in Third World countries as split along economic sectors within the society, as in Baran's (1957) discussion of the feudal-capitalist coalition. Thus, once again the incorporation of the Marxist-Leninist perspective enriches the theory of dependency of adding the domestic dynamics of underdevelopment to the analysis of dominance/dependence relations among nations.

The fourth and final difficulty with Galtung's analysis is the problem of deviant cases (Mack, 1974). For example, although Australia and Canada export more primary products with less diversified trade than the other OECD countries, they are also highly developed. However, as Mack points out, Marxist-Leninist theories dealing with inter-actor effects can explain the anomalies in Galtung's theory. Emmanuel's (1972) theory of "unequal exchange", partially derived from Prebisch (1950), represents one of the most influential and recent contributions within the Marxist-Leninist tradition. Emmanuel's theory is based on the argument that the difference in wages between the Center and Periphery states is greater than the differences in productivity. The lower wages in the Periphery, beyond differences in productivity, is explained by institutional forces (e.g., the weakness of organized labor) and surplus labor. As a consequence, the prices of Third World
exports tend to remain static or decline while the prices for exports from the Center tend to rise. Thus, the terms of trade for the Periphery, relative to the Center, also tend to decline, which in turn, explains the widening gap between the Center and Periphery.

The basic difference between Emmanuel's theory and that of Prebisch's and Galtung's is over the importance of the international division of labor in explaining the differential gains from trade. For Prebisch, the income-elasticity of demand for raw materials and agricultural products, compared to manufactured goods, is a key element in explaining the declining terms of trade for the Periphery. Likewise, Galtung also emphasizes the international division of labor in explaining the differences in intra-actor effects from trade. In Emmanuel's case, however, commodity specialization is irrelevant, since the forces suppressing wages in the Third World would not be affected by changes in commodity production. It is this difference in Emmanuel's perspective which enables his theory to explain the anomalies in Galtung's theory, making the two theories complementary rather than contradictory.

The above discussion suggests that the Marxist-Leninist, dependencia, and structural approaches are all essential and complementary in building a theory relating external dependence to underdevelopment. We now turn to the task of constructing such a synthesis.

4:7. The Causal Model

In this section an attempt is made to draw together the common elements of the Marxist-Leninist and dependency approaches in an effort to construct a causal model of Third World underdevelopment, explaining the increasing gap between the rich and poor countries and the
continuing high degree of maldistribution within the Third World countries. The starting point, of course, is the history of capitalist expansion. Most theorists posit international capitalism as the mechanism by which the internal and external structures of dominance/dependence were established, which have retarded national development of the Third World in the modern era. Thus, the basic causal model is one of external stimulus, domestic response, and domestic consequences.

Externally, the spread of capitalism established the international division of labor, that is, the vertical and feudal interaction structure, as described by Galtung (1971). Internally, international capitalism established the feudal-capitalist order based on the export sector, as described by Baran (1957). The feudal-capitalist class is linked to the international market and the Center states through the vertical and feudal interaction structure. The expropriation of the economic surplus of the Periphery by the Center, through unequal exchange, results in a low level of capital formation in the Periphery. The remaining surplus is monopolized by the feudal-capitalist class, producing a skewed pattern in domestic resource utilization. If development in the Periphery is conditioned by the needs of the Center, then only those sectors within Periphery economies which are of value to the Center, usually the primary export sector, would exhibit growth and development. The positive linkage of dynamic sectors to the Center create negative linkages to the other domestic sectors, which in turn are exploited for the needs of the former. The inefficiency of production under the feudal-capitalist class plus the differential in benefits of intra-actor effects from Center-Periphery exchange tend to retard national development in the Periphery.
As discussed in the review of the dependencia literature, the increase in Third World industrialization, accelerated over the last ten years, has not led to any basic changes in the structures of dominance/dependence between the Center and the Periphery. As Dos Santos states (1976: 86):

The new phase of big capital, relying on multinational corporations, leads to a new international division of labor which presupposes an increase in the industrialization of raw materials and of products of a low degree of technological development, and the export of these products to the dominant centers, particularly to the United States which, in its turn would specialize in the production of goods and services for export which have a high technological content, and the export of capital, thus raising the parasitism typical of the imperialist powers to its highest level.

The continuance of structures of dominance/dependence is referred to as "neo-colonialism," which describes the set of mechanisms which reinforce the system established by colonialism. The three most important of these mechanisms are clientelism, military and economic aid, and the multinational corporations (MNCs). All of the factors discussed to this point are presented in Figure 4-1 below.

The role of clientelism has already been discussed. However, for reasons to be discussed in the next chapter, clientelism is not operationalized in this study (page 99). Since aid and foreign investment are formally introduced into the empirical analysis, a more detailed discussion of these two aspects of dependence are warranted. As noted previously, the orthodox literature has tended to view aid and foreign investment in a positive light as a supplement to domestic savings as well as a source of advanced knowledge, skill, and technology. In
Figure 4-1. Causal Model of Dependency and Underdevelopment
contrast, the dependency literature offers a more negative interpretation.

The study of foreign aid has taken several directions. At an aggregate level, empirical studies by Strout and Clark (1969) and Griffin and Enos (1970) have found a negative or insignificant association between aid and economic growth. Griffin and Enos explain these findings through the argument that, rather than supplementing domestic savings, aid acts to retard it. That is, aid allows Third World governments to avoid policies of forced savings. Such findings could be discounted if it could be shown that aid is given on the basis of need. If the poorest countries were receiving the most aid, then one would not necessarily expect their performance to be superior to more advanced countries. However, a study by Bhagwati (1972) has demonstrated that there is no connection between the distribution of aid and need.

If aid is not given on the basis of need and is of little constructive help for Third World countries, why is aid given and who benefits? Obviously, a large amount of aid is given for political and strategic considerations. This is particularly true for bilateral aid in general and United States aid in particular. Unfortunately, there is little evidence to indicate that the support of "unemployed warlords" and anti-communist regimes enhances the quality of life in the Third World. There are also economic motivations behind foreign assistance programs. A study by Goulet and Hudson (1971) of American foreign aid programs has shown the positive benefits for the donor country's balance of payments. The "strings" attached to aid also enhance export expansion for donor countries. Furthermore, studies by Hayter (1971), Payer
(1974), and Mitchell (1975) have demonstrated the uses of aid in subordinating and manipulating Third World governments to follow policies in concert with the economic interests of Center states. An interesting feature of aid, as illustrated by these studies, is that little difference could be found between multilateral and bilateral aid programs.

In the orthodox literature, the issue of multilateral versus bilateral aid represented a "great debate" during the late 1950s and early 1960s (Asher, 1968). This debate concluded in favor of multilateral aid so as to remove the political pressure and strings attached to bilateral programs. Yet, the Western domination of international aid policies has evidently reduced the possibility that aid might play a constructive role in Third World development efforts. Western countries collaborated in dictating the content of multilateral aid packages, so bilateralism was backed in a new disguise (Payer, 1974; Blake and Walters, 1976).

In addition to foreign aid, special consideration must be given to the multinational corporations (MNCs), since many theorists contend that it is the multinationals which uniquely identify the current era of imperialism (O'Connor, 1972, Dos Santos, 1976). Originally, the multinationals directly reinforced the international division of labor by concentrating their investments in raw materials and in agricultural production. However, by the mid-1960s, a different pattern could be discerned, as the multinationals began to establish "branch" plants in the Third World, producing various types of manufactured and semi-processed goods.

Several reasons can be identified for the sectoral shift of emphasis in the investment pattern of the multinationals. First, under
Third World import-substitution schemes, the multinationals had to establish branch plants if they were to maintain access to Third World domestic markets. Second, with the shift toward the promotion of manufactured exports, the multinationals became a prime source for the capital needed to establish the new industries. In addition, the incentives of cheap labor and various tax benefits provided by the host states attracted the MNCs. Third, the improvement in organizational and management capabilities within the multinationals made it more profitable for the multinationals to finance and operate Third World industrial firms than had been previously (Evans, 1976).

For dependency theorists, however, a more important question than causes is the effects of this new pattern of investment by the multinationals on Third World development. Several of these effects have been discussed in the dependencia literature as well as in other studies (Barnet and Muller, 1974; Cohen, 1975; Weinstein, 1975). First, the multinationals account for most of the recent increase of manufactured exports from the Third World (Cohen, 1975; Evans, 1976). The predominant role of the multinationals in the export of manufactures from the Periphery states has cancelled out the non-reciprocal tariff reductions on the export of manufactures which have been secured in recent UNCTAD negotiations. Seen as a bone to Third World countries, it has turned out to be a steak for the multinational corporations.

Second, there is the issue of "decapitalization," which refers to the profits from the multinational's investment in the Periphery returned to the Center states. In a study done by Magdoff (1970) data reported showed that the net return on direct investments from the United States in the Third World between 1950 and 1965 was 16.6 billion
dollars. Of course, such figures do not include outflows from royalty payments and other invisibles (Sahagun, 1976). Thus, it is highly unlikely that the multinational corporations will bring about any redistribution of the world's wealth, and in fact, are more likely to bring about greater international inequalities.

Third, the multinationals operating in the Periphery produce essentially two types of manufactured goods, namely, commodities for the export market of developed countries and commodities for the host country's domestic market. The first type is linked to the multinationals' global chain-of-production system and foreign markets. A typical branch plant is supplied by another branch plant in a foreign country and, in turn, supplies another branch plant. As a consequence, the production of these firms often generate little linkages to the domestic host economy in which they operate. Commodities that are produced for the host market are most often luxury goods intended for the wealthy class, and thus, are wasteful and inappropriate for national developmental efforts. Furthermore, and as discussed earlier, the multinationals have increased the exploitation of Third World labor and contributed to even greater domestic inequality (Evans, 1976; Sahagun, 1976). Thus, regardless of the specific type of production, the multinational corporations tend to reinforce existing social structures and inequalities.

It is obvious that the mechanisms of neo-colonialism could be elaborated upon more extensively. The "brain drain" and the "debt trap" are only a few of the additional subjects covered in the rapidly growing number of books and articles dealing with imperialism and
dependency. However, my purpose here has been to outline the main features hypothesized in the literature to account for underdevelopment. The remainder of this study is devoted to empirical analysis of this causal model.
CHAPTER V

Operationalization

The concepts specified in the construction of the causal model presented in the previous chapter will now be given empirical referents. It has been argued that the historical process of capitalism's expansion into the Third World had two major effects, namely, the creation of a feudal-capitalist coalition within Periphery states and the establishment of external dependence in the form of the vertical and feudal interaction structure between Center and Periphery states. These two consequences of the impact of international capitalism, derived from our synthesis of the Marxist-Leninist and dependency perspectives, are hypothesized to be the two primary independent variables explaining the underdevelopment of the Third World and the widening gap between the Center and Periphery states. However, the measurement model employed herein is restricted to external dependence. Although some progress has been made in developing indicators of the relative strength of the feudal-capitalist class in Third World countries (Page, 1975), most studies dealing with this construct are at the case study level (Stauffer, 1974; Mitchell, 1975).

Second, indicators are needed to measure the mechanisms of neocolonialism, namely, clientelism, aid and the multinational corporations, all of which reinforce the feudal-capitalist coalition and external dependence. Clientelism is excluded from the measurement model for the same reason given above with reference to the concept of a feudal-capitalist coalition. Aid and the multinational corporations are measured with data on the distribution of financial flows from the OECD countries (the Center states) to Third World countries in the form
of economic assistance and direct foreign investment from firms headquartered in the OECD countries.

Third, it was hypothesized that the effects of the feudal-capitalist coalition and external dependence on Third World development are mediated by domestic structures within the Periphery states. In particular, it is argued that the degree of hierarchy within the Periphery and between the Center and Periphery states produces a low level of capital formation and a skewed domestic resource utilization which, in turn, retards national development in the Periphery. Capital formation will be measured by data on the level of domestic investment. Domestic distribution of resources will be measured by an index of sectoral income distribution developed by Kuznets (Taylor and Hudson, 1972). That is, the degree to which domestic resources are maldistributed among the various economic sectors of a country would be reflected in the share of national income held by those sectors.

Fourth, and finally, indicators are needed to portray the degree of inequality in growth and development among nations (the gap phenomenon) as well as inequality within nations. Due to the scarcity and unreliability of data on domestic distribution, emphasis will be placed on measuring the level and rate of developmental performance among nations.

5:1. Variables of External Dependence

The concept of external dependence will be operationalized to parallel Galtung's notion of vertical and feudal interaction structure. Galtung (1971) has employed patterns of international trade to measure this interaction structure. Vertical trade, or the international
division of labor, refers to the pattern in which the Third World countries export primary goods and import manufactured goods, with just the opposite pattern for the Center states. Trade partner and commodity concentration are used herein to measure the feudal interaction structure. One would expect a high intercorrelation among variables of external dependence, since they refer to a unified system which can be traced back to the colonial era. A major reason for establishing colonies was the desire to secure cheap raw materials as well as an export market (vertical trade). Furthermore, only a few commodities were usually desired from a specific colony (trade commodity concentration) and each colony was systematically tied to the imperialist power, to prevent competition from other powers (trade partner concentration). As a consequence, the primary export sectors in the Third World were the only sectors provided with a stimulus to develop, resulting in a skewed pattern of domestic resource utilization. The continuation of this system into the present is explained by the existence of endogenous elites tied to this system of production (the feudal-capitalist class) and the mechanisms of reinforcement (clientelism, aid, and the multinational corporations).

The Vertical Trade Index, developed by Galtung, is as follows: 14

\[
\text{Vertical Trade} = \frac{(\text{IR+EM}) - (\text{ER+IM})}{(\text{IR+EM}) + (\text{ER+IM})}
\]

Where:

- IR is value of raw materials imported (SITC: 0-4; 51-52; 651; 661; 672-675; 68; 94)
- ER is value of raw materials exported (SITC: 0-4; 51-52; 651; 661; 672-675; 68; 94)
- IM is value of manufactured goods imported (SITC: 5-9 with above exceptions)
- EM is value of manufactured goods exported (SITC: 5-9 with above exceptions)
This index produces a score of between +1 and -1. A low negative score describes a country which primarily exports unprocessed goods and imports processed goods. A high positive score describes just the opposite situation of the Center states, which import raw materials and transform them into manufactured goods for export. In the process, the Center states capture what Galtung terms "spin-off" effects, which refer to the stimulus for research, improved skills and other attributes associated with an economy that processes raw materials into manufactured goods. Thus, this index measures the relative concentration between primary and manufactured goods in the composition of a country's total trade.

The system of commodity classification given above is a revision of the Standard International Trade Classification (SITC) system used by the United Nations. The SITC system is inconsistent in that many unprocessed goods, such as uncut diamonds, are classified by the UN in the sections reserved for manufactures. The revisions employed herein are simply a correction in terms of the distinction which the vertical trade index is designed to capture. It should also be noted that I have reversed the scaling used by Galtung, in order that this index might be comparable with the other indices discussed below.

In order to get scores comparable across national units, the vertical trade index assumes a rough balance in trade among nations. If a country has a high trade imbalance, its score may not accurately reflect its true relative standing. For example, a few Third World countries import much more than they export, and their surplus of imports is usually of manufactures, thus, their vertical trade score would indicate a higher level-of-processing level than they have in reality.
However, for the most part, the assumption of balanced trade holds and is not a significant problem for the analysis.

A final feature which should be noted is the dichotomous nature of the vertical trade index. As discussed in the previous chapter, there has been a recent upturn in the rate of industrialization, using intermediate forms of technology, in the Third World due to the expansion of multinational corporations. However, the vertical trade index is designed to measure the traditional international division of labor. Thus, to reflect more accurately present trends, use of this index in the future should be based on a polychotomous classification of commodities.

The remaining indices are based on the work of Hirschman (1945) and Caporaso (1974). The index of trade partner concentration is:

\[
\text{Trade Partner Concentration} = 100 \sqrt{\sum_{j=1}^{n} \left( \frac{E_{ij}}{\text{TE}_i} \right)^2}
\]

Where:

- \( E_{ij} \) is value of exports of country \( i \) to \( j \)
- \( \text{TE}_i \) is total value of country \( i \)'s exports
- \( n \) is number of trading partners (defined as having .01 percent of trade or more)

This measure is the sum of the squared proportions of each country's exports to another country to its total exports. The upper limit of the index is 100, which describes a country whose exports go to one trading partner. The lower limit, which approaches but never equals zero, is determined by the number of trading partners and how evenly the trade is distributed among those partners.

The trade commodity concentration index is:
Trade Commodity Concentration = \(100\sqrt{\sum_{j=1}^{k} \left( \frac{E_{ij}}{TE_i} \right)^2}\)

Where:

- \(E_{ij}\) is value of country i's export of commodity j to the rest of the world
- \(TE_i\) is total value of country i's exports
- \(k\) is number of commodity classifications (three digits in SITC)

This measure produces the same scoring system as the trade partner concentration index.

The remaining external variables tap the mechanisms of neo-colonialism, specifically, aid and foreign investment. Their role in maintaining the vertical and feudal interaction structure was discussed in the previous chapter. Aid and foreign investment are each measured in two different ways, producing four variables. The first two are measured as total economic aid received and total foreign investment received as a percentage of GNP, which can be used to determine the overall affect of aid and investment. Multilateral aid as a percentage of total aid received is also included in the analysis. The other two measure aid and investment concentration by source, which is similar to the trade partner and commodity indices. Thus, the index of foreign aid concentration by source is:

\[
\text{Foreign Aid Concentration} = 100\sqrt{\sum_{j=1}^{n} \left( \frac{AID_{ji}}{TAID_i} \right)^2}
\]

Where:

- \(AID_{ji}\) is value of aid from country j to i
- \(TAID_i\) is total value of aid received by country i
- \(n\) is number of donor countries
The index of foreign investment concentration by source is:

\[
\text{Foreign Investment Concentration} = 100 \sqrt{\frac{1}{n} \sum_{j=1}^{n} \left( \frac{\text{INV}_{ij}}{\text{TINV}_i} \right)^2}
\]

Where:
- \(\text{INV}_{ij}\) is value of investment from country \(j\) in country \(i\)
- \(\text{TINV}_i\) is total value of foreign investment in country \(i\)
- \(n\) is number of investing countries (limited to OECD countries)

5:2. Domestic Intervening Variables

It is the hypothesis of this study that the external variables defined above affect developmental performance through the intermediaries of capital formation and domestic resource utilization. Capital formation is measured as Gross Fixed Domestic Capital Formation as a percentage of GNP (Taylor and Hudson, 1972: 341-343). The GINI index of Sectoral Income Distribution is used as the measure of resource utilization (Taylor and Hudson, 1972: 212-214, 263-266), constructed from the following sectors:

1. Agriculture, forestry, hunting, fishing
2. Mining and quarrying
3. Manufacturing
4. Construction
5. Electricity, gas, water, and sanitary services
6. Commerce (wholesale and retail trade, banking, insurance and real estate)
7. Transportation, storage, and communication and services

Sectoral income distribution has been primarily used to get at the "imbalance between the rural subsistence farming sector and the urban commercial and manufacturing sectors of a dual economy characteristic of an underdeveloped country" (Taylor and Hudson, 1972: 213). For the purposes of this study, a high GINI score on sectoral income
distribution is interpreted as reflecting a skewed distribution pattern in resource utilization, that is, when a few sectors are absorbing a disproportionate share of the country's resources. Furthermore, we expect to find a high correlation between vertical trade and sectoral income distribution, indicating a complementary relationship between the domestic and external market. That is, those sectors continuing to dominate the economy would be the ones incorporated into the international capitalist system.

5:3. Developmental Performance

The primary dependent variable in this study is developmental performance. The indicators of development have been selected on the basis of three considerations, namely, data availability (on a time-series basis), the desire to replicate previous studies, and, as discussed in Chapter 1, to capture the structural transformation of society (development) in addition to economic growth. The eight indicators are as follows:

1. GNP per capita
2. Occupational structure: percent of population in the non-agricultural sector
3. Literacy: percent of population literate (age 15 plus)
4. Urbanization: percent of population in cities of over 50,000
5. Energy consumption per capita (kg of coal equivalent)
6. College: students in higher education as a percent of 10,000 population
7. Physicians per capita
8. Protein: protein deficiency index, \((\text{proteins required} - \text{proteins consumed})/\text{proteins required}\)

On the basis of previous studies as well as intuitively, one would expect these variables to be highly intercorrelated (Kuznets, 1971; Chenery, 1972; Rummel, 1972; Alschuler, 1976). Table 5-1 below depicts the results of a factor analysis (Principal Component) for the 88 cases
Table 5-1

Factor Analysis of Developmental Variables: 1960 and 1970

1960

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<tr>
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<td>75.5</td>
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(analysis terminated when eigenvalue drops below 1)

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<th>Factor</th>
<th>Communality</th>
<th>Factor Score Coefficients</th>
</tr>
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<tr>
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<td>.67</td>
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<tr>
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<td>.88</td>
<td>.78</td>
</tr>
<tr>
<td>College</td>
<td>.83</td>
<td>.69</td>
</tr>
<tr>
<td>Occupation</td>
<td>.91</td>
<td>.84</td>
</tr>
<tr>
<td>Physicians</td>
<td>.93</td>
<td>.87</td>
</tr>
<tr>
<td>Protein</td>
<td>.78</td>
<td>.60</td>
</tr>
<tr>
<td>Energy</td>
<td>.88</td>
<td>.77</td>
</tr>
<tr>
<td>GNP/cap</td>
<td>.90</td>
<td>.82</td>
</tr>
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1970

<table>
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<th></th>
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<td>75.3</td>
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(analysis terminated when eigenvalue drops below 1)

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<th>Communality</th>
<th>Factor Score Coefficients</th>
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<tbody>
<tr>
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<tr>
<td>Literacy</td>
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<td>College</td>
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<td>.71</td>
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<tr>
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<tr>
<td>GNP/cap</td>
<td>.91</td>
<td>.83</td>
</tr>
</tbody>
</table>
and for the years 1960 and 1970, verifying this expectation. The first and only significant factor accounts for over 75% of the variance in both years.\textsuperscript{17}

The high degree of intercorrelation of variables in Table 5-1 allows for a considerable amount of data reduction, which will simplify subsequent analyses. Two procedures will be followed in this regard. The first is to select one variable to represent the entire set. For reasons discussed below, GNP per capita has been selected to represent the developmental performance variables. The second approach is to construct a composite index from the factor-score coefficients (Nie, et al., 1975: 487-489). From the data presented in Table 5-1 a composite score for each nation can be constructed as follows:

$$\text{Factor Score of Development in 1960} = Z_n = \sum_{i=1}^{8} \beta_i Z_i$$

where $Z_n$ represents the standardized variables Urban to GNP/cap, respectively. Both measures will be used herein.

The next step is to measure developmental change. We want a measure that will related change in one nation to the change in all other nations. The two most commonly used measures are incremental and relative change (Rummel, 1970). Incremental change is measured as follows:

$$\Delta X_j = X_{jt2} - X_{jt1}$$

Incremental change is transformed into relative change by the following division:

$$R(X_j) = \frac{\Delta X_j}{X_{jt1}}$$
Dividing by the number of time changes and then multiplying by 100 produces the average percent change in $X_j$.

In terms of statistical analysis, the basic difference between incremental and relative change is that the use of the former may inflate the rate of change for countries starting at a high level of development, whereas the use of the latter may inflate the rate of change for countries starting at a very low level of development. In terms of substantive interests, this means that the incremental measure is more likely to reflect the widening gap phenomenon, whereas the relative measure is likely to obscure it (absolute versus relative gap). Another major difference between the two measures is the degree of variation across countries. The mean score for incremental change in GNP/cap is 35.5, with a standard deviation of 55.6, whereas the mean score for relative change in GNP/cap is 8.6, with a standard deviation of 11.2. The differences between these two measures of change can be compared, so both will be employed in the analysis.

There are two additional problems in measuring change. The first is the ceiling effect, which refers to variables with a natural upper bound, such as literacy. For example, if a country has a 98% rate of literacy in 1960, its rate of change for 1960-1970 will automatically be low. For this reason, it is better to use a variable without such an effect, such as GNP/cap, when analyzing change rather than a composite index. The second problem is that the incremental and relative change measures are susceptible to the effects of autocorrelation or the regression effect, since a variable at one point in time will predict itself at a subsequent time point. For example, the correlation
between GNP per capita in 1960 and 1970 was .97. Such a finding verifies Myrdal's contention about the circular and cumulative process of development. However, it also raises a problem in statistical interpretation. For example, we expect to find a high correlation between change in GNP per capita and our independent variables. Since GNP per capita predicts itself, how do we know that the high correlation is not irrelevant?

There are techniques, such as the deviational change measure, which will eliminate this artifactual problem (Rummel, 1970). Such techniques are based on analysis of the residual, the variance not explained by the variable itself. However, as the autocorrelation approaches 1.00, the size of the residual is reduced to an insignificant size. For this reason, these techniques cannot be employed here.

The problem of autocorrelation is just one example of a more general problem in causal inference analysis. As Hilton states (1972: 54):

> Basically, it would appear to reject only those networks that the prudent scientist would have, a priori, rejected anyway. The technique appears unable to discriminate among several intuitively plausible theoretical frameworks and this has much to do with the present inadequacies of social science data.

In Chapter 1, five plausible theoretical frameworks were identified for explaining the degree of inequality within and between countries. Statistical analysis can only show the degree of consistency between the hypotheses derived from each theory and existing data; it cannot "prove" the implied causal relationship. Ultimately, the acceptance of a particular theory is based on the soundness of the arguments linking the hypotheses to the data. Inevitably one's normative perspective also plays a role.
5:4. Domestic Inequality

The major weakness of the set of developmental indicators presented above is their inability to measure domestic distribution, or what Galtung terms "structural violence." Studies by Galtung (1971), Tyler and Wogart (1973), and Evans (1976) have attempted, with various degrees of success, to uncover an association between external dependence and domestic inequality. The conceptual linkage between these variables is based on the argument that the international structures of dominance/dependence penetrate down to the lowest stratum of Third World societies, and that it is the exploitation of the Third World masses upon which the international capitalist system rests. Frank (1969) developed this theme with reference to Latin America, showing how the domestic system replicates the metropole/satellite structure of the international system. In contradistinction to the dual society paradigm, dependency theorists argue that even the most backward regions of the Third World have been incorporated into the global capitalist system.

The ability to deal with this issue in this study, as well as the studies cited above, is limited by the extremely small sample of countries for which suitable data can be found. Even the protein deficiency variable cannot be interpreted as a measure of domestic inequality, since it is based on national averages.

The only variable found by this researcher which has data for a large number of countries is the GINI index of land distribution, which has data for 44 countries as opposed to the GINI index of income distribution, which only has 17 countries (Taylor and Hudson, 1972). The substantive importance of this variable is the large role played
by agriculture in the Third World, especially export agriculture, and the issue of land reform. Recent studies by Griffin (1974) and Paige (1975) have analyzed the political economy of Third World agricultural production at the domestic level. In this study, an attempt will be made to incorporate this variable into the international system analysis.

5:5. Propositions

The preceding operationalization is summarized in Table 5-2, which presents the variables used in the empirical analysis. Holding the intervening variables constant for the moment, the relationship between external dependence and developmental performance can be viewed in three general ways. The first deals with a certain level of dependency being associated with a certain level of development. This refers to cross-sectional analysis, in which there are a large number of cases but only one time point. The other two involve both cross-sectional and time-series analysis. The first of these would deal with a certain level of external dependence being associated with a certain rate of developmental performance. The third kind of relationship would deal with a degree of change in external dependence being associated with developmental performance. If the international structures of dominance/dependence are stable over time, we would expect substantive findings in relation to the first and second type of relationship but not the third, since the dependence of the Periphery on the Center would not be changing.

The indices presented above have been constructed in such a way that high positive scores refer to a high rate of developmental
<table>
<thead>
<tr>
<th>I. External Dependence</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>A. Vertical and Feudal Interaction Structure</td>
<td></td>
</tr>
<tr>
<td>1. Vertical Trade Index</td>
<td></td>
</tr>
<tr>
<td>2. Trade Partner Concentration Index</td>
<td></td>
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<tr>
<td>3. Trade Commodity Concentration Index</td>
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<tr>
<td>B. Mechanisms of Neo-Colonialism</td>
<td></td>
</tr>
<tr>
<td>4. Aid as a percent of GNP</td>
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<tr>
<td>5. Foreign Investment as a percent of GNP</td>
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<tr>
<td>6. Multilateral Aid as a percent of total Aid</td>
<td></td>
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<tr>
<td>7. Aid Concentration by Source</td>
<td></td>
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<tr>
<td>8. Foreign Investment Concentration by Source</td>
<td></td>
</tr>
<tr>
<td>II. Domestic Intervening Variables</td>
<td></td>
</tr>
<tr>
<td>9. GINI Index of Sectoral Income Distribution</td>
<td></td>
</tr>
<tr>
<td>10. Gross Fixed Domestic Capital Formation as a percent of GNP</td>
<td></td>
</tr>
<tr>
<td>III. Developmental Performance Variables</td>
<td></td>
</tr>
<tr>
<td>11. GNP/cap</td>
<td></td>
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<tr>
<td>12. Factor Score Index of Development</td>
<td></td>
</tr>
<tr>
<td>a. Urban</td>
<td></td>
</tr>
<tr>
<td>b. Literacy</td>
<td></td>
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<tr>
<td>c. College</td>
<td></td>
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<tr>
<td>d. Occupation</td>
<td></td>
</tr>
<tr>
<td>e. Physicians</td>
<td></td>
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<tr>
<td>f. Protein</td>
<td></td>
</tr>
<tr>
<td>g. Energy</td>
<td></td>
</tr>
<tr>
<td>h. GNP/cap</td>
<td></td>
</tr>
<tr>
<td>IV. Domestic Inequality</td>
<td></td>
</tr>
<tr>
<td>13. GINI index of Land Distribution</td>
<td></td>
</tr>
</tbody>
</table>
performance, whereas low developmental performance is reflected by low or even negative scores. Likewise, a high level of external dependence is reflected by high positive scores. Thus, in empirical terms, we expect to find a significant inverse relationship between variables of developmental performance and dependency.

A set of propositions can now be summarized on the basis of the completed theoretical design. First, the central thesis can be stated as follows:

The higher the level of external dependence, the lower the level of capital formation and the more skewed the domestic utilization of resources, and the lower the level and rate of developmental performance.

The auxiliary hypotheses can be stated thus:

Dependency thesis 1: the higher the level of external dependence, the lower the level of development.

Dependency thesis 2: the higher the level of external dependence, the lower the rate of developmental performance.

Dependency thesis 3: as the level of external dependence decreases, the higher the rate of developmental performance.

Dependency thesis 4: the higher the level of external dependence, the higher the level of domestic inequality.

5:6. Data Analysis

The data for each variable have been collected for 88 countries (15 OECD and 73 Third World) and for the years 1960, 1963, 1965, 1968, and 1970 (see Appendix I and II for complete variable list, sources, and the countries used in the study).

Before discussing the specific techniques employed, it might be
useful to review the techniques used in three previous studies of the same nature. The variables used in these studies were identical or similar to many of the variables used here. The first is Galtung's (1971) study, in which the first proposition was confirmed: the higher the level of external dependence, the lower the level of development (cross-sectional analysis). Galtung used Yule's Q statistic, based on dichotomizing each variable, and found correlations in the .80 range and above. Although the interval-ratio nature of the data would suggest using the Pearson Product-Moment Correlation (r), Galtung justified use of Yule's Q on the grounds of the unreliability of the data. However, this statistic also tends to obscure the variation between countries on either side of the point chosen to dichotomize the variables. Given the large gap between the developed and underdeveloped countries, any such statistic would tend to overdetermine the results. For this reason, the more precise Pearson correlation will be used here, which will undoubtedly result in findings of less strength than those reported by Galtung.

The other two studies are by Kaufman et al. (1975) and Alschuler (1976), both limited to the Latin American countries. The major problem with the regional approach is that it violates the conceptual requirement that both the Center and Periphery countries be included, since the theory argues that developmental performance is a function of asymmetrical interdependence. Another problem is that the number of cases is too small to provide definitive results. The lack of clear results was especially acute in the Kaufman study, although it did represent progress in operationalization by incorporating domestic political participation variables into the analysis. Alschuler's
findings confirmed the second proposition, namely, the higher the level of external dependence, the lower the rate of developmental performance (cross-sectional and time-series analysis). His results were based on canonical analysis, which is an extension of multiple regression in which two sets of factors are first calculated for the independent and dependent variables separately, then correlations are computed across the factors of the two sets. However, the results reported by Alschuler are open to question, since the canonical coefficient can be misleading if there is a high degree of multicollinearity among both or either sets of variables. Since this is obviously the case for the variables used by Alschuler (as well as in this study), his findings require further confirmation.

The empirical findings reported in this study are based on several techniques of analysis. The first is factor analysis, which has already been used for the purposes of data reduction (section 5:3). Second, the simple bivariate correlations are presented so as to provide a "map" of the data as well as for use in subsequent analysis. Third, the independent variables are lagged against the dependent variables to identify the largest magnitude of association. When dealing with highly structural variables, time-lag analysis is an appropriate technique since one would not expect the effect of the variables upon one another to be immediate (Blalock, 1964).

Fourth, cross-lagged panel correlation analysis is employed to test for the direction of causal preponderance between external dependence and developmental performance. This technique can be useful when, as in this study, two variables are correlated but the causal direction is debatable (Rozelle and Campbell, 1969). A general panel
diagram takes the following form:

\[
\begin{array}{c}
\text{X}_{t1} \quad \text{Y}_{t1} \\
\text{Y}_{t2} \quad \text{X}_{t2}
\end{array}
\]

where \( X \) is a measure of external dependence and \( Y \) is a measure of developmental performance. If the direction of causal preponderance is from \( X \) to \( Y \), then the lagged correlation between \( X_{t1} \) and \( Y_{t2} \) will be greater than between \( Y_{t1} \) and \( X_{t2} \), or \( r_{X_{t1}Y_{t2}} > r_{Y_{t1}X_{t2}} \).

The preliminary analysis discussed above is followed by further analysis involving partial correlation, multiple regression and path, or causal-chain analysis. Path analysis will be the most crucial in the test of the causal model presented in Chapter 4. Figure 5-1 below depicts our hypothesized causal-chain involving external dependence, capital formation, sectoral income distribution, and developmental performance.

If our hypotheses are correct, then "we would ordinarily expect the largest correlations to occur between adjacent variables in whatever causal-chain were operating. ... The smallest correlations should therefore occur between variables furthest removed from each other in the causal-chain" (Blalock, 1964: 63). Thus, we would expect the correlation between external dependence and developmental performance to be smaller than the correlation between sectoral income distribution and developmental performance.

The chief advantage of path analysis is that the path coefficients represent both the direct and indirect effects of the independent variables upon the dependent variable. The decomposition of the path
$Z_1$ = Developmental Performance

$Z_2$ = Sectoral Income Distribution

$Z_3$ = Capital Formation

$Z_4$ = External Dependence

$Z_n$ is the variables standardized

$E_n$ is the multiple R of latent causes of $Z_1$

$P_n$ is the path coefficient

**Figure 5-1. Hypothesized Causal-Chain**
diagram presented in Figure 5-1 is given in Table 5-3. Of course, the most important path coefficient is $P_{14}$, which represents both the direct effect of external dependence on developmental performance plus the indirect effect mediated by capital formation and sectoral income distribution.

Another feature of path analysis is that the path coefficients can be interpreted as an estimate of the degree of change which would occur in the dependent variable if there was a change in one of the independent variables. This feature requires that the coefficient of association be the beta weights, rather than the usual partial correlations. The difference between the two is given by Blalock (1972: 453):

Since the beta weights and partial correlations represent somewhat different types of measures of association, they will not give exactly the same result although usually they will rank variables in the same order of importance. The partial correlation is a measure of the amount of variation explained by one independent variable after the others have explained all they could. The beta weights, on the other hand, indicate how much change in the dependent variable is produced by a standardized change in one of the independent variables when the others are controlled.

Finally, path analysis is based on two critical assumptions. The first is the assumption of causal order, which means that the researcher has some valid basis for the hypothesized causal chain. The causal order depicted in Figure 5-1 is predicated on the arguments put forth in the previous chapters with reference to the historical evolution of international capitalism and its effects on the political and economic structures within the Periphery and the structure of relations between the Center and Periphery states. Furthermore, and as discussed above, cross-lagged panel correlation analysis is employed in an effort to
Table 5-3
Decomposition of General Path Diagram

<table>
<thead>
<tr>
<th>Bivariate Relationship</th>
<th>Total Convariance (A)</th>
<th>Direct (B)</th>
<th>Indirect (C)</th>
<th>Total B+C (D)</th>
<th>Noncausal A-D (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$x_3 x_4$</td>
<td>$r_{34}$</td>
<td>$r_{34}$</td>
<td>None</td>
<td>$r_{34}$</td>
<td>None</td>
</tr>
<tr>
<td>$x_2 x_4$</td>
<td>$r_{24}$</td>
<td>$r_{24}$</td>
<td>$P_{34} (P_{23})$</td>
<td>$r_{24}$</td>
<td>None</td>
</tr>
<tr>
<td>$x_1 x_4$</td>
<td>$r_{14}$</td>
<td>$P_{14}$</td>
<td>$P_{34} (P_{23}) (P_{12}) + P_{34} (P_{13}) + P_{24} (P_{12})$</td>
<td>$r_{14}$</td>
<td>None</td>
</tr>
<tr>
<td>$x_2 x_3$</td>
<td>$r_{23}$</td>
<td>$P_{23}$</td>
<td>None</td>
<td>$P_{23}$</td>
<td>$r_{23} - P_{23}$</td>
</tr>
<tr>
<td>$x_1 x_3$</td>
<td>$r_{13}$</td>
<td>$P_{13}$</td>
<td>$P_{23} (P_{12})$</td>
<td>$B_{13.4}$</td>
<td>$r_{13} - B_{13.4}$</td>
</tr>
<tr>
<td>$x_1 x_2$</td>
<td>$r_{12}$</td>
<td>$P_{12}$</td>
<td>None</td>
<td>$P_{12}$</td>
<td>$r_{12} - P_{12}$</td>
</tr>
</tbody>
</table>
demonstrate, statistically, the preponderant direction of causal effect.

The second assumption is that the system is causally closed, that is, that all the important causal variables are accounted for. This assumption is seldom achieved in the social sciences, even in experimental research. Thus, although this assumption cannot be strictly adhered to, an effort has been made to incorporate many of the most important variables that are suggested in the theoretical literature.
CHAPTER VI

Empirical Results

The empirical findings of this study are presented below in four parts. First, a preliminary analysis is conducted, examining the magnitude and direction of association between the measures of external dependence and developmental performance. Second, the intervening variables, capital formation and sectoral income distribution, are introduced into the analysis to test the causal model presented in Chapter 4. Third, the relationships between external dependence, developmental performance, and domestic inequality, as measured by land distribution, are examined. The fourth part deals with the mechanisms of reinforcement, aid and foreign investment.

The major basis for the above organizational framework is the problem of missing data. Data are unavailable for a number of variables, especially for capital formation and sectoral income distribution. Furthermore, the hypotheses dealing with aid and foreign investment are applicable only to the Third World countries, and not to the Center states. For these reasons, correlations derived from other variables would not be comparable. Thus, the last three parts of the analysis are based on a sample of countries (approximately one-half) taken from the entire population on the basis of data availability.

6:1. External Dependence and Developmental Performance: Preliminary Analysis

The first results presented are the Pearson product-moment correlations between the variables, measuring the vertical and feudal interaction structure of the international system and the composite
index of development for the years 1960, 1965, and 1970. GNP, total trade, and trade as a percent of GNP are included as control variables. The results are given in Table 6-1 below. There are several implications to be derived from these findings. First, the results are consistent with the first proposition: the higher the level of external dependence, the lower the level of development.

Second, and with reference to the control variables, it could be argued that the vertical and feudal nature of trade between the Center and Periphery states is a function of the low GNP and volume of absolute trade for the Periphery states. However, the correlations between the three independent variables and GNP are considerably lower than with the composite index of development. Although comparable correlations are found between the independent variables and absolute size of trade, this simply reflects the fact that the rich countries trade more than the poor countries. Furthermore, this latter relationship is reduced to insignificance when trade is controlled for GNP. Thus, the vertical and feudal structure of Center-Periphery trade cannot be explained simply by the amount of Periphery state trade in relation to the size of an economy of a country.

Second, with the exception of trade partner concentration, the correlations between the independent variables and the index of development are high and consistent over the decade. The strength of association between the index of development and trade partner concentration (-.40 in 1960 and -.31 in 1970) is lower and decreases more through time than the correlations between the index of development with commodity concentration and vertical trade (-.58 and -.64 in 1960 and -.57 and -.61 in 1970, respectively). Furthermore, there is a high
Table 6-1

Bivariate Correlations (r) between Variables of External Dependence and Development: 1960-1970 (N=88)

1960

<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.51**</td>
<td>.73**</td>
<td>-.03</td>
<td>-.40**</td>
<td>-.58**</td>
<td>-.64**</td>
</tr>
<tr>
<td>2.</td>
<td>.84**</td>
<td>-.18</td>
<td>-.22</td>
<td>-.32**</td>
<td>-.39**</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
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<td>4.</td>
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<td>5.</td>
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<td>6.</td>
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<tr>
<td>7.</td>
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<td></td>
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</tr>
</tbody>
</table>

1965

<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.51**</td>
<td>.73**</td>
<td>-.07</td>
<td>-.39**</td>
<td>-.59**</td>
<td>-.62**</td>
</tr>
<tr>
<td>2.</td>
<td>.82**</td>
<td>-.19</td>
<td>-.21</td>
<td>-.31**</td>
<td>-.37**</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
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<td>4.</td>
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<td>5.</td>
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<td>6.</td>
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<td>7.</td>
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</tbody>
</table>

1970

<table>
<thead>
<tr>
<th></th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.52**</td>
<td>.72**</td>
<td>.01</td>
<td>-.31*</td>
<td>-.57**</td>
<td>-.61**</td>
</tr>
<tr>
<td>2.</td>
<td>.83**</td>
<td>-.17</td>
<td>-.19</td>
<td>-.31**</td>
<td>-.37**</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>4.</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>5.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

*significance LE .01
**significance LE .001
intercorrelation (.68) between trade commodity concentration and vertical trade. That is, countries at the lower end of the level-of-processing dimension also tend to export less variety of goods. On the other hand, the intercorrelations between these two latter variables and partner concentration are much lower (.33 and .28 in 1970).

The lower strength of association between trade partner concentration and development performance as well as the other two measures of external dependence can probably be explained by several factors. First, the results suggest that the role of Japan and Western Europe in international trade has been recovering from the aftermath of World War II. Second, the results can be interpreted as reflecting the increasing role of the multinational corporations, versus nation-states, in shaping patterns of international trade. That is, the expansion of the multinational corporations in the postwar era has resulted in an increase in trade among branch plants, which has inadvertently led to a diversification of trading partners among nations. In any case, the trade partner pattern of Third World countries is becoming more diversified, but the commodities of that trade have remained constant.

Table 6-2 below presents the same correlations except that the independent variables are lagged ten and five years, respectively. By comparing these results with the non-lagged correlations, it can be seen that there is only a slight time-lag effect. However, the fact that the correlations increase consistently, the longer the lag, suggests that the lag effect is probably longer than ten years. The overall power of prediction of the independent variables can be seen from an examination of the multiple $R^2$, which is .49 ($R = .70$). That is, 49% of the variance in level of development achieved in 1970 can
Table 6-2

Time-lag Effects of External Dependence on Development (N=88)

<table>
<thead>
<tr>
<th>Lag</th>
<th>1. Index of Dev. '70</th>
<th>2. Partner Con. '70</th>
<th>3. Commodity Con. '70</th>
<th>4. Vertical Trade '70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero-Year Lag</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-.31*</td>
<td>-.57**</td>
<td>-.61**</td>
<td>.67</td>
</tr>
<tr>
<td>Five-Year Lag</td>
<td>-.40**</td>
<td>-.59**</td>
<td>-.62**</td>
<td>.69</td>
</tr>
<tr>
<td>Ten-Year Lag</td>
<td>-.41**</td>
<td>-.60**</td>
<td>-.66**</td>
<td>.70</td>
</tr>
</tbody>
</table>

*significance LE .01
**significance LE .001
be explained by the three measures of external dependence in 1960.

With the best time-lag established, the direction of causal preponderance between dependence and development can be tested via the technique of panel analysis. As discussed in Chapter 5, this technique tests for the sequence of variables in a causal chain when two variables are correlated but the causal direction is indeterminate. That is, if $X$ is the cause of $Y$, the $r_{x_{t2}, y_{t1}} > r_{x_{t1}, y_{t2}}$. Letting external dependence stand for $X$ and GNP per capita for $Y$, the results of the panel analysis are as follows ($N = 88$):

The correlation between vertical trade in 1960 and GNP per capita in 1970 is $-0.65$, whereas the correlation for the alternative hypothesis, GNP per capita in 1960 with vertical trade in 1970, is $-0.49$. The significance of the difference between these two correlations can be determined by the partial correlations. The partial correlation between vertical trade in 1960 and GNP per capita in 1970, controlling for GNP per capita in 1960 (the autocorrelation effect), is $-0.41$, which is significant at the .001 level. On the other hand, the partial for GNP per capita in 1960 with vertical trade in 1970, controlling for vertical trade in 1960, is only $-0.11$, which is not even significant at the .05 level. That is, the autocorrelation effect on development does not appear to account for the association between dependence and
development, but the autocorrelation effect on dependence can be used to account for the reverse association. Thus, it can be concluded that the direction of causal preponderance most consistent with the data is from dependence to development. The findings are consistent with the central argument of this study: global structures of dominance/dependence condition the simultaneous process of development/underdevelopment.

The introduction of change into the analysis produced similar results to those derived in the cross-sectional and time-lag analysis. For reasons discussed in the previous chapter, GNP per capita has been selected as the measure of developmental performance. The period of change is from 1960 to 1970. The incremental and relative change in GNP per capita were correlated with the vertical and feudal interaction variables for 1960. Table 6-3 below presents these results.

The findings are consistent with the second proposition: the higher the level of dependence, the lower the rate of developmental change. The multiple R with incremental change is .72 ($R^2 = .51$) and with relative change $R = .46$ ($R^2 = .21$). Thus, the strength of correlation varies considerably, depending on which change measure is used. That is, 51% of the variance in incremental change is explained, whereas only 21% of the variance in relative change in GNP per capita is explained by the three independent variables. The difference between these two measures of change can be compared by examining the two scattergrams presented in Figures 6-1 and 6-2, in which vertical trade in 1960 is plotted against incremental and relative change in GNP per capita, respectively. From the scatterplots, it can be seen that the size of the gap between the rich and poor countries is a
Table 6-3

Bivariate Correlations (r) Between Variables of External Dependence and Developmental Change (N=88)

<table>
<thead>
<tr>
<th>Incremental Change</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>R</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GNP/cap.</td>
<td>-.37**</td>
<td>-.63**</td>
<td>-.67**</td>
<td>.72</td>
<td>.51</td>
</tr>
<tr>
<td>2. Partner Con. '60</td>
<td>.39**</td>
<td>.39**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Commodity Con. '60</td>
<td>.68**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Vertical Trade '60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Relative Change\textsuperscript{a}</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>R</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GNP/cap.</td>
<td>-.32**</td>
<td>-.39**</td>
<td>-.40**</td>
<td>.46</td>
<td>.21</td>
</tr>
<tr>
<td>2. Partner Con. '60</td>
<td>.39**</td>
<td>.39**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Commodity Con. '60</td>
<td>.68**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Vertical Trade '60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a}Libya was eliminated from the relative change correlations since it was an extreme outlier. This elimination will hold for all subsequent analysis.
Figure 6-1. Scattergram: Incremental Change in GNP per capita (down) with Vertical Trade '60 (across)
Figure 6-2. Scattergram: Relative Change in GNP per capita (down) with Vertical Trade '60 (across)
function of whichever change measure is used.

Proposition three states that as the level of dependency decreases, the higher the rate of developmental change. However, with the exception of trade partner concentration, the variables used in the analysis so far have been stable. Thus, since there is no marked change in dependence, we would not expect to find an association between change in dependence and developmental performance. The bivariate results are consistent with this expectation. The sole exception is with trade partner concentration, the only independent variable to show a marked decrease in association with level of development over the decade. For example, the correlation between change in trade partner concentration and the composite index of development for 1970 is .27, which is significant at the .01 level. That is, countries which increase the diversification of trading partners over the decade, 1960 to 1970, also achieve higher levels of development. It appears, however, that a longer time period will be needed to evaluate proposition three more thoroughly.

6:2. A Test of the Causal Model

In this section the central thesis of this study is tested, relating external dependence, capital formation, sectoral income distribution, and developmental performance. As discussed before, we expect to find a negative relationship between external dependence and development. With regard to the intervening variables, we expect to find a positive association between capital formation as a percentage of GNP and development. Since a high score on the GINI index of sectoral income distribution is interpreted as indicating a skewed pattern of domestic
resource utilization, we expect to find a negative association between this variable and development. Likewise, we expect to find a negative association between capital formation and sectoral income distribution and vertical trade and a positive association between vertical trade and sectoral income distribution. The correlations among these variables are presented in Table 6-4. All the correlations are significant, with one exception, and all are in the hypothesized directions.

The first finding to note is the high degree of intercorrelation among the alternative measures of developmental performance. The weakest intercorrelation is provided by relative change in GNP per capita, which suggests that this variable taps a different dimension of developmental performance from that of the composite index of development and incremental change in GNP per capita. There are high intercorrelations among the independent variables in addition to their strong association with the variables of developmental performance. As noted in Chapter 5, an attempt will be made to interpret this multicollinearity via path analysis below.

To simplify subsequent analysis, the vertical trade variable has been selected to represent external dependence. The complementary relationship between a country's domestic market and the structure of its external relations is shown by the high correlation between sectoral income distribution and vertical trade (r = .65). A graphical presentation of this relationship is given in Figure 6-3.

Before proceeding directly to the results of the path analysis, two preliminary steps are required. The first is to test the causal order hypothesized, namely, that the variables closest in the causal chain will have the highest correlation. That is, we expect the
Table 6-4
Bivariate Correlations (r) Between Variables of External Dependence, Sectoral Income Distribution, Capital Formation and Development (N=40)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.89**</td>
<td>.57**</td>
<td>-.41*</td>
<td>-.40*</td>
<td>-.41*</td>
<td>.55**</td>
<td>.55**</td>
<td>.73**</td>
</tr>
<tr>
<td>2.</td>
<td>.45*</td>
<td>-.69**</td>
<td>.51**</td>
<td>.57**</td>
<td>-.38*</td>
<td>.55**</td>
<td>.55**</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>-.74**</td>
<td>.60**</td>
<td>-.34</td>
<td>.69**</td>
<td>-.43*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>.53**</td>
<td>-.42*</td>
<td>-.52**</td>
<td>.65**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>-.40*</td>
<td>-.72**</td>
<td>-.57**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>-.68**</td>
<td>-.66**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>-.61**</td>
<td>-.57**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

* significance LE .01
** significance LE .001
Figure 6-3. Scattergram: Sectoral Income Distribution '60 (down) with Vertical Trade '60 (across)
correlations between the measures of development and sectoral income
distribution to be higher than between development and capital formation,
which in turn, will be higher than the correlations between development
and external dependence. The results are as follows (N = 40):

<table>
<thead>
<tr>
<th>Vertical Trade '60</th>
<th>Capital Formation '65</th>
<th>Sectoral Income Distribution '60</th>
<th>WITH</th>
</tr>
</thead>
<tbody>
<tr>
<td>-.61</td>
<td>.53</td>
<td>-.74</td>
<td>Index of Development '70</td>
</tr>
<tr>
<td>-.66</td>
<td>.60</td>
<td>-.69</td>
<td>Incremental GNP/cap</td>
</tr>
<tr>
<td>-.57</td>
<td>.51</td>
<td>-.41</td>
<td>Relative GNP/cap</td>
</tr>
</tbody>
</table>

The results show that the first link in the hypothesized causal chain
holds but not the second. Furthermore, the causal order indicated
by the correlations is just the opposite when relative change in GNP
per capita is the dependent variable. However, given the high degree
of multicollinearity, a weak causal order is not too surprising.

As a second preliminary step, the partial correlations were
computed between vertical trade in 1960 and the three measures of
development, controlling for sectoral income distribution and capital
formation. The results are presented in Table 6-5. Without any
prior causal assumptions, these results can be interpreted in two ways.
First, it can be argued that the correlations between vertical trade
and the developmental variables is a spurious one, in that most of the
association between vertical trade and development can be explained
by sectoral income distribution and capital formation. This first
interpretation is not warranted in a purely statistical sense, since
vertical trade does have a significant independent effect when change
Table 6-5

Partial Correlations Between External Dependence and Development Controlling for Capital Formation and Sectoral Income Distribution (N=40)

<p>| | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$X_4$</td>
<td>$BY$</td>
<td>$X_3$</td>
<td>$X_4$</td>
<td>$BY$</td>
<td>$X_2$</td>
<td>$X_4$</td>
<td>$X_3$</td>
</tr>
<tr>
<td>Index of Dev. '70</td>
<td>-.51</td>
<td>S= .001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental GNP/cap.</td>
<td>-.56</td>
<td>S= .001</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative GNP/cap.</td>
<td>-.45</td>
<td>S= .002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$X_4$ BY $X_2$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index of Dev. '70</td>
<td>-.26</td>
<td>S= .056</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Incremental GNP/cap.</td>
<td>-.39</td>
<td>S= .008</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Relative GNP/cap.</td>
<td>-.43</td>
<td>S= .003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$X_4$ BY $X_3$ and $X_2$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index of Dev. '70</td>
<td>-.18</td>
<td>S= .134</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental GNP/cap.</td>
<td>-.32</td>
<td>S= .027</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative GNP/cap.</td>
<td>-.38</td>
<td>S= .010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

$r$, $R$, and $R^2$ reflect the relationships between the variables. $X_4$ = Vertical Trade '60, $X_3$ = Capital For. '65, $X_2$ = Sec. Inc. Dis. '60.
in GNP per capita is the dependent variable. More importantly, however, these results are consistent with the causal assumptions discussed in Chapter 4. That is, the partial correlations can be interpreted in light of the argument that sectoral income distribution and capital formation mediate the effects of external dependence. Evidence for this second interpretation is given by the beta weights (standardized regression coefficients) reported in Table 6-5. The most important finding here is the decreasing importance of sectoral income distribution in comparison with the other independent variables. Sectoral income distribution is the most important variable in explaining level of development in 1970 but the least important in explaining relative change in GNP per capita over the decade (the beta weight for sectoral income distribution is .00).

As discussed in Chapter 5, sectoral income distribution has been used to get at the dual nature of Third World countries. A high GINI index score on sectoral income distribution reflects a high concentration in primary production, which also accounts for its high correlation with vertical trade. The high inverse relationship between sectoral income distribution in 1960 and the index of development for 1970 reflects the view, held by economists such as Kuznets (1971), that economic development is synonymous with industrialization.

A further interpretation that can be derived from the partial correlations is the relative independence of capital formation from the other independent variables. First, the reduction in association between vertical trade and development is primarily accounted for by sectoral income distribution. That is, vertical trade and sectoral income distribution are highly correlated ($r = .65$) and they covary with
development. Second, the association between vertical trade and capital formation is less pronounced \( (r = -.43) \) and their covariation with development is not shared.

The final step in the analysis is to fit all four variables into a causal model. A general path diagram and its decomposition was given in Chapter 5 (Figure 5-1 and Table 5-3, respectively). The path coefficients represent the sum of the direct and indirect causal effects (effect coefficients) of the independent variables on the dependent variable. The most important coefficient for the analysis is \( P_{14} \), which gives the direct and indirect causal effects of external dependence on developmental performance.

The path analyses for the composite index of development for 1970, incremental change in GNP per capita, and relative change in GNP per capita are presented in Figures 6-4, 6-5, and 6-6, respectively (the decomposition for each of the path diagrams is presented in Appendix III). \( P_{34} \) is simply the bivariate correlation between vertical trade and capital formation. \( P_{24} \) represents the direct effect of vertical trade on sectoral income distribution plus the indirect effect mediated by capital formation. Thus, \( P_{23} \) can be interpreted as a partial correlation between capital formation and sectoral income distribution, controlling for vertical trade. The small magnitude of \( P_{23} \) reflects the high association between vertical trade and sectoral income distribution. Finally, as can be seen from the relative size of the path coefficients from vertical trade to the developmental variables \( (P_{14}) \), compared to the path coefficients from capital formation and sectoral income distribution to the developmental variables \( (P_{13} \text{ and } P_{12}) \), the results are consistent with the causal assumptions of the theory.
$Z_1 = \text{Index of Dev. '70}$

$Z_2 = \text{Sec. Inc. Dis. '60}$

$Z_3 = \text{Capital For. '65}$

$Z_4 = \text{Vertical Trade '60}$

Figure 6-4. Path Analysis for Index of Development: 1970 (N = 40)
$Z_1$ = Incremental GNP/cap
$Z_2$ = Sec. Inc. Dis. '60
$Z_3$ = Capital For. '65
$Z_4$ = Vertical Trade '60

Figure 6-5. Path Analysis for Incremental Change in GNP per capita (N=40)
$Z_1 = \text{Relative GNP/cap}$

$Z_2 = \text{Sec. Inc. Dis. '60}$

$Z_3 = \text{Capital For. '65}$

$Z_4 = \text{Vertical Trade '60}$

Figure 6-6. Path Analysis for Relative Change in GNP per capita (N=40)
There is moderate confirmation with the index of development for 1970, and strong confirmation with incremental and relative change in GNP percapita. Added to the previous results, especially the results of the panel analysis, the findings reported herein provide a firm basis for the causal inference that structures of dominance/dependence do indeed condition the simultaneous processes of development/underdevelopment.

6:3. External Dependence, Domestic Inequality, and Developmental Performance

In this section proposition four is tested, namely, that the higher the level of dependence, the higher the level of domestic inequality. Domestic inequality is measured by the GINI index of land distribution (in which a high score indicates maldistribution in land ownership). The dependency model states that high external dependence reflects the domestic dominance of the feudal-capitalist class, whose monopoly of wealth results in high domestic inequality. The feudal element refers to the landlord class, which was transformed by the commercialization of agriculture and the establishment of agricultural export sectors in the Third World. The power of this class is reflected by the degree of land ownership concentration, plus the control over markets and linkages to the commercial and industrial sectors (Page, 1975). As discussed in the review of Cardoso's (1973) work, a powerful capitalist class would be reflected by "associated-dependent development," as in the case of Brazil. The study of Brazil by Evans (1976) showed that dependent industrialization is based on an increase in the exploitation of labor, resulting in greater maldistribution of wealth and income. If the majority of wealth
resides in the landlord class, the lack of capital formation and the inefficiency of agricultural production under feudal organization would result in low developmental performance. The bivariate correlations between the developmental variables, land distribution in 1960, and external dependence are given in Table 6-6. With the exception of trade partner concentration, the significant correlations between the index of land distribution and trade commodity concentration (.40) and vertical trade (.43) are consistent with our fourth proposition.

The relationship between vertical trade and land distribution is depicted in Figure 6-7 below. The scattergram reveals that the relationship between the two variables is not linear. It appears to be dichotomous, with the relationship broken according to the level of development. That is, the developed countries appear to form one pattern, low external dependence with medium land distribution, whereas the Third World countries form yet another, high external dependence and high land maldistribution.

There is a weak relationship between measures of land distribution and developmental performance. The only significant correlation is between land distribution and relative change in GNP per capita (r = -.37). Thus, external dependence predicts both to developmental performance and domestic inequality, but the relationship between the latter variables is unclear.

6:4. Mechanisms of Reinforcement

The final analysis deals with the variables hypothesized to reinforce external dependence, namely, aid and foreign investment. As with the previous analysis, an attempt was made to lag the reinforcement
Table 6-6

Bivariate Correlations (r) Between Variables of External Dependence, Domestic Land Distribution and Development (N=43)

<table>
<thead>
<tr>
<th></th>
<th>1. Index of Dev. '70</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>5</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.88**</td>
<td>.49**</td>
<td>-.02</td>
<td>-.39*</td>
<td>-.63**</td>
<td>-.64**</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Incremental GNP/cap.</td>
<td>.60**</td>
<td>-.22</td>
<td>-.43*</td>
<td>-.68**</td>
<td>-.69**</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Relative GNP/cap.</td>
<td>-.37*</td>
<td>-.24</td>
<td>-.50**</td>
<td>-.56**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Index of Land Dis. '60</td>
<td></td>
<td>.25</td>
<td>.40*</td>
<td>.43*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Partner Con. '60</td>
<td></td>
<td></td>
<td>.44*</td>
<td>.51**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Commodity Con. '60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.72**</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Vertical Trade '60</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* significance LE .01
** significance LE .001
Figure 6-7. Scattergram: GINI Index of Land Distribution '60 (down) with Vertical Trade '60 (across)
variables. However, because of the lack of data on a time-series basis, this could only be done for aid concentration by source and multilateral aid as a percentage of total aid received. Investment concentration by source is for the year 1968, and aid and foreign investment as a percentage of GNP are totaled for the years 1960-1968. The results are presented in Table 6-7 below. The first part (6-7a) gives the intercorrelations among the variables of reinforcement. The second part (6-7b) gives the correlations between the variables of reinforcement and the three indicators of development. The third part (6-7c) gives the correlations between the variables of reinforcement and the primary independent variables.

The first results indicate that the variables of reinforcement are independent of one another. The financial flows of private and public agencies to the Third World appear to be unrelated. Likewise, degree of dependence on aid and investment by source are unrelated. Finally, total private and public flows are unrelated to each other as well as to the other variables of reinforcement. These findings suggest that there are a complex set of factors determining the distribution of financial flows to the Third World countries. However, the results do create an anomaly for dependency theory. Dependency theorists often view aid and foreign investment as complementary, in that aid would provide external economies (roads, communication, power plants, etc.) which, in turn, would attract foreign investment. The failure for this hypothesized relationship to reveal itself in the findings can probably be best explained by the difference in motives behind aid and foreign investment. That is, investment is profit-seeking, whereas aid is often given on the basis of strategic
Table 6-7
Bivariate Correlations (r) Between Variables of Reinforcement, Development, and the Primary Independent Variables

6-7a Intercorrelations Among Variables of Reinforcement

<table>
<thead>
<tr>
<th></th>
<th>R_2</th>
<th>R_3</th>
<th>R_4</th>
<th>R_5</th>
</tr>
</thead>
<tbody>
<tr>
<td>R_1</td>
<td>.00</td>
<td>.10</td>
<td>-.09</td>
<td>-.02</td>
</tr>
<tr>
<td>R_2</td>
<td>.11</td>
<td>.15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R_3</td>
<td></td>
<td>-.18</td>
<td>-.06</td>
<td></td>
</tr>
<tr>
<td>R_4</td>
<td></td>
<td></td>
<td>-.02</td>
<td></td>
</tr>
<tr>
<td>R_5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

R_1 = Foreign Inv./GNP 1960-68
R_2 = Aid/GNP 1960-68
R_3 = Aid Concentration '60
R_4 = Inv. Concentration '68
R_5 = Multilateral Aid/Total Aid '60

6-7b. Correlations Between Variables of Reinforcement and Development

<table>
<thead>
<tr>
<th></th>
<th>R_1</th>
<th>R_2</th>
<th>R_3</th>
<th>R_4</th>
<th>R_5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index of Dev. '70</td>
<td>-.12</td>
<td>-.01</td>
<td>.03</td>
<td>-.03</td>
<td>.00</td>
</tr>
<tr>
<td>Incremental GNP/cap.</td>
<td>-.05</td>
<td>-.02</td>
<td>-.06</td>
<td>-.04</td>
<td>.01</td>
</tr>
<tr>
<td>Relative GNP/cap.</td>
<td>.08</td>
<td>.06</td>
<td>-.10</td>
<td>-.12</td>
<td>-.05</td>
</tr>
</tbody>
</table>
Table 6-7 (Continued)

Bivariate Correlations (r) Between Variables of Reinforcement Development, and the Primary Independent Variables\textsuperscript{a}

6-7c. Correlations Between Variables of Reinforcement and the Primary Independent Variables

<table>
<thead>
<tr>
<th></th>
<th>(R_1)</th>
<th>(R_2)</th>
<th>(R_3)</th>
<th>(R_4)</th>
<th>(R_5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partner Con. '60</td>
<td>-.06</td>
<td>.35*</td>
<td>.21</td>
<td>.37*</td>
<td>.05</td>
</tr>
<tr>
<td>Commodity Con. '60</td>
<td>-.06</td>
<td>.14</td>
<td>.04</td>
<td>.23*</td>
<td>-.06</td>
</tr>
<tr>
<td>Vertical Trade '60</td>
<td>.03</td>
<td>.02</td>
<td>.04</td>
<td>-.01</td>
<td>.02</td>
</tr>
<tr>
<td>Capital For. '65</td>
<td>.11</td>
<td>-.07</td>
<td>.25</td>
<td>-.14</td>
<td>-.22</td>
</tr>
<tr>
<td>Sec. Inc. Dis. '60</td>
<td>.16</td>
<td>.18</td>
<td>.08</td>
<td>.15</td>
<td>.10</td>
</tr>
</tbody>
</table>

\* significance LE .05

\textsuperscript{a} N varies from 26 to 71 because of missing data. Third World countries only.
considerations and past colonial relationships. A major factor affecting profit is security of the investment, especially in the Third World. On the other hand, strategic areas receiving the most aid are often the most unstable areas for foreign investment. Thus, there is a lack of relationship between the two financial flows.

The reinforcement variables were then correlated with the three measures of development (6-7b). Again, no significant correlations are found. That is, there appears to be little direct effect of the reinforcement variables on the developmental variables. This finding does not create an anomaly for dependency theory, however, since aid and foreign investment are viewed as only reinforcing the primary independent variables. Another point to keep in mind when interpreting these results is that, as discussed in Chapter 4, many dependency theorists argue that the primary significance of aid and foreign investment is the benefit derived by the donor states and the multinational corporations, with the effect on Third World countries marginal.

The final analysis deals with the variables of reinforcement and the independent variables (6-7c). Only three significant correlations are evident, and two of these are between variables of reinforcement (aid as a percentage of GNP and investment concentration) and trade partner concentration. Yet, trade partner concentration is the least significant of the primary independent variables. Thus, it appears that the findings reported herein contradict the hypothesized role of aid and foreign investment in maintaining external dependence. A possible explanation of this contradiction is that the level of aggregation employed in this study cannot capture the relationships
between aid and foreign investment, external dependence, and under-
development revealed in the case studies reviewed in Chapter 4. Perhaps subsequent studies will be able to clarify and explain this apparent anomaly.
CHAPTER VII

Implications and Conclusions

This chapter is devoted to a summary of results and implications of the reported findings for future research and policy. Again, it is important to note that, due to the general nature of this study, the policy implications will be spelled out in generalities.

7:1. Summary

This study grew out of a critical appraisal of prevailing paradigms of development which have been the major influence on American social science since the 1960s. In the first chapter, five alternative theories of international political economy were identified and compared, namely, liberal theory, the position of economic nationalism, the internationalist perspective, the Marxist-Leninist tradition, and dependency theory. The first three perspectives complement, within varying degrees, the prevailing paradigms of development, whereas the latter two stand in direct contradiction, in terms of both analysis and policy prescriptions. In subsequent chapters, the Marxist-Leninist and dependency perspectives were reviewed and synthesized, culminating in a causal model presented in Chapter 4. Our major thesis states that the spread of capitalism from the West into the Third World set forces in motion, acting at both the domestic and international level, that have retarded the developmental process in the Third World. The two major forces of underdevelopment were identified as the feudal-capitalist coalition within Periphery states and the structure of vertical and feudal interaction between the Center and Periphery states. It was further
hypothesized that these forces have weakened the ability of Periphery states to maximize the mobilization of resources, in the form of capital formation, resulting in an inefficient and skewed pattern of domestic resource utilization. Finally, it was hypothesized that this system is continually reinforced by clientelism, foreign aid, and the multinational corporations.

The process of theory construction and operationalization was undertaken in an effort to overcome what many see as the non-operational form of much of dependency theory; accordingly, the research sought to link external dependence explicitly to underdevelopment in the form of bivariate testable hypotheses. The empirical results presented in the previous chapter are consistent with the major propositions of dependency theory. The results of the panel analysis suggest that the direction of causal preponderance is from external dependence to developmental performance. The path analyses were consistent with the causal model constructed from the interpretations given to the Marxist-Leninist and dependency literature. Furthermore, a positive association was found between a high degree of external dependence and maldistribution of land ownership.

However, inconsistencies between the theory and data were also uncovered. First, one of the primary independent variables, trade partner concentration, was found to have much less explanatory power than trade commodity concentration and vertical trade. Second, the variables of reinforcement, aid and foreign investment, were found to have little association between either developmental performance or external dependence. Because of these two inconsistencies, it is necessary to proceed to a critical evaluation of the research design.
employed herein.

7:2. Qualifications and Research Recommendations

There are several qualifications which make the empirical results of this study less than definitive, suggesting possible directions for future research.

7:2a. Time-Series Analysis. The first qualification deals with the time-lagged analysis and the associated statistical problems discussed in Chapter 5. The first problem was the slight difference found between the zero-year lagged and ten-year lagged correlations. The second problem was the degree of autocorrelation among both the independent and the dependent variables. Both of these problems make causal inferences difficult if not impossible. The only real solution to these problems is to increase the number of time points. An added benefit of increasing the time dimension is that the data could be projected into the future via simulation techniques. Such studies should bring the analysis of dependence and development into closer alignment with policy requirements by enumerating policy options and their likely consequences.

7:2b. Multicollinearity. Second, the degree of multicollinearity among both the independent and dependent sets of variables creates a problem in causal interpretation, because the results are over-determined. This problem has two sources. One is the level of aggregation adopted in the study, which undoubtedly reduces the degree of variability in the measures selected. The second source of over-determination is the nature of the variables, and in particular, their economic character. Economic variables tend to be highly structured
and continuous, which can enhance mathematical prediction while at the same time reducing understanding. This is especially so in comparison to such variables as political-military conflict. The solution to the problem of multicollinearity is self-evident: the data must be disaggregated, and the focus of research has to be expanded to cover other aspects of dependence and underdevelopment.

7:2c. Unit of Analysis. Disaggregation is also involved in the third qualification, which has several facets derived from the unit-of-analysis problem. At the most general level, there is a contradiction between the unit of analysis required by the theory and the unit of analysis for which data exists. That is, the theory posits class or sector as the unit of analysis, whereas the data for aggregate studies are primarily limited to the nation-state. The lack of disaggregated data is reflected in the failure to operationalize the feudal-capitalist class and the notion of clientelism. However, a definitive test of the theory requires such operationalization, since dependency theory explicitly links forces of the international system to domestic class relations. The accomplishment of such a task obviously requires disaggregation.

There are several possible paths to such disaggregation which would enhance not only the empirical but also the conceptual aspects of the theory. One approach has been offered by Paige (1975) in his study of agrarian conflict, in which the agricultural export sectors of Third World countries were used as the unit of analysis. Based on the Baran-Frank thesis, it could be argued that this sector is the base of the feudal-capitalist order. Thus, its relative weight in terms of the domestic market could be used as an indication of its
domination. A more difficult task is to operationalize the concept of clientelism by developing indicators relating the feudal-capitalist class to the international market.

Another approach is to expand the focus of research to include political, social, and military variables at both the international and domestic level. As Kaufman et al. (1975) argue, economic dependence is undoubtedly mediated by domestic political conditions. The position of the feudal-capitalist class would not only be reinforced by external supports but would also be affected by the strength of the national bourgeoisie and the degree to which the working class and the peasants were mobilized. Thus, Kaufman incorporated into his study the degree of unionization and variables measuring political participation. The major problem in this area is to define political development and political participation in meaningful terms and in developing valid indicators. This is particularly difficult in terms of functional equivalence. For example, voter turnout does not necessarily reflect the same phenomenon across different societies. Furthermore, such variables do not tap the relationships between domestic sectors and classes on which dependency theorists have concentrated their attention.

Finally, it is necessary to tap the socialization aspects of dependency (Alschuler, 1973). "Socialization" refers to the degree to which the world view, attitudes, and policies held and pursued by Third World elites are conditioned by external influence. This is especially critical with regard to the range of options considered by Third World decision-makers in their efforts at developmental planning.
7:3. Policy Prescription in the Social Sciences

The results of this study have now been summarized with appropriate qualifications. The remainder of this chapter derives policy implications from the empirical findings. An obvious question raised by efforts at policy prescription is why to make such efforts in the first place. Why not let the data speak for themselves, and allow decision-makers and other concerned individuals to draw their own conclusions? My answer to this question is twofold. First, the urgency of social problems often does not allow those in a position to take action, whether they are governmental leaders or revolutionaries, to wait for "definitive" results from the social sciences. During the Great Depression of the 1930s, the Roosevelt administration had to apply Keynesian economics before Keynes had proved all of his theory. Mao Tse-tung became the leader of a most significant revolution in the twentieth century China at the same time that Marxist analysis dictated that a socialist revolution must be built on the working class, rather than peasants. Thus, social action is often taken before social scientists have even addressed a problem, let alone having provided hard evidence upon which decision-makers can take counsel.

Second, values, or one's ethical perspective, play a role, in the interplay of theory, data, and policy. Although often implicit, values play a major role in determining which questions and problems are addressed, which theories are tested, and the type of data used in an analysis. More importantly, values often play a crucial role in the interpretation of statistical findings. If not totally ignored, statistical results can produce diverse and contradictory policy
implications, depending on the value preferences of the researcher. The interplay between theory, data, values, and policy can be diagrammatically displayed as follows:

![Diagram showing the interplay between theory, data, values, and policy]

The interaction lines refer to the various criteria relating each element of social science research to the others. These criteria include the compatibility between theory and data, models of the desirable (values) versus models of the possible (theory), models of the desirable tested against the reality of the data, and so on.

The differences in implications derived from the same statistical results can be illustrated with the findings reported in Chapter 6. For example, a clear relationship was found between vertical trade, or the international division of labor, and developmental performance. That is, a negative association was found between specialization in the production of primary goods for the world market and developmental performance. However, as discussed in Chapter 1, liberal theorists might interpret the results presented above as giving credence to their argument that the Third World countries need to promote the export of manufactures. On the other hand, dependency theorists would cite the same evidence as supporting their recommendation that the Periphery states disengage from the global capitalist system. Obviously, differences in value preferences lie behind these differences.
in policy prescriptions. Liberal theorists are committed to the value of the international capitalist market as the best mechanism for optimal efficiency in the utilization of the world's resources, maximizing national development, and promoting world welfare. In contrast, dependency theorists are committed to the values of social equity and national self-determination as more important than aggregate growth rates. They see the international capitalist system as inherently inimical to the long-term interests of the Third World. According to dependency theorists, dependent development will breed inequality through an intensification of the exploitation of Third World labor, and reinforcing the obstacles to national development. Statistical analysis alone cannot resolve the debate between liberal and dependency theorists, nor can it resolve the differences in the normative perspectives among the various schools of thought discussed in this study. Thus, before proceeding to a critical review of the policy prescriptions derived from dependency theory, it is worthwhile to examine the ethical questions raised by the notion of development in more detail.

7:4. Political Ethics of Development

The findings reported in this study suggest that international inequality is increasing and that the present structure of the global economy is reinforcing this trend. Unless there are drastic reforms at both the national and international level, it is likely that international inequality will continue to increase, with all the political, economic, and social ramifications which the continuation of such a trend would imply. However, as operationalized in this
study as well as others, the increasing gap between the rich and poor countries refers specifically to the inability of the Third World countries to replicate the path set by Western development. It is becoming an increasing realization that efforts at such replication on the part of Periphery states are futile. As Ivan Illich states (1969:1):

Unfortunately, it is not held to be universally evident that the majority of Latin Americans— not only of our generation, but also of the next and the next again— cannot afford any kind of automobile, or any kind of hospitalization, or for that matter an elementary education. We suppress our consciousness of this obvious reality because we hate to recognize the corner into which our imagination has been pushed. So persuasive is the power of the institutions we have created that they shape not only our preferences, but actually our sense of possibilities. We have forgotten how to speak about modern transportation that does not rely on automobiles and airplanes. Our conceptions of modern health care emphasize our ability to prolong the lives of the desperately ill. We have become unable to think of better education except in terms of more complex schools and of teachers trained for ever longer periods. Huge institutions producing costly services dominate the horizons of our inventiveness.

Because of the earth's resource limitations, overpopulation, and the already high degree of global maldistribution, the attempt by Third World elites to imitate their counterparts in the West simply means that the vast majority of the Third World's population will be condemned to endless poverty.

The responses within the social sciences to the dilemma of increasing international inequality have been varied, paralleling the alternative perspectives outlined in the first chapter. These varied responses can be collapsed into three general positions, with fundamentally different normative perspectives, namely, the
conservative response, liberal and internationalist perspectives, and radical solutions.

The most extreme position within the conservative approach is represented by the advocates of the "lifeboat" analogy, in which it is argued that attempts to correct the degree of international mal-distribution would only result in a deterioration of the human condition. As Hardin states (1974: 38-40):

If we divide the world crudely into rich nations and poor nations, two-thirds of them are desperately poor, and only one-third comparatively rich, with the United States the wealthiest of all. Metaphorically each rich nation can be seen as a lifeboat full of comparatively rich people. In the ocean outside each lifeboat swim the poor of the world, who would like to get in, or at least to share some of the wealth.

Efforts at international redistribution, Hardin continues (1974: 124) will bring about a situation in which "the less provident and able will multiply at the expense of the abler and more provident, bringing eventual ruin upon all."

A second variation on the conservative theme is found in the work of Huntington (1968) and Binder et al. (1971), among others. As discussed in Chapter 2, since economic development, modernization, and social change are disruptive to political order, the prevailing concern among the leading American theorists of political development has been with preserving existing political order in the Third World and controlling the developmental process. As a consequence, other values, such as social equity, become of secondary importance.

Yet a third position within the conservative camp is the argument for "benign neglect." Perhaps the most articulate statement of this
latter position is found in Peter Berger's (1974) work, *Pyramids of Sacrifice*, in which both capitalist and socialist developmental strategies are reviewed. According to Berger, the high costs in human suffering that come about both from social engineering and revolution are too great to justify the ends. Unfortunately, Berger does not specify an alternative to the two models criticized. Thus, it is not clear whether he is sanctioning the status quo or implying that there are numerous alternative paths to development, which are too divergent to be incorporated into a single model.

There are two major normative assumptions underlying the various representations of the conservative position. First, it is assumed that development in the Third World refers to a replication of the West, where the emphasis has been on industrialization. That is, there is a failure to consider alternatives as discussed in the above quotation by Illich. The focus of development as defined by the Western experience has resulted in a pessimistic view of long-term prospects for the Third World, because of resource limitations, overpopulation, and socio-economic conditions within the Third World. The second, and most crucial assumption, is the conservative view that the Center states do not share responsibility for socio-economic conditions in the Periphery because the two processes are unrelated. The arguments and empirical findings presented in this study suggest that this second assumption is highly questionable. Thus, the moral responsibilities of the Center states for underdevelopment cannot be so lightly dismissed as the conservative position would have us believe.
Although the liberal and internationalist theorists accept the first conservative assumption, they do not derive the same pessimistic conclusions. The liberal and internationalist perspectives view the global economy as a positive-sum game in which all nations can benefit on a relatively equal basis. Furthermore, these two latter positions do not accept the second conservative assumption which denies any responsibility for underdevelopment on the part of the Center states. However, the liberals and internationalists disagree on the means by which the contemporary global economic condition can be improved. Liberal theorists argue that the anarchy of the international system, derived from nations pursuing their own interests, has to be accepted as basically unalterable. The best that can be hoped for is that national policies will be guided by "enlightened self-interest," in which nations conduct economic transactions on the basis of reciprocity and liberal economic principles. On the other hand, internationalists, such as Myrdal (1970), contend that the liberal position is shortsighted and, in essence, becomes a defense of the status quo. For Myrdal, the liberal response to the moral responsibilities of the Center states is inadequate. The only morally responsible response is for the Center states to take "affirmative action," through international institutions, to bring about greater equality in the distribution of the world's resources. The major obstacle to such progress, according to the internationalist perspective, is not the lack of capacity but the lack of willingness. Although domestic reforms in the Third World are also necessary, it is the actions of the Center states that will provide the critical difference in the prospects for the Third World.
Although the liberal position operates within the nation-state framework, while internationalists invoke a "spaceship earth" analogy, both positions conceive of development within the Western tradition. According to this view, "social experimentation" and programs of "forced development," whether at the national or international level, make it possible for the Third World countries to reach the levels of progress established by the Western experience. The conception of development held by these two schools of thought has been criticized on the grounds that they ignore the social costs in human suffering derived from the disruption of traditional life-styles that result from such developmental strategies (Bauer, 1971; Berger, 1974; Holsti, 1975). Critics of the liberal and internationalist perspectives contend that the failure to incorporate the social costs into the analysis results in an unrealistic and overly optimistic prognosis for the Third World.

As the above discussion reveals, the human costs of development are high, regardless of the particular policies and strategies adopted. The major flaw in the conservative position is the unwillingness to acknowledge the costs of benign neglect or preserving the status quo. Likewise, liberal and internationalist theorists seldom acknowledge the costs of social experimentation and forced development. As will be shown below, a similar critique can be made of the policy implications found in the dependency and Marxist-Leninist literature. The factor which appears to lead scholars to favor one strategy as opposed to others is the normative evaluation given to the type of social costs associated with a particular strategy. The normative dilemma raised by the evaluation of alternative developmental
strategies can be illustrated by an examination of the policy implications of dependency theory.

7:5. Policy Implications of Dependency Theory: A Critical Review

According to K. J. Holsti (1975: 839):

Our visions of future international systems generally assume greater transaction flows, an increase in nongovernmental associations, and a burgeoning 'international culture.' But before we can accept these models as possible norms for the future, we should ask many empirical and normative questions: How are the benefits of increased transactions being distributed? What are the sources of values in the 'international culture?' Are the networks of communication and economic activity that surround the globe capable of promoting and sustaining two-way movement, or have the networks developed in such a manner as to assure the predominance of Western and socialist states over the Third World? These and many other questions have not yet been raised by systems theorists of international relations or by those who are concerned with developmental problems.

The perspective which has gone the farthest in dealing with the questions raised by Holsti in the above quotation is dependency theory. Thus, in light of the empirical findings reported herein it is now appropriate to examine the policy implications of dependency theory.

Dependency theory has implications for both domestic and foreign policies of the Periphery states. That is, since the theory explicitly links domestic and external interaction structures, policy implications must take both into consideration. The Marxist-Leninist and dependency theorists reviewed in this study posit fundamental structural reform of domestic systems as a prerequisite for Third World countries to escape from underdevelopment and to move toward national development. This structural reform is aimed at reducing the dominant position of
the feudal-capitalist class. Yet it is this very class that receives the most support from the forces of the international market and politics. Thus, an effort to explicate the policy implications of dependency theory is faced with a circular dilemma. Reform of the international system presupposes reform in the Third World, and Third World domestic reform presupposes reform of the international system.

It is the thesis of this chapter, derived from the findings reported in this study, that the chances of achieving simultaneous reform of domestic and international systems are remote; as a consequence, the long-term prospects for an improvement in the quality of life for most of the people of the Third World is indeed dim.

7:5a. Domestic Policy. One major alternative to capitalist and dependent development is the social revolutionary and self-reliant developmental model exemplified by Communist China (Gurley, 1971). The social revolutionary aspect refers to the overthrow of feudal-capitalist interests and the adoption of a developmental program emphasizing social equity. In the following quotation, Gurley notes the basic difference between the capitalist and Maoist models of development (1971: 332):

...perhaps the most striking difference between the capitalist and Maoist views is in regard to goals. Maoists believe that while a principal aim of nations should be to raise the level of material welfare of the population, this should be done only within the context of the development of human beings and of encouraging them to realize fully their manifold creative powers. And it should be done only on an egalitarian basis—that is, on the basis that development is not worth much unless everyone rises together; no one is left behind—either economically or culturally. Indeed, Maoists believe that rapid economic development is not likely to occur unless
everyone rises together. Development as a trickle-down process is therefore rejected by Maoists, and so they reject any strong emphasis on profit motives and efficiency criteria that lead to lop-sided growth. Their emphasis, in short, is on man rather than on 'things.'

Gurley's observation also indicates that China's leaders have attempted to go beyond the equitable distribution of fundamental resources in order to encourage a greater degree of participation and awareness on the part of the Chinese people in the developmental process. Gurley elaborates (1971: 334):

The proletarian world view, which Maoists believe must replace that of the bourgeoisie, stresses that only through struggle can progress be made; that selflessness and unity of purpose will release a huge reservoir of enthusiasm, energy, and creativity; that active participation by 'the masses' in decision-making will provide them with the knowledge to channel their energy most productively; and that the elimination of specialization will not only increase workers' and peasants' willingness to work hard for the various goals of society but will also increase their ability to do this by adding to their knowledge and awareness of the world around them.

Recent studies indicate that Communist China has not only increased its national output (Joint Economic Committee of the U.S. Congress, 1968; Eckstein et al., 1968), but has done so within an egalitarian framework (Richman, 1971; Galtung, 1970; Schurmann, 1968; Oksenburg, 1971; Schram, 1971). Although much of the most recent evidence is qualitative, based on reports by visitors, this initial evaluation seems warranted. The uniqueness of China's development is indicated by the emphasis on decentralization, the reduction of income differentials within and between sectors, and the reduction in status differentials through job rotation and other management techniques. China's developmental experience also reflects Illich's concern with
finding alternatives to the high-cost institutional packages of Western development. Perhaps the best illustration of this is China's health care system, symbolized by the "barefoot" doctor, in which distribution is given precedence over equipment and extended periods of training.

Although Gurley's assessment and enthusiasm for Mao's model of development appears well founded, his analysis is marred by an unwillingness to address the issue of individual freedom. The developmental success of Communist China has required a high degree of regimentation and centralized control over every aspect of life. Individual freedom is redefined as the subordination of the self to societal needs. Even though such a formulation may be more compatible with the cultural traditions of non-Western societies, it would be hypocritical of Western scholars to ignore a value which underlies their very existence.

The valid criterion for evaluating the development of a society such as China is one of capabilities and possibilities. As Oksenburg points out, China's leaders had to set priorities and had to make choices (1971: 359):

"Under conditions of poverty, then, the Chinese leaders had to decide whether to redistribute resources or simply to regulate the behavior of individuals, groups, and bureaucracies in order to prevent their encroaching upon the rights of others. Obviously, the responsibility for regulating behavior fell upon the bureaucracy. Hence, the choice was whether to emphasize the redistribution of resources through strong leadership or to regulate competing interests through bureaucracy."

The basic difference between Communist China's leadership and that of most other Third World countries is the decision to emphasize the
redistribution of resources rather than the management of property.

It could be argued, as a criticism of generalizing from the case of China, that the inconsequential size of aggregate wealth in most Third World countries precludes the redistribution approach adopted by China from being replicated in other countries. Such a criticism is fallacious however, since it would be premised on a misunderstanding of what redistribution actually means and on the significance of the economic surplus held by elites. For example, the economic surplus which existed in China in 1949 was probably no greater as a percentage of total wealth than in many other Third World countries. It was not direct redistribution but the rational utilization of this surplus for production that resulted in an increase in the standard of living of the Chinese people (Gurley, 1971). In other words, redistribution refers to the reallocation of the resources of production, and not just to redistributing the currently existing product.

7:5b. External Relations. The distinct feature of Communist China's developmental experience is the complementarity of its domestic and foreign policies, as captured by the term "self-reliance." This notion should not be confused with "self-sufficiency," which implies the elimination of all dependence on the outside world. Self-sufficiency as a policy is self-evidently impractical, even for a large country such as China. On the contrary, self-reliance implies that contact with, and assistance from the outside do not become synonymous with domination and exploitation. The refusal of China to allow continued aid from the Soviet Union, because that aid required an acceptance of Soviet management policies and Soviet hegemony, is a classic example (Schurmann, 1968). A more recent example of China's
self-reliance in foreign relations deals with China's oil reserves and relations with the Western oil corporations (Harrison, 1975; Park and Cohen, 1975). Rather than allowing the multinational corporations to develop her oil reserves, China has chosen to take the slower route of developing them herself. As a consequence, the importation of Western technology is being regulated according to the ability of China's own technology to adapt and operate the new technology independent of the West. Thus, China's foreign policy has been pursued with the aim of protecting the domestic revolution and subsequent national development from being undermined by the more powerful and economically advanced Center states.

Perhaps the major limitation on the applicability of the China example for the rest of the Third World is the awesome size of the People's Republic. Although the case of North Vietnam suggests that size may not be such a significant restraint, this still may be a limiting factor for many Third World countries. This is especially the case for Third World countries that have been traditionally tied to one Center state and are highly specialized in their production. For this reason, such scholars as Galtung (1971) have emphasized the multilateral potentialities of the Third World. Since, according to Galtung, it is the feudal and vertical nature of international interaction that is generating international inequality, it is imperative that this system be changed so that interaction among Third World countries is increased and that they coordinate their policies toward the Center states.

Of course, the major illustration of this policy has been the formation of commodity cartels in general, and OPEC in particular
(Hveem, 1975). However, an evaluation of these efforts and their long-range prospects requires a healthy degree of skepticism. The problems and limitations of the multilateral approach are clearly illustrated by OPEC. What OPEC has demonstrated is that, under certain conditions, Third World countries can force a redistribution of decision-making affecting the international market that has traditionally been monopolized by the Center states. However, this is all that OPEC has demonstrated. Except for the multinational oil corporations and the elites in the OPEC countries, the benefits of OPEC are not likely to be far-reaching. Furthermore, OPEC has resulted in even greater inequality as the high price of oil creates shortages of fuels and fertilizers, with which Third World countries are the least capable of coping. Thus, OPEC also demonstrates the futility of the multilateral approach in the absence of basic structural reform within the Periphery states and actual solidarity among Periphery states.

The conditions under which OPEC occurred illustrate the limitations of its applicability for the rest of the Third World. That is, OPEC was formed by a relatively few countries with strong mutual interests and possessing a virtual monopoly over a commodity essential to international production. It is obvious that most Third World countries, and the commodities they produce, cannot match OPEC's attributes. Hveem (1975) explicitly recognizes these limitations in his analysis of commodity cartels. Specifically, he argues that the benefits of commodity cartels are likely to be maximized when the governments involved are of a socialist-revolutionary nature. That is, there must be a complementarity of domestic and foreign policies as well as
a basis for solidarity among the Periphery states. However, since any match between regime type and commodity production is likely to be coincidental if at all, the prospects for commodity cartels being a major mechanism of Third World multilateralization is problematic at best.

7:5c. The Dilemma Unresolved. This final section is devoted to an evaluation of the prospects for the socialist-revolutionary and self-reliant strategy of development becoming the norm of Third World national behavior. If the prospects for the other alternative developmental strategies discussed in this study are not bright, is there any reason to believe that the prospects for more radical policy prescriptions are any brighter?

First, there is the question of the applicability of the Chinese model to other Third World countries. There are several features of the Chinese revolution which suggests its limitations. The leadership of Mao, the turmoil created by World War II, the unwillingness of the United States to give all-out support to the Kuomintang, and the ineptitude of the Kuomintang were all factors which make the Chinese revolution a unique historical incident. Is the international order, imposed and maintained primarily by the Center states, too rigid to allow such a process to become the rule rather than the exception?

The dilemma of a Third World country that might attempt to break away from the global capitalist system has been vividly demonstrated by the failure of the Allende experiment in Chile (Petras and Morley, 1975). The costs incurred by any such attempt require that the regime have absolute control over the domestic arena. Otherwise, the loss of foreign markets, credits, and economic assistance are likely to bring
about unfavorable economic consequences which, in turn, would act to stimulate conservative elements within the society to intervene. The same principle holds in the timing of nationalization of foreign enterprises. Premature action, defined as the inability to operate the enterprises and withstand external retaliation, could result in a similar fate to that which befell Allende and his supporters. The failure of the Allende experiment has led to an increase in pessimism among the dependencia theorists with regard to the prospects for a peaceful and democratic resolution of the "struggle with dependence." For the dependencia theorists, the longer and more deeply a country becomes incorporated into the structure of dependence, the more difficult will it be to withdraw.

Another dilemma for the prospects of revolutionary change in the Third World is the problem referred to by Djilas (1969) as "the new class" and by Galtung (1970) as "refeudalization." That is, what is to prevent the reemergence of hierarchy even after a major social upheaval designed to remove class distinctions? What is to prevent the revolutionary elite from simply taking the place of the order which it toppled, as in the Soviet Union? The antithesis of refeudalization is expressed through the concept of "continuous revolution," associated with Trotskyism and Maoism. The oscillation between policies to further the revolution and policies to subordinate the goals of the revolution to efficient production and institutionalization in Communist China are indicative of this tension. Thus, once underway, there is no guarantee that a revolution will not be cut short and perverted to protect the interests of a new elite.

Finally, the normative dilemma raised by the trade-offs in
social costs illustrated by cases such as China and Brazil also remains unresolved. That is, are individual freedom and social equity mutually exclusive goals for development under Third World conditions? Do cases such as China and Brazil accurately reflect the parameters of choice open to the Periphery states? The questions raised in this final chapter go beyond the scope of this study. The answers, if there are any, will have to wait upon subsequent research as well as the actions of those capable of resolving such dilemmas through action.
FOOTNOTES

1 As quoted by Kesselman (1973: 139).

2 Mannheim (1936: 1-2).

3 These articles and books are listed in the Bibliography. Especially noteworthy are Bodenheimer (1970), Gurley (1971), and Kesselman (1973).

4 The works reviewed are Political Order in Changing Societies, by Huntington (1968), and Crisis and Sequences in Political Development, by Binder et al. (1971).

5 The term "radical" has two connotations. The first, and that which its advocates would prefer, means that the analysis goes to the root or core of the problem rather than dealing with superficial symptoms. The second, and that which orthodox scholars attach to it, is that radical political economy is a euphemism for Neo-Marxism.

6 This idea has been further elaborated upon in a recent study by Emmanuel (1972). It is interesting to note that orthodox Marxists strongly disagree with this interpretation (see Bettelheim's critique in the appendix of Emmanuel's study). It seems to me that it is this issue which clearly distinguishes Marxist from Marxist-Leninist analysis.

7 This is a core concept in modern status theory, see Heintz (1972).

8 Both have been active in United Nations' agencies dealing with Third World development, especially Prebisch who was head of the Economic Commission for Latin America and later, Secretary-General of the UN Conference on Trade and Development.

9 Prebisch's terms-of-trade thesis is perhaps the single most controversial issue in international economic theory. The study cited above, as well as others, has been severely criticized by orthodox economists on methodological grounds (Ingram, 1966).

10 Blake and Walters (1976: 32): "This means, for example, that forces operate to dampen increases in demand for primary products as income increases: food expenditures as a percentage of income declines, and primary products as a percentage of total factor inputs needed to produce industrial goods decline."

11 For our purposes, the "feudal-capitalist" class in Baran's terminology is identical to the "center of the Periphery" in Galtung's terminology.

12 Nonetheless, Galtung argues that consciousness of hierarchy can produce the will and insight to counteract such tendencies. He offers means to this end in both the study of hierarchy in general (1970) and imperialism in particular (1971). The policy implications of dependency
theory are discussed in Chapter 7.

13 Although accurate data on this are difficult to ascertain, due to the problems in defining "foreign owned enterprises," this appears to be an accurate estimate.

14 This index as well as the others discussed below were used by the author to calculate country scores from the data sources listed in Appendix I.

15 South Vietnam is a classic case. The Vietnam War brought about a dramatic drop in exports but just as dramatic rise in imports, especially manufactures from the United States. Other Third World countries have experienced similar trade distortions, although less severe.

16 It is important to note that this index is not a measure of inequality between households (Taylor and Hudson, 1972: 212-214). Furthermore, there does not appear to be a significant association between sectoral and income inequality. Domestic inequality, in terms of land distribution, is discussed in section 5:4.

17 The remaining 25% of the variance can be broken down into two parts. First, a certain amount is undoubtedly error. The non-error variance probably reflects the greater relative distance between the rich and poor countries on such variables as College, Physicians, and GNP/cap. as opposed to those such as Literacy and Urban. It should be noted that these findings do not capture the phenomenon of "uneven development," which refers to the differences in rate of change among the various aspects of development.

Factor analyses of the 73 Third World countries and the 15 OECD countries separately produced similar results. That is, the developmental performance variables tend to cluster among both the Center and Periphery states.

18 The data set was manipulated by SPSS (Statistical Package for the Social Sciences) programs (Nie et al., 1975).

19 Change in dependence was calculated by subtracting the dependence scores of 1960 from 1970. For example, the change in trade partner concentration was calculated as trade partner concentration in 1970 minus trade partner concentration in 1960.

20 An example of the latter can be cited with reference to the problem of data availability and the unit-of-analysis problem discussed in the previous section. That is, since prevailing theories posit the nation-state as the basic unit of analysis, it is only natural that most data collection efforts focus on national units rather than classes or sectors (Galtung, 1971).
Most of the "deviant" cases, such as Australia and New Zealand, are land-rich and labor-scarce countries. Most Third World countries, of course, are characterized by just the opposite attributes.
## APPENDIX I. VARIABLE LIST AND DATA SOURCES

<table>
<thead>
<tr>
<th>Variable</th>
<th>Primary Source</th>
<th>Yeara</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Total Trade</td>
<td>International Monetary Fund, Directions of Trade (1960-1970).</td>
<td></td>
<td>Millions of USA $</td>
</tr>
<tr>
<td>4. Trade as % of GNP</td>
<td>Machine Calculated from existing data (see variables 1 and 3).</td>
<td></td>
<td>%</td>
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<tr>
<td>5. GNP per capita</td>
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<tr>
<td>Population</td>
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<td></td>
</tr>
<tr>
<td>8. Literacy</td>
<td>Banks, Cross-Polity Time-Series Data.</td>
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<tr>
<td>9. College Students</td>
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APPENDIX I. (Continued) VARIABLE LIST AND DATA SOURCES

<table>
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<th>Unit</th>
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<tbody>
<tr>
<td>14. Domestic Capital Formation as a % of GNP</td>
<td>Taylor and Hudson, World Handbook.</td>
<td>1965</td>
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<tr>
<td>17. Trade Commodity Concentration</td>
<td>Calculated by the author from data in UN, Yearbook of International Trade Statistics (1960-1970).</td>
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<tr>
<td>19. Aid as a % of GNP</td>
<td>OECD, Geographical Distribution of Financial Flows to the Less Developed Countries (1960-1968), Machine calculated (see variable 1).</td>
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<td>Unit</td>
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<tr>
<td>20. Stock of Foreign Investment as a % of GNP</td>
<td>UN, <em>Multinational Corporations in World Development</em> (1973), Machine Calculated (see variable 1).</td>
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<tr>
<td>21. Multilateral Aid as a % of Total Aid</td>
<td>Calculated by the author from data in OECD, <em>Geographical Distribution</em>.</td>
<td>1960-1968</td>
<td>%</td>
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\(^a\)Unless otherwise noted data is for the years 1960, 1963, 1965, 1968 and 1970.
### APPENDIX II. NATIONS USED IN THE STUDY

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<th>Abbreviation</th>
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APPENDIX II. (Continued) NATIONS USED IN THE STUDY

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## APPENDIX III. DECOMPOSITION OF PATH ANALYSES

### Dependent Variable: Index of Development 1970

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<th>Total Covariance (A)</th>
<th>Causal</th>
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<td>(-.43)</td>
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<tr>
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<td>(.06)</td>
<td>(.71)</td>
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<td>(X_1X_3)</td>
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### Dependent Variable: Incremental Change in GNP per capita: 1960-1970

<table>
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<td>(-.43)</td>
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<td>(-.43)</td>
<td>None</td>
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<tr>
<td>(X_2X_4)</td>
<td>(.65)</td>
<td>(.65)</td>
<td>(.06)</td>
<td>(.71)</td>
<td>None</td>
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<td>(X_2X_3)</td>
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<td>None</td>
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<td>(.26)</td>
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### Dependent Variable: Relative Change in GNP per capita: 1960-1970

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<th>Noncausal A-D (E)</th>
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<td>(.71)</td>
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