TRANSFORMATION MECHANISMS: A CRITIQUE OF THE POLITICAL ECONOMY OF GROWTH

by

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of a dissertation submitted by

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This dissertation has been read by each member of the following supervisory committee and by majority vote has been found to be satisfactory.

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FINAL READING APPROVAL

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I have read the dissertation of Toudy Salem in its final form and have found that (1) its format, citations, and bibliographic style are consistent and acceptable; (2) its illustrative materials including figures, tables, and charts are in place; and (3) the final manuscript is satisfactory to the supervisory committee and is ready for submission to The Graduate School.

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ABSTRACT

This critique concerns the political economy of growth. It inquires into, analyzes and elaborates upon socioeconomic transformation theories. Using political economy monographs, it excavates, reconstructs, and intelligibly taxonomizes mechanisms with the potential to engender transformation. The critique's thrust, however, is to critically evaluate the merits of these mechanisms, assess their repercussions, and discern their viability to conditions of underdevelopment. Ultimately, the critique conceptualizes generic themes germane to addressing the common problems of underdevelopment, especially poverty alleviation, and supplemental themes versatile to befitting Underdeveloped Countries' (UDCs') heterogeneous conditions.

The thesis of this critique is that bridled capitalism (not revolution, not socialism, not delinking, not autarky, not mere efficiency and not structural adjustment) is the transformation mechanism most compatible with UDCs' current circumstances. By bridled capitalism is meant a trimmed market economy, based on government activism through the use of generic themes of limited *planning,* diverse *industrialization* and measured infant industry and infant economy *protections,* whereby rampant competition is restrained and capitalism's merit is maintained. This is to be the core of a wide ranging program that also includes political, social, juridical, educational and other optional, supplemental themes. A specific set of the supplemental themes could thus be selected, depending on each country's peculiar situation, to complement the generic themes towards a comprehensive socioeconomic transformation.

CONTENTS

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This thesis was written in the Summer of 1992. Without Gail Blattenberger and Hans Ehrbar, it would have been nipped in the bud at that time, or killed at any of several junctures thereafter. Hans continuously defended my work, and Gail provided me with an uninterrupted flow of articles that enriched this work. Gail and Hans also made constructive remarks, and raised relevant questions, that improved the exposition and sharpened the focus of the thesis. And, uncharacteristically of their department, they both treated me with decency, but fairness was beyond their control.

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Ultimately, thanks to Gail, Hans, Norm, and Dalmas, I was not silenced; they more listened to their voices of conscience than followed their profession's bearing. To them all, I express my profound gratitude. However, bringing this unduly protracted episode to a close, in my judgment, could not have come from within the economics and political science departments only. I therefore gratefully thank any anonymous university member who might have intervened to bring about that end.

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Needless to mention, most facts, and many singular concepts and forms of words, that constitute the building blocks of this inquiry, are adopted from the extant literature. In its collectivity, fundamental concepts, basic thesis, and main findings, however, this inquiry is mine alone, including all its potential mistakes. My intellectual debt, nonetheless, is to multitudes of scholars, whose written works constitute the foundations upon which I endeavored to build. Unavoidably, mentioning some of them does injustice to others, whose names permeates this work.

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A reading of *Meditations on Quixote* (1914), by Jose Ortega Y Gasset, that is reminiscent of the philosophy of Zeno (circa 300 BC) and his Stoic disciples, is that *I am I and my circumstance,* exist in a dynamic interplay. I cannot disregard my circumstance, but can influence it through creative action: create my life by exercising reason and exerting will, to go beyond the ordinary and the given.

The essence of dignity is the act of the will. *The will to be oneself is dignity.* One is to expend oneself, as does Don Quixote, in creative endeavors. One must have *the dignity to be,* to self-realize, self-actualize, in a life journey of *authenticity,* as the means to essentialization. Foresight, vitality and willpower, including discipline and order, are the ingredients.

One is also impelled to come to terms with the loneliness, inherent in the journey toward authenticity, by revulsion toward the mediocre, and aloofness from the mundane. By clinging to willpower, one is to shoulder the burden of lonely decisions. Like a tightrope walker, one has to cross, step by careful, anguish step, the solitary passage across the chasm between one's goal, on the one hand, and one's circumstance and associates' reality, on the other, demonstrating to the latter that the far shore, yet and for many more years unseen, is in fact more dignified than the familiar promontory.

Holding my terrain, I eventually had this work approved, to start another of life's unending battles. I dedicate it to my father's memory; my wife, Suma; and my children, Bassam, Tamy, and Maggie.

INTRODUCTION

The research question of this critique concerns the transformation mechanisms that might enable the Underdeveloped Countries (UDCs) to metamorphose their current bleak and untenable state. The aim is to discern feasible courses of action that would help the UDCs better the conditions of their peoples. Such courses would provide alternatives to the flawed policy advocated by neoclassical economics and implemented by the Bretton Woods organizations. That policy, dubbed "structural adjustment," is historically fallacious, theoretically deficient, and empirically ineffective. Yet the entire standpoint of mainstream[1] economics towards the UDCs is epitomized by it, a standpoint that engenders the Fund-Bank conditionality. The latter entails currency devaluation; abandonment of import substitution, subsidies and social programs as well as government control; reduction of the money supply, budget deficit and size of government, while unleashing unfettered market dealings through privatization, deregulation and opening the country to international division of labor through free trade.

On the other hand, if there are to be theoretical changes in economic thinking, there must be a historical understanding of how the particular aspects of the neoclassical doctrine that are now taken for granted as composing mainstream economics came into being. The neoclassical strategy called "structural adjustment" is premised upon a rendition of the Ricardian specialization, the outcome, in part, of Paul Samuelson's (1939, 1962) attempt at restating a public policy formula, essentially a *nouveau* laissez faire argument, based merely on pecuniary gains from trade. Toward this end, Samuelson applied welfare economics to international trade theory, thereby modifying David Ricardo's (1817) comparative advantage,

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[1]Mark Blaug, the contemporary foremost neoclassical expositor of the history of economic thought and methodology, in his *Methodology of Economics* (1992: 107-8, 137-8, 168, 207, 246), uses as synonyms the two labels "neoclassical economics" and "mainstream economics."

formulated for the limited purpose of repealing the Corn Laws, by both the 1870s' marginal theory of Leon Walras, Carl Menger, Vilfredo Pareto and William Stanley Jevons, on the one hand, and his own revealed preference theory on the other.

Marginalism, a utility theory of value, attempted to prove that labor, contrary to the account of the labor theory of value (LTV), gets its "proportionate" share of income distribution from the national product. It differed from naturalism, utilitarianism and historicism in that it compared units of want and feeling instead of things. It attempted to refine the objective view of the Utilitarians by a subjective one, the source of value taken to be found in people and not in materials. This reckoning of everything, of prices and incomes, of wealth and of capital, by differentials and margins pseudo-psychologically measured, is the quintessence of Marginalism.

Along its lines, Samuelson's "revealed preference"[1] tried unsuccessfully to fix the incoherence of methodological individualism[2] upon which the theory is based. Individual emancipation is of course an objective which one should never lose sight of. Society, however, is not simply a sum of single individuals. To the contrary, a single individual is merely a unique member of society. The relational whole is much more than and much different from the sum of its mere fungible parts.[3] "A 'science' based on prognostications about individual behavior can only sink swiftly in the quicksand of individual variance; the

[1]When the marginalists of the 1870s combined the utility and the marginal principles, critics pointed out that Benthamite cardinal (measurable) utility and disutility were meaningless objectification of *prima facie* subjective (immeasurable) concepts. Neoclassical economics thus resorted to an ordinal conception of utility and used it in indifference curve analysis. This modification, however, made preferences purely subjective and gave rise to the charge of psychologism. Samuelson's response then was "revealed" preferences (see Homayoun Katouzian, *Ideology and Method in Economics*, 1980: 29).

[2]Schumpeter is considered to have coined the term "methodological individualism," which was subsequently adopted by members of the Austrian School such as Friedrich von Hayek and Ludwig von Mises. Methodological individualism, as defined by Jon Elster, is "the doctrine that all social phenomena (their structure and their change) are in principle explicable only in terms of individuals --their properties, goals, and beliefs" (quoted in Geoffrey Hodgson, *Economics and Evolution*, 1993: 148, 153).

[3]See Pierre Joseph Proudhon's continuous theme of the collectivity, rather than the individual, in *What is Property?* (1840).

individual is always 'free;' only aggregate behavior is more 'predictable' for being more 'orderly' --but never on the basis of individualist assumptions" (Kanth, 1977: 2).

Only organic-holistic thought, rather than atomism, can thus account for social phenomena.[1] It is only commonsensical that taking the individual as the unit of analysis misses significant interactions that can be explained only by reference to society. Evidently neoclassical methodological individualism attempts to address macroeconomic problems through microeconomic tools (so-called foundations). It deals with the various component parts of the economy as if the latter is the sum of its parts, and as if dealing with all the parts is the same as dealing with the whole. The method followed by Smith and Marx, to the contrary, is the deduction of inferences from the *entire* social existence, a unit of analysis much larger than, and qualitatively different from, the individual. Neoclassical methodological individualism must therefore give way to a societal political economics, thereby complying with the Durkheimian maxim that collective facts require collective explanations.

Samuelson, like Hume who two centuries earlier tried to replicate the paradigm of Newtonian physics, attempted to reduce economics, a social phenomenon, to an exact

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[1]Daniel Fusfeld's proffered solution for economic theory's present malaise is new methods that involve

> pattern (*Gestalt*, holistic) models that remain open and changing...and are therefore able to deal with such phenomena as chance, historical development, wide varieties of individual and social behavior, and indeterminacy as integral parts of the analysis. They lead to explanation that might be termed 'understanding' rather than 'knowledge'.... Prediction is a secondary goal, while policy guidelines are emphasized. There is no assumption that normative conclusions are unscientific or that the social sciences should have a positive emphasis (see p. 28 of Fusfeld, "The Conceptual Framework of Modern Economics," *Journal of Economic Issues*, 1980, 14: 1-52).

Unlike the formal models employed by neoclassical economics, which proceed in an essentially linear fashion from presumptive premises to conclusions, utilizing a chain of logical deductions based on mathematical formulations, Fusfeld's holistic models move "by logical analysis from one element to another, backward, sideways, up and down, until a general pattern or framework is brought together by logical connections" (ibid., 29). In one sense a pattern (holistic) model is "analogous to a jigsaw puzzle. It involves putting pieces together to form a meaningful whole" (ibid.). Through such pattern (holistic) models "learning takes place by a process of integrating new ideas and information with other ideas and information in a pattern of relationships meaningful *to the individual.* Each part of the pattern is understood not as an isolated unit but as part of the whole" (ibid.). The emphasis thus is on the "wholes" not on the peculiarity of the homo economicus.

science.[1] His preference revelation is a sort of economic behaviorism,[2] whose stimulus-response pattern can be drawn from behavioral psychology, by establishing correlations between input phenomena and outcome measures, both as perceived by the economic researcher. Meanwhile, whereas behaviorism waned after 1970, rational choice theory took over, reverting to axioms of universal human properties of rationality and self-interest, thereby giving Samuelson's revealed preference an extra lease on life, still with the aim of embedding economics into the method of the physical sciences. Ignored of course is the uniqueness of natural science.[3]

Samuelson wound up aligning himself with the factor proportion theory, a sought outcome of marginal utility, the end result of Bentham's amateur psychology, whereby economics became the laws of wealth, deduced from the hypothesis that human beings were

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[1]On denying the special "scientific" claims of economics, and denouncing the reductionist bent of the hypothetico-deductive method, as well as the very notion of an autonomous discipline of economics untouched by noneconomic forces, see Barbara Wootton, *Lament for Economics* (1938), Sidney Schoeffler, *The Failures of Economics* (1955), and Andreas Papandreou, *Economics as a 'Science'* (1958).

[2]On the behavioral aspects of neoclassical economics, see Edward Nell, "Structure and Behavior in Classical and Neoclassical Theory," *Eastern Economic Journal* (1984, 10, 2: 139-55). And on further distinctions between structural and behavioral analysis, see Volker Caspari, "Adolph Lowe's Distinction between Structural and Force Analysis and Classical Economic Theorizing," in Herald Hagemann and Heinz Kurz, *Political Economics in Retrospect* (1998: 33-42).

[3]In the philosophical terminology of Kant, real science is the product of the synthetic *a priori* proposition that every event has a cause. The idea that the universe is regular, systematic and law governed follows from neither logic nor observation: It is a precondition of discourse. In order for people to study physics rationally, they must assume that the universe is governed by laws. It follows from this Kantian conception of the basis of science that there can only be one science, which is physics. This science applies just as much to people, who are physical beings, as it does to asteroids.

But the social studies are grounded in no universal laws. They become sterile once they attempt to ape the methods and assumptions of the natural sciences. The understanding one seeks of human beings must appreciate their collectivities as well as their individual uniqueness and freedom of will: Understanding people is based on one's ability to see events from their point of view, both as collectivities and as individuals, the kind of insight that Weber called *verstehen* (see Fritz Machlup's exposition of these methodological issues and his defense of *verstehen* in his *Methodology of Economics and Other Social Sciences*, 1978: 315-32).

On denying the Popperian doctrine of methodological monism, proclaimed in his *The Poverty of Historicism* (1957: 130-36), see Robert Heilbroner, "Economics as a 'Value Free' Science," *Social Research*, 40 (1973: 137-41). Michael Foucault even rejects any single, unified history and any reductionist explanatory devices such as "reason" or "class struggle," thus differentiating his perspective from that of historicists such as Hegel and Marx. For Foucault, history is characterized by discontinuity, rupture and arbitrariness. He thus even denies that historians can make universal claims based on a reading of history (see *Madness and Civilization*, 1961, and *The Order of Things*, 1970). In this respect, furthermore, the relevant views of Roy Bhaskar, elaborating on and fine tuning Marx's historical materialism, are alluded to below.

actuated exclusively by the desire to realize the most attainable pleasure with the least possible pain. Marginal utility changed the standard of measurement for exchange ratios, and the explanations given for the pricing and distributing processes under investigation. Feelings and marginal valuations took the place of outgo in things and in labor. Value became an act or a state of consciousness, an imputation of qualities to things and deeds, as exhibited in exchange. Concrete objects ceased to be the sole subject of measurement. Wealth became a fund of values, rather than a conglomeration of things physical. Production consisted of a creation of values. Like wealth, capital became a fund of values, employed productively. Costs became outlays of value, of labor, pain and Senior's abstinence (Alfred Marshall's waiting; Irving Fisher's time preference).[1] Wants lay at the bottom of every price and income. The premises of that persuasion were the hallowed perfect competitive ones, which fitted-in so well with Benthamism. The static, individualistic view alone satisfied the requirements of an "exact" economics.[2] Valuation could thus only be translated into prices, and costs would represent but the obverse side of the coin. In the pursuit of rationalizing laissez faire capitalism,[3] therefore, atmospherics unlodged realism.

Samuelson thus accepted comparative advantage but conveniently rejected its LTV's comparative cost component, Ricardo's contribution of the determination of value by labor time.[4] Classicism, in its Ricardian climax, the doctrine of labor cost value, was thus replaced,

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[1]See Nassau Senior, *An Outline of the Science of Political Economy* (1938: 58). Now that the divorce between ownership and enterprise is continuously growing, and small business is loosing grounds to scale economies, the notion, made a century ago by the marginal theory and continues to be proliferated today by neoclassical economics, that capital is the fruit of the capitalist's own entrepreneurship is evidently fallacious, a fact that undermines other inferences of the marginal theory, viz., that it is the result of waiting (or abstinence, or time preference).

[2]That "exact" economics, oblivious to the complexities, institutions and historical processes of socioeconomic formation and evolution, as well as modern perceptions and predicaments of national interests in an interdependent --rather than monolithic-- world, has rendered itself, right from its inception, inadequate to UDCs' conditions.

[3]On the view that marginalism and the use by neoclassical economics of marginal techniques are a clever rationalization for laissez faire capitalism, see Joan Robinson, "The Production Function and the Theory of Capital," *Review of Economic Studies*, 2 (1954), and *Economic Heresies* (1971). See also Luigi Pasinetti, *Lectures on the Theory of Production* (1977), and *Structural Change and Economic Growth* (1981).

[4]Smith's absolute advantage consists simply in comparing the cost of acquiring the good abroad with the cost of making it at home (the example of grapes in Scotland versus wine purchased abroad). Ricardo

in international trade theory, by neoclassicism, the doctrine of exchange value. The subjective derailed the objective, the ideational supplanted the realistic, the amateur-psychological evicted the technical, intellect-psychic value overrode labor time value, internal categories displaced external things, personalism of Dühring and Nietzsche overruled collectivism of Rodbertus and Marx and of Comte and Durkheim, individual was substituted for estate and class, hedonism moved to the center stage. Neoclassical extreme abstraction and empiricism of Walras, Menger and Jevons eventually pushed aside evolutional historicism of Sismondi, Marx and Schmoller, as well as deist eternalism of Smith, Ricardo and Malthus. Contrary to the progressive trend through which humanity has moved from magic to reverse engineering, from godly power to experimentation, from temple to library, from astrology to astronomy, and from alchemy to chemistry, economics, under the auspices of neoclassical economics, has moved in the retrogressive direction according to which "endowment" topped labor, marginalism evicted LTV, pecuniary reductionism[1] took over holistic thought, private economics dethroned political economy,

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contends that it might be best to make a good at home even if it costs more than it costs to make abroad, provided that there was another good in which there existed still greater cost disadvantage, hence a theory of comparative cost. In chapter 30 of his *Principles* (1817: 382-5), Ricardo further makes the case that it is the cost of production which must ultimately regulate the price of commodities, and not the proportion between the supply and demand.

But in its ultimate formulation, the theory of comparative cost advantage, which originated in the work of Robert Torrens, who published it in 1815, two years before Ricardo's *Principles*, following a still earlier formulation by James Mill in his *Commerce Defended* (1808), demonstrates that it is profitable to trade even if it costs more to make both goods at home than it costs to make them abroad. By specializing in the goods whose relative cost is the lowest, both countries gain (the example of England's cloth and Portugal's wine). Later, John Stuart Mill added the demand considerations that determine where the ratio of international exchange falls within the comparative cost limits. The theory of comparative advantage, when developed with constant cost ratios, nonetheless, is called Ricardian (see Boucke, 1921: 215-42).

[1]Economic reductionism started with Ricardo's abstract deductive method. The highly intelligent Ricardo (1772-1823), gifted for a great power of heroic abstraction, ended his formal education at the age of fourteen, a rather skimpy formative background, and entered the family stock brooking business. Then in 1793 he established his own business just in time to make a bundle out of the stock market speculation, under conditions of twenty two years of Napoleonic wars, and thus to buy himself into Parliament, through the recognized technique of purchasing a "rotten" borough (Portarlington, Ireland). He paid Lord Portarlington £4,000 for the seat and "loaned" him £125,000 on a mortgage. Ricardo took his seat in 1819 and remained a member until his death in 1823 at the age of 51 (see Staley, 1989: 66).

Ricardo is evidently a great economist, but while Smith dealt with history, current affairs, laws and philosophy, along with his economic theory, Ricardo, the man of affairs, took all this for granted. Indeed, his skimpy formative background undermined even his linguistic expression. In 1825, Samuel Bailey published *A Critical Dissertation on the Nature, Measures, and Causes of Value; Chiefly in Reference to the Writings of Mr. Ricardo and his Followers*, "the most trenchant and devastating of all miraculous rationalization overwhelmed enlightened reasoning, and esotericism replaced accessibility.

The end result provided a reductionist concoction of the world, ripping out political economy (in whose sphere analysis and policy are inextricably intertwined, and the impetus to social change is to be found) from its socio-historical matrix, replacing it by a hermetically sealed system of fictitious economics, whereby nonpecuniary ends of policy (e.g., security, social, cultural, and civilizational ends) were considered mere distortions. The IMF-World Bank's strategy of "structural adjustment," the assortment of measures based on this theoretical construct, will allegedly eliminate these distortions, and protect the UDCs from Jadish Bhagwati's (1953) and Harry Johnson's (1975) "immiserizing growth." But the claim made by neoclassical economics that abstract theories of price, interest, rent, etc., can, by ostensibly following the analogy of physical science propositions, be validly applied

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contemporary attacks on Ricardian economics. Much of Bailey's *exposé* took the form of a semantic analysis of Ricardo's linguistic style, noting carefully the inconsistent employment of terms and the unconscious transition from one meaning of a particular term to another" (Mark Blaug, *Great Economists before Keynes*, 1997: 8). Indeed, Schumpeter used the term "Ricardian Vice" to depict Ricardo's tendency to turn theory into tautology:

> The comprehensive vision of the universal interdependence of all the elements of the economic system that haunted Thünen probably never cost Ricardo as much as an hour's sleep. His interest was in the clear cut result of direct, practical significance. In order to get this he cut that general system to pieces, bundled up as large parts of it as possible, and put them in cold storage --so that as many things as possible should be frozen and 'given.' He then piled one simplifying assumption upon another until, having really settled everything by these assumptions, he was left with only a few aggregative variables between which, given these assumptions, he set up simple one way relations so that, in the end, the desired results emerged almost as tautologies" (Joseph Schumpeter, *History of Economic analysis*, 1954: 472-3).

Contrary to Ricardo's uncomplicated perception of social life, however, human actions have chronically contingent dimensions, that are only partially contained by the pressures of the situational conditions, through which humans must operate. From this fact, Adolph Lowe reasons that economic phenomena must lack the two minimum essential qualities required for the legitimate application of "positive," hypothetico-deductive, scientific method: They should have an *autonomous existence* that is independent of any human agent's volition or action, as well as the time and place of observation; and they should also have an *inherent orderliness* that renders them tractable to logical representation. In the absence of these two qualities economists are unable to produce and test any objective theories of how the phenomena are generated; they cannot make reliable predictions based on nomologically structured cause and effect relations. Lowe's solution, therefore, is the use of instrumental political economics (see Adolph Lowe, *On Economic Knowledge: Toward a Science of Political Economics*, 1977). However, reductionism, to go back to the essential point of this footnote, reached its problematic stage with the advent of neoclassical marginalism by Walras, Menger, Jevons, Pareto, Edgeworth, et al., and hit bottom by Friedman's "irrelevance of assumption realism," whereby obliviousness to all tenets of social science has become the criterion of scientificity, as is elaborated upon below.

to the derivation of quantitatively stated conclusions from given unreal premises, is fallacious.[1]

Neoclassical economics has a tendency to treat presuppositions as self-evident, when they are nothing of the kind. Abstract logical constructs divorced from social activity have little value. The content of persons is mainly social, and the essence of society is mostly practical relations (praxis) --action, reaction and interaction.[2] The problem with the Bretton Woods[3] construct, therefore, lies in the very basis of neoclassical economics, upon which welfare economics and international trade and traditional development theories are superstructured. Its failure is located in the very ontological misconception of the nature of society, whose irreducible basis is abstracted from. Aside from the well-known serious

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[1]For the purpose of relinquishing reason while elevating servitude to arithmomorphism, classroom culture is inculcated which ridicules history of thought, economic history, sociology, anthropology, political economy and other "unworthy, unrigorous ways of the old days." Instead, unfettered capitalism, hidden behind a multitude of esoteric jargon, distractionary graphs and technocratic equations, is propagated by neoclassical, mainstream economics. No disapproval, no irreverence whatever, is to be inferred from the above statement as to the use of graphics and mathematical and statistical (econometric) methods. Such devices clarify both the thought processes and their exposition, but only:

(1) When they are used in research as *enabling means*, not as distractionary or obscurantist tools (e.g., the assumption ridden Heckscher-Ohlin-Samuelson (H-O-S) theory, or so-called "neoclassical political economy" --see Warren Young, "Full Circle on Business Cycles: Lessons from the 1920s and 1930s," in Ingrid Rima, *The Political Economy of Global Restructuring*, 1993: 13-- or the hodgepodge taught within international trade theory as "neoclassical labor theory of value").

(2) Provided that econometric modeling may not become the *only* method of approaching economic problems, a mainstream straight-jacket of totalitarian mathematization, to the exclusion of diverse methods of investigation.

(3) Provided the inherent normative aspects of graphs and equations are comprehended and brought to the fore, and the focus of research does not shift from core axioms and conceptual substance to mathematical form. These techniques should thus be seen as what they essentially are: tools that complement rather than preclude other forms of analytical reasoning.

(4) If it is noted that "statistical significance" (which essentially assesses the sampling error of a statistic, designed to describe a particular population on the basis of a probability sample), is irrelevant to policy (substantive/economic/scientific/human) significance (see Deirdre McCloskey, *The Vices of Economists*, 1996: 23-59).

(5) And if assessing the statistical results comes from outside the instrument that generated them, i.e., from outside statistics altogether, and social policy is determined on the basis of policy (rather than statistical) significance.

[2]"The orthodox economists," contends Joan Robinson, "have been much preoccupied with elegant elaborations of minor problems, which distract the attention of their pupils from the uncongenial realities of the modern world, and the development of abstract argument has run far ahead of any possibility of empirical verification" (*An Essay on Marxian Economics*, 2nd. ed., 1947: 13).

[3]Known collectively as the Bretton Woods organizations, after the New Hampshire resort where they were founded by the delegates of 44 nations in July 1944, the World Bank and the International Monetary Fund are twin intergovernmental pillars, whose pronounced aim was, ostensibly, to support the structure of the world's economic and financial order (see Latin America Bureau, *The Poverty Brokers*, 1983).

theoretical shortcomings of neoclassical economics and its basis of methodological individualism,[1] the Heckscher-Ohlin-Samuelson (H-O-S) theory, the fundamental pillar of international trade theory that sets the scene for the neoclassical/Bretton Woods approach towards the UDCs, **assumes:**

(1) Only two commodities, two countries, two factors of production.

(2) Similar tastes across countries, i.e., the indifference curves are homothetic --symmetric along the ray, have the same slope along the ray, well-behaved.

(3) Perfect competition, i.e., a large number of producers and consumers, immediate access to information by all market agents,[2] a homogeneous good, and unrestricted access to the market.

(4) Constant returns to scale at the industry level, i.e., a homogeneous production function of degree one --firms are small, numerous, competitive, and price takers.

(5) Diminishing marginal returns to any input, holding the rest of the inputs constant, i.e., there exists a unique combination of prices of factors and commodities.

(6) Identical technologies, i.e., same production functions across countries.

(7) full employment.

(8) Immobility of factors of production across, and mobility within, countries.

(9) Relative factor "endowments" given, and different across countries.

(10) Ruling out factor intensity reversals.

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[1]See the thirteen criticisms of neoclassical economics made from within by John Hicks, as summarized by Warren Samuels in "John R. Hicks and the History of Economics," in Samuels and Thomas Patchak-Schuster, *Economic Thought and Discourse in the Twentieth Century* (1993: 28-35). See also Samuels et al. (1981) and Samuels (1988), as well as the rebuke of theories based on individualism, found in Anna Lemkow, *The Wholeness Principle: Dynamics of Unity Within Science, Religion and Society* (1990).

[2]Joseph Stiglitz and Sanford Grossman, in "Information and Competitive Price System," *American Economic Review* (May 1976), have demonstrated that the assumption that economic agents are well-informed about alternative market opportunities is not as innocent as it appears. Once this assumption is dropped, as it must be to account for reality, it is no longer possible to show that perfect competition maximizes economic welfare; indeed, it is not even possible to show that perfect competition will necessarily lead to an equilibrium of demand and supply, and what is true of perfect competition is even more true of monopolistic competition and oligopoly.

(11) Unimpeded free trade: no transaction costs, no tariffs, no quotas, no subsidies (see Paul Samuelson, "International Trade and the Equalization of Factor Prices," *Economics Journal,* 58, June 1948).

Whereas the processes of scientific understanding and theoretical progress can primarily come through delving into the world of facts, reestablishing contact with reality to bring the essential into relief and to make possible its analysis, not *one* of these arbitrary **assumptions** is realistic; in their collectivity they apply only to a bookish world. Of course if one is free to choose, pile up and postulate arbitrary and unrealistic assumptions, one can deduce rigorously any sought conclusions. However, such are irrelevant conclusions, which go nowhere in the real world, and can be reversed rigorously by different assumptions. Hence, under this assumption ridden theory, factor "endowments" become the source of trade, i.e., determine comparative advantages, and result in "factor price equalization."[1]

The latter Samulsonian "theorem" holds that in the free trade "equilibrium," factor rewards are equalized in the trading countries, i.e., there would be a single, unique wage rate in a free trading world. That world, however, was determined for Samuelson by the mathematical imperatives of finding a "proof" to his sought theorem. The "assumptions" are but conditions imposed by the mathematical logic, or else no proof would be available. The mathematics took over, and controlled and subjugated, the thought process, rather than merely aiding it. Mathematical techniques became the master rather than the servant of economics.

Upon this *prima facie* unrealistic construct,[2] via a multitude of graphs, equations and jargon, "structural adjustment" is founded. The UDCs are thus required to follow the

[1]See Samuelson, "International Trade and the Equalization of Factor Prices," and "International Factor Price Equalization Once Again," *Economic Journal,* 58 (June 1984: 163-84) and 59 (June 1949: 181-97), respectively.

[2]See S. F. James and I. F. Pearce, "The Factor Price Equalization Myth," *Review of Economic Studies* (1951-2). Indeed, Homayoun Katouzian, in his *Ideology and Method in Economics* (1980: 69), argues that "this [factor price equalization] conclusion was so patently absurd that it should normally have destroyed

free trade path (i.e., surrender to free trade imperialism),[1] in order to overcome their "backwardness," to open their economies unhindered to transnational corporations, to specialize in the comparatively advantaged, labor intensive cotton, cocoa and banana, and to import the capital intensive manufactured goods from the DCs. That way, it is claimed, the UDCs can "capitalize on the gains from trade," whereby their labor would be paid equal wages to those prevalent in the DCs. Given the unrealism of the assumptions, it is not surprising how fantastic are the inferences. It is those inferences, however, that set the scene for, and legitimize, the conditionality imposed by the IMF and World Bank on the UDCs, causing food riots and political destabilization, and further impoverishing the poorest strata in many of these countries.[2]

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the [H-O-S] theory on purely theoretical grounds; but it did not." For neoclassical economics was not about to accept the discarding of the hub of its international trade theory.

On empirical grounds, Leontief's test of the H-O-S theory, with respect to the United States' pattern of international trade, indicated that though richer in capital than its trading partners, the Country imported capital intensive commodities, contrary to the theory. This finding begged the title "the Leontief Paradox." Leontief thus hypothesized that the American labor force could perhaps be "three times" more efficient than its trade partners, and hence richer in labor measured in "efficiency units" (see Wassily Leontief, "Domestic Production and Foreign Trade: The American Capital Position Re-examined," *Economica Internazional*, 7 (1954); "Factor Proportions and the Structure of American Trade: Further Theoretical and Empirical Analysis," *Review of Economics and Statistics*, 38 (1956: 386-407).

[1]Barry Gills' work on *the* world system hypothesis indicates "that 'mercantilist' types of policy normally accompany a bid for ascent[,] and that 'openness' often accompanies already established core/hegemonic status" ("The Continuity Thesis in World Development," in Sing Chew and Robert Denemark, *The Underdevelopment of Development*, 1996: 241). And Albert Bergesen, in an article that discerns the link between political economy and hegemonic power on the one hand and cultural form on the other --an inadvertent vindication of Marx's economic base of the superstructure-- puts the above historico-cyclical phenomenon even more concisely: "Free trade is, in fact, a forced openness to the goods of the hegemon. It is eventually resisted when the hegemon declines[,] and tariff barriers rise as national markets are protected during the crisis phase of the downturn" (see Bergesen, "The Art of Hegemony," in Chew and Denemark, op. cit., 265). Further, comparing the three hegemonic powers of the capitalist era (Netherlands, Britain and the USA, in the mid-seventeenth, mid-nineteenth and mid-twentieth century, respectively), Peter Taylor comes to the conclusion that

> free trade [is] a reflection of the structural [built in] advantage of...hegemonic core powers in the world economy...the market favors efficient producers...concentrated in the hegemonic state by definition. In such a situation it is in the interest of the rising hegemonic power to present free trade as 'natural' and political control as 'interference.' From Grotius [*Mare Liberum*] through Adam Smith to modern economics, economic freedoms are presented as a universally valid theory, masking the self-interest of the economically strong.... But, of course, there is nothing natural about free trade, the world market, or any other socially constructed institution. 'All organization is bias,' ...and orthodox economics represents a classic case of attempting to organize nonhegemonic interests off the political agenda (*Political Geography: World Economy, Nation State and Locality*, 1993: 133-4).

[2]See Mosley et al (1991), Chomsky (1986, 1992), and Mosley (1992).

Whereas theories, concepts, methods, paradigms are to be evaluated by the explanatory power of the conclusions they reach about *real world* activities and processes, neoclassical economics totally abstracted from realism, including the aspect of power projection and use, replacing it with fictitious harmony. And having absolved itself of assumption realism (by what became known in the literature, following none other than Paul Samuelson, as the F-twist)[1] and gotten away with it, it decided that the exclusive end of UDCs' economies is to promote free trade, so that they can "capitalize on" its pecuniary gains. Any other objective is "political," beyond the realm of the "exact science" of economics.

Protecting nascent industries and economies, learning by doing, diversifying the economic base for national security purposes, creating rather than relying on "endowment" comparative advantages,[2] engendering forward-backward-demand linkages in the economy,

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[1]The central thesis of Milton Friedman's "Essay on the Methodology of Positive Economics," in *Essays in Positive Economics* (1953), is that economists should not bother to make their assumptions realistic, for they only need to seek predictive models, no matter what. "The only relevant test of the *validity* of a hypothesis is comparison of its predictions with experience," argues Friedman, adding that "not only is it unnecessary for assumptions to be realistic, it is a positive advantage if they are not: To be important...a hypothesis must be descriptively false in its assumptions" (ibid., 14).

Undisturbed by spurious correlations, Friedman treats prediction as the end of economics, and unrealistic assumptions as the proper method to attain that end. Relevance, however, is normally superior to mere logical (formal) consistency. And contrary to Friedman's predictive preoccupation, science, as Bhaskar's common sense makes clear, is a method of explanation not of prediction (see Bhaskar, 1994). What Friedman's irrelevance of assumption realism essentially does is that one becomes unable to know whether a specific theory is true or false, and hence it writes off the truth value of economic thought.

For further criticisms of Friedman's "irrelevance of assumption realism," on various logical grounds, see E. Nagel, "Assumptions in Economic Theory," *American Economic Review, Papers and Proceedings* (1963), and *Journal of Political Economy* (May 1963: 211-19); A. G. Papandreo, "Theory Construction and Empirical Meaning in Economics," (ibid., 205-10); J Melitz, "Friedman and Machlup on Testing Economic Assumptions," *Journal of Political Economy* (Feb. 1965: 37-60); T. C. Koopmans, *Three Essays on the State of Economic Science* (1957); Homayoun Katouzian, *Ideology and Method in Economics* (1980: 76-84). Furthermore, in a series of articles in the *American Economic Review* for May 1963, September 1964, and December 1965, Samuelson vehemently condemned this "F-twist," arguing, more directly in the latter, that "the validity of the *full* consequences of a theory implies the validity of the theory and so of its *minimal* assumptions" (207).

Samuelson's factor price equalization theorem, paradoxically, is his S-twist (i.e., his type of F-twist, which he ascribed to Friedman with respect to the irrelevance of assumption realism). His theorem is a microcosm of what is wrong with economics: the sole reliance on the hypothetico-deductive method (the axiomatic deductive reasoning), in order for the inferences to fit the status quo, using patently counterfactual assumptions. And although social theory may anticipate what a social group is going to do, furthermore, the individual is unpredictable, contrary to the precept of methodological individualism, upon which Samuelson's revealed preference is based (see Bhaskar, 1994).

[2]The fundamental characteristic of human species is "its repeatedly demonstrated capacity for transcending what is merely given, what is purely determined." Human species' "ontological vocation" is to be a subject

expanding the extent of the domestic market and division of labor, achieving equity in income distribution, mobilizing national energies and resources, enhancing domestic entrepreneurship and administrative cadres, diminishing dependence and augmenting interdependence, developing native technologies, preserving societal and cultural fabric and maintaining social harmony and stability, and stimulating national dignity and freedom from foreign "aid," in sum *transforming the means and relations of production,* and all objectives other than simple pecuniary gains from trade, according to neoclassical economics, are externalities, distortions, or beyond the reach of its rigorous, exact science. And the best remedy for these alleged distortions, it is claimed, is to avoid any protective measures and instead subsidize the export industries.[1]

That such construct is demarcated as (accorded the rank of) science is mind boggling; it reflects the outcome of the marginalists' final deviation from the holistic thought of social science in the 1870s, mainly in reaction to, on the one hand, Marx's

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who (always in the process of development) acts upon and transforms his/her world, and, in so doing, moves toward ever new possibilities of fuller and richer life individually and collectively (see Paulo Freire, *Pedagogy of the Oppressed,* 1970: 71). Accepting "endowment" comparative advantages, therefore, is a perversion of human ontological vocation, a reversion to the fatalism of the Dark Ages.

[1]The latter prescription of course means that the poor peoples of the UDCs should subsidize the consumerism of the DCs if they are to remedy the "distortions" caused by social and mobilizational objectives of their industrialization policy (whereas subsidizing any other branch of the economy, or the social services for the poor, is a no-no according to the neoclassical postulates of H-O-S). The mistaken notion that if the infant industry argument (which was originally made by such economic nationalists as Alexander Hamilton, John Rae, and Friederich List) applied it should be supported by subsidies rather than by protective tariffs is no neoclassical novelty, it goes back to John Stuart Mill (see Lionel Robbins, *A History of Economic Thought: The LSE Lectures,* 1998: 241-2). However, mere reading of Smith, the founder of "classical economics" from which neoclassical economics is claimed to spring, could have put this issue of subsidizing exports to rest. Condemning subsidies (bounties) on exports, Smith writes:

> Whatever extension of the foreign market can be occasioned by the bounty, must, in every particular year, be altogether at the expense of the home market; as every bushel of corn which is exported by means of the bounty, and which would not have been exported without the bounty, would have remained in the home market to increase the consumption, and to lower the price of that commodity. The corn bounty, it is to be observed, as well as is every other bounty upon exportation, imposes two different taxes upon the people; first, the tax which they are obliged to contribute, in order to pay the bounty; and secondly, the tax which arises from the advanced price of the commodity in the home market, and which, as the whole body of the people are purchasers of corn, must, in this particular commodity, be paid by the whole body of the people. On this particular commodity, therefore, this second tax is by much the heaviest of the two (*Wealth of Nations,* 1776, I: 396).

penetrating critique of capitalism,[1] showing that the latter, no less than antiquity, feudalism or mercantilism, is a contingent historical phenomenon, and, on the other, Roscher's and (especially) Schmoller's frontal attack on the very method of British "classical" economics. A century of economics' isolation from the social sciences, apprenticeship to the neoclassical nomenklatura, and servility to technocratic empiricism, has evidently accumulated an economic malformation. The self-elected "queen of the social sciences" is in bad shape.[2] The essential problem is the inability of neoclassical economics to coherently conceive of a collective good. All goods must be reducible to individual values, in order for the methodological individualist economic schema to be able to take cognizance of them. This is why social costs or benefits are regarded as "externalities," or "distortions." The problem is conceived in terms of the "external" effects of what should otherwise be regarded as an individual choice; there is no direct avenue for conceiving of a social good as such (Jon Mulberg, *Social Limits to Economic Theory*, 1995: 151).

In addition, this H-O-S theory, conveniently framed as it is in a barter fashion, abstracts from monetary aspects of transactions. Hence having the Coase cake and eating it too. Thus obliterating transaction cost differences, the neoclassical/Coase raison d'être of the

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The point under consideration here is less related to freedom of trade than to the prescription of neoclassical economics that the UDCs should subsidize their exports if they want to protect their industries, to the exclusion of protective tariffs. The difference of course is that the tariffs are kept at home, while the subsidies are given to the DCs, the importers in this case.

[1]See, for instance, the motivations of Menger, Wieser, Böhm-Bawerk and John Bates Clark in Harry Landreth, *History of Economic Theory: Scope, Method and Content* (1976: 252, 264-5). See also Warren Samuels, "John R. Hicks and the History of Economics," in Samuels and Thomas Patchak-Schuster, "Aspects of the Discursive and Interpretative Structure of Marshall's Principles," in their *Economic Thought and Discourse in the Twentieth Century* (1993: 64).

[2]See Jacob Viner, "Some Problems of Logical Method in Political Economy," *Journal of Political Economy*, 25 (1917), and "International Trade Theory and its Present Day Relevance," *Economic and Public Policy: Brookings* Lectures (1955); Benjamin Ward, *What's Wrong with Economics?* (1972); Henry Phelps Brown, "The Underdevelopment of Economics," *Economic journal*, 82 (1972); William Frazer, *Crisis in Economic* Theory (1973); Martin Hollis and Edward Nell, *Rational Economic* Man (1975); Daniel Bell and Irving Kristol, *The Crisis in Economic Theory* (1981); Peter Wiles, *Economics in* Disarray (1984); Donald McCloskey, "Economic Science: A Search Through the Hyperspace of Assumptions? *Methodus*, 3, 1 (1991); Thomas Mayer, *Truth vs. Precision in Economics* (1992); and Terence Hutchison, *The Uses and Abuses of Economics* (1994).

firm and the market (on the basis that both emerge to cut down on transaction costs),[1] while attempting to rationalize comparative advantages. So, transaction costs create and maintain the firm and the market, but transaction costs, simultaneously, do not exist, so that comparative advantages can be accounted for: two essentially contested, if not mutually exclusive, rationales in the same overarching theory. Incoherence? That would be an understatement,[2] for it also includes inconsistency. Hence both the "internal criteria" for

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[1]See Ronald Coase, *The Firm, the Market and the Law* (1988: 7). Even in his earlier, limited, formulation, in "The Nature of the Firm," *Economica* (November 1937), Coase addressed the question: Why do business firms exist at all? His answer was that the purchase or hire of factors of production requires the drawing up of contracts, and the process of employing factors in the production of goods and services requires a knowledge of prices, both of which involve the using up of real resources. When the cost of such market transactions reaches a certain level, it pays to form a centralized organization (firm), operating on hierarchical principles. However, the cost of coordinating inputs rises as the firm grows larger, thus setting a limit on the size of the firm. Beyond that size, therefore, additional transactions are farmed out to other, smaller firms.

[2]The H-O-S theory's unrealistic assumption of costless transactions implies that decision makers operate with perfect information (they acquire and process any information they wish instantly and costlessly) and perfect foresight (hence, they are able to write complete contracts, which can be monitored and enforced with absolute precision). The assumption of costless transactions is further tied to the idea of neutral institutions, an idea which is strongly entrenched in neoclassical theory, whereby institutions are taken as "allocationally neutral." This means that it does not matter, for example:
(1) Whether goods and services are exchanged by the use of money or through barter.
(2) How production is organized --by the price mechanism across markets or within a hierarchically organized firm.
(3) Whether the factors of production are owned or rented by their users --who hires whom is inconsequential: so have labor hire capital.
(4) Who holds property rights in the productive factors, individuals or society, i.e., no distinction between a private ownership and a public ownership economy.
(5) Whether or not the ownership and control of a firm are separated --on the account that the "market value rule" is imposed by the forces of the market for corporate control, e.g., through the threat of hostile takeovers.
(6) Whether the factors of production employed by a firm are financed by money loans or shares --on the rationale that the market value of any firm is independent of its capital structure and is given by capitalizing its expected return at the rate appropriate to its risk class.
(7) Whether transactions are undertaken singly as transactions between faceless strangers or are repeated frequently between the same parties.
(8) Whether a good is supplied by a monopolist or by a large number of independent firms --in either case, unrestricted bargaining is said to lead to a Pareto efficient equilibrium.
(9) Whether legal rights are assigned to the party generating an externality or the party harmed by the externality --on the basis that, whatever the law, the allocation of resources will be identical because people can always negotiate without cost to acquire, subdivide and combine rights whenever this would increase the value of production.
(10) Whether an economy is based on the operations of decentralized individuals, who rely on price signals and require no extensive information on the system's data, or by a command structure, based on a central agent who possesses complete knowledge of individual "preferences," technological alternatives, resources, and so on.

All of the above is even rejected by none other than a strand of neoclassical economics itself, the so-called "new institutional economics," or the "new theory of organization," which is associated, among others, with Armen Alchian, Ronald Coase, Douglass North, and Oliver Williamson. Transaction costs valid theorizing are absent (Freidrick Ferré, *Knowing and Value: Toward a Constructive Postmodern Epistemology,* 1998: 9).

The theory further ignores the fact that each transaction across a boundary is a function of, or results in, an exchange rate (the price ratio between the two currencies). Ignored also is the fact that a transaction determines the post trade price ratio for the two countries involved, or the change in international terms-of-trade, and hence real income change, *ceteris paribus.* Therefore, ignored is the fact that a transaction affects not only the equality or otherwise of the exchange, in terms of embodied labor time, thus the rates of employment and growth of the economy and the balance of payments, but also the stability and significance of national currencies. Absent from mentioning, furthermore, are other implicit assumptions of the theory: no history, no institutions, no exercise of unequal political power, and, indeed, no human society. The H-O-S theory abstracted from[1] all this; yet that theory constitutes the centerpiece of international trade theory, and the basis for the "free trade" stratagem, for "structural adjustment," and for Fund-Bank conditionality.

Because that body of thought is represented by differently specified models, each modified with its own set of assumptions, the result is either untestability or simultaneous corroborating and refuting evidence for the same theory. This can neither be science nor a way of doing it, nor can it command mere commonsensical persuasiveness. No wonder the home region of H and O (Eli Filip Heckscher and Bertil Gotthard Ohlin), is the one area of the industrial world which most defies this theory. Instead of employing unfettered free-market postulates, Scandinavia trims and restrains capitalism. Traditional French *dirigisme*

(and hence bounded rationality), property rights, and contractual relations, constitute basic elements in this otherwise fuzzy, opaque, new approach, which encompasses three types of institutions --namely, the market, the firm, and the state (see Eirik Furuboton and Rudolph Richter, *Institutions and Economic Theory: The Contribution of the New Institutional Economics,* 1997: 8-10, 29-30).

[1]The H-O-S theory is an example of how neoclassical economics has deformed the meaning of abstraction. "The legitimate purpose of abstraction in social science," as Sweezy points out, "is never to get away from the real world but rather to isolate certain aspects of the real world for intensive investigation" (see Paul Sweezy, "Marx's Method," in his *The Theory of Capitalist Development,* 1942; and Ernst Fischer, *How to Read Karl Marx,* 1996: 165).

and *étatisme,* implemented also by Japan, are other examples from the DCs of the repudiation of the H-O-S theory, after as well as before the latter's inception.[1]

Empirically, furthermore, the DCs have *not* developed through Quesnay's laissez faire, Smith's free trade,[2] Ricardo's monocropping, Senior's abstinence, Bastiat's *Harmonies Economiques,* Friedman's economic liberalism, or Samuelson's preference

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[1]The point here is the generic one, that the Scandinavian countries, as well as France and Japan, have not espoused unfettered capitalism and the H-O-S theory, but have rather disciplined and curtailed their capitalist systems, each according to its culture as well as objective circumstances. It would take this inquiry, essentially about the UDCs, far afield of its aim, and indeed of political economy itself, to elaborate on the specific *problématiques* of these DCs, and the distinguishing characteristics of their economic orientations. *It is not mere economic variables, but rather an amalgam of economic, historical, geopolitical, geostrategic, cultural and other factors, that combine to determine a country's economic policies,* not necessarily in this order.

For example, the mixture of fettered capitalism, social democracy, and international neutrality that Sweden adopts cannot be fruitfully disentangled on an economic or any other single basis, for it has resulted as much from history, geopolitics and geostrategics, as from economics. Economically, that sea accessible, timber plentiful, marine life abundant and mineral rich country has passed through a progression of vibrant mercantilism, dating back to its cities' membership, together with the Germanic trading cities, in the Hansa (formally organized in 1367 and incorrectly [redundantly] known in English as the Hanseatic League --the literal translation is "Leaguely League"). Indeed, Sweden, with its cheap water transport, high grade iron ore (both phosphoric and nonphosphoric), nonferrous metal ores, and abundant timber and water power, started its metallurgical industry in the Middle Ages, and expanded it tremendously in the late sixteenth century.

By 1620, Sweden's iron industry was "the largest in Europe," and it "was almost as rich in copper as in iron, and in the seventeenth century, with Dutch capital and technical assistance, was Europe's largest supplier in international markets." The Sveriges Riksband (the forerunner of the National Bank of Sweden), founded in 1656, was in fact the first bank to issue true banknotes in Europe (see Rodno Cameron, *Economic History of the World,* 1997: 118-19, 147-8, 286-7). In the sixteenth and seventeenth centuries Sweden thus played a role as a great political and military power disproportionate to its small population. Sweden, no less than France and Prussia, was already technologically advanced by any standard at the time of British industrialization, albeit it started its industrialization in earnest only in the second half of the nineteenth century. However, for the period 1870 to 1913, it had the highest rate of growth of output per capita of any country in Europe, at 2.3 percent (ibid., 254).

Historically, Sweden was engulfed, and in the case of the Thirty Years War took the initiative, in the religious, dynastic and nationalistic wars of the sixteenth to the eighteenth centuries, which shaped its modern economics as well as politics. Geographically, its location is in the frigid Arctic area, whereby survival necessitates a substantial degree of communitarian ethos, which defines and drives many aspects of its identity, not least of which is its economics. Geopolitically, Sweden, which lost Finland to Russia in 1809, gained Norway (which was detached from the crown of Denmark) in the post-Napoleonic settlement at the Congress of Vienna, until Norway seceded peacefully in 1905. Then in this century, Sweden fell between a rock and a hard place: It was contiguous to both dens of the bear on its east and the fox to the south and west. It had to behave in all directions, and balance capitalism with socialism. Geostrategically, lacking strategic depth and warning time, not to mention its limited population, it had to be not only neutral but also pleasing (appeasing) to surrounding contradictory ideologies. As it stands today, Sweden has little relevance to the underdevelopment and poverty that concern this inquiry, which is not a country study either.

[2]See John Rae, *Statement of Some New Principles on the Subject of Political Economy, Exposing the Fallacies of the System of Free Trade and of Some other Doctrines Maintained in the "Wealth of Nations"* (1834), published also under the title *The Sociological Theory of Capital* (1905).

revelation. They did develop, among other things, through mercantilism, cameralism[1] and cut throat trade warfare (of the English-Navigation-Acts-type of 1651 and 1660), and through *protectionist trade, sheltered industrialization, steered diversification and dirigiste government* (of, e.g., Cromwell,[2] Colbert,[3] Bismarck, Meiji and Roosevelt, not to mention Stalin among this group because of his heavy-handed, totalitarian method). The US, the main promoter of unfettered capitalism, has been protectionist for most of its history (Joseph Schumpeter, "The Influence of Protective Tariffs on the Industrial Development of the United States," in *Essays of J. A. Schumpeter*, 1951: 164-9). Indeed, relatively, it still is today,[4] in practice though not in disseminated theory (Karl Polanyi, *The Great Transformation*, 1944). "Western capitalism," contends Allen Sievers (1974: 82), "depended to a certain extent, in its formative days, on an experienced and *protective state apparatus* and ability to manage a complex venture on *a state like, bureaucratic basis*...and *financial instrumentalities* available to facilitate large scale and long distance trade" (emphasis added). This is put very mildly indeed, in comparison, e.g., with Karl Polanyi, Alexander Girschenkron, Eric Hobsbaum, John Galbraith[5] or Maurice Dobb, let alone Karl

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[1]Cameralism, the typical German variant of mercantilist thought, was the process of educating functionaries entering the administration of the princely *camera*, the central place for the management of finance, forestry, domains and mining (see Jacob Jan Krabbe, *Historicism and Organicism in Economics: The Evolution of Thought*, 1996: 47).

[2]Thomas Cromwell, as Gearóid ó Tuathail points out, "is situated at the threshold of the earliest form of the administrative state, the expansionist and centralizing state form that characterized the 'new monarchies' of the sixteenth century" (*Critical Geopolitics*, 1996: 9).

[3]The influence of Jean-Bastiate Colbert, the principal minister of Louis XIV during the period 1661-83, was such that the French coined the term "Colbertisme," which is more or less synonymous with mercantilism, as that word is used in other languages (see Rondo Cameron, *Economic History of the World*, 1997: 149-50).

[4]See General Agreement on Tariffs and Trade, *Trade Policy Review: United States (and Japan)* (1990). Indeed, the GATT surveys indicate clearly that the American market is even more protectionist than that of Japan. On the Emergency Tariff Act of 1921, the Fordney-McCumber Tariff Act of 1922, the Smooth-Hawley Tariff of 1930, and, in general, on American economic nationalism, high tariff history, and neomercantilism, see Rondo Cameron, *Economic History of the World*, 1997: 349-55).

[5]Here is a sample of Galbraith's relevant views:

> The economists associated with the administration of Mr. Reagan were eloquent, even passionate, in their emphasis on free market principles, as, with perhaps marginally more sophistication, are those now of Mr. Bush. *This economic rhetoric has, in turn, been a cover*

Marx. Today, however, when the sun sets in an underdeveloped country, neoclassical economics damn "government intervention in the economy!"[1] In textbooks, journals, IMF statements, World Bank bulletins, media programs, neoclassical attack on the role of government is unsparing.

Unconcerned about relegating the UDCs to monocropping,[2] and reducing them to providing the raw materials needed for the industries of the developed countries while remaining open markets for the latter's manufactured products, under the rubrics of "comparative advantage"[3] and "structural adjustment," neoclassical economics has

> *for the greatest resort to international trade restrictions --tariffs and numerical quotas-- since the 1930s.* And for unparalleled subsidies to financial institutions, notably the now infamous savings and loan associations. Also for large subsidies to sometimes larcenous housing and real estate interests. Also for massive support to the defense establishment, with its powerful economic presence in Washington. And very specifically for tax action on behalf of the influentially affluent ("Economics in the Century Ahead," in John Hey, *The Future of Economics,* 1992: 44, emphasis added).

[1]In a speech in 1896, British Secretary of State for the Colonies and a torchbearer of protectionism, Joseph Chamberlain, confirmed the role the state played, and would have to play, in the defense of imperialist interests:

> All the great Offices of State are occupied with commercial affairs. The Foreign Office and the Colonial Office are chiefly engaged in finding new markets and defending old ones. The War Office and the Admiralty are mostly occupied in preparations for the defense of these markets and for the protection of our commerce.... [T]hat Government deserves most popular approval which does most to increase our trade and to settle it on a firm foundation (quoted in Leonard Woolf, *Empire and Commerce in Africa: A Study in Economic Imperialism,* 1919: 7).

[2]Contemporary neoclassical international trade theory, under the rubric of free trade, still receives inspiration from the mercantilist strategy of the English Navigation Acts of 1651 and 1660, whereby "colonial manufacturing was curbed or in some cases outlawed, so that dependent territories would remain suppliers of low cost materials and importers of English manufacturing goods" (Stanley Brue, *The Evolution of Economic Thought,* 1994: 19).

On the neomercantilist policies of the post-WW II economies of Japan and the East Asian NICs, whose economic growth is described as a "miracle" by neoclassical economics, and for a critique of the Jeffrey Sachs type of orthodox rationalization of the *status quo,* see Ajit Singh, "Competitive Markets and Economic Development: A Commentary on World Bank Analyses," in Philip Arestis and Malcolm Sawyer, *The Political Economy of Economic Policies* (1998: 60-105).

[3]Aiming at restraining the development of Germany after WW I, Halford Mackinder (1861-1947), contrary to latter-day economic prescription of comparative advantage to the UDCs, proposed to the British Parliament that Britain should require Germany to pay an indemnity for war damage solely in terms of "low grade materials," lest the fine stimulate German industry too successfully. This would be a reversal of the policy under which Germany had developed. Germany's growth before the war had been achieved by importing low technology goods from Britain, and sending sophisticated products in return (see Gerry Kearns, "*Fin de Siècle* Geopolitics: Mackinder, Hobson and Theories of Global Closure," in Peter Taylor, *Political Geography of the Twentieth Century: A Global Analysis,* 1993: 22)

forgotten that the degree of comparative advantage in the US ante-bellum South was strong enough to chill industrialization, in favor of cash cropping (an exchange value production), and ruinous enough for the region to be still relatively underdeveloped a century and a one third after the Reconstruction, a mid-1860s overall "structural adjustment." Nor does neoclassical economics pay attention to the fact that a major reason for the economic eclipse of Britain, at the turn of this century, was its continuous reliance on comparative advantage: It relied rather heavily upon those industries on which its early lead had been based. That is, rather than moving into the new industries such as chemicals, in which technological advance was now most rapid, Britain continued to rely upon the cheapness of its coal, to obtain a comparative advantage in the steam-driven, cotton textile industry. This threatened the British ability to continue extracting primary products out of other countries. Those countries would be well-placed trading with Germany, or the United States. Further, Britain could no longer actually sell its own manufactures in these German and American markets, where they were often undersold by more efficient producers, whose development had been nurtured behind tariff walls (see Gerry Kearns, "*Fin de Siècle* Geopolitics: Mackinder, Hobson and Theories of Global Closure," in Peter Taylor, *Political Geography of the Twentieth Century: A Global Analysis,* 1993: 10).

Indeed, contrary to past experiences of the DCs, neoclassical economics ominously intimidates the UDCs with "immiserization" (not externality, neighborhood effect, spill-over, diseconomy, market failure, or market imperfection),[1] if they dare empower their economies to grow in the existence of such a "distortion" as infant *industry* protection.

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[1]The social sciences provide arguments between principles and theories of society (see Deirdre McCloskey, *The Rhetoric of Economics,* 2nd ed., 1998). Thus language is to social science as oxygen is to air, its vital and distinct ingredient. Perception of the realities of society is shaped by the structure and power of language. Words do not merely describe society, they are part of the society they describe. Language is also an instrument, to use it is to perform an action. Hence, almost every choice of word, in most of the discourse social scientists engage in, is a socio-political-economic act. When Bhagwati uses such a metaphor as "*immiserizing* growth," Friedman writes about "*natural* unemployment," Western scholarship deploys the "*Third* World" and the "*less* developed countries," and neoclassical economics espouses "methodological *individualism*," "marginal *revolution*," "*endowment*," "comparative *advantage*," "*revealed* preference," "consumer *sovereignty*," "*sustained* development," "*welfare* economics," and "structural *adjustment*," they are more shaping than describing reality.

Further, the Hans Singer (1950, 1993)-Gunnar Myrdal (1957) infant *economy* protection is beyond the realm of neoclassical economics. Indeed, the entire structuralist school is damned out of hand as “Latin American.”[1] Premising instead the invalidity of import substitution,[2] protective tariffs (be they of the German nursery type, Mill's educative type, or any tariff type for that matter), and social safety nets, *the IMF and World Bank use this construct to impose upon the UDCs a strategy of abrogating industrialization plans and dismantling welfare states.* Then through validating so-called export led growth, it provides for the DCs' machinery and consumerism cheaply, in an unequal exchange with the UDCs, at the expense of their poor populations. For as a country merely forces the expansion of its exports, *ceteris paribus*, it only turns the terms-of-trade against itself.[3]

The evidence thus supports Mulberg's conclusion, that “the lack of realism in economics is a defensive strategy which has been invoked to avoid the political conclusions to which economic theory would otherwise lead. This has resulted in an orthodox economic theory which is at best useless and at worst vacuous” (Jon Mulberg, *Social Limits to*

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[1]The structuralist approach, although originated from the United Nations Economic Commission for Latin America (UNECLA), is not exclusively Latin American. If Raul Prebisch headed the UNECLA, Samir Amin and Gunnar Myrdal headed its African and European counterparts, respectively. Nor are Gunnar Myrdal, Samir Amin, Johan Galtung, Hans Singer, Stuart Holland and Frances Saunders Latin American in the first place (not that there is anything wrong with that). This perspective was increasingly spreading into the transformation, especially UDCs', literature, after "structuralism" had penetrated the international relations' parlance as the official doctrine of the UDCs, and was adopted by the United Nations Conference on Trade and Development (UNCTAD) from 1964 onward. The structuralist approach has also enriched the delinking perspective, and the Scandinavian school. Moreover, the Prebisch-Singer (1968) dynamic terms-of-trade (TOT) argument is an elaboration upon the Keynesian (1936: 119) TOT insight and Werner Schlote's (1952) empirical data to that effect. Furthermore, the Prebisch center-periphery syndrome also led to an analytical synthesis with the neoclassical approach in DCs-UDCs models of Edmar Bacha (1982), Lance Taylor (1983), and Ronald Findlay (1995). Therefore, the attempt to dismiss the structuralist school as “Latin American” is baseless.

[2]Import substitution industrialization is an inference from the "structuralist" models of G. A. Feldman in the USSR and Prasanta Chandra Mahalanobis in India --the latter's heavy sector, bigger is better, and large planning prescription-- and from Paul Rosenstein-Rodan's inducement to investment problem. Export promotion, on the other hand, is an outward looking growth, with a stages approach to comparative advantage --Bela Balassa. It is based on regional and subregional cooperation.

[3]Export led growth in the UDCs does not lead to the initiation of a process of internal capital accumulation but to an outflow of capital. Dependency theorists, from Sunkel to Amin, Frank and Emmanuel, have shown that peripheral or satellite countries will always be exploited so long as their economy is geared to international markets. Hence, dependency theorists argue, as elaborated upon below, that these countries must delink entirely (or selectively) from the global economy, by invoking a policy of national autarky (or some form of collective self-reliance with other UDCs).

Economic Theory, 1995: 3). This critique, therefore, dissents from the positivist reductionism of neoclassical economics, and adopts, once again, the holistic thought of political economy, deducing inferences from the *entire* social existence, and paying special attention to all relevant factors of economic action, not only to its pecuniary logic. Its primary relevance is to communities, countries, peoples, regions, governments, powers, rather than to unrealistic models, ideological abstractions emphasizing asocial individual behavior, or harmonious theologies of invisible hand and laissez faire. This critique also calls into question the Eurocentric ideology of economic universalism (which is in fact reification, since the operation of the economy varies according to the geopolitical-institutional set), and searches for other roads for UDCs' transformation than the construct that fallaciously justifies inequity and myopically aspires to Europeanize the geo-culturally diverse planet.[1]

This critique, nonetheless, is conducted with the view that the question is not whether capitalism for the UDCs is or is not to be, since capitalism has many merits, as elaborated upon below in the body of this critique; merits that can be employed for the betterment of UDCs' conditions. Pragmatically, moreover, capitalism for the UDCs is for now a *fait accompli.* The critique thus attempts to discern loopholes, in the workings of capitalism, which would enable the UDCs to function and transform themselves within that

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[1]Yasusuke Murakami, a leading Japanese socio-economic theoretician of the second half of this century – despite his technical (econometrical and statistical) background– advances his visionary thesis of polymorphic liberalism, which includes international commensurability, and mutual toleration and understanding. He thus calls for the adoption of a rule-based, international trade regime, that explicitly sanctions the development of the UDCs. Murakami's thesis is based on his firm contention that the basic philosophical and ideological orientation of the West is transcendental (the reflective self takes up a position that transcends naive consciousness), while that of the East is hermeneutic (the self overlaps the postreflective and the prereflective images of the world), and each orientation in diverse ways determined its respective worldview, or *weltanschauung,* and hence the belief systems and actions that are based on it. Therefore, he concludes, only a *polymorphic* liberalism can best accommodate this reality of diversity (*An Anticlassical Political Economic Analysis: A Vision for the Next Century,* 1996).

However, while Murakami's observations apropos the reflective self are herein reluctantly concurred with, the dichotomy is likely related now more to industrial-preindustrial than to the Platonic geographical schism. Murakami's ideational, Weberian bent too, as well as his shared-roof proposition (regional alliances with great power participation), are out of synch with this inquiry. Still his fundamental proposition of polymorphism in policy-making is in perfect accord with the diverse reality of the world, and hence the pluralist approach herein adopted.

socioeconomic system domestically, and to navigate through it globally. The aim is not to change the endogenous workings of capitalism but to find exogenous, pragmatic ways for the UDCs to move ahead (transform), while accommodating themselves to the capitalist predicament. Capitalism did not evolve merely through purposeful action, nor can purposeful action alone (least of all that of the UDCs) eject that socioeconomic system. Capitalism, as much as any other epochal social occurrence and transforming economic institution, has resulted more from human action than from human design. The aim thus is to explore how the UDCs can live in the same den with that unmerciful companion, without continuing to be utterly pillaged by its workings, as they are experiencing now.

This aim, therefore, is not dogmatic: It is neither that the market be abandoned in favor of centralized planning nor that planning be discarded for the sake of freeing the market. Instead, the aim is to identify impediments in both market operations and planning strategies that might be hampering development, and to find ways of overcoming them. The question then is not whether a regime of free contract is or is not to exist, but whose choices does free contract give effect to, and how to prevent the powerful from manipulating the order to exploit the weak. Not freedom or no freedom, but whose freedom and for what. Not reform or no reform, but which (attainable) reform and for whose interest. Not private property of the means of production or not, but the extent these property rights reign, and the balancing (public sector/countervailing) rights for the dispossessed. Not democracy or no democracy, but whom does democracy empower, who rules and on whose behalf, and whether democracy is also substantive or merely procedural. Not government or no government, but whose government and for whom, and the economic jurisdiction as well as the scope and limits of this government. More specifically, this critique examines several substantive and pragmatic questions:

(1) In conditions in which the DCs are constantly pioneering technological advance in finance, manufacturing and agriculture, further augmenting the unequal exchange with

UDCs' primary products, is free trade necessarily in the best interest of the UDCs, as neoclassical economics asserts?

(2) Is foreign aid (always with strings attached), or, alternatively, a massive increase in savings (which denies the current generation any semblance of life), a precondition for economic advance? Or may the alleviation of other resource constraints (such as scarcity of entrepreneurial orientation, organizational and administrative regimes, and foreign exchange) be efficacious as well? How can foreign exchange be secured? Is the international finance body amenable to reform that would take the UDCs' interests into consideration? What type of reform would that be? Is it likely to be implemented in the foreseeable future?

(3) If an increase in savings is needed, can this be achieved only by raising the share of capitalist profits in national income, as neoclassical economics claims?

(4) Does an increase in savings by capitalists, e.g., through supply side tax exemptions, lead automatically to an increase in productive investment and trickle down effect in underdeveloped conditions, as neoclassical economics alleges? Or does it lead to capital outflows, leaving the UDCs in ruins?

(5) Do UDCs have to follow a path of capitalist development similar to that of the extant DCs? Should industry focus more on a *production des matières de premier besoin*, as François Quesnay counseled in 1757 (in his *Oeuvres Economiques et Philosophiques*, 1969: 102-33), or on the neoclassical, exchange driven *luxe de décoration*, condemned by that physician of Madame Pompadour?

(6) Is the socioeconomic transformation operational? Does it lend itself to measurement and quantification? Can it be planned and monitored?

(7) How can economic growth be managed in the interest of the worse off people (the really poor people, not the anonymous factor of production)? What alternative courses of action need be pursued, still within a capitalist framework, if those people, not commodities or their interlocutors, are the principle focus of national policy?

These are the issues focused on, whenever appropriate, while analyzing various mechanisms and suggesting transformation themes. As to the benefits of trade[1] for the UDCs, these are under no dispute. The metaphor "free trade" used by neoclassical economics, however, is misleading, and results in unequal exchange, which is elaborated upon below. The critique thus includes components that are designed as full fledged courses of action, e.g., the structuralist mechanism, as well as relevant scattered, heterogeneous material (in critiques, case studies and other intellectual works), which were not necessarily meant to be complete transformation perspectives, e.g., Sievers' dispersed policy recommendations derived from his work on Indonesia. Besides the conventional orthodox mechanisms, moreover, the critique also employs works that are tabooed, ridiculed or ignored by neoclassical economics, and endeavors to put them to good use. These are the Marxian, structuralist and delinking perspectives, respectively. The critique further includes the often despised equity intermechanism, as well as the much hailed neoclassical efficiency mechanism, and illustrates the possibility of attaining an accommodating equity-efficiency tradeoff.[2] The basis and potentiality of the transformation themes are also elaborated upon.

Therefore, the inquiry is less "elegant" than current technocratic works in economics appear to be, for it encounters the classic problems of causality and explanations in the social sciences: Variables are so numerous that the differentiation of dependent from independent ones can at best be commonsensical; at worst, this unilinear causal construct has to be entirely discarded from the social sciences.[3] This is the nature of social

[1]Today, capital movements, more than trade per se, drive the world economy. Encumbered by its preoccupation with comparative advantage, international trade theory could not catch up.

[2]One of the most striking examples of the desire of neoclassical economics to separate issues of equity from those of efficiency can be seen in Richard Musgrave, *The Theory of Public Finance* (1995).

[3]For example, the works on the quantity theory of money, by Locke, Cantillon, Hume, Petty, Ricardo, Walras, Wicksell, Fisher, Keynes, Friedman, Schwartz, Laidler and scores of other scholars spanning four centuries, proved unable to sort out the direction of relation between money and prices (i.e., whether changes in the money supply are exogenous --as the quantity theory stipulates-- or whether they are endogenous responses to other changes in the economy --as held by the theory's critics). Nor did this scholarship even determine undisputed variables constituting the function for the velocity of money circulation, i.e., the money demand function (see Mark Blaug, "Why Is the Quantity Theory of Money the

phenomena, and the price of holistic thought, from both of which neoclassical economics has abstracted. However, elegance should never be mistaken for mere simplification. This inquiry, nonetheless, is far from being a Feyerabendian "anything goes."[1] But nor is it a theoretical construct built upon unrealistic assumptions (*à la* Milton Friedman's *Positive Economics,* 1953). It is neither nihilistic nor dogmatic, respectively. It is a pragmatic (realist) and functional endeavor, rather than strictly academic. It heuristically attempts to discern loopholes in the capitalist dynamics, through which the UDCs could exogenously *bridle capitalism,* tame it to suit their purposes, and figure out *doable* themes that might mitigate their dependency and underemployment, and alleviate their poverty.

This critique thus endeavors to discern intellectual foundations, which can enable a problem solving metamorphosis in the UDCs to take place, while attaining an adequate level of security and well-being for their increasingly eroding sovereignty[2] and vulnerable populations,[3] minimizing the degree and cost of dependence, while maximizing interdependence (symmetric rather than asymmetric dependence), as a necessary albeit insufficient step towards reordering their relations with the DCs. The aim is to provide versatile courses of action that would provide viable alternatives to the straitjacket of "structural adjustment," prescribed through the fallacy of composition as a panacea for all.

Oldest Surviving Theory in Economics," in Blaug et al. *The Quantity Theory of Money: From Locke to Keynes and Friedman,* 1995: 27-49).

[1]This is merely a descriptive statement; it does not mean to impeach, but it stops short of total agreement with, Paul Feyerabend's conclusion that "the only principle that does not inhibit progress is : *Anything goes....* There is no idea, however ancient and absurd, that is not capable of improving our knowledge...even the most advanced and apparently secure theory is not safe...the knowledge of today may become the fairy tale of tomorrow and...the most laughable myth may eventually turn into the most solid piece of science" (*Against Method,* 1975: 10-11, 52).

[2]See Henry Kissinger's *Years of Upheaval* (1982: 670-5). On the demise of the nation state generally, the notion that microprocessing, in the realms of cyberspace and cybereconomy, is subverting and destroying the nation state, see James Davidson and Lord Rees-Mogg, *The Sovereign Individual* (1997).

[3]In addition to poverty as the common denominator of underdevelopment, most UDCs encounter variant degrees of autocracy and lack of participation, economic stagnation and absence of transformation, social polarization and skewed distribution, sovereignty erosion and dependency predicament, cultural distortion and identity crisis (see Hassanein Ibrahim, "Collective Protest and Political Violence," in Mustafa Alsayed, ed., *Reality of Pluralism,* in Arabic (1996: 279-335).

Because geo-economic reality is impervious to being thus encapsulated, in formal monolithic criteria, neoclassicism and reality are incommensurable. In the present state of knowledge one must resist the notion that any simple model will account for the whole transformation process. One cannot model it, say, as a production process which makes modernization, eighteenth-century industrialization, or the sustained rise of real incomes, the output of a handful of stylized inputs, while hoping to retain any sense of the historical complexity involved. Too many parameters shift and dissolve; long-term economic change in the DCs was much more than the usual conception of an "economic" process.[1] Moreover, the circumstances --economic, security, political, and social-- of each underdeveloped economy vary, and thus the appropriate path to economic and political development cannot be determined *a priori*, but only in the historical context of these specific conditions. Different development strategies must therefore be improvised for different contexts. And any well-conceived development strategy must respect the perceptions of underdeveloped nations on equitable, enabling and environmental issues, and reflect the different tracks of their development.[2]

The research method hereby adopted, therefore, is that of Smith and Marx,[3] critical inquiry, i.e., critique, using an interdependent-intervalidating amalgam of abstract deductive

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[1]When John Stuart Mill decided to write a "treatise on political economy analogous to that of Adam Smith," he had been further influenced by Auguste Comte, the French philosopher who wanted to create one social science that would study human society in *all* its aspects. Mill therefore did not regard economics as a thing by itself, but as part of a larger whole. Thus his *Principles of political economy* (1848) is subtitled *With Some of their Applications to Social Philosophy*.

[2]Yet one may venture an analysis in terms of groups of countries with similar conditions and key characteristics. For instance, the widely dissimilar political and ideological configuration of Victorian England, the Prussia of Bismarck, France of the Third Republic, and the Empire of the Habsburgs, passed, following a period of laissez faire (1830s-70s), through a period of antiliberal legislation (from the 1870s onward) in regard to public health, factory conditions, municipal trading, social insurance, shipping subsidies, public utilities, trade associations, and so on. Similarly, the Great Depression encompassed almost all the industrial countries of the world, and spilled over beyond them (see Polanyi, *Great Transformation*, 1944).

[3]Smith and Marx are political economists/social scientists as no other, with unmatched intellectual powers of penetration, formulation, and metaphor making exposition. It is important to clarify a fundamental difference between the objective of this critique, however, and that of Marx's masterful *Critique* (1867). Marx's ultimate aim was to discover the "laws of motion" of capitalism, within his overarching conception of historical materialism. The objective of this critique is utterly modest in comparison. It seeks no overarching paradigm. It seeks no further analysis of the inner workings of capitalism beyond Marx's

and historical inductive reasoning.[1] Smith and Marx did not, as is common in economics today, crunch some numbers in order to produce their scholarly works. Nor did they go to engage in some xenophobic chats at the coffee shops of the informal sector in rural Zaire[2] or at the bazaars of provincial Tajikistan, another method currently in vogue in economics, in order to establish the originality of their credentials. Smith and Marx read; thought; analyzed (textually and contextually, comparatively[3] as well as critically); elaborated; cohered; taxonomized; agonized; conceived; inductively investigated, corresponded, and corroborated their deductively theorized findings with reality; and only then slowly and laboriously made up their minds, and concluded. On the other hand, while empirical validation of a hypothesis is necessary for separating knowledge from belief and fiction, and every attempt is hereby made to that effect, through corroboration and comparative analysis, the challenge made by philosophers of science to both inductive[4] and falsificationist[5] approaches to empirical testing has produced no secure procedure, in which such validation may be grounded.

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seminal dissection. It seeks merely to find a way for the UDCs to muddle through that very capitalist system, as is, and transform themselves.

[1]Historical-inductive reasoning provides the principles for a more objective analysis; it has the potential that might enable one to better distinguish the true from the false, the significant from the trivial, the permanent from the transient, and the real from the apparent. Deduction, consisting of logical reasoning only, is thus to be complemented by induction, orientated on facts; thereby on the one hand historico-political phenomena may guide analytical thought, and ensures its relevance and soundness, and, on the other, general political economics may orient economic policy.

[2]No disrespect, no offense, only a way to make the point; it could be Belize, Egypt, Brazil or India.

[3]The aim of "comparative" analysis is to reduce the degree of arbitrariness in foundational reasoning. Since ultimately there is no nonarbitrary way of reasoning, degrees of arbitrariness can be identified, and thus arbitrariness reduced, through comparison (see Robert Delmore, "The Foundational Bearing of Complexity," in *Beyond Market and Hierarchy: Interactive Governance and Social Complexity*, 1997: 46). Indeed, the act of comparing is the beginning of knowledge.

[4]See Karl Popper, *Logic of Scientific Discovery* (1934), and "Science: Conjectures and Refutations," in *Conjectures and Refutations* (1957).

[5]See Imre Lakatos, "Falsification and the Methodology of Scientific Research Programs," in *Criticism and the Growth of Knowledge* (1970); Feyerabend (1975); and Chomsky (1986, 1992). The hallmark of the works of Popper and Lakatos, nonetheless, is the notion that science must aspire to address real world problems, through the production of theories with empirically refutable implications, and thus that no theory should ever be accredited until it has been confronted with empirical evidence.

This critique is thus a thought process, which facilitates discerning some functional order in diverse and scattered material. It filters and classifies this material into related groups, with an eye on the intelligibility of the exposition, while seeking what this material has to offer for the improvement of the status of the UDCs. The taxonomy is a mere byproduct of this process.[1] This critique is therefore involved in taxonomizing only to the extent that the latter classifies the relevant material in a functionally intelligible order.[2] One has to make use of William of Ockham's razor: Entities are not to be multiplied beyond necessity, for it is not only arbitrary but also mistaken to postulate the existence of things, or kinds of things, unless one has to. Rather than from the taxonomy, the research thesis unfolds from the various elements of the critique. The taxonomy is thus not an end in itself, albeit it is a contribution of some significance. It coordinates courses of action and policy recommendations found by social scientists to have worked (or to be potentially workable) as prime movers in macro-societal transformation. It regroups some raw material in a

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[1]For instance, the division of labor, market extent and accumulation of stock are taxonomic categories, that were accentuated by Adam Smith's seminal *inquiry* into the nature and causes of the wealth of nations. The historical materialist modes of production (the primitive, *Asiatic, antique, feudal, capitalist,* socialist, and communist modes) are other taxonomic categories, that were unveiled by Marx's socio-historical *critique* of political economy, aimed at pinning down the way the economy of his time (industrial capitalism) functioned. Neither Smith's nor Marx's taxonomies, ensuing from their works, were per se the end of the study. The end was problem solving courses of action, capable of achieving such transformative purposes as augmenting the wealth of nations, or emancipating the individual, respectively.

This very byproduct logic can also be derived, e.g., from such taxonomic categories as Richelieu's raison d'état, Rousseau's general will, Montesquieu's ésprit des lois, Nietzsche's will to power, Toynbee's challenge and response, Mackinder's pivot area, Braudel's long durée, Schumpeter's innovative entrepreneurship, Gerschenkron's great spurt, Mead's purposeful change, Camus' reformative moderation, Maslow's self-actualization, Simon's pragmatic satisficing and bounded rationality, Lindblom's muddling through, Næss' relational holism, Kennedy's (and Kissinger's) mission overextension, Myrdal's cumulative causation, Perroux's pôle de croissance, Chenery's differing patterns, and Boserup's critical population.

[2]Functional in the strict sense of Parsonsian-Mitranyan Functionalism, used in the social sciences. In that sense, not all taxonomies are functionally driven; a classification is not inherently functional. It acquires that attribute only when it is delimited to serving the functional more than any other purpose (in this inquiry overcoming poverty, dependency and underdevelopment). Hence by functionally intelligible order of classification is meant that the taxonomy is structured with the paramount intelligibility guidance of functional workability, and applicability of its prescriptions, in contradistinction, e.g., of hierarchical or chronological order, topicality, typology, progression, gradation, graduation, prioritization, grouping, categorization, listing, ranking, relatedness, methodicalness (see Stephen Taggart, *Functionalism as a Model of Scientific Explanation* (1967); David Mitrany, *Functional Theory* (1975); James Sewell, *Functionalism: UN Programs Financing Economic Development* (1966); Michael Mulkay, *Functionalism, Exchange and Theoretical Strategy* (1971); and Don Martindale, *Functionalism in Economics and Political Science* (1965).

more useful format. It organizes these into mechanisms that could potentially lead to the sought transformation. Such organization is built upon and hence discloses the relationships between concepts and the conceptual structures categorized as mechanisms.

Without further ado about semantics, a mechanism[1] is but a course of action, a process, a device, a strategy by which socioeconomic transformation is brought about. By transformation is meant Sievers' reading of the Ethical System implemented in Indonesia in the early decades of this century, with the focus on raising both the material standard of living of the people and its social welfare, and, through a mixture of private enterprise and government mediation, modernize the population's psychological, economic and political life; create a middle class; integrate the traditional and the modern sectors; stimulate output; *industrialize;* and provide social overhead capital.[2] Liberalism would exist only to the

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[1]The term mechanism here has no relation to Newtonian mechanistic thought, of billiard balls and planets, for the economy involves willful beings, not merely particles, forces and energy, and it evolves in historical (irreversible) not logical time. Carl Menger, in the Methodenstreit dispute with Schmoller, makes a distinction between a mechanistic and an organistic approach. In contrast to the mechanical system, the organic system is characterized as being a "higher whole,"

> Not only *organisms,* but also *mechanisms,* show a purposefulness of their parts with respect to the whole, and not only in the former, but also in the latter, the normal function of the unit is conditioned by the normal condition of the parts. The organism is distinguished from the mechanism by the fact that on the one hand it is not, like the latter, a product of human calculation but of a natural process. On the other hand its individual part (each organ) is conditioned not only in its normal *function,* but also in its normal *nature* by the connection of the parts to form a higher unit (the organism in its totality) and by the normal nature of the other parts (the organs). This is by no means the case with a mechanism (Menger, *Investigation into the Method of the Social Sciences with Special Reference to Economics,* 1985: 132).

On that basis the proper approach for studying the core of economics, for Menger's purposes, is the mechanistic one, resulting in a theory of utility and prices, with atomistic exact character:

> The theory that "organisms" are indivisible units and their functions are vital expressions of these structures in their totality does not establish an objection to the exact (atomistic) orientation of the theoretical research either in the realm of natural or so-called social organisms (ibid., p. 139).

Menger thus stresses the view that Wilhelm Roscher's "organistic" metaphor has limited significance in the context of economics (and this inquiry concurs with this view but for reasons related to the difference between natural/biological and social research). Nevertheless, when dealing with the economic system as a whole, including its institutional and developmental aspects (as this inquiry does), Menger adopts a partly organically oriented approach, calling it "realistic economics," and assigning to it both an empirical nature and a descriptive one (see Jacob Jan Krabbe, *Historicism and Organicism in Economics: The Evolution of Thought* (1996: 50-3). It is this "realistic economics" that is adopted in this inquiry of *political economics,* using *mechanisms* as embodiments of transformational categories composing a holistic, not atomistic, perspective, which further distinguishes social from natural science.

[2]Irving Fisher considers capital to be any stock of wealth, that yields a flow of services over time --land, machines, buildings, raw materials, natural resources, or human skills. Income, for Fisher, is the surplus of

extent it reverts from laissez faire to its early humanistic roots, recognizing that when personal freedom and economic freedom come into conflict, the welfare of the people is paramount over that of the corporation's interest (Sievers, 1974: 132).

On the other hand, the senses in which this critique uses the terms economic growth and economic development, in contradistinction to transformation, are those of Furtado,[1] elaborated upon below, in the Structuralist Mechanism. Growth is essentially the mere rise of per capita income; development basically includes also the rise of productivity and the expansion of economic activities.[2] Both are limited to the economic domain, in

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that flow of services, above those necessary to maintain and replace the stock of wealth. And the rate of interest is the link between capital and income, for the value of capital is nothing but the present value of the future flow of income from it, discounted, that is, at the going rate of interest (see *The Nature of Capital and Income*, 1906).

[1]An analogous definitional approach to that of Furtado is adopted by Rondo Cameron in his *Concise Economic History of the World*, 3rd. ed. (1997: 8-9), albeit he uses the term "progress" instead of "transformation."

[2]Schumpeter (1954) draws an elaborate distinction between economic growth and development. The former consists of a gradual process of expansion of production --producing more of the same, and using the same methods in order to do so. Economic development, in contrast, is a more dramatic and disruptive process. It consists of the carrying out of new combinations of productive means, such that either the conditions of production of existing goods are transformed, and/or new goods are introduced, or new sources of supply or new markets are opened up, or an industry is reorganized --e.g., the creation of a monopoly position, or the breaking up of a monopoly position. In each case, innovation is entailed: in production methods, products, markets or industrial organization.

For Schumpeter growth is a slow and rather insignificant process, resulting from investment in additional capital, financed largely by reinvestment of profits. Development is an innovatory process. It is this that provides advancing economies with their real dynamic. The key actors in development are not producer capitalists reinvesting profits, but the entrepreneurs who perceive opportunities for using existing resources in new ways, and who organize and implement the exploitation of these opportunities, and the banks which create the credit that enables the entrepreneurs to finance new enterprises. Schumpeter's three common features inherent in most instances of economic development are:
(1) The mobilization of existing factors of production and their combination in new ways.
(2) Extension of credit, which is generally essential in order to provide the necessary command over these factors in the market.
(3) The presence of an economic entrepreneur, which is a sine qua non for the initiation of this process of resource mobilization, and for carrying it through to completion.

For Schumpeter, the essential feature of economic development is not the incremental accumulation of new capital, but the mobilization of existing factors in new combinations. Different methods of employment, and not savings and increases in the available quantity of labor, are the means of economic development. The onlending of savings deposits is far less significant in the financing of economic advance than the expansion of the monetary supply by the banking system (in direct contradiction to today's position of Friedman, other Monetarists and the IMF). The banker, by creating financial capital for particular purposes, has herself become the capitalist *par excellence*. The capitalist provides the finance, and carries the risk, of economic development, but she does not bring it about. This is done by the entrepreneur --someone who has the foresight to perceive new opportunities, and who takes the initiative to pursue them. She persuades the capitalist to provide the necessary finance, and uses this to organize a new combination of productive factors.

contradistinction to transformation, which extends to the social, political and other aspects of society. A country is underdeveloped[1] if the technical, economic, military, administrative

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In the early stages of industrialization, the entrepreneur and capitalist were usually one and the same person: the manufacturer. In more industrially capitalist societies, the two functions are generally separated, the role of the entrepreneur often being fulfilled by company managers, or members of boards of directors. Everyone is an entrepreneur only when she actually carries out new combination, and loses the character as soon as she has built up her business, when she settles down to running it as other people run their businesses. Thus, the crucial features of economic development are not the mobilization of savings by capitalists to finance the accumulation of more productive capital, but the actions of entrepreneurs in mobilizing credit to finance the procurement of existing factors of production, in order to combine them in new ways. Innovation lies at the heart of development, and the innovator is the entrepreneur.

Schumpeter saw economic development as a cumulative process, which falls completely outside the purview of comparative static equilibrium analysis (the fundamental method of neoclassical economics). On that count, the static theory of comparative advantage, as a basis for determining the appropriate pattern of imports and exports for underdeveloped countries, was rejected in most UDCs. They saw industrialization as the key to economic development, and that this would not be promoted by indefinite concentration on expansion of primary exports, in exchange for manufactured imports, as neoclassical economics would have them believe. Most UDCs further take the unneoclassical view that achievement of a satisfactory rate of resource mobilization for economic development would require a substantial degree of state intervention with the current operation of market forces in underdeveloped regions. This reason, second only to their national insecurity, obliges many UDCs' governments to behave in such ways that appear to Western observers as authoritarian or dictatorial. In most cases, one's stand is determined by where one sits; this accounts for much misunderstanding among many observers concerning what is going on in the UDCs.

[1]The terminology that describes the former European colonies developed over time. An earlier label, "backward societies," informed a colonial (and, in part, racist) vision. With decolonization, the term "emergent nations," the precursor to current "emerging economies," came into use, expressing a Western ethnocentric outlook, as if such newly independent nations as India, Egypt, China, Iran, had no history and no past. From the French *troisième force* and *tiers monde* the concept of a third world then emerged in Europe in the early 1950s --it is also an analogy to the Third Estate before 1789, the stratum not belonging to either of the most privileged strata of the day, the nobility and the clergy. Initially most of the "Third World" consisted of African and Asian countries. By the early 1960s the term took on economic characteristics and encompassed Latin America as well. Ethnocentrism again assigns first place in the hierarchy to countries ahead in economic and technological affairs: The third would be first if the criteria were the chronology of the human species, which begins with Africa, or total population, the democratic criterion, concentrated in Asia. The term soon gave way to the expression "underdeveloped societies," interpreted within the modernization school as meaning those countries that were still underdeveloped but on their way, in time, to join those already developed, once the right "free trade" medication was applied. "Free trade" is a neoclassical euphemism for opening the UDCs up, through self-inflicted surrender, to forces of global capitalism, which those countries fought hard and for long to rid themselves of, never mind their future and to hell with the poorest strata of their populations.

As the postcolonial societies began to take their place in international forums, and as "developmentalist" projects got underway, the more flattering but unrealistically optimistic alternative term "developing societies" became in vogue, fallaciously implying that the process of development was underway. More recently, the term "less developed countries" (LDCs) has been gaining ground in the vocabulary of diffusionist developmentalism, to replace the lingering, arrogant term Third World, which was so distortive and too offensive to many of the peoples it described. Also aware of the problem of this misused hierarchical expression, the Brandt commissioners used the geographic term "the South," in *North-South: A Program for Survival. However,* with such relatively affluent countries as Australia and New Zealand occupying the "wrong" latitudes, among other anomalies, GNP was not in perfect synch with geography. The term LDCs, again, incorrectly implied that those countries were merely a little less developed, and that they needed only persist along the way prescribed by Western institutions, until they become fully developed. Underdevelopment, however, is not historical backwardness, the result of late and insufficient capitalist development; it is the product of capitalist development, of the logic of capitalist expansion, which is inherently polarizing. That polarization is manifested in the periphery of the world equipment at its disposal is so markedly inferior to that which is in the hands of other countries, that the resulting inequality leads to domination, formal or informal, of that country by its better equipped rivals (see Ernest Gellner's "The Civil and the Sacred," in Nowak & Paprzycki's *Social System, Rationality and Revolution,* 1993: 320). It also leads to problematic social, cultural, and other human factors.

This critique embodies a topic embracing introduction (which also includes a methodological prologue), complemental abstract and conclusion, and quasi discrete chapters. The latter group the mechanisms --orthodox, heterodox, heterogeneous, and transformation versus growth-- and the transformation themes (reference to the Contents could mitigate any seeming complexity in the discussion that follows, and further mitigation could result from skipping the footnotes). Those themes unfold from the various mechanisms, whose aim is to serve the main functional purpose. They unfold, that is, from the first four chapters, then they are regrouped in the last. This modality precluded the separation of the literature review,[1] but, one hopes, saved redundancies and facilitated the unfolding of the themes. This is merely a matter of modality; there are no profound reasons as to why there are as many chapters, or as many sections in a chapter, or why some mechanisms are combined together in one chapter. The only purpose of the exposition's

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economy as imperialism (formal or informal) and dependency, whereby real development clashes with imperatives of capitalist expansion.

Underdevelopment thus is primarily the result of industrial capitalist penetration of precapitalist societies, which causes an underdeveloped development, or development of underdevelopment. The UDCs are neither in some original state, a curse, nor in a transitional stage of a unilinear process, already completed by the advanced capitalist nations. The latter were never underdeveloped, though they were undeveloped, and their development took place in a zero sum process of world capitalism, whereby the gains for one group of nations concurred, and continues to concur, with losses for the other. Not only thus are development and underdevelopment opposite sides of the same coin, but also the development of underdevelopment in the periphery was, and is, an indispensable condition for capital accumulation in the core, i.e., they are necessarily and causally interrelated. Meanwhile, a bogus theory of international trade, based on a justificatory reconception of Ricardo's notion of comparative advantage, rationalizes the continuation of surplus transfer from the periphery to the core, and the imposition of a raw material producing, export dependent, economic model upon the UDCs, to fit the productive and consumptive requirements of the DCs. Therefore, this inquiry, in concurrence with Celso Furtado (1964), André Gunder Frank (1967), Samir Amin (1974), and others, adopts the term "underdeveloped countries," to highlight its conclusion that underdevelopment is nothing but peripheral capitalism.

[1]Every endeavor is made, however, to demarcate the analysis and elaboration from the literature.

modality, besides intelligibility, is the functional purpose of discerning what is there that might be of use.

The orthodox mechanisms, doctrinal and established, entail the classical, Marxian, Keynesian, traditional and Bretton Woods. The classical fosters division of labor, market extent and accumulation of stock. The Marxian credits primitive accumulation and institutional change. The Keynesian upholds demand management. The traditional suggests complementarity of industry and agriculture in a big push to achieve a takeoff within the context of a stages-of-growth theory. And the Bretton Woods advocates unfettered liberalization, dubbed "structural adjustment." The Chilean experiment constitutes a case in point of Bretton Woods in action.

One can hardly inquire in social science today without taking the Marxian perspective into account, for much of contemporary social science is unthinkable absent the influence of Marx. It is only natural then that in the orthodox mechanisms the Marxian follows the classical, for this is their chronological order. Indeed, mainstream economics considers Marx --a theorist who albeit originated in the classical traditions has drastically changed the focus and direction of political economy and, virtually single-handedly, created a paradigmatic school of economic thought and worldwide disciples-- to be a classical economist, on the basis that he made use of the traditions of Smith and Ricardo. Paradoxically, it totally circumvents him in neoclassical economics. Hence while the new rendition of the classical school, neoclassical economics, depicts Marx as one of the founders of its parent school, it casts out his entire work as if he never existed. The study of the relationships between developed and underdeveloped countries is not of course the monopoly of Marxism, but cannot be authentically and fruitfully conducted in its absence, even as one ultimately disagrees with Marx's Voltairian revolutionary prescription for overcoming the problem of underdevelopment.

The Keynesian mechanism is the most serious endeavor in the last two centuries to reform capitalism from within, to infuse some realism into the unrealistic tenets of neoclassical economics, to replace the Great Depressions by a demand management growth (which is either ignored or attacked by supply side neoclassicism), and to institutionalize the international monetary system for the purpose of globalizing economic growth. Nonetheless, the resultant Bretton Woods organizations, geared essentially toward globalizing unfettered capitalism, dispensed with the entire Keynesian enterprise, and replaced it with neoclassical monetarism. In the process, these organizations have relegated the UDCs' economies to a servitude status to advanced capitalism, and wrecked havoc in the lives of billions of people who constitute the poorest of the poor the world over.

Whereas the Chilean experiment is an illustrative case in point[1] of Bretton Woods' design in action, the Keynesian work is imperative for understanding both the *ex post facto* rationale of FDR's New Deal --undertaken spontaneously and ad hocly[2] in reaction to the second Great Depression (1929-38)-- and the "original intent" of establishing the Bretton Woods organizations. Both the rationale and the intent are of significance to the development of the central thesis of this inquiry, bridled capitalism.[3] The traditional mechanism, on the other hand, attempted to extend some specific roots of classical economics, but it is strongly influenced by neoclassical economics, and it is still the best endeavor the latter school can contribute to the UDCs' transformation process.

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[1]The infamous riots against IMF dictates are known all over the UDCs, and the defective consequences of shock therapy are as familiar in Poland and Russia as they are in the UDCs.

[2]Terence Wilmot Hutchison has, however, argued that Roosevelt's New Deal was partly based on Thorstein Veblen's thought (see Hutchison, *A Review of Economic Doctrines: 1870-1929*, 1962: 266-7).

[3]Bridled capitalism is to be distinguished, from such ad hoc *measures as* FDR's New Deal, by its strategic orientation, encompassing scope, versatile ingredients, and, more importantly, inescapable objective. The latter is to enable the UDCs to function and self-transform *within global capitalism*, without surrendering to its dominant neoclassical mechanism or discarding useful, attainable aspects of other socioeconomic theories and mechanisms. The aim therefore is not to salvage capitalism from its crisis in the UDCs by ad hoc measures, as FDR's agenda (which was already put into effect prior to any Keynesian theoretical rationalization) was intended to be, the latter coming only three years later in Keynes' *General Theory* (1936). Nor is it to adjust, repair or fine tune capitalism, as the Keynesian enterprise hoped to do. The aim of bridled capitalism is to *muddle through capitalist hegemonic structures, the intellectual no less than the physical and institutional*, given that the containment of theories and practices of global capitalism is beyond UDCs' means.

The heterodox mechanisms, dissenting and nonconformist, include the delinking and the structuralist. The former emanates from the two inseparable yet distinctive perspectives of neo-Marxism and dependency, both grounded in the theory of imperialism.[1] It is also affiliated with perspectives on the semiperiphery, basic needs, and new economic order.[2] The *structuralist* mechanism is a stand alone school, especially because of its unique (inclusive, linking) policy recommendations, despite some affinity with the theory of imperialism and its offshoots. Hence it is exposited independently. It advocates planned industrialization and raising labor productivity, infant industry and infant economy protections and egalitarian reform, as well as *structural* change through import substitution complemented by export promotion, but not the neoclassical export led growth, all to be done within a context of regional and subregional cooperation while remaining within the global economic system.

The heterogeneous mechanisms, nondoctrinal and eclectic, encompass a diverse assortment of transformative, aspect-specific courses of action. They are nondogmatic, sociological and/or nonuniform. They entail such pragmatic, problem solving approaches as Eric Jones' impediment removal, Allen Sievers' (Weberian) production promotion, Arnold Toynbee's industrial revolution (as elaborated upon by Robert Heilbroner's development engineering), Nurul Islam's food security, Ragnar Nurkse's balanced growth, Harvey Leibenstein's critical minimum effort, and Albert Hirschman's fore-back linkages. Those

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[1]The dependency school originally evolved almost completely isolated from any stated theory of imperialism --i.e., Marxist-Leninist (monopoly), neo-Marxist (class-spatial), or non-Marxist/bourgeois (geostrategic). As the dependency theory came to overlap with the neo-Marxist theory, however, this distinction gradually evaporated.

[2]The UDCs, as projected by the delinking school, are for the most part the traditional colonial or semicolonial regions. They are the agricultural, plantation and raw material hinterlands of the capitalist powers. They have provided the latter with cheap (and, previously, slave --i.e., coerced cash crop) labor, raw materials and foodstuffs as well as markets and spheres of investment. In the process, their own economies, adequate for their traditional societies and not impaired for transformation purposes, were disarticulated to meet the metropolitan capitalist demands. This disarticulation is what prevents unadulterated development from taking place now, for it is harder to reverse a tendency towards decline, that is what a disarticulated economy involves, than to launch development where it has not yet taken place. Historically speaking, this has been the main reason for the condition of underdevelopment. The way out recommended by the delinking school is for the UDCs to delink from the global capitalist system, bring about a socialist revolution and cooperate among themselves.

heterogeneous mechanisms are ones that could not be accommodated with any of the other mechanisms. They could make more than one chapter, and they could be further internally taxonomized. Neither step would affect the research thesis however.

The transformation versus growth mechanisms are depicted respectively by communal equity and neoclassical efficiency. Efficiency, the neoclassical preoccupation, is juxtaposed to equity, an indispensable intermechanism in underdeveloped conditions, to contrast their attributes while avoiding redundancies. Both efficiency and equity are suggested as intermechanisms, i.e., common to whatever set of themes elected, with priority to efficiency, to uphold the economizing merit of capitalism. Basing law and economics, as well as economics per se, only on neoclassical efficiency, whether the latter is defined in terms of Benthamite pure utilitarianism, Kaldor-Hicks wealth maximization, or Kantian-Paretian individual autonomy, is rejected. Meanwhile, the importance of communal equity, the seal of political economic legitimacy in the UDCs (Khaliel, 1995: 65-93), is emphasized.

Finally the critique is regrouped in the final chapter on the transformation themes, which starts by the manifestation of underdevelopment. The transformation themes are the proposed generic and supplemental ones, which make not commodities but people (especially the worst off among them) the focus of the transformation process, to help UDCs alleviate poverty and override their dependency and underdevelopment. The themes, after the manifestation of underdevelopment, are semiclassified into the needed transformation, bridled capitalism, distributional corrections, fiscal efficacy end equity, Bretton Woods reform, muddling through the Bretton Woods regime, and prospects for transformation.

And in their collectivity, the abstract, introduction and conclusion, following the Scholastics, expose, *inter alia,* the general purpose, method and findings of the inquiry. Any excessive attempt at elaborate rationales for this format both contradicts the concept of economism and is moot, because the aim, as has been pointed out above, is not to furnish a taxonomy, for the latter is beside the point, which is to find out *what is to be done,* irrespective of taxonomies.

As to research tributaries, this critique, in disenchantment with the reductionist method prevalent in economics today, its static analysis, unrealistic assumptions, and technocratic bent, is conducted in the holistic footsteps of Smith and Marx, in the sense of deducing discernments from the *entire* social existence (but without applying an overarching paradigm as did Marx). Both Smith and Marx recognized that the social problem was indivisible into purely economic or whatever categories. They thus attacked the questions at hand on the basis of this conception. The principal sources of Smith's *Wealth of Nations* thus dig deeper than mere reductionist pecuniary concerns, which preoccupy latter-day economics, into moral sentiments, ethical codes, logical reasoning, political philosophy, national security, literary essays, jurisprudence and administrative law, and rhetoric and *belles lettres* (see Andrew Skinner, *A System of Social Science: Papers Relating to Adam Smith,* 1979; and Jeffrey Young, *Economics as a Moral Science: The Political Economy of Adam Smith,* 1997). Nor did Marx confine himself to strict pecuniary analysis to found his thought. He drew upon the collective profundity of German gentile philosophy,[1] world general history, British political economy, and French proto-socialism and sociology. Smith and Marx are thus the two source eclectic political economists *par excellence,* and this inquiry is conducted in their methodical footsteps.

[1]Marx's doctoral dissertation, at the University of Berlin (1839-41), was in Greek philosophy: *On the Difference between the Democritean and Epicurean Philosophy of Nature.* His thesis championed the Epicurean principle of the freedom of consciousness and human capacity to act upon nature, as against the strict determinism of Democritus (and contrary to the concocted determinism* ascribed to him by those who never dared to read his works). However, he was also well-versed in German philosophy, especially that of Hegel (see Norman Livergood, *Activity in Marx's Philosophy,* 1967: 32-3).

* Marx repeatedly and explicitly indicates that social and historical laws have the character of tendencies, e.g., "under capitalist production," writes Marx, "the general law acts as the prevailing tendency, only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations" (*Capital,* III, 1894: 159), and "this is the absolute [i.e., abstract, à la Hegel] general law of capitalist accumulation. Like all other laws it is modified in its working by many circumstances" (*Capital,* I, 1867: 644). Those who accuse Marx of determinism, on the other hand, never pointed any finger at Jean Baptiste Say, who explicitly wrote in his *Traité d'Economie Politique* (1803) that "*ces principes ne sont point l'ouvrage des hommes; ils derivent de la nature des choses; on ne les établit pas: on les trouve*" (quoted in Chuhei Sugiyama, *Origins of Economic Thought in Modern Japan,* 1994: 39).

An obvious disclaimer needs to be made explicit. This research is by no means unabridged, although, to the extent that one can evaluate, this is all there is of relevant value, negative as well as positive, in the literature. The monographs utilized in this critique are of course not exhaustive, but no literature of direct value and immediate relevance to its purpose is ignored or excluded. Of necessity there is a limitation on what to include, if only because of logical reasons. The political economic transformation literature is tremendous, and research comprehensiveness definitionally abridges encyclopedism. Prioritizing the tributaries of the inquiry, with the guidance of the research aim, is therefore inevitable. It is also important to stay within the general boundaries of political economy, especially its concern with prescription, as opposed, e.g., to the nonprescriptive domains within economic history, history of economic thought, international economics or international trade theory. Reference to such subfields is delimited to their overlap with political economy. There are also works that, for one reason or another, are incompatible with the first principles and aims of this inquiry, and thus can be either out of tune with its body and analysis or of no contribution to offer to its findings and thesis.[1] Analogous cleavages and cross purposes

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[1]An example of such sources in the literature is the work of Heinz Wolfgang Arndt, for example his *Rise and Fall of Economic Growth* (1984), but especially his *Economic Development: The History of an Idea* (1987). Arndt's work is a mixture of economic history and history of economic thought. His objective, as specified repeatedly, e.g., pp. vii & 5 of the latter, is "to explain how and why people's *ideas* changed or differed with circumstances in different parts of the world." As such, the field in which he couches his work is not political economy. Nor does his work contain any prescription other than the rationalized ones of extant status. The work, in its entirety, tells a story of *the idea* of development. Further, it "is concerned with views about the ends, not the means, of policy," and thus cannot even be strictly considered history of thought. This inquiry, however, is also about those means, and especially about how to tailor them to achieve the UDCs' ends, for part of setting a goal is finding a way to reach it; this is why this inquiry is squarely in the space of political economy, which deals with real typical, as opposed to ideal typical, categories. The latter, in its Weberian formulation, "does not depend on specific empirical forms" (see Jacob Jan Krabbe, *Historicism and Organicism in Economics: The Evolution of Thought* (1996: 96).

Arndt's chosen title is *Economic Development;* this inquiry's subarea in political economy is social transformation, which is a wider perspective. His work attempts to explain the extant status of the UDCs; this inquiry hopes to change this status. His focus is on "changes in people's *ideas* about objectives, as reflected in academic writing and public discussion;" this inquiry's concern is the forces and relations of production prevalent in the UDCs, their nexus with the policies of the DCs, and their potential for change. This inquiry touches upon ideas only to the extent they pertain to these forces and relations. Hence its approach is not ideational but rather materialist. Arndt advocates "free trade;" this inquiry, to the contrary, hopes to overcome imperialist icons and policies and UDCs dependency, striving for a basis for a new international economic order, which he considers to be "a dream." Arndt despises Marxist, structuralist and dependency theories; this inquiry does not. He believes imperialism is a Third-World-mania; this inquiry does not. He argues that international trade can be "the engine of growth" for the UDCs; this inquiry does not. He sets aside the analysis of the position of neoclassical economics with respect to the bifurcate this inquiry from such tributaries in the literature as "feminist economics," "miracle economics" and "teleological (theocratic) economics."

Another disclaimer is that bridled capitalism, entailing the generic transformation themes, is not a panacea for all UDCs' predicaments. It is hoped only to provide a badly needed escape hatch out of the ineffectiveness of neoclassical prescriptions to UDCs' development, a life jacket away from the failed policies of the IMF and World Bank; a new, discriminating, architecture capable of providing selective and flexible responses to economic troubles and contingencies, from among a variety of nondoctrinal, nondogmatic, multipurpose options. Therefore the aim of this critique is to neither theorize economics nor "discover" a theory thereof. Nor is the aim to construct an overarching paradigm of whatever kind. The aim is only to explore problem solving exits (or ways) out of the current dire situation of the UDCs. If two and half centuries of classical and neoclassical economics, spanning thousands of genuine and reputable scholars, have not produced a sound theoretical foundation for the transformation process,[1] a single inquiry should not aim at (much less be expected to) solve this problem univocally --once and for all.

Anyone uncomfortable with *generic* underdevelopment should, therefore, justify the current undifferentiating stance of neoclassical economics encompassing all UDCs and DCs under the same economic "laws" and lumping together Brazil, Somalia, China and Singapore under the umbrella of "structural adjustment;" or, alternatively, come up with a better method, but still within a holistic framework. *Ultimately, the persuasiveness of bridled capitalism, which is neither an overarching paradigm nor a law of motion, but merely an heuristic remedy, essentially resides in the absence of a better alternative.* And

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UDCs; this inquiry does not. He believes the Asian NICs developed essentially because of economic factors; this inquiry does not. He elects to not deal with power; this inquiry does indeed. Arndt's work and this inquiry are thus incommensurate.

[1]In his *Years of Upheaval* (1982: 672-3), Henry Kissinger poses and answers the question: "Do we possess a...theory for the *transformation* of developing countries?.... The fact is that we lack a coherent idea of how to channel the elemental forces let loose by the process of development...we have not yet learned how to build *institutions* capable of sustaining the...strains of development...." (emphasis added).

absent a better alternative, bridled capitalism should be considered a step in the right direction, especially given that such variety of socioeconomic formations as economically liberal England, social democratic Sweden, and national socialist Germany were all intellectually based on *generic* capitalism, which encounters little, if any, objection.

There does not seem to exist a clean cut way out. Enlisting strictly in one or the other of the transformation mechanisms is bound to provide no solution. Therefore, the supplemental themes are necessarily rather eclectic to make full use of the entire gamut of transformation mechanisms,[1] of which none captures the whole truth but each holds some.[2]

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[1]The terminology used in this inquiry and its title, "transformation mechanisms," are nothing out of the academic norms, even if they appear otherwise from the technocratic standpoint of neoclassical economics. The term "transformation mechanisms," moreover, is elaborated upon both above and below, notwithstanding the fact that the two constituent words of that term are in common use in the social sciences, particularly in political economy; they are no novelty.

On "transformation," see, e.g., Michael Ball, *Transformation of Britain: Contemporary Social and Economic Change* (1989); George Macesich, *Transformation and Emerging Markets* (1996); John Munkirs, *Transformation of American Capitalism from Competitive Market Structures to Centralized Private Sector Planning* (1985); Bernard Chavance, *Transformation of Communist Systems: Economic Reform since the 1950s* (1994); Jozef Brabant, *Transformation of Eastern Europe: Joining the European Integration Movement* (1994); Alan Gelb, *Transformation of Economics in Central and Eastern Europe: Issues, Progress and Prospects* (1991); Peter Mathias, *Transformation of England: Essays in the Economic and Social History of England in the Eighteenth Century* (1979); Charles Wilson, *Transformation of Europe: 1558-1648* (1976); Herbert Kitschelt, *Transformation of European Social Democracy* (1994); George Smith, *Transformation of Financial Capitalism: Capital Markets* (1993); Horst Albach, *Transformation of Firms and Markets: Economic Transformation Processes in East Germany* (1994); Robert Higgs, *Transformation of the American Economy: 1865-1914* (1971); Tamas Szentes, *Transformation of the World Economy: New Directions and New Interests* (1988); Edward Nell, *Transformational Growth and Effective Demand: Economics after the Capital Critique* (1992); Mahmoud Ourabah, *Transformations Economiques De Lalgerie* (1982); S. H. Axilrod, *Transformation to Open Market Operations: Developing Economies and Emerging Markets* (1996).

As to "mechanisms," similarly, there exist literally thousands of works in the social sciences, including political economy, whose titles start with the term mechanism(s).

[2]"The truth," as Oscar Wilde's often quoted dictum states, "is rarely pure and never simple." And as map making has, for centuries, made clear the fact that no map could be orthomorphic in all Earth's attributes, social science should reflect the fact that no theory can be conceived of, much less be truly representative, which covers more than a certain aspect of social life. There is no point of view from which everything can be seen. An example from economics is the juxtaposition of such Marxian aggregates as constant capital, variable capital, and surplus value, with such Keynesian aggregates as income, savings, investment, and consumption. It shows that each may have its part to play in the given type of analysis at hand. Marx's aggregates, e.g., operate over the long-term, and ignore the "parametric adjustments" caused by temporary shifts in supply and demand, while the Keynesian system is more sensitive to such short to medium-term fluctuations. On the other hand, the Keynesian theory operates in net terms, i.e., by focusing on inputs to and outputs from the economic system. This allows it to be used in a way that leaves the internal workings of the economy unexamined, something which is avoided when Marx's aggregates, operating as they do in gross terms, are the basis of analysis. Hence, "the Marxian aggregates depict the bone structure, as it were, of the capitalistic circular flow as seen through x-ray, whereas the Keynesian aggregates show...the delineation of...subject matter as projected on one dimensional plane" (Tsuru Shigeto, *Towards a New Political Economy*, 1976: 80).

These supplemental themes are intended to address specific needs within the transformation process, in conjunction with the generic themes. They thus provide the needed versatility to bridled capitalism in order to address different problématiques in UDCs' economies. A particular set of supplemental themes, compatible with a given condition, may then be selected and used by an UDC according to its circumstances. Country studies could therefore determine, through situation specific contextualization, the most suitable supplemental themes to the case at hand.

A measured degree of eclecticism is also tolerated in the supplemental themes because mainstream economics provides neither effectual strategies for UDCs' transformation nor coherent theoretical foundations thereof. More important, applying neoclassical prescriptions in the last two decades has been empirically[1] detrimental to both the standard of living of the poorest strata and the transformative aspiration of the general populations in many of those countries. On the other hand, the prescription of the only other overarching (paradigmatic) school of thought in economics, Marxian revolution, is unattainable.[2]

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[1]See Horowitz, in Myers (1987), Sidell (1988), Driscol (1988), Wanninski (1989), Stewart, in King (1990), Mosley et. al. (1991), Mosley (1992), Colombatto (1993) and UNDP (1990, 1993).

[2]Some would say calamitous, based on the Soviet experiment; others would add the Chinese experiment as well. Many Russians and most Chinese would disagree though; not because they approve of violence, but because they sought grand objectives and faced difficult choices in exceptional circumstances fraught with danger. Historic tradeoffs do not come free of charge. Abraham Lincoln would have preferred to preserve the Union without the heavy toll of the Civil War; Harry Truman would have chosen Japan's unconditional surrender without resorting to nuclear bombardment twice; and the French people would have opted for the Revolution *sans* the guillotine. However, even with the advantage of hindsight, most Americans today would probably choose the Union plus the War's toll over the Union and the Confederation; some Americans would perhaps argue that the use of nuclear weapons saved American lives; and a majority of the French people would more likely prefer the Revolution plus the guillotine to the feudal monarchy.

Unconditional prescription for social phenomena can thus be only a figment of human idiosyncratic imagination: Rational social prescription can be conditional only on objectives and constraints. Without approving of the horrible excesses of wars and revolutions, therefore, one has to conclude that an argument for condemning social practices can only come from a study of their objectives and constraints, something which, when it comes to the Soviet and Chinese revolutionary human tolls, is beyond the reach of this work. On such complex issues, of course, one should not expect unanimous agreement from everyone. However, neither should any views be shunned out because they are deemed disagreeable by some people.

For Marx the revolution is to come about in the advanced capitalist countries, not in the UDCs. However, he also realizes that even there "the trouble is that revolutions require a passive element, a material basis. Theory is going to be realized in a people only to the extent that it is the realization of its needs.... Will the theoretical needs be immediately practical needs? It is not sufficient that the idea strive for realization; reality itself must strive toward the idea" (quoted in Alfred Meyer's *Leninism,* 1986: 233). Empirically, moreover, the conception of a *fruitful* revolutionary society controlled by the workers proved so far to be not in the cards in the West, where the state of the proletariat has been improved, and proved to be impotent in Russia, where the proletariat was small and weak; it is therefore safe to conclude that effectual revolution is utterly unattainable in the UDCs, where proletariats do not even exist.

Revolutions, in the Marxist sense, arise out of insoluble conflict between productive forces and the system of productive relations in which they operate, which can only be overcome by a transition to another mode of production, and hence the hegemony of a different social class. This may or may not come to be true "in the long-run," when "we are all dead." In the short and medium-run, which is all that counts any way for a desperate UDC in today's neo-*Leviathan,*[1] revolution is unattainable also because of capitalist élite interdependence the world over, backed by power[2] structures of military alliances and technology and arms monopolies that preclude a weak and poor people from choosing even

[1]Hobbesian Leviathanic human beings --self-preservingly motivated, perpetually power hungry-- are led to a condition of war of every person against every other in *the state of nature.* Realizing that life in the latter would be *solitary, poor, nasty, brutish, and short,* rational maximizers agree to a social contract with the Sovereign, thus empowered to do anything except order a "subject" to kill oneself (see Thomas Hobbes, *Leviathan,* 1996). Absolutist conclusions are thus derived from individualist premises. True and false, in *Leviathan,* were attributes of speech, not of things. In today's neo-Leviathan, they are attributes of "preference revelation." Harmony theoretically replaces war, but the Market is assigned the very role of the Sovereign, the DCs' market, that is; laissez-faire replaces absolute sovereignty.

[2]Power as the ability to get others to do what they would otherwise not do. Power, that is, in both its soft and hard aspects, i.e., the ability to persuade as well as to command, using the military, economic and cultural-ideological components (or "the stick, the carrot and the hug," *à la* Kenneth Boulding's *Three Faces of Power,* 1989).

their economic orientation, much less revolting. If they unwisely do,[1] then a counter revolution can be easily concocted by power hegemons, after the poor strata have incurred heavy human and economic costs,[2] and the bourgeoisie has transferred its capital and hoarding abroad, leaving the country in ruin.[3] External hegemons need not even show up; they can merely rely on regional surrogates, or even supply and/or coach the domestic comprador bourgeoisie to do the job.[4] *Divide et impera,* from time immemorial, has usually worked. So, in UDCs' weak and divided conditions, a revolution cannot be carried out *successfully* as long as it is necessary, and will no longer be necessary, paradoxically, once it becomes feasible.

Even the century's most prominent revolutionary stressed *the contingency* of the century's most notable revolution. In a passage, quoted in Colburn (1994: 174), Lenin conceded that "if the Revolution has triumphed so rapidly it is exclusively because, as a result of a historical situation of extreme originality, a number of completely distinct currents, a number of totally heterogeneous class interests, and a number of completely opposite social and political tendencies have become fused with remarkable coherence."

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[1]Functionalism, for example, depicts society as being in a permanent, self-regulating state (equilibrium), and thus views revolutions as profoundly anti-social (what Chalmers Johnson in *Revolutionary Change,* 1966, terms "dysfunctional") events which must be avoided.

[2]See Frederic Lane, "Economic Consequences of Organized Violence," *Journal of Economic History* (1958), and William Playfair, *An Enquiry into the Permanent Causes of the Decline and Fall of Powerful and Wealthy Nations* (1805).

[3]"In the Fall of 1978," during the Iranian Revolution of 1978-9, "strikes had shut down most bazaars, universities, high schools, government offices, factories, oil fields, and refineries. Meanwhile the wealthy elite was escaping to the West taking over $2.5 billion out of Iran in the last three months of 1978" (Henry Munson, *Revolution in the Middle East,* 1988: 62). Not only did the country's economy crumble, but also its wealth was siphoned off. The cost of capital outflow was inflicted upon the poorest strata of society, whose interests the revolution was meant to restore. This is in part what a revolution is.

[4]"In addition to their own formidable economic difficulties," Forrest Colburn argues in *The Vogue of Revolution in Poor Countries* (1994: 67), "every contemporary revolutionary regime has been attacked, by either a counter revolution, a secessionist movement, or an invading neighbor. Whatever their inspiration may have been, instigators of such opposition attempt to capitalize on economic dislocations and reverses within the revolutionary nation. The cost of defense...becomes exorbitant: A drain on resources that could be productively employed, not only in their own right but also as catalysts to stimulate the reshaping of the economy. And since defense of national sovereignty does not necessarily make the populace willing to accept economic change or sacrifice, counter revolutionary aggression has a political as well as an economic cost."

Quite an early testimony to the role of *contingency,* the underlying agent of change in the works of Stephen Jay Gould.[1]

Moreover, violent revolutions tend to fail to change the underlying dynamics that cause them, and they feed a cycle of violence that is hard to break. Furthermore, the revolutionary momentum, historically, is short lived after the revolution's empowerment. Sustaining radical fervor for long, when a revolution has already succeeded, is hardly possible. Revolution engenders divisions among different segments of society whose interests clash. And revolution becomes tiresome to the average citizen and, eventually, constitutes a drain on popular support for new power holders.

Alternatively, the UDCs are not privileged with a Germanic tribalism that would produce bourgeois society through serf feudalism via gentile militarism. Nor do they have the luxury of sitting and waiting for an external stimulus, either direct colonial conquest, full economic penetration or all out proletarian revolution in the West[2] (the one in Russia has already proven impotent), for the Eurocentric processes of modernization, industrialization and economic development to take place on their own pace and take these countries out of misconceived feudalism[3] to utopian communism via disarticulated capitalism. UDCs'

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[1]See, especially, Gould, *Mismeasure of Man* (1981). On the general concept of "spontaneous order," the notion that the existing social order is of such high complexity that it invariably takes its form not from deliberate calculation but as the unintended consequence of countless individual actions, many of which may be the result of instinct, habit, and even indirection, see Ronald Hamowy, *The Scottish Enlightenment and the Theory of Spontaneous Order* (1987).

[2]"Core capitalism," argues Christopher Chase-Dunn, "is dependent on peripheral capitalism because exploitation of the periphery provides a good bit of the resources that core capital uses to pay higher incomes to core workers, and the reproduction of an underdeveloped periphery legitimates the national capital-labor alliances that provide relative harmony of class relations in the core and that undercut radical challenges to capitalist power" ("World-Systems: Similarities and difference," in Sing Chew and Robert Denemark, *The Underdevelopment of Development,* 1996: 256). And in his *One Dimensional Man* (1964: 84-133), Herbert Marcuse (1898-1979), the German philosopher and member of the Frankfurt school of critical theory, who upon residing in the US in 1934 turned in the 1960s to be an enthusiastic supporter of the student and Afro-American movements, and became known as the "father of the New Left," described how advanced technological society was able to contain the forces of revolution by coopting the working class through consumerism, creating "false needs," compounding alienation and producing a system where people are enslaved but believe they have freedom, "unreal freedom." If Chase-Dunn and Marcuse are right, and they might indeed be so despite their projection of only one part of the picture, then those holding their breath waiting for a revolution in the West might not live long enough to see its materialization.

[3]The tendency of stretching the concept of feudalism to include virtually all agrarian based, nonslave societies before the emergence of capitalism is misconceived. It conveniently forces a diverse range of noncapitalist societies (European, Asian and African; nomadic, pastoral and agrarian) into the monolithic

desperate situation can neither afford them to be that passive nor sustain them as all out revolutionaries.

The crux of the current UDCs' theoretic choice dilemma therefore is that while neoclassical "structural adjustment" is a sufficiently established and well-documented failure, Marxist revolution is unattainable.[1] *And these are the only two overarching/paradigmatic schools of thought in economics.* Both schools have come to exclude geo-economic categories, with neoclassicism portraying developmental economics as a harmonious psychiatry and neo-Marxism projecting it as a revolutionary theology. One has no alternative therefore but to venture beyond these two "rigorous" and "coherent" domains,[2] respectively, if any solution at all is to be found for the dire situation of billions of

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category "feudal," rather than struggling with a multilinear approach to social change. Feudalism is a peculiar term for the particular configuration of economic, juridical and military institutions characteristic of medieval Europe, but not necessarily to any other part of the world. The transition from feudalism to capitalism in Europe can thus be associated with a particular pathway of social change, rather than any general unilinear pattern (see R. J. Holton, *Transition from Feudalism to Capitalism*, 1985). That transition thus was path dependent, for history matters. Obviously, Latin America, for example, could not have been feudal, since it was colonized by the newly hegemonic Europe; hence it was capitalist since its conquest and immediate incorporation into the capitalist system.

Further, Mahmood Ibrahim, in his *Merchant Capital* (1990: 197), has developed the thesis that contrary to Europe, whereby the destruction of feudalism engendered the growth of merchant (and eventually industrial) capital, the Middle East followed the opposite path: Merchant capital and its accumulation gave way to the growth of (quasi) feudal and military rule. The order of the transition was thus reversed. Along analogous lines, Samir Amin juxtaposes protocapitalist (mercantilist) Europe (circa 1500-1800) with China/the Middle East. In both contexts protocapitalist forms existed. However, whereas the evolution of the political system in Europe led from the feudal fragmentation of medieval power to the centralization of the absolute monarchy, in China/the Middle East there was no equivalent of feudal fragmentation: The centralized state preceded protocapitalism. Hence, again the transition's order was in reverse in both contexts (see Amin, "The Ancient World-System versus the Modern Capitalist World System," in Frank and Gills, *The World System: Five Hundred Years or Five Thousand?*, 1993: 252-3).

Furthermore, "Medieval Europe," as A. G. Frank and Barry Gills point out, "was socially, politically, and economically quite backward or less developed in comparison with the contemporary cores in the world system, all of which lay to the East. Perhaps no other region in Eurasia suffered so deep and prolonged a retrogression after the classical period. In this sense, medieval Europe was an exception rather than the rule, and Eurocentric preoccupation with feudal social forms distorts our appreciation of real social, political, and economic development in the world as a whole during those centuries. Thus, in this regard also, Eurocentrism distorts our understanding of human history" (*The World System: Five Hundred Years or Five Thousand?*, 1993: 24).

[1]Let alone whether such a revolution would be successful.

[2]Rigor in economics may be a necessary, but (even if this is the case) it is not a sufficient, input for producing good policy, that which promotes the common good. Thus, Thomas Mayer's book title, *Truth vs. Precision in Economics* (1992), is its message: Analytical rigor may have to be traded off against practical relevance. And Mark Blaug's conclusion from his study of the five century evolution of the quantity theory is that "if we believe that the quantity theory of money is true, it is not because we find the theory underlying it so plausible and precisely expressed that we feel impelled to assent to it. *It is facts and not analytical rigor that make the quantity theory good economics. I venture to assert that this is so with*

people in the UDCs. For that purpose, some principled eclecticism may not be too much of an intellectual inconvenience to endure.

One more reason for the necessarily eclectic aspect of the supplemental themes is that efficiency is hereby rejected only insofar as it is the single criterion upon which "law and economics" as well as economics proper are based. However, efficiency, in the straightforward sense of continuously rationalizing production, distribution and exchange, maximizing the ratio of output to input in each case, means economizing, which (together with provisioning --that counts most in underdeveloped conditions) is the essence of things *economic,* and as such cannot be abstracted from. Therefore to the extent that neoclassical economics enhances efficiency, one has to adopt that contributive part of that school, a part which is not given enough attention in Marxian economics (notwithstanding the works of Oscar Lange, Abba Lerner, and Maurice Dobb, specifying the conditions required for an optimum allocation of resources).

Again one more reason for resorting to measured eclecticism is that the labor theory of value is appreciated, essentially for commonsensical reasons; not even one scholar dare deny the fact that labor is a source of value or a factor of production.[1] Yet the significance of

most if not all economic theories" ("Why Is the Quantity Theory of Money the Oldest Surviving Theory in Economics," in Blaug et al. *The Quantity Theory of Money: From Locke to Keynes and Friedman,* 1995: 44, emphasis added).

Further, international political economy (IPE), a subfield of international relations --which is a multidisciplinary field, combining together the international aspects of politics, economics, history, law, and sociology, and entails the subfields of international organization, foreign policy making, strategic studies and "peace" research, all focusing more on functional vigor than academic rigor-- emerged as a *heterodox* approach to international studies during the 1970s as oil price hikes and the breakdown of the Bretton Woods international monetary system highlighted the importance, contingency and weakness of the economic foundations of world order, whereby economics was accused of being too abstractive, inaccessible and dysfunctional. Drawing mainly on historical sociology and economic history, IPE instead proposed a fusion of economic and political analysis. In addition, adherents --liberals as well as Marxists-- rejected the reliance of social science on the territorial state to define the unit of explanation, preferring a holistic approach to the international system.

[1]Nor could Samuelson deny that fact in his vehement attack on the labor theory of value (LTV), his argument that "the existence of scarce land has destroyed the simple LTV," and his reference to Cantillon's physiocratic "land theory of value" (see Samuelson, "A modern Treatment of the Ricardian Economy," *Quarterly Journal of Economics,* 1959: 390). Nor was that fact denied in the more vicious attacks on the LTV, by, e.g., Hans Brems, in "Cantillon versus Marx," *History of Political Economy,* 1978, vol. 10, no. 4, Winter (and Gintis-Bowles, 1981: 18-19), referring to "peanut" theory of value and "horse" theory of value. Nor is that fact denied in Steedman's formal argument (in *Marx and Sraffa,* 1977) that prices can be determined without any reference to value (Sraffa's "standard commodity" links the labor power of the proletariat and the profits of the capitalists without the transformation of values into prices).

capital as another factor of production in modern economies is also appreciated, for pragmatic reasons. Smith's capital was basically a fund for the payment of laborers and the purchase of material, and not of machinery, the latter being considered merely an accessory to the labor force. However, in the same year in which Smith's *Wealth of Nations* appeared, 1776, James Watt succeeded in setting his first steam engine in motion. Only a quarter century later, therefore, fixed capital became a new fact of life that Lauderdale, in his *Inquiry* (1804: 254), pointed out that "not by supporting the laborer, but by replacing him, capital becomes a source of value." Viewed from a pragmatic standpoint, Lauderdale's insight is certainly right, no offense to Marx's dead labor, or Ricardo's store up labor, for although either notion is a valid theoretical concept, it is beside the point: It defies functional operationalization,[1] it is not of much practical help to an UDC in need of foreign exchange (capital) to procure machinery for its industrialization program at the threshold of the twenty-first century. After all, Marx himself gave his monumental critique of the dominantly industrial socio-economic system the title *Capital,* not labor, presumably because it is capital that distinguished that system from previous ones.

Hence the proposed themes of this critique are no fixed dogma, but a mere general guide to action. They are an orientation, a framework of attitudes and practices for the interplay of forces. They are *heuristics* (rules of thumb), probatory and dynamic; they are

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The LTV, of course, is not a holy cow, nor is it the preserve of the whole truth. However, the LTV, with all its technical shortcomings, has the advantage of addressing the real issue at stake. The fundamental question is not one of finding relative prices, which makes such clumsy and/or technical criticisms as the "transformation problem" beside the point. Nor is the issue merely from where the profit comes. Rather, the problématique concerns the social (not the technical or piecemeal) contradiction between persons and groups in human society. The LTV accounts for that; a peanut TV, or a horse TV, or a land TV, cannot. Indeed, Rajnit Sau (in *Underdeveloped Capitalism,* 1988: 50) argues that "there is plenty of scope for weeding out technical limitations of the...law of value, but there is simply no alternative to it." Therefore, the desire of Marx's critics to pin his contribution down through technocratic tools precisely misses the point: His works are designed not to adhere to reductionism but to practice holism, not to close the minds but to open the eyes, not to rationalize the unjust world but to change it. They have every right to disagree with him, but they have no right to excommunicate and banish his contribution: McCarthyism can nowhere do greater harm than in academia.

[1]At least power distribution is a crucial variable among many disturbing causes which account for the discrepancy between the stubborn fact of this operationalization defiance and the theoretical validity of these two concepts of Ricardo and Marx.

not laws, nor are they, *nor can there ever be*, the final word on the matter,[1] for whereas nature *may be* immutable, society is constantly changing, whereby a static Being is merely a moment of the dynamic Becoming. Whereas mechanical motion is the product of certain physical forces, economic phenomena, especially in the power lacking intricacies of underdevelopment conditions, result, for the most part, from certain normative juridical postulates.

Every idea of economic policy has a definite perception of economic theory at its root. And whereas the object of perception to the natural sciences is not subject to the human will, and therefore eternal, the object of perception of the social sciences is molded by human beings and their wills, by concepts, sentences, utterances, by deeds done, acts taken, words spoken, and therefore changes with the history of humanity.[2] All things social change. Change, thus, is the only social constant. Moreover, because in the difficult conditions of underdevelopment, in contradistinction to those of development, one encounters as much human postulates as economic tendencies, because options are so limited, the germane question concerns as much "what is to be done" as "what is," and both aspects have to be related. Therefore the sought transformation will not develop by spontaneity alone. It has to be consciously pursued. It is not a law of nature, but a task of woman and man.

To want to exclude sentiment from economics, by neoclassical (Friedmanite) disinterested researchers who believe the realism of premises is irrelevant, is to attempt to square the circle, and in the process either self-deceive, be deceptive to others, or both.

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[1]That is to say the proposed themes are not of the type expressed in the *Principles* (1848: 515), whereby the all-round social scientist John Stuart Mill stated, nonetheless, that "Happily, there is nothing in the laws of Value which remains for the present or any future writer to clear up; the theory of the subject is complete."

[2]In denouncing Terence Hutchison's "ultraempiricism," Fritz Machlup, in *Methodology of Economics and Other Social Sciences* (1978: 152-3), states that "the essential difference between the natural and the social sciences" is "that in the latter the facts, the data of 'observation,' are themselves results of interpretations of human actions by human actors. And this imposes on the social sciences a requirement which does not exist in the natural sciences: that all types of action that are used in the abstract models constructed for purposes of analysis be 'understandable' to most of us in the sense that we could conceive of sensible men acting in the way postulated by the ideal type in question."

Persons (let alone societies) are not just "phenomenal objects," like rocks, trees and even animals, about which "laws of regularity and predictability" can be established, but are thinking, feeling, calculating, purposive beings. The human observer is also an instrument of observation and, like other instruments, requires a theory for its proper use (Abraham Kaplan, *The Conduct of Inquiry: Methodology for Behavioral Science,* 1998: 58-9). "Facts," thus, never speak for themselves:[1] Both they and the observer arrive theory laden.[2] The laws that govern astronomy may interest some people, but the tendencies that regulate the distribution of incomes interest everyone. Nobody thinks the order of the stars good or bad, but everyone has an opinion on whether the order of the human world is right or wrong. No will to objectivity (Weberian freedom from valuation) can change this fact, even the most objective person cannot escape judging socioeconomic precepts. And the judgment of people on reality no doubt shapes, but more importantly is well- shaped by, this very reality.[3] *Evidently, therefore, it is better to do without any overarching-schematic model than to use a mistaken one* (the marginal productivity theory, especially with regard to distribution),[4] *or to use the right one* (the labor theory of value, especially its explanatory power of the inner workings of capitalism) *the wrong way, dogmatically.* And measured

[1]Indeed, Jean-Jacques Rousseau urges: "Let us begin by laying the facts aside, as they do not affect the Question" (quoted in C. C. Lamberg-Karlovsky, "Third Millennium Modes of Exchange and Modes of Production," in his and Jeremy Sabloff, *Ancient Civilization and Trade,* 1975: 341).

[2]Samir Amin indicates that science and ideology are inseparable, defining science as knowledge of the objective factors that bring about change, and ideology as the value system underpinning the advocacy of a particular social program ("On Development," in Sing Chew and Robert Denemark, *The Underdevelopment of Development,* 1996: 75).

[3]That is not to say, however, that it is useless to be objective, nor that one should not strive for objectivity, nor that no one's economic analysis is any more objective than anybody else's. Rather, it only means that one should know one's biases (and those of others) while attempting to be objective, for no one is value-free.

[4]See, for example, the analysis of Marshall's scissors' analogy combining the influence of demand (the utility blade) on value in the shorter run and "the more important influence of cost of production (the labor or supply blade) on value in the longer run," in Warren Samuels and Thomas Patchak-Schuster, "Aspects of the Discursive and Interpretative Structure of Marshall's Principles," in their *Economic Thought and Discourse in the Twentieth Century* (1993: 163-6).

eclecticism, as the repudiation of piety or fideism towards one theoretical tradition, is certainly a virtue, a means of liberation from mystification.

Still another reason for measured eclecticism is that old economic theories do not die, and they do not die not because one is built on the other but because one is independent from the other. Indeed, in the history of economic thought, most disputes[1] over the fundamental aspects of economic analysis are due to factors outside the scope of economics per se. Such factors include conflicting currents of thought concerning methods of reasoning in the social sciences. Economics in an era is thus partially a creature of its *episteme,* the epistemological paradigm of the epoch. And more often than not an old *episteme* undergoes a revival through the process of cross cultural dialectics, thereby resulting in a renaissance of an old economic theory.[2]

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[1]The quantity theory of money, for example, is a major dispute splitting two subschools within "mainstream" economics, the Keynesian and the monetarist. If the theory is true, then there is something wrong with Keynesian economics. If it is false, then there is something wrong with monetarism. The latter implies a preference for monetary policy, coupled with a reliance on the money supply as the appropriate target for monetary policy. This is frequently associated with a preference for a monetary growth rule over any discretionary method of controlling variations in national income. Monetarism also includes the belief in the inherent stability of the private sector; focusing on the price level as a whole rather than individual prices; rejection of an unemployment-inflation tradeoff in favor of a vertical Phillips curve; belief in the steering potential of monetary policy; and emphasis on high powered money as an indicator of the effectiveness of monetary policy. All of the above is anchored in the quantity theory of money, in the sense of the predominance of monetary influences on nominal income, leaving real income or output determined by the real forces of productivity and thrift. Monetarism thus rests on the neutrality of money, the tendency of changes in the money supply to affect prices but not quantities.

Keynesian economics, to the contrary, implies the denial of neutral money, the insistence that changes in the supply of money are perfectly capable of altering output and employment. Therefore, whereas the monetarists are full of praise for Locke's analysis of the determinants of velocity, Hume's assertion of the neutrality of money, and Thornton's analysis of the indirect transmission mechanism of money on prices via interest rates, the Keynesians cast doubts on the belief that any nineteenth century economist, whether classical or neoclassical, ever held that money is neutral in the long-run, and argue that what they emphasized instead was the nonneutrality of money in the short-run, that the Quantity Theory was the first theory of short-run macroeconomic stabilization. The point then is that such disputes, even within "mainstream" economics, testify to a fundamental thesis in the historiography of political economics: The exogenous views one takes of current economic issues influence one's interpretation of the history of economic thought, and vice versa, for there is a dialectical interaction between the past and the present which no one can escape, try as one may (see Mark Blaug, "Introduction," in Blaug et al. *The Quantity Theory of Money: From Locke to Keynes and Friedman,* 1995: 1-3).

[2]One example is the time path of the labor theory of value, from the era of Ibn Khaldun and al Maqrizi to those of Smith and Ricardo, Engels and Marx, and the latter's current disciples. Another example is the theory that public initiative should complement the role of private entrepreneurs. The core argument of Xenophon's *Poroi* is that the city of Athens itself ought to take the initiative in manufactural entrepreneurship. In the long distance trade sector this could be done by public acquisition of merchant vessels and leasing them under a system backed up by securities. Xenophon's second suggested line of state activism is a big push in the mining sector directly leading to more monetary purchasing power and budgetary revenue, namely a more active extraction from the silver mines. In chapter IV he unfolds an

Moreover, tolerating a measured degree of eclecticism in social inquiry is not unprecedented. Indeed, Rajaa' (Roger) Garaudy (1969: 169) considers this method inevitable for dealing with the complexity and heterogeneity of social phenomena, undemarcated by an infinite range of gradations and variations. Half a century prior to Garaudy, Lewis Henry Haney, an ardent composer of eclectic thought, hence a disciple of historicism in the wider sense of the word, upheld, in his *History of Economic Thought* (1911: 256-78) and *Social Point of View in Economics* (1914: 41-3), the conclusions that a social point of view was the only correct one for judging economic phenomena, and that the great questions of political economy cannot be mustered in isolation from their setting in real life; hence the imperatives of principled eclecticism. The medal of eclecticism, however, goes of course to Marcus Tullius Cicero, whose seminal eclectic political economic philosophy, written in the first century BC, draws on Platonic, Stoic, Epicurean and Aristotelian sources.[1] And references to Augustine of Hippo and Thomas Aquinas, other masters of eclecticism, come later in this critique.

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almost complete feasibility project in which the required capital has to be raised by a joint stock company and the needed manpower by additional slave labor.

Xenophon argues that these additional public initiatives are needed because the private entrepreneurs, operating at a low productivity with high risk, prove to be unwilling to meet the challenge. The increase of scale, made possible by a pooling of private and public capital funds and labor inputs, would increase the revenue and diminish the risk. Versions of this theory of Xenophon were to reappear in the works of, and measures taken by, the mercantilists of the seventeenth and eighteenth centuries, and in FDR's New Deal and Keynes' *General Theory* twenty-four centuries later. And apparently aware that a future school of (neoclassical) economics might attempt to undermine his theory, Xenophon explicitly states:

> There is no reason to fear that a public company formed on this plan will conflict with the interests of private persons, or be hampered by them. Just as every new adhesion to a new confederacy brings an increase of strength to all its members, so the greater will be the number of persons operating in the mines, the more treasury they will discover and unearth (Xenophon, *Poroi*, IV, 32. *Poroi* is a small brochure on fiscal and budgetary policy, rendered in English with the title *Ways and Means, and* quoted in Louis Baeck, *The Mediterranean Tradition in Economic Thought*, 1994: 58-60).

[1]See Cicero, *On Commonwealth* (1929); *On the Good Life* (1971); *On Duties* (1991); *On Government* (1993); *On Moral Obligation* (1967); *The Nature of Man* (1982); *Ethical Writings* (1887); *Letters: The Whole Extant Correspondence* (1899-1900); *Selected Political Speeches* (1969); *Basic Works* (1951); *Cicero in Twenty Eight Volumes* (1912-77).

Economics, in contradistinction to political economy,[1] is little more than an expression of the time that has created it; *"economics,"* contends Rajani Kanth, *"is simply the crown jewel of the ideology of capitalism,* nay *modernism";*[2] and "economics," argues Donald McCloskey, "is nothing more than a species of persuasive rhetoric, not really different from literary criticism and aesthetics" (Quoted in Mark Blaug, in his *Not Only an Economist*, 1997: 23). Neoclassical economics, no less than scholasticism, and the sooner the better, will thus succumb to the fundamental fact of all history, by which in the course of time even sense turns to nonsense, truth to error, and the unimaginable to commonplace. The whole history of thought testifies to the relativity and historicity of human understanding. Nothing is quite certain. Nothing holds true for more than a time, whether the subject matter is creed or deed, thought or thing, economics or politics.[3] The "doctrine of

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[1]The core of political economy, according to Marx, is the tradition of theories of surplus value, found in Petty, Boisguilbert, Cantillon, Quesnay, Steuart, Smith, Ricardo and Sismondi. Political economy seeks to grasp "the inner connections" rather than "the multiplicity of outward forms," a characteristic related to the recognition of production (or labor) as the source of surplus value, hence of the labor theory of value. This tradition of surplus theory entered its twilight zone with Mill's muddy, unwarranted eclecticism in the mid-nineteenth century (see Harry Landreth, *History of Economic Theory: Scope, Method and Content*, 1976: 117-51), and was submerged and forgotten as a result of the marginalist ascendancy in the 1870s and Marshall's assemblage of marginalism and Ricardian classicism as "economics" (rather than political economy) in the 1890s, whereby surplus value and distribution were all but discarded. The new assemblage came to be known in the post-WW II era as "neoclassical economics" (see Tony Aspromourgos, *On the Origins of Classical Economics: Distribution and Value From William Petty to Adam Smith*, 1996: 2-6).

[2]See Kanth (1997: 3). Kanth's "point," therefore, "is not to criticize [neoclassical] economics endlessly, *but to dispense with it altogether"* (ibid.).

[3]Science is still possible, nonetheless; nondogmatic science, that is. Roy Bhaskar's seminal examination of the ontological question (raised first by Marx) as to whether, by its nature, society is amenable to scientific investigation resulted in an affirmative answer. Social forms, as Bhaskar has shown, are prior to intentional acts. Ontology is *relatively* independent of epistemology; it is autonomous because it preexisted. It is not I think, therefore I am, *à la* Descartes; it is I am, thus I think. People are born in social systems. They then attempt to function within these ready made contexts. Ontologies thus exist *relatively* independent of human will/choice. Causal power exercised on human beings thus constrain them; it also makes them realize that ontology exists. Society is nonempirical; it is rather invisible. But people know society by its properties, its social mechanisms.

This preexistence of society nonetheless means that it is a transformative phenomenon (the grandparent's society is different from the grandson's), it cannot be static. Because it is autonomous, however, *society can be studied* (contrary to the neo-Kantian/Weberian contention that society cannot be comprehended because of its complexity, and that only the individual can be observed and understood). *Social science, therefore, is possible. However,* because science is a social practice, it could be false (as are, for example, methodological individualism and the H-O-S theory). Bhaskar's "judgmental rationality" thus posits that despite epistemic limitations it is possible to sort truth from falsity in the competing claims to ontological knowledge.

Menger, Jevons and Walras is today the dominant dogma," contends Stark (1994: 215), adding that "Edgeworth's and Pareto's disciples consider the theory of marginal utility and equilibrium as a piece of eternal truth.... But even this new doctrine is only the expression of a transient epoch in the change of history, yesterday not yet dreamed of, today in full splendor, tomorrow abandoned and forgotten."

This century alone, several tangible empires, not just theoretical constructs, have disappeared altogether: the Ottoman, Austro-Hungarian, Japanese, Third Reich, French, British and Soviet. The empire of neoclassical economics, mighty as it may feel today, can and should expect no better. This is the verdict of history. For "though economic analysis and general reasoning are of wide application," conceded none other than Alfred Marshall (1890: 66), "yet every age and country has its own problems; and every change in social conditions is likely to require a new development of economic doctrines." Neoclassical economics, no matter how hegemonic it is today, has no monopoly on the kernel of truth then, and it would do well-by adopting a tolerant attitude towards intellectual dissent from its method and inferences, even if such dissent appears as heresy (see Colin Wilson, *The Outsider*, 1956); where else if not in the United States' land of pluralism?

At any rate, preference revelation is not much better than the order of seating among the angels in heaven, given that one full millennium has separated these two preoccupations.[1]

Transformation, however, is *mediated* by human agency (a connection between object and subject; hence Bhaskar does not decouple the idea/consciousness from the entity/being as does Descartes). Relations are the atoms of social science. Social relations are irreducible, activities are; for although social action is real it is epiphenomenal (it is reducible: To be understood it has to be reduced to a more basic level). Society for Bhaskar, therefore, is neither monistic (*à la* Weber) nor dualistic (*à la* Durkheim); rather it lends itself to aspects of both (see Bhaskar, 1975, 1994). On the other hand, since theory helps to determine consciousness, false theory determines false consciousness: Theory is as much a tool of apologetics as of scientific inquiry (see Michael Barratt Brown, *Economics of Imperialism*, 1974).

[1]The term "revealed preference" in particular, and such oversimplified behaviorism in general, would be a joke if uttered to denote the basis of any social phenomenon in a national security studies class, where the normalcy is that what actors say is of no relevance to what they do and especially to what they intend to do, whereby deception tops the discourse menu, camouflage is its bread and butter, and surprise --not revelation-- is its cardinal principle. The point here is not that the market reveals nothing of what individuals seem to desire. It only means that such externally driven, sometimes irrational and ill-signaled "revelations" cannot constitute the only basis of societal economic analysis and production decisions, as is advocated by neoclassical economics and its notion of "consumer sovereignty."

The hallmark of the Veblenian critique of orthodox economics, in *The Theory of Leisure Class* (1899: 155), is that individual wants are socially manipulated, and it is therefore futile to demonstrate how aggregate satisfaction can be maximized by markets: Both are created by vested interests. John Kenneth Galbraith, in *The Affluent Society* (1958: 149), argues that "it is the process of satisfying wants that creates the wants." Paul Sweezy, in *The Transition from Feudalism to Capitalism* (1976: 89), argues that "even under such a dynamic system as capitalism, spontaneous changes in consumers' tastes are of negligible importance." Indeed, even Joseph Schumpeter, in *Business Cycles* (1939: 167), reasons that under capitalism "consumers' initiative in changing their tastes...is negligible and that all change in consumers' tastes is incident to, and brought about by, producers' action."

Beyond all that, moreover, eclecticism is the method of the social science as no other. It is, as shown above, the method of Cicero, Augustine, Aquinas, Smith, Marx, Haney, Garaudy and many other original pillars of social science. Political economy is ipso facto eclectic; indeed its strength is that it draws upon the work not only of philosophers but also of lawyers and various social scientists, particularly sociologists, economists, psychologists and political analysts. To elucidate the meaning and value content of ideas by which different actors are guided, to embrace the philosophical, psychological, sociological, legal and economic components of social phenomena, political economy has by necessity to be eclectic.

Furthermore, there is the critical evaluation of *political economy's* findings, and hence a concern with the methodology of inquiry,[1] which is informed by the *philosophy* of the social sciences, another determinant of eclecticism. Also, prescription may result from analysis of contemporary conditions; for example, arguments in favor of activist government

[1]By methodology of inquiry is meant the study of method, for a method is not itself a methodology as these terms are used interchangeably in the economic discourse. The word methodology concerns both a certain discipline and its subject matter. It signifies the study (the description, explanation, and justification) of methods, not the methods themselves. The methods, by contrast, include such techniques or procedures as forming concepts and hypotheses, making observations and measurements, performing experiments, building theories and models, providing explanations, and making predictions (see Abraham Kaplan, *The Conduct of Inquiry: Methodology for Behavioral Science* (1998: 3-33).

could be based on a particular diagnosis of political, rather than economic, malaise. Finally, but not exhaustively, the analysis may reflect a concern with the examination of diverse political economic, not merely economic, generic theories, such as liberalism, Marxism, and so forth. Therefore, political economy's unique contribution comes essentially from being an interdisciplinary endeavor, given at least its bidisciplinary appellation. In fact, had it not been for practicality the name of this interdiscipline would have extended to include law, history, philosophy, sociology, psychology and more, for the amalgamation of different disciplines --and hence research traditions-- "may produce a sum greater than the constituent parts" (Larry Laudan, *Progress and its Problems: Towards a Theory of Scientific Growth*, 1977: 103).

The generic themes constituting bridled capitalism, on the other hand, are essentially noneclectic. Anyone unaccustomed to eclectic thought can thus forego the supplemental themes and focus only on the generic ones. *Concededly the latter are grounded neither in neoclassical nor in Marxian economics. Hence they reject "structural adjustment" as well as delinking revolution.* They are nonetheless grounded in the pragmatism of James, Peirce and Dewey, and the realism of Thucydides, Clausewitz, Carr, Morgenthau and Bhaskar. They endeavor to balance the conceptual-theoretical with the empirical-historical, that is the transcendental aspect of German idealism, as embodied in Leibniz, Kant, Schelling and Hegel, with the materialist dimension of English empiricism, as upheld by Hobbes, Locke, Bentham and Mill. The generic themes emanate from the theory of imperialism, whose nexus to capitalism is analogous to that of circulation to production (as elaborated upon below), but nonetheless seek *reformative moderation*, following Burke, Owen, Keynes and Camus, rather than revolution. Instead of Fund-Bank economic liberalism, therefore, socioeconomic *reform* is the themes' dominant principle in prescribing economic policy.

The generic themes acknowledge both the spatial as well as the class relations of production and exchange as tributaries of socioeconomic formations in underdeveloped *conditions.* They combine, and balance the tradeoffs between, the a posteriori inductive recognition and interpretation of the Is, in the light of realism and pragmatism, with the a priori deductive identification and codification of the Ought. The themes thus are no neat positivist[1] reducibles, because the concept of economic value as well as the phenomena of price and distribution form essentially social categories. And a study of these can produce satisfactory results only when it is attempted from the outset via a social perspective, the subject matter of which is human --including international-- relations. "Economics is today only a science insofar as it expands into a sociology," proclaimed Schmoller (in Stark, 1994: 71). "Its observation must be investigation into the social forms of economic life," added Schmoller. By thus exiting the neoclassical method, abandoning its ideational harmony and monolithic inference, and venturing instead into the realist turmoil of *power* relations[2] and pluralistic thought, moreover, the combined generic and supplemental themes

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[1]Illustrating how economists are not scientifically detached in assessing economic theories, Robert Heilbroner, in "Economics as a Value Free Science," *Social Research*, 40 (1973: 137), utilizes "the unwillingness of economists to admit the phenomenon of imperialism as a proper subject for economic investigation, or their dogged adherence to a benign theory of international trade in the face of disquieting evidence that trade has failed to benefit the poorer lands."

[2]In a succinct sentence, Thomas Watson --the former head of IBM, summarizes his long experience in that notable corporation: "I learned a great deal about power, being subject to it, striving for it, inheriting it, wielding it and letting it go" (*Father, Son & Co. : My Life at IBM and Beyond*, 1990, quoted in John Galbraith, "Economics in the Century Ahead," in John Hey, *The Future of Economics*, 1992: 42). This very power, nonetheless, neoclassical economics has abstracted from. The practices and experience of this CEO with corporate power cannot be examined, discussed or hinted at within the domain of neoclassical economics.

Moreover, Piero Sraffa's *Production of Commodities by Means of Commodities* (1960) is underlain by the concept that *power* determines people's incomes, rather than economic variables such as productivity and derived demand. Nor does demand, for Sraffa, play any role in the determination of relative prices; prices depend only on technology and on the distribution of incomes between wages and profits. Along similar lines, Joan Robinson, in objecting to the economic growth theories of Paul Samuelson and Robert Solow in the context of the Cambridge-Cambridge controversy, argued that these MIT type theories were faulty because, among other reasons, in the real world wages and interests depend on the economic and social *power* of labor and capital, not on marginal products (see G. C. Harcourt, "Some Cambridge Controversies in the theory of Capital," *Journal of Economic Literature*, 1969: 103-7). The latter theory asserts that the wage is set by the market at the marginal product of the last worker hired, on the basis of the logical but unrealistic (because of *power* relations and reserve army of unemployed) notion that the employer cannot pay more, and if he does not pay that much, the worker can go to work for someone who will.

The two Cambridges debate over the theory of capital resulted mainly from the argument made by Cambridge, England, that the concept of an aggregate production function was circular because capital had to be measured by its marginal product, and the latter could not be known without a knowledge of the output. The problem is essentially due to the dichotomy of capital, as physical products and as finance, are intended here to provide needed versatility to bridled capitalism, in order to address diverse *problématiques* in UDCs' economies and their sought transformation.

There exists no conceptual problem then for broad development themes composed of a blend of the most suitable insights and formulations, and even postulates, from the right-conservative-orthodox economics (absenting Marx), the center-reformist-heterogeneous tradition, and the left-radical-heterodox school. Muddling through different aspects of transformation, within a variety of states of underdevelopment, that often lack the luxury of pure choice, needs more than one entrenched recipe. The important point is to set the objectives of transformation clearly, then pragmatically approach them from the most feasible themes. In light of more abundant data, and more thorough analysis (by going beyond the narrow and reductionist market formalism, and democratic rhetoric), more judicious appraisal and sober judgment are likely to evolve as to why underdevelopment compels lower levels of liberalism than does development and what can be done about it. A way out of the neoclassical stand with respect to the UDCs, which amounts to claiming that all their problems are the result of ignorance or unwillingness to make full use of the virtues of neoliberalism and the vision of the IMF, is badly needed. This study is thus designed as a vehicle for critically examining, rather than merely promoting, the fitness in kind and in degree of contemporary liberalism to conditions of underdevelopment, and pragmatically accommodating UDCs' transformative purposes and remedies to its workings.

One final disclaimer is that this critique is not an attempt at a full fledged theoretical synthesis. It is rather an *heuristic,* heretical, probe of how the UDCs can change their state within their current holistic, not just pecuniary, stance. Intellectual humility, if not realism, is thus in order. *Heuristic* here means probatory, tentative, not "hard core" as Lakatos (1967) uses it. One is not to be carried away and cavalierly think of, much less promise or claim,

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which had been originally posed by Veblen. Cambridge, Massachusetts, has more defused than responded to that argument (see Homayoun Katouzian, *Ideology and Method in Economics,* 1980: 17).

innovative originality. Nor should one be expected to produce such a theoretical (in contradistinction to descriptive) synthesis. Genuinely original syntheses are rare, difficult to arrive at, and usually take lifelong mental labor before materializing. Hasty attempts at a full fledged synthesis (definitionally unattainable through the reductionist neoclassical method), amount merely to banality, incoherence and/or unwarranted eclecticism. Instant originality in the social sciences, as can be discerned from observation, and as the history of thought makes abundantly clear, from scholasticism to communism to neoclassicism and beyond, is whatever furthers, accommodates or even merely propagates whatsoever mainstream hegemony happens to prevail at the time. On the other hand, heresy, even if *heuristic*, may turn out, later, to be of some use (not exchange) value.

This said, and with all humility, the fundamental conceptual insights of this inquiry are original. The very outlook of the inquiry, the thesis that a principled eclectic approach liberated from overarching ideologies (namely bridled capitalism[1] which essentially throws away the yoke of Marxian revolutionism as well as neoclassical laissez faire) is the most suitable way to muddle through the contemporary underdevelopment configuration, is original indeed. The concept that the underdevelopment problem is fundamentally as much one of security as of economics is original. The concept that an underdeveloped country's economic orientation is determined neither upon mere materialist nor mere ideational underpinning is original. The concept that the security concern among other considerations, in conditions of underdevelopment, is primus inter pares in determining a country's economic disposition as well as democratic tolerance, is original. The concept that when a UDC's economy and security conflict, concerns about the latter prevail is original, and

[1]"Bridled," the adjective chosen, is meant to set limits on unfettered capitalism. Any and, in their semantic and syntactic collectivity, all the following adjectives can illustrate what is meant by "bridled": restrained, disciplined, anchored, leashed, moderated, qualified, restricted, circumscribed, confined, mannerly, narrowed, limited, judicious, measured, gradual, constrained, subdued, curtailed, downplayed, toned down, watered down, diluted, nonextreme, nonexcessive, within bounds, within limits. As to the meaning of "capitalism," in this context, no further elaboration beyond the dissection of Marx in *Capital* is needed for the purpose at hand. Capitalism is the drive to extract and accumulate surplus value; the sine qua non of capitalism is the mode of producing *commodities*, i.e., *exchange* value motivation, whereby capital, definitionally, is wage labor capital (see *Capital*, I, 1867: 14-16, 944-74, 1027-37; III, 1894: 117, 297-9, 425-44, 731-78, 991-1022).

contradictory to Marx's generic conclusion for that matter. Indeed, this inquiry's very interdisciplinary breadth as well as its comprehensive treatment of the political economics of overcoming underdevelopment are original.[1]

Such breadth and treatment amount to a transdisciplinarity of approach that breaks free from both the magic formula of universal applicability and the artificial divisions imposed by the compartmentalization of the social sciences into separate subject disciplines. Instead, this approach attempts to employ a contingent, heuristic, nonreductionist social science that is, one hopes, capable of grasping the complexity of social phenomena, the wide variety of actors and rationalities (substantive, procedural, complex --recursive-reflexive) and motivations (economic, sociological, cultural, ethical, ecological, psychological), and the multiple determinations of social systems, without recourse to a purely idealist and teleological logic (see Ash Amin and Jerzy Hausner, *Beyond Market and Hierarchy: Interactive Governance and Social Complexity*, 1997: 8, 27).

Contrary to the neoclassical reductionist characterization of the economy, this approach strives to be sensitive to nonteleological change, cognitive and cultural boundedness, social and institutional[2] embeddedness, variant and diverse actor rationalities, autonomous and extroverted social networkings, cross cutting and conflicting goals, locational and temporal adaptations, oscillating and asymmetrical interdependencies, and contingent and contextual path specificities. This approach thus endeavors to analyze properly the dialectics between ontology and epistemology, between structure and agency,[3]

[1]Not that original here means right; original here only means exploratory reasoning. Right originality, in the *social* sciences, is a contradiction in terms, for human sociality never freezes, and its historicity, as long as man and woman exist, is in perpetual flux. Socio-historical originality is thus inherently tentative. William Letwin, in his *Origins of Scientific Economics* (1963: 107-8), has well-made the point that "it is not the correctness of its analysis, but the method of analysis that defines a work as scientific," that "one of the chief elements of the scientific method is a taste for economy in analysis, an abhorrence of ad hoc explanations, a determination to explain as wide as possible a range of phenomena in terms of a few simple principles."

[2]For an opposite perspective, see Luigi Pasenetti, "Economic Theory and Institutions," in *The Political Economy of Diversity* (1994), whereby Pasenetti contends that an improved theory depends on abstracting from institutional diversity what he calls the "natural economic system."

[3]Structure and agency are the recent dubbing and formulation of the age old question of determinism (by systemic structure and process, not in the sense of predetermination) and free will. For more on structure

and between individual and collective, in handling the forces and relations of production within the UDCs, and among the latter and the DCs.

The significance of this critique, however, is not a matter of intellectual curiosity and pondering, but of real survival value for billions of people in the UDCs. On the other hand, the endeavor to discern heuristic transformation themes from diverse political economy monographs on growth is undoubtedly a worthwhile intellectual contribution. Without any need to disclaim comparison, this is what Smith's *Inquiry* and Marx's *Critique* are essentially about. Indeed, Hegel's dialectic (1996: 216-37) treats this gradual assemblage process as the characteristic form of theoretical progress, the concept of *aufhebung*, expressing how opposites are deliberately and piecemeally canceled and preserved in a new unity. And aside from the speculative elaboration upon untested hypotheses, such as the notion that celestial bodies move in perfect circles, the great works of Aristotle, which much Western European thought adopted as its basis, consisted essentially of the systematization of earlier thinking in the realm of science, logic, politics and ethics, with very few novelties. The Aristotelian picture of the universe was of course composed of a group of perfect crystal spheres centering on, and revolving about, the Earth. That did not preclude its great contribution to the thought of more than one civilization.

Nonetheless, a more detailed research agenda beyond this work is yet to be implemented as to what the essential elements of strategies for planning, managing, and financing human development are; what the requirements of a practical framework for participatory development are; what a conducive external environment for human development is. Further research to prioritize various aspects of human development and to identify social returns to different types of social expenditures over time is also needed. Not least, country studies are in order to determine which set of supplemental themes is germane

and agency see Gil Friedman and Harvey Starr, *Agency, Structure, and International Politics: From Ontology to Empirical Inquiry* (1997).

to specific country conditions. A comparative study of the internal and external conditions in nonimperialist European economies, seeking to elaborate on how these economies avoided dependent peripheralization and underdevelopment, is further in order. And *the recrimination of UDCs' population growth as the cause of poverty needs serious reconsideration.*[1] Finally, a question that is yet to be revisited intellectually is the reward for merit. On the one hand it seems fundamental for both motivating the bulk of the populace and enlisting the most talented to run the societal machine. On the other hand there is obvious injustice in rewarding talents and abilities for which a person has only limited responsibility --these being to a large extent governed by nurture, contingency and, perhaps, genes and brain chemistry. A lot of work is yet to be done, for this critique barely scratches the surface of how to overcome underdevelopment, how to help billions of desperately poor people in the world self-transform.

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[1]On the historical direct correlation between population growth and economic growth see Rondo Cameron, *A Concise Economic History of the World* (1997: 17-18, 54). Cameron concludes that

> the most striking evidence of development [is] the growth of population; [that] it is virtually certain that each accelerating phase of population growth in Europe was accompanied by economic growth, in the sense that both total and per capita output were increasing.... The hypothesis of economic growth accompanying the growth of population is strongly supported by the unquestioned evidence of both physical and economic expansion of European civilization during each of the accelerating phases of population growth.... It is [also] remarkable that the accelerating phases of each period of population growth in Europe witnessed outbursts of intellectual and artistic creativity followed by a proliferation of monumental architecture --medieval cathedrals, baroque palaces, and nineteenth century Gothic revival. Earlier, the 'Golden Ages' of Greece and Rome --and still earlier, those of Mesopotamia and Egypt-- were periods of population growth.

The concept that "the roots of power lay in demography" also permeates the works of the leading geopolitician (and imperialist) of the twentieth century, Halford Mackinder [1861-1947], who, in 1904, framed geopolitics' most famous model, the "pivot area," later named "heartland thesis" (see, especially, his "Manpower as a Measure of National and Imperial strength," *National and English Review*, 1905, 14: 136-45). And Henry Kissinger, convinced population is a fundamental aspect of geopolitical power, cites the French Prime Minister Aristide Briand, who, answering critics of his conciliatory policy toward Germany in 1920, invoked the argument "that he was conducting the foreign policy of France's birthrate," (France's population was 41 million, Germany's was 65) (*Diplomacy*, 1994: 228).

1. ORTHODOX MECHANISMS

This chapter focuses on the orthodox mechanisms of socioeconomic transformation. These are doctrinal, established and prevalent theories of economic growth. The aim is to point out, analyze and elucidate the contribution each of these theories can lend to the specific objective of improving the current situation in the UDCs. Needless to repeat, this will be the aim of each of the first four chapters with respect to the theories involved. The perspectives discussed in this chapter are either unsuitable for direct application in the UDCs, or speak for historic circumstances that are different from, or no longer characteristic of, the situation of the UDCs at the threshold of the twenty-first century. They nonetheless provide the foundations for the other perspectives discussed in the following chapters.

Any potential loose ends, therefore, are cumulatively tied in by the comparative process in the following chapters, especially by the regrouping of chapter five. For there are concepts in the following chapters that need to be introduced before some comparative analysis can take place. That pattern also much reduces redundancy. Moreover, any chapter is not a stand alone project; it is a part of a whole, and has thus to be considered in the entire context in which it exists. More important, in any nonreductionist research, which is the sine qua non of the social sciences, no matter how the topic is taxonomized, its different aspects cannot be neatly demarcated. Contrary to the claims of positivism, a water tight classification in the social sciences is a contradiction in terms. All chapters are thus semidiscrete.

The analysis is narrowly tailored to include only those mechanisms as projected in the works of primary representatives of pertinent schools. Smith,[1] Ricardo[2] and Mill[3] are considered, *inter alia,* to best represent the general thought of the classical school. On the other hand, while Marx is the founder of his school, Evgennii Preobrazensky is generally credited with originating the conception of socialist metamorphosis.[4] But it is Dobb who really best relates the Marxist theory to the early practical endeavors aimed at transforming the former Soviet Union and the countries of Eastern Europe under the socialist regimes. These three authors, therefore, are selected to represent the Marxian prescription for transformation. Keynes is doubtless the best spokesperson for his perspective. As to the traditional perspective, it is commonly accepted in the social science literature that among many contributors to that school, William Arthur Lewis and Walt Whitman Rostow stand out.[5] And although the literature on Bretton Woods is ample,[6] nothing is as credible in projecting the deficiency of that regime as its institutional publications, except for a concrete case of applying Bretton Woods' "structural adjustment." This is illustrated by the Chilean experiment.

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[1]Smith, the great political economist of the Scottish Enlightenment, is often described in the literature as the "father of modern economics" or "the real hero" (see Michael Szenberg, 1992: 15, and Evesy Domar, in Szenberg, op. cit: 117, respectively).

[2]Ricardo is the epic of the classical school, notwithstanding his narrow focus and hypothetico-deductive method --the propensity to apply highly abstract economic concepts or models directly to the complexity of the real world-- which Joseph Schumpeter labeled " the Ricardian Vice," piling up abstract assumptions until "the desired results emerged almost as tautologies" (*History of Economic analysis,* 1954: 472-3).

[3]Mill is the third member of the great classical political economics triangle, together with Smith and Ricardo. His *Principles of Political Economy* was the standard textbook for all English speaking political economists from 1848 until it was overthrown by the marginal perspective through Marshall's *Principles of Economics* (1890).

[4]"It is Preobrazensky," argues Diana Hunt (1989: 113), "who is generally credited with being the leading originator of...[the] perception of the nature and mechanisms of economic development under socialism. A key objective is to maximize the rate of growth of national output."

[5]Needless to repeat, these criteria are analogous to the ones upon which authors and works in the next three chapter are selected.

[6]Such sources include, for example, the works of Paul Mosley, Francess Stewart, John Adams, Enrico Clombatto, and Francisco and Luis Rivera-Batiz, which are all used in this inquiry.

1.1 The Classical Mechanism

"Natural progress of opulence," or long-term economic growth, according to Adam Smith, is achievable through accumulation of stock, division of labor[1] and improved skills (hence economies of scale and specialization --not machinery), and market extent.[2] The latter means extension of the scope for profitable international trade through improvements in law and order along trade routes, the expansion of low cost water borne transport, increasing savings --especially from manufacturing-- to create and make use of new markets, elimination of all obstructions to free trade and competition, and the abolition of laws of primogeniture and entails, which prevent the break up of large landed estates (Smith, 1776, I: 407-9, 441; II: 84). Smith's opulence also include peace, easy taxes, political competition, positive role of public authorities, and national security considerations, all within an accelerating growth policy. However, defense is more important than opulence, hence strategic and national interests justify a policy of trade restriction such as the Navigation Acts.

Smith builds his strategy for long-term economic growth on the premise that the desire of the individual to better his condition is the mainspring of progress. The growth of opulence is treated as the unintended consequence of short sighted behavior largely directed towards meeting private needs, and motivated by a persistent desire to improve both personal condition and social status (Smith, 1776, I: 477-8). His "system of natural liberty and perfect justice" serves simultaneously as an explanatory and normative means for the conduct of human affairs in economic matters (Smith, 1776, I: 157, 344; II: 37-8, 208). It

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[1]In his treatise, *Muqaddemah*, the fourteenth century Arab historian and founder of sociology Ibn Khaldun articulated the concept of division of labor (the term itself was coined later by Bernard Mandeville), more than four centuries prior to Mandeville's *Fable of the Bees* and Smith's *Wealth of Nations* (see Ibn Khaldun, *Muqaddemah*, 1879). Plato too, eighteen centuries prior to Ibn Khaldun, anticipated the principles of division of labor in his discussion of Socrates' conception of the constitution of the simplest possible state by five persons: a husbandman, a builder, a weaver, a shoemaker, and a purveyor to human bodily wants (see Plato, *Republic*, Book II, 1991).

[2]On how these variables are related to each other, see Smith (1776, I: xxix, 7-25, 408-9, 480-507).

seeks to show that the untrammeled pursuit of individual self-interest under competitive conditions can, and ought to be allowed to, create a harmonious public order in which the benefits of economic growth and efficiency, chiefly in the form of rising wages and lower prices and profits, will be most widely diffused throughout society.

Smith further argues for free trade and competitive markets while attacking mercantile restriction and monopoly privileges granted by the state (1776, I: 411, 456; II: 191). In contradistinction to later, more extreme versions of laissez faire individualism of the Senior (1971) and Friedman (1953) types, however, Smith paid as much attention to the institutional[1] preconditions required to produce a socially beneficial result as he did to the internal connections forged by economic activity itself (a bent that is abstracted from now by neoclassical economics). Moreover, he did not employ rational-economic-person assumptions (as neoclassical economics now does), and was at least as concerned with the political and moral byproducts of economic activities in contemporary commercial societies as he was with material benefits for their own sake. Indeed with regard to the latter his position must be regarded as distinctly skeptical and ascetic.

Smith, whose thought was selectively dismembered and reduced to laissez faire[2] by the neoclassical school to buttress its self-serving purposes,[3] also believed that government

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[1]The institutional framework of the economy consists of such components as:
(1) The industrial organization, including market forms and labor organizations.
(2) The financial intermediaries, including instruments of money, credit and capital markets.
(3) The legal system, including property rights and other legal codes.
(4) The social structure, including the health care system, the educational system, and the welfare system.
(5) The historical context, including cultural, ethical, and religious traditions (see Mark Knell, "The Political Economy of Transition to Market Economics," in Ingrid Rima, *The Political Economy of Global Restructuring*, vol. I, 1993: 135).

[2]Smith is not the originator of laissez faire. He inherited it from his eye openers, Quesnay and the Physiocrats, who are much undervalued if not repressed in the Anglophile economic literature. Physiocracy literally means something like "doctrine of natural order," and reflects the idea of *les économistes* that their theories were innate, evident principles of the most perfect constitution of society, which manifest themselves, of themselves, to human beings (du Pont de Nemours, quoted in T. P. Neil, "The Physiocrats Concept of Economics," *Quarterly Journal of Economics*, 1949).

It was the Physiocrats (called *les économistes* in France) who originated the slogan "Laissez faire, laissez passer," i.e., "let them do it." It was the Physiocrats who brought the dawn of political economy by challenging the mercantilist view that value was synonymous with money, and that trade per se was productive. They defined value in terms of the production of physical goods, with all prosperity dependent on a successful agricultural sector. It was this Physiocratic view that overturned the mercantilist obsession had significant duties to perform with respect to education and the provision of public works that could not be left to private initiative.[1] Thus state supported education was particularly important as an antidote to the effects of the division of labor in undermining

with increasing the riches of the merchants through regulation, and, by stressing the interdependence of individuals within society, made political economy the doctrine of the whole nation.

By the mid-eighteenth century, in the hands of such Scottish Enlightenment philosophers as Francis Hutcheson, Adam Ferguson, David Hume, and John Millar, to be culminated shortly thereafter in Adam Smith, political economy was established as the forerunner of modern social science, and was now seen as a study concerned with the chief domestic business of a statesman "to secure a certain fund of subsistence for all the inhabitants of a society" (James Steuart, *Principals of Political Economy,* 1767:89-96).

[3]"Our merchants and master manufacturers," enunciates Smith, in contradiction to how his thought is depicted in neoclassical economics,

> complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of higher profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people (*Wealth of Nations,* 1776, I: 100).
>
> We rarely hear...of the combination of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labor above their actual rate. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbors and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of affairs which nobody ever hears of (ibid., I. 68-9).

[1]Active government, in the sense of nationally planned design of a diversified economy as a prerequisite for political independence, and of a manufacturing sector protected for infant industry reasons, were also advocated by Smith's contemporaries Alexander Hamilton (1791) and Friedrich List (1916) as essential for the security as well as the prosperity of the nation.

Hamilton's contribution is contained in papers which he wrote as the first US secretary of the treasury under George Washington, including the *Report on Manufactures* (1791). "The United States," argued Hamilton, "cannot exchange with Europe on equal terms; and the want of reciprocity would render them the victim of a system which would induce them to confine their views to Agriculture, and refrain from Manufactures. A constant and increasing necessity on their part for the commodities of Europe, and only a partial and occasional demand for their own in return could not but expose them to a state of impoverishment" (*Report on Manufactures*, 1791: 43). No words were said at that time that better diagnose the current predicament of Underdeveloped Countries, or were more in contradiction with the current view of neoclassical economics on the matter.

List challenged liberalism, arguing that the essential weakness in the theories of Quesnay, Smith, and their disciples was the failure to recognize the role of the nation in economic life. Instead of basing their theories on the real world, which consisted of separate nations at differing stages of development, they postulated a fictitious "cosmopolitical" world in which national boundaries were assumed away (*The National System of Political Economy*, 1928: 97-107).

On the other hand, influenced by the Physiocrats whom he was exposed to in Paris, Thomas Jefferson, the first US secretary of state and third president, counseled his contention in the eighteenth century (prior to his conversion in the aftermath of the Napoleonic Wars and the War of 1812) that agrarian autarky is the essence of liberty, both individually and collectively, and that industrial wage labor is a form of dependency which creates a subservient class that undermines republican polity (see Jefferson, 1900). The latter contention preceded any of Marx's writings by more than four decades. Jefferson's views have also anticipated the wholly descriptive account of Harold Innis (1956) concerning his Staple's Theory of Growth, built around the Canadian case.

the mental, moral, social and political capacities of the populace at large (1776, II: 232-53, 309-40, 444-56).

Smith therefore expected that the duties and even the size of government would grow with opulence, but he was anxious to devise means by which essential functions could be supplied without undue burden in the form of taxes and growth of unproductive activities. Hence his interest in proposing extra market institutions designed to achieve this result by methods that matched incentive to performance. The production of wealth, however, not the welfare of people, was Smith's first priority. In his own words, "the great object of the Political Economy of every country is to increase the riches and power of that country" (1776, I: 394).

The Smithian economic course of action for producing growth, therefore, reduces to *the expansion of markets, the enhanced productivity resulting from the division of labor, and capital accumulation arising from private thrift under conditions ensuring political security.* These are the most important aspects of Smith's prescription for economic development relevant to the UDCs' situation.

David Ricardo (1817) suggested a bifurcate strategy of escape from the stationary state. The latter results from the increasing scarcity value of good land, which raises rent, hence redistributes national income towards the land-owning class. Meanwhile, the share of profit is reduced until, as a result of steadily rising marginal food production and wage costs, profits in both farming and manufacturing are squeezed to zero. The stationary state then reigns. The two components of escape are the introduction of technical innovations in agriculture and the use of international trade to obtain lower cost food in exchange for manufactures (Ricardo, 1817: 79-82, 128-33, 266-72). The significance of expanded trade lay not so much in the enlargement of the market per se as in the fact that it could lead to increased profits through a decrease in the price of wage goods and greater efficiency in resource use by specialization according to comparative advantage.[1]

[1]The latter insight, used politically by Ricardo to repeal the Corn Laws for the benefit of the industrial capitalists, was not at the time a catchall belly for international trade theory, as it has become since the

Less pessimistic than Ricardo, not to mention Malthus (1798) and his "abysmal" science, John Stuart Mill (1848) emphasized the momentum of change, and boundless prospects for improvements in technology, opportunities for increasing imports of cheap wage goods, including food, and opportunities for capital export, and contended the power of commerce could keep the peace among nations. Hence law and order promoting stable commerce, new capital and techniques and the indirect (dynamic) and direct (static) benefits of commerce were components of Mill's approach to economic growth.[1] Mill also wanted

1950s. *Arguments made for transitory political ends often find those who convert them into economic "theories."* This is what Ricardo's comparative cost advantage amounts to: The political aim of repealing the corn laws was framed, using reductionism and pure deduction (or what Schumpeter called "the Ricardian vice"), as an economic theory.

These very corn laws, projected from the ends of the other competing class, the landlords, led to an opposite but equally false construct. Thomas Malthus constructed this theory of "unproductive consumption," stipulating that extravagant spending by landlords was essential for avoiding the glut of goods on the market. Hence, the theory's policy implication was that the corn laws must be retained, for these tariffs on imported grain enrich the landlords and consequently promote unproductive consumption and thus clear the markets. "Reverend" Malthus, in his zealous promotion of the vested interests of the landlords, concocted another, more infamous, construct, his theory of population, absolving the wealthy as well as the nascent economic institutions of capitalism from any responsibility for poverty; the poor had only themselves (their excessive reproductive bent) to blame for their misery. He thus opposed the poor laws which, if abolished as he called for, would have achieved his political aim, effectively reducing taxes on landlord's property.

Similarly Jean-Baptist Say, in order to uphold equilibrium under laissez faire, constructed his "law" of markets, proclaiming the impossibility of general gluts: Supply creates its own demand. And although challenged by Sismondi and Marx, Say's law continued to dominate economic thinking, only to be shattered by the heavy weight of the second Great Depression. Further, Nassau Senior, in opposition to the Factory Acts which at the time limited the working day to twelve hours in factories where children were employed, published a "theory" in 1837 stipulating that all profit was derived from the last hour of work. If the working day were shortened by an hour, capitalists would fail to earn profits, and England would be ruined in competition with foreign producers.

And William Stanley Jevons, in order to account for the trade cycle while defending the capitalist theory of full employment and utilization, theorized that trade cycles were caused by a regular recurrence of sunspot activity: A burst of sunspots every eleven years or so was reflected in drought and poor harvest; the harvests in India were the most affected and through a kind of multiplier process produced cyclical downturns in English industrial production, employment and incomes (see Stanley Brue, *The Evolution of Economic Thought,* 1994: 104-48, 255). Jevons argued that sunspots, apart from their effect on rainfall, might contribute to trade cycles through their effects on moods, causing shifts from optimism to pessimism, thus depressing the commercial endeavors. His theory remains unsubstantiated to this day (see Benjamin Higgins, *Employment without Inflation,* 1998: 34). This theory was followed by another, even more bizarre, theory attributing an eight year cycle of prices to the eight year transits of the Planet Venus (see Henry Moore, *Generating Economic Cycles,* 1923).

Political charlatanism, more often than not, has driven economic thinking for the last two centuries of capitalist development. And neoclassical economics, especially its F-twist method and its international trade theory, has fared no better. Therefore, only a careful comprehension of the historical environment in which each economic "theory" evolves, and this environment's relation to the practical policy recommendations and implications of the "theory," can bring to the fore the reasons and motivations behind such constructs.

[1]For details of these components, and their interdependencies, see Mill (1852: 34-5, 254-5, 320).

to see increased voluntary restraints on population growth amongst working people, which, unlike Malthus, he was confident could be achieved, combined with a more equitable distribution of the gains from economic growth. Mill thus adopted the view of cumulative improvement in the underlying economic structure --of *equity gains* and of efficiency gains. Mill's view of cumulative improvement in the underlying economic structure, however, focuses more on efficiency gains than on equity gains.

In sum, classical scholars focused, in their work on growth theory, on capital accumulation, savings and investment out of profits, institutional change, trade, market expansion, technology, population growth and natural resources. The main concern of classical economics was the wealth of the nation, the way it grew over time, and how the distribution of income changed with growth. The chief interest was the long-run, the "normal" rather than "market"[1] prices, and the aggregate incomes of strata such as laborers or landlords rather than the wage paid a given laborer. In matters of policy, classical economics was *reformist,* with proposals based on the newly developed social science of *political economy.* A fear existed, however, of a possible brake on growth due to diminishing returns in agriculture.

The essential contribution of the classicists therefore is:

(1) The provision of an account of the forces influencing growth (a wider, societal sense than mere economic growth as used today in neoclassical economics), and of the balances necessary to maintain the growth path.

(2) The recognition that it is the accumulation and productive investment of a portion of the social product that is the driving force behind the growth.

(3) The awareness of the interrelatedness of the activities of production, exchange of commodities, the distribution of the social product, and the accumulation of capital.[2]

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[1]The market is the plurality of the supply-demand-price mechanism (see Karl Polanyi, *The Livelihood of Man,* 1977: 6).

[2]In contrast, neoclassical economics, as is elaborated on below, replaces this grand design of economic expansion by the myopic view of allocation of resources in relation to "consumer revealed preferences," so

Amongst the most notable features of classical growth discourse *that could be of value to UDCs transformation endeavors,* therefore, are:

(1) The importance of market expansion as a stimulus both to the growth of total output and to raising labor productivity (in the UDCs' case, this would mean *their own* market expansion, not that of the global or DCs' market).

(2) The importance of profits as the source of finance for new investment, in contrast to the unproductive use of land rents and the zero or minimal savings capability of wage earners (hence some of the significance of the incentive system and the private sector of the economy).

(3) The potential of an agricultural sector dominated by rentier landowners to impose a brake on overall economic growth (Ricardo) --hence the importance of diversification as well as on the one hand regulation and on the other antitrust (pro-competition) laws.

(4) The need to liberalize trade as a means of enlarging the market (Smith) and of capitalizing on comparative advantage (Ricardo) --without turning the latter into a dogma that fetters economic dynamism and evolution.

(5) The importance of technological change in raising labor productivity and in helping to meet the food and raw material demands of a rising population --hence the necessity of throwing off the yoke of assigning the UDCs to primary production using primitive means thereof, which the H-O-S core of neoclassical international trade theory calls for.

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that individuals and their wants are treated as the ultimate and independent data of the economic problem. A corollary of this is that the neoclassical distribution theory is incidental to the pricing process, in that distribution is determined by the conditions of exchange, by the Edgeworth fantastic boxes. Hence the neoclassical sought conclusion that there is no need for any special analysis of the *value* of each factor of production --i.e., no need for the labor theory of value, for the laborers are no longer the classical *class,* they are now the neoclassical "factor of production," whose income (like those of the other factors) flows from the same marginal explanatory principle (see Stanley Bober, "The Triumph of Democratic Welfare Capitalism," in Ingrid Rima, *The Political Economy of Global Restructuring,* 1993: 19-22).

1.2 The Marxian Mechanism

From the long line of classical growth theories, and his direct observation and analysis, emanated Marx's views on extant industrial capitalism. The transition form feudalism to capitalism is a necessary condition for industrialization and growth. Only under the capitalist mode of production, whereby the production is for exchange value, and surplus is the means for monetary assets accumulation (i.e., fixed capital, not wealth, accumulation), are growth and technological progress readily attainable. The economy is determinant, in the last instance, of sociopolitical change; social action and political outcomes are epiphenomena of the economic.[1]

Evidently, Marx's early philosophical works led him to question the naturalistic basis of classical political economy. Marx's historical materialism, i.e., dialectical materialism applied to the sphere of society, marks a fundamental break with the classical German philosophy of Hegel and Feuerbach. It replaces metaphysics by dialectics, and idealism by materialism. Hence his questioning of the "naturalistic" basis of classical political economy. The error of the classical writers was to naturalize (or present as universal) the historically specific social relations of capitalist society. Marx realized that capitalism was a type of economy just as English is a type of language, Christianity a type of religion, democracy a type of polity. None of these terms constitute a universal category.

Smith and Ricardo had figured out the notion of surplus value. Quesnay had previously explained the "surplus product," the excess of agricultural output over "natural" subsistence wages. However, Smith and Ricardo had missed the wood for the trees when they took its specific phenomenal forms like rent, interest and profit as separate,

[1]There is no "determinism" here in the sense claimed by Marx's detractors. There is rather a relative autonomy, as Bhaskar's elaboration referred to above makes clear. Epistemology is a function of ontology; therefore whereas ontology is phenomenal, epistemology is epiphenomenal. However, both phenomenon and epiphenomenon are real (and interdependent because of the mediation of human agency and thus the connection between object and subject). What is meant here, rather, is that an epiphenomenon is one that is reducible: To fully understand an epiphenomenon the researcher has to go to a deeper (more basic) level first, for it depends on that level. The researcher has to reduce the epiphenomenon to discern its underlying dynamic attributes. Although knowledge, generally, consists in moving from appearances (phenomena) to generative causes (causality), there is no implication in Marx that the epiphenomenal has no influence on the phenomenal. Both levels are interdependent, but the weight of influence is more from the bottom up.

independent entities. In other words, they failed to see surplus value as the essence of the particular distributive shares, as the generic concept underlying the historically determined manifestations thereof.

Marx emphasized surplus value in its general character. He realized that behind the formal abstractions of the classical works (land, labor and capital producing rent, wages and profit) lay an unexamined historically specific postulate: private property. As much as the last thing a fish would discover is water, only by taking for granted the existence of private property could Smith and the others assume that classes were derived technically from the division of labor.[1]

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[1]On the nexus between private property, classes and division of labor, and Marx's analysis of the classical economists' views in that regard, see *Capital*, vol. III. (1894: 98-9, 296, 413, 735, 756, 1025-6). The Labor Theory of Value, to the extent it essentially stood prior to Marx, the imputation of wealth to labor, but in a medieval phraseology, exists in Ibn Khaldun, *Muqaddemah* (1879: 381-2), written four centuries prior to Cantillon, Quesnay and Smith, five centuries before Ricardo and Marx. Ibn Khaldun's treatise was completed in 1377; the 1867 edition, published in Cairo, is in seven volumes. The *Muqaddemah* (Introduction) essentially contains Ibn Khaldun's theory and method of analyzing history. Prior to the Utilitarians, Industrial Capitalists, Physiocrats and Mercantilists, Ibn Khaldun (1332-1406) argued that labor is the only source of value and utility, that manufacturing labor proportionally increases the added value of the product, that labor plus other production outlays determine the sale price of the product, that gold and silver are stores of value and media of market exchange, and that production and prosperity are directly proportional to population.

Ibn Khaldun also differentiated subsistence income from luxury income based upon basic need, and providence from gain based upon utility. He further compared agriculture, manufacture and trade; related produce cost and price inversely to land fertility; discussed trade monopoly (see Ibn Khaldun, *Muqaddemah*, 1879: 397) (six centuries before Lenin, Chamberlain and Joan Robinson); differentiated profit from usury, and defined trade profit as a surplus that results from the value difference between the prices of purchase and sale (382, 394-5, 398). Gains from domestic and foreign trade are achieved, and wealth is augmented, through "buying cheaply and selling dearly" --a dictum that is later used verbatim* by Adam Smith (*Shira'ul sila` bilrukhssi wabay`uha bilghalaa'*) both at home and abroad, in cash or by installments. Profits through the latter are cumulatively enormous, even with a limited profit margin, especially given the deterrent force of law.

Ibn Khaldun further articulated the relations of supply and demand (396), discussing the effect of demand on the growth of domestic and foreign trade transactions, comparing the gains from trade in basic goods versus luxury goods, focusing on the effects of temporal and spatial changes of demand on profits. He recommended that merchants analyze population segments and deal in products demanded by the largest segment of the population to maximize profits. He furthermore elaborated on surplus accumulation, above subsistence, as the source of urbanization and civilization, arguing that extravagance behooves overtaxation, which in turn brings about recession and deterioration. He concentrated, however, on understanding the meaning of history, focusing on the rise and fall of dynasties of states *(daulah)*.

Ibn Khaldun concluded, five centuries prior to Marx, six centuries before Toynbee and Kennedy, that the progress of history --the emergence of communities and the creation and decline of the dynastic state-- hinged on group solidarity (`assabiyyah), civilization and urbanization (`umran), and power. In his view, the social nature of "man" impelled him to form cooperative communities for survival. The form that the community took was conditioned by the specific circumstances of its *material existence* --the climate and material environment. A dynastically ruled state, however, contained the seeds of its decay and destruction. The security of existence in settled communities, the comparative luxury, the segmented character of labor and the *conspicuous consumption* of the élite (six centuries before Veblen) led to a

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decline in resolute boldness and integrity, rising corruption, populations debilitated by desire and moral decline and, most importantly, to a loss of a sense of solidarity.

On other contributions of Ibn Khaldun to economic thought see M. A. Nashaat, "Ibn Khaldun, Pioneer Economist," *L'Egypte Contemporaine* 38 (1944). On other, noneconomic, aspects of Ibn Khaldun's work, see Salah Fadl, *Ta'thier Al Thaqafah Al Islamiyah fi Al Komedia Al Ilahiyah li Dante,* 1996). One reading of Ibn Khaldun's work is summarized unequivocally: "As a conclusion we can state that Ibn Khaldun formulated the advantages of the division of labor long before Adam Smith, that he invented a population cycle theory before Malthus and that in terms of fiscal economy he formulated ideas which are comparable with those of supply side economics" (Louis Baeck, *The Mediterranean Tradition in Economic Thought,* 1994: 117). And Ibn Khaldun's treatise, *Muqaddemah,* is described by Arnold Toynbee as "the greatest work of its kind that has ever yet been created by any mind in any time or place" (quoted in Howat, 1974:187). Further, the work of Ibn Khaldun's student, Ahmad AL Maqrizi (1364-1442), titled *shudhur al 'uqad fi dhikr al nuqud: The Fragments of Necklace on the Subject of Coins* (1990), provides an articulate analysis of the currency debasement and inflation that Egypt was undergoing in the fifteenth century --five centuries prior to Keynes' equivalent, modern work. For Maqrizi's other contributions to economic thought see his *ighathat al umma bi kashf al ghumma: The Succor of the Nation by Revealing the Misfortune* (1990). Indeed, seven decades before Ibn Khaldun, his predecessor Ibn Taymiyyah (1263-1328), in the words of Louis Baeck,

> elaborated a circumstantial analysis of the market mechanism (in his *Al siyasa al shar'iyah*), with a theoretical insight unusual in his time. His discourses on the welfare advantages and disadvantages of market regulation and deregulation have an almost contemporary ring to them.
>
> His work contains a detailed description of the law of supply and demand. In his analysis of the supply side the author makes an important distinction between local production and supply from abroad through imports. Moreover, he discusses the respective price elasticities of goods and services in different market situations and constraints. In his study of the demand side, he mentions the important determinants of demand, such as the number and the purchasing power of the (potential) buyers, the degree of scarcity or abundance in the market, the socio-psychological condition of the buyers, and the assessment of their utility (indifference) functions. In the hierarchical society, he muses, the factors of prestige and status play a considerable role in the trade of luxuries. In stratified societies, the social prestige factor demonstrated in 'conspicuous consumption' works as stimulant (*Economic Thought,* op. cit.: 100, 103, respectively).

Nonetheless, Eurocentric classical economics in the Anglophile world is taken to start with Adam Smith; with Quesnay in the Francophone literature. Conspicuous consumption is attributed to Veblen's *Leisure Class.* And the demonstration effect is called after Duesenberry (1949). For other examples on non-Western economic thought, see Tessa Morris-Suzuki, *A History of Japanese Economic Thought* (1989); Ajit Dasgupta, *A History of Indian Economic Thought* (1993); Yassine Essid'd *A Critique of the Origins of Islamic Economic Thought* (1995); and Masudul Alam Choudhry, *The Principles of Islamic Political Economy* (1992), regardless of the theocratic and neoclassical aspects and method contained in his work.

* One cannot help but also notice the similarity between Smith's example of the advantages of division of labor, his famous eighteen operation pin making (*Wealth of Nations,* 1776: 8-9), and the example used in the same context by Abu Hamid al Ghazali seven centuries earlier. A passage concerning the division of labor and its advantages in his *Ihya 'Ulum al Din,* al Ghazali (1058-1111) states: "Even the small needle becomes useful only after passing through the hands of needle makers about twenty five times, each time going through a different process" (see *Ihya,* 1937, vol. 4: 119, quoted in Baeck, *Economic Thought,* op. cit., 110).

If Lionel Robbins is correct in stating that Smith "probably got [the pin making example] from the French encyclopedia," (*A History of Economic Thought: The LSE Lectures,* 1998: 129), then a hint emerges as to another intermediate station for al Ghazali's insight (as well as that of Ibn Khaldun) before reaching Smith via the Physiocrats, namely the Andalusian (Salamanca) scholars. Obviously, a lot of research is needed in this regard. However, the point here is not that the *Wealth of Nations* contained no original thoughts, as Schumpeter concluded (in his *History of Economic Analysis,* 1954: 184-6), for no social science can be developed from scratch. Nor is the point to impeach Smith's secured position as a

Marx's works further indicate his understanding that the issue is not merely one of growth, but also of the economic, social, political, legal and conscious active metamorphosis of the social formation *(i.e., transformation,[1] not mere growth or development),* provided it has reached a certain level of development of its forces and relations of production, and of the state apparatus necessary to sustain these.

Precapitalist modes of production are hardly prone to growth or technical change, for the surplus is meant for use value and partially for luxury consumption, support of the state apparatus and aggrandizing public works of an unproductive nature.[2] In feudalism, since the immediate producers appear in combination with the means of production, and hence labor power cannot take the form of a commodity, the appropriation of surplus labor by the feudal lords takes place directly, by extra economic coercion (viz, political constraints such as feudal land property and guild regulations, as well as the pressures of manorial custom) without the mediation of the economic "laws" of commodity exchange. *In capitalism, not only are the products of labor turned into commodities, but labor power*

great "moral philosopher," i.e., social scientist, and, especially, political economist. The point rather is that non-Western scholars who contributed to political economic thought should be identified and given their due. Not only is this the right thing to do in "science," but also this is one way in which neoclassical claims to exceptionality and universality can be rebuffed, thus allowing a reasoned analysis of political economics to evolve.

[1]The fact that the issue is not merely one of economic growth was realized by others who in one form or another followed Marx's expanded interpretation. For example, contrary to Smith's meaning of "the mercantile system" as any policy prescription tending to a favorable balance of trade (of payments), e.g., encouraging exports, discouraging imports, imposing regulations on colonial trade, and to Senior's and McCulloch's "essence" of mercantilism as the belief that wealth consisted in the precious metals (which Aristotle had dismissed as "the Midas fallacy,") von Schmoller (the leader of the German historical school) reached out for a wide embracing definition of the mercantile system:

> The essence of the system lies not in some doctrine of money, or of balance of trade; not in tariff barriers, protected duties, or navigation laws; but in something far greater --namely in *the total transformation of society and its organizations, as well as of the state and its institutions, in the replacing of a local and territorial economic policy by that of the national state* (*The Mercantile System and Its Historical Significance* [1884], 1902: 51, emphasis added).

[2]On precapitalist formations and their use of the surplus, see Marx, *Capital,* vol. III. (1894: 321, 425, 442-52, 571-2, 729-30, 814, 970, 1017, 1021).

itself becomes a commodity: The system of coercion disappears and the "law" of value[1] holds true over the entire extent of the economy.

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[1]It is often exclaimed why does Marx need a theory of value. The answer spreads all over Marx's works, but especially in *Capital*, vol. III (1894: 98-104, 252-88, 428, 774, 984, 1020-40), whereby *the essence of the capitalist dynamics is the creation of surplus value.* Marx realized that all economies are constrained by limited supplies of labor and nonreproducible natural resources. Once these real structures are measured in price terms, a set of exchange values is superimposed upon them. This set will vary, depending on whether the economy under examination is feudal or capitalist. It is this unique contribution of distinguishing value structures from real structures that makes Marx's analysis of economic phenomena so penetrating. He is thus able to draw implications from these two aspects, and depict a historical evolution of a society from the tension caused by the contradictions between them (see Tsuru Shigeto, *Towards a New Political Economy*, 1976: 186).

The labor theory of value states that socially necessary labor forms the substance of commodity values (which implies that there can be no nonlabor theory of value). Value, in Marx's discourse, refers to that property of a commodity which makes it qualitatively the same as, and only quantitatively different from, another commodity. What is vital to the make up of capitalism is that commodities are produced as value, rather than as use values, i.e., "they are produced as instruments of trade indifferently to their use values" (see Sekine, "Uno School Seminar on the Theory of Value," in Robert Albritton and Thomas Sekine, *A Japanese Approach to Political Economy: Unoist Variations*, 1995: 13-14). Marx, in contradistinction to the classics, thus recommends the substitution of the term "value" (i.e., indifference to use value) for "exchange value" (price or value form) (see Marx, *Capital*, vol. I, 1867: 60).

The interdependence between production and distribution (of the social product) necessitates that *a theory of value precede any consistent theory of distribution.* When value leaves the sphere of production, in which it originates, and enters that of circulation, it becomes price. *A value theory is thus a prerequisite for a price theory.* Likewise, a surplus value created in production becomes a profit in circulation, thus *a profit theory has to emanate from a value theory.* Further, for surplus value and its rate to be accounted for, one has to differentiate use value from value (the classical economists' exchange value). *To do that one has to have a theory of value:* What determines the value of a commodity (including labor power --the labor time necessary for its production and its reproduction). By comparing the necessary labor time and the surplus labor time Marx accounts for surplus labor and thus surplus value. However, surplus labor also enables Marx to account for various modes of production, for it is the mode upon which surplus labor is expropriated that differentiates slave labor, for example, from wage labor.

The concept of value in political economy is thus generally germane to the evolution of market price; it also plays a central role in explaining the allocation of resources and distribution of the output of production. The "law" of value reveals how the surplus product is generated, how it is appropriated, and how it is ploughed back in expanded reproduction. It also indicates the motive and direction of technological change that accompanies capital accumulation. The theory of value is also relevant to Marx's theory of exploitation of labor. Profit, interest and rent appear in mainstream economic theory to be returns to factors of production other than labor. Since labor for Marx is the social source of production, these other payments should be attributed to labor. They are a surplus value, and laborers are exploited by taking that away from them (see Staley, 1989: 112-15).

Periodically, crisis sets in, either because the "law" of value fails to operate (realization crisis), or because the compulsions of capitalist development give rise to it (rising organic composition of capital, and falling rate of profit). When the "law" of value is in full operation, i.e., when there is no problem of realizing the surplus value into profit, the rate of profit tends to fall with the rise in the organic composition of capital. The realization crisis occurs under two kinds of circumstances, namely disproportionality among various branches of production, and underconsumption that is traced to restricted volume of consumption demand, restricted by low wages and capitalists' tendency to accumulate (see Paul Sweezy, *Theory of Capitalist Development*, 1942: 152-3, 156-89; and Maurice Dobb, *Political Economy and Capitalism*, 1940: Ch. 4).

The purpose of the "law of value" then is to recognize the "inner essence and inner structure" behind the "outer appearance." Profits, for Marx, arise from surplus value; capitalist profit rate equilibrium obscures this fundamental social fact (see Samuel Hollander, "Marxian Economics as 'General Equilibrium' Theory," *HOPE*, 1981). Marx does not accept exchange value (the proportion in which commodities are exchanged) as determined by supply and demand as in the mainstream economic theory of today. Anyone can see what prices as determined by markets are, but Marx wants to get at the essence of exchange. This

The fundamental components constituting the process of passage from feudalism to capitalism, therefore, are: The change in the social form of existence of labor power consisting in the separation of the means of production from the direct producers, i.e., the change from feudal land property to industrial capital; the change in the social mode of production of labor power from serfdom to wage labor (which comes to the same thing); and the polarization of the direct producers, or the dissociation of the peasantry.[1]

For Marx, therefore, the conjunction of three phenomena accounts for the transformation of a feudal society into a capitalist formation:

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essence is found in the fact that the one thing common to all commodities is human labor. The "law" of value thus posits an integrated market for the products of social labor (commodities), capital and labor. When people exchange commodities they are really engaging in the social relationship of exchanging labor. Analyzing exchange as only a relationship between things is commodity fetishism. Defining value as the total of *socially necessary labor time* involved in the production of a good calls attention to this social relationship.

[1]On Marx's conception of the transformation from feudalism to capitalism, see *Capital,* vol. I. (1867: 452-3, 726-34, 915-16).

Further discussions of the metamorphosis are scattered in the *Grundrisse* (1857-8) (especially the section of the manuscript published under the title *Precapitalist Economic Formations*), and partially in the *German Ideology* (1845-6), "The British Role in India" and "The Future Results of British Role in India" (1853) in *Marx-Engels Reader,* in some of Marx's articles in the *New York Daily Tribune* (1853), and in letters exchanged between Marx and Engels (1853 onward, in the *Reader*), in the context of their ethnocentric thoughts on the "Asiatic" mode of production, pre-Colombian civilization in the Americas, Slavonic and Germanic communal survivors, the Russian *mir* (the peasant commune), the status of British occupied Hindustan and Ireland, British Opium War against China, French conquest of Algeria and US expansion at the expense of Mexico. Incidentally, this latter sample of nineteenth century imperialist activities is informative of the disarticulation incurred by the economies of the UDCs involved as well as some of the means which facilitated industrialization in the DCs.

On the other hand, this ethnocentricity can be accounted for, in part, by the fact that Marx's-Engels' works arose as the ideology of the victims of West European capitalism, using British "classical" economics as a source, and articulating their antitheses in response to the latter when formulating their universal anticapitalist theory and outlining the historic processes which would lead to a uniform postcapitalist straight-jacket of world society. Moreover, Marxism is originally a European product of the philosophical traditions of rationalism, Darwinism, Hegelian dialectics, French utopian socialism and British "classical" economics. Had the lives of Marx and Engels extended only one century, to see today's Japan, Singapore, Hong Kong, Taiwan, and indeed China, Malaysia and Indonesia, presumably they would have reconsidered their description of any mode of production on ethnocentric basis (i.e., Asiatic). Last, but not least, is the fact that Marx was principally concerned with nineteenth century industrial capitalism. His remarks about underdeveloped economies and the metamorphosis of their peoples were fragmentary and rest on far less thorough study than his description and analysis of capitalism. He concerned himself, essentially, only with paradigm and policy.

Paradigm explores how the real world should be analyzed: What is the most useful theoretical framework of questions to ask, processes to study, concepts to use, in order to arrive at deeper understanding of the workings of socio-economic systems. Policy, on the other hand, deals with the ultimate goal, which is not merely to interpret the world, but to change it. This is why Marx was always more concerned about his understanding, and his role in effecting change, than about elegance of phraseology, taxonomy, or publication. And this is aside from the fact that the overwhelming majority of his writings were edited and published posthumously by Engels and others.

(1) A rural social structure which allows the peasantry to be "set free" at a certain point.

(2) An urban craft development which produces specialized, independent, nonagricultural *commodity production* in the form of the crafts.

(3) Accumulation of fixed capital derived from trade, plunder and usury.

Among the basic analytical-descriptive rationales of capitalism that Marx emphasizes are:

(1) The capitalists use the economic power derived from their ownership of the means of production to extract and appropriate surplus value from laborers which is used to finance further accumulation.

(2) Technical innovation enables the capitalist to raise the rate of profit and/or undercut competitors. The consequent development of the productive forces is the positive aspect of capitalism.

(3) Meanwhile, capitalist competition also undercuts and destroys all precapitalist producers (artisans, peasants) as well as the less efficient capitalists (Marx, *Capital,* I, 1867: 480-93, 709, 927-35, 1037-8).

Marx's realist, materialist[1] description of the metamorphosis thus entails:

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[1]Materialist in the historical sense, which synthesizes the dialectic, as the theory of the dynamics of history, with materialism, as the real basis of the structure of all human life. In this materialist conception, consciousness and being are distinct, yet also in dialectical unity, with being (human) as subject --contrary to Hegel's idealism-- and consciousness (thought) as predicate: *Thought proceeds from being, not vice versa;* consciousness is the accumulated result of experience in social life; Spirit is not the source of matter but rather its product. However, in changing the object, the subject also changes itself: "By acting on the external world and changing it, he at the same time changes his own nature. He develops his slumbering powers and compels them to act in obedience to his sway" (Marx, *Capital,* vol. I, 1867: 177). *History thus becomes the progressive modification of human "nature,"* whereby circumstances make humans as much as humans make circumstances (again, no absolute determinism).

Marx, in the *Preface* to *A Contribution to the Critique of Political Economy* (1859), summarizes his disagreement with Hegel's idealism as follows: "My investigation led to the result that legal relations as well as forms of states are to be grasped neither from themselves nor from the so-called general development of the human mind, but rather have their roots in the material conditions of human life.... It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness." Two centuries earlier, Thomas Hobbes' mechanical conception of nature had led him to go as far as to claim that sensations of color were derived wholly from the colored object one saw and not from anything in the mind. His argument, put crudely, means that physical matter is all there is. Berkeley, in the eighteenth century and at the other extreme, was nonetheless skeptical as to whether it could be proven that anything existed outside human mental images of it. Hegel thus sided with Berkeley, and Marx with Hobbes.

(1) Primitive fixed capital (not wealth) accumulation.

(2) Institutional change.[1]

(3) A reserve army of unemployed.

(4) *Commodity production* (for exchange not use value).

(5) Labor saving machinery (manufacture-machinofacture transition).

(6) New techniques and organizations.

(7) Cash nexus.

(8) Rising organic composition of capital (OCC).[2]

(9) Expansion of trade (both capitalist and underdeveloped countries gain from exchange, albeit the former exploit the latter).

(10) Concentration of production and productive power of capitalism (*Capital,* I, 1867: 714, 775, 873-940).

Evgennii Preobrazensky (1965), with more of a practical and planning bent, worked on Marx's thought in the 1920s, originating the conception of both the nature and strategy of socialist metamorphosis. A key objective is *to maximize the rate of growth of national output.* Meanwhile the traditional, subsistence oriented sector and the wage labor based, profit oriented sector are replaced by the private sector and the public (state) sector, respectively (Preobrazensky, 1973: 35-79). The way to achieve socioeconomic

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[1]Vladimir Lenin (1897) was more explicit and specific than Marx with respect to the proposed institutional change. He argued for, and later endeavored to bring about, a concerted effort to accelerate accumulation and achieve "superior" forms of social organization (on the basis that the institutional frame --the superstructure-- is an epiphenomenon of the development of productive forces). For that end he opted for using a centralized economic decision system, and so-called "one party democratic centralism." Joseph Stalin (1952, 1972) further argued for, and effected, state plan, proportional development of the national economy, department-I prioritization and *gulag* sanction. Stalin utilized centralized planning of consumption as well as production, and gave priority to large scale projects and the production and buying of capital goods.

[2]OCC is capital per person employed, or *c/v,* whereby variable capital *(v)* is the wage bill and constant capital *(c)* consists of plant and raw materials (it is constant in the sense that it adds no more to the value of output than it loses in the process of production, new value added being due to the labor power purchased by variable capital). Fixed plant contributes to *c* only in respect to its rate of wear and tear and depreciation. Thus *c* consists of depreciation plus raw materials.

metamorphosis is *rapid industrialization,*[1] to be financed by what Preobrazensky (1965: 183) termed "primitive socialist accumulation": The unequal exchange of resources between industry and agriculture to the benefit of the former.

The state takes responsibility for a steadily increasing share of national production, not only to ensure the socialist metamorphosis of the economy, but also to maximize the rate of growth of output, for the state could fix the savings rate from its expanding, modern sector profits, up to one hundred percent, and it could also determine the pattern of investment to be financed by these savings.[2] However, in the early years of the metamorphosis, concedes Preobrazensky (1973: 115-19), the economy would also need the support of private producers, whose relative and absolute importance should later steadily diminish. The public sector could be expected to generate a faster growth, and more efficient pattern, of investment.

Preobrazensky, like G. A. Feldman who later gave a formal statement of the same argument,[3] favored assigning priority to investment in heavy industry --capital and intermediate goods. This not only would provide means for the production of armaments to protect[4] the metamorphosis, but also in purely economic terms it would provide the basis for maximizing long-term output growth. While the populace might have to tighten its belts in the short-run, foregoing any immediate rise in per capita consumption while the basic

[1]Nikolai Bukharin (1973, 1982), to the contrary, proposed population regimentation using the *Kulaks* (the well-to-do farmers who profited from the labor of peasants), and opposed collectivization of the land, in a process of slow pace, concessionary marketeering, or market socialism. Leon Trotsky (1987) held the middle ground between these opposing orientations of Preobrazensky and Bukharin, suggesting a strategy of centrally planned, fast paced, siphoned off, farming based collective industrialization.

[2]State accumulation is typically characterized by a much larger scale and much greater potential capabilities to extract surplus than any sole private accumulator is capable of organizing. That is why imperialism is such an attractive means of accumulation. In neoimperialism, moreover, the surplus is captured not via direct state coercion but via unequal commodity exchange (see Frank and Gills. *The World System: Five Hundred Years or Five Thousand?*, 1993: 99-101).

[3]Feldman's argument is summarized by Evsey Domar, in Alec Nove and Hugo Nutini, *Socialist Economics: Selected Readings* (1972: 51-61).

[4]This concept of protection is analogous to what some non-Marxist authors term stability, albeit more for internal political stability than for security threats, be they external or internal (see Sievers, 1974: 82, 172, 211-12, 233-4).

industrial structure was created, in the long-run both annual levels, and the rate of growth, of output of all types would be higher under heavy industry investment than under any alternative growth path.

Preobrazensky (1973: 122-47) also explored the policy implications of seeking to maximize the rate of expansion of the public sector, proposing a number of measures to accelerate mobilization of both financial and real resources for state accumulation. These policy instruments include taxation, interest rate policy, the terms-of-trade between sectors and public utility pricing.

Thus Preobrazensky advocated the following policies:

(1) The state should tax the private sector.

(2) The banks should charge higher interest rates to private borrowers than to state industry.

(3) The state should replace private intermediaries in trade, and should set the terms-of-trade between the private and the public sectors so as to permit extraction from the former of part of its surplus products.

(4) The state should charge higher rates to private users of such services as the railways.

The Marxian metamorphosis reaches a sophisticated degree of realism in the work of Maurice Dobb. Dobb (1963: 27-34), with empirical eyes on the socialist, especially Soviet, industrialization experience, addresses the counterfactual question of whether social unity would be ruptured if too much political and economic pressure were exerted on the peasantry to provide, from their labor and their own narrowed consumption, the wherewithal for industrial expansion. His answer is that if encouragement were given to the richer farms to buy or rent more land and employ labor in order to produce a surplus for the market, this would lead to a rebirth in the country side of a capitalist class of improving farmers, accumulating capital and catering for trade and money lending, as have embryo capitalists from the ranks of peasant producers the world over (e.g., English yeomen, French labourenrs, Prussian junkers, Russian kulaks).[1]

The pattern of development for capitalist countries in the past was to develop first all consumer goods industries, such as textiles, clothing or food processing, only switching over to a more rapid expansion of capital goods industries at a fairly advanced stage. This has come to be known as the policy of textiles first. If the peasantry can be wooed rather than coerced into providing a larger marketed surplus of raw materials and foodstuffs, this pattern would be the right one, since the only way of tempting a peasant to sell more grain or cotton is to offer him/her more industrial goods in return, and to make this possible an expansion of light consumer goods industry would be given priority. This would be enacted in a cautious and relatively slow development process, in the course of which a careful balance must be preserved between agriculture and industry production of more consumer goods, keeping in step with a quickened flow of agricultural products from village to town.

The actual Soviet way of metamorphosis, however, was to combine a high rate of industrialization with a drive for collectivization of agriculture --for the merging of individual peasant farms into large scale cooperative or collective farms. Thereby a solution was provided for two problems. The first, a historically specific one, namely the individualist peasant agriculture, with its primitive methods and low yields, and its constant threat of a "reborn capitalism" via the generation of an upper kulak stratum of farmers, was replaced

[1]Dobb's interpretation of embryonic capitalism is reminiscent of F. Mendels' (1961) strategy of proto industrialization, as the first phase of the industrialization process. This strategy includes the growth of market oriented industry in rural setting and along traditional lines, farming for the market, earnings from industry without a movement into the factory, specialization in industry before a transition to the factory, technological change preparing for the factory system while capital is accumulated, formation of a wage labor force familiar with industrial processes and replacement of the household production and local autarky by exchange economy.

Proto industrialization, in turn, is a recent (post-WW II) term, first employed in economic history with reference to consumer goods industries, mainly textiles, especially the eighteenth century linen industry of Flanders. Generically, it signifies the cottage industry, domestic industry, or the putting out system, but it differs from these (which all catered only to local markets) in the significant difference of distant marketing (see Rondo Cameron, *Economic History of the World*, 1997: 163).

by a collective form of agriculture. At the same time, but more importantly, the basis was laid for mechanization and an enlargement of the marketed surplus.

Industrial metamorphosis, therefore, rather than being slow and cautious, was planned to take place at an ambitiously high rate. The impetus of metamorphosis was not to be allowed to peter out; on the contrary it was to be generated and sustained by a campaign to which the leading personnel in industry at all levels and the full membership of the Party were mobilized. The cautious pattern of development was discarded, and instead of light industry taking the lead, priority was given to the construction of heavy industry -- electrification, iron, steel and machinery. By enlarging the productive capacity of the metal, power and machine making industries the possibility of the future expansion in all branches of the economy was thereby being enlarged. Such a Marxian based Soviet experimentation, its political tyranny and human cost aside, provides economic precedents for the UDCs to consider in their quest for transformation. For example, in the absence of a heavy industry (fuel, metals, engineering) the UDCs will have to rely in the early stages of metamorphosis on importing machinery from abroad with which to equip their new industry. Meanwhile, they will have to export primary products, at whatever prices there are, to procure that machinery.

Another practical issue of relevance to underdeveloped countries from Marxian metamorphosis is whether to yield to Preobrazensky's counsel and leave some strategic segments of the metamorphosis to the initiative of private capitalists, aided perhaps by some foreign lending and technical aid under the umbrella of international bodies; or whether planning in some degree by the state and by government organs is necessary.[1] The adoption of the latter of these two positions in the UDCs, even within a continuum or middle ground strategy, inevitably results in the state having to face internal as well as external reactions hostile to any encroachment on a free market economy, and to any considerable enlargement

[1]Bearing in mind that even in the US, the strategic sectors of the economy, e.g., armament, energy, space, railroad and other major transportation means, are governmentally run, controlled or supervised, despite neoclassical economics' recommendations to the contrary.

of the scope of state expenditure and investment, with the potential security problems thereof. This in turn discourages private initiative, results in capital outflows, scares away foreign capital and leads to uneconomic policies and to waste involved in economic planning. The tradeoff for such a course of action, elaborated on below, however, is so important that finding ways to mitigate, if not resolve, or absorb these shortcomings, is imperative.

In addition to this broader issue of planning versus free market, state versus private investment, especially in the strategic segments of the economy, there is of course, still lingering, the question of the general lines which metamorphosis, planned or unplanned, should pursue. It could pursue the policy adopted by some developed countries in the past, proceeding cautiously to invest first in agriculture and agricultural processing industries, then in light consumer goods industries for which there is an immediately available market, and only much later in highly mechanized modern techniques and in heavy industry. Or, alternatively, it could pursue the heavy-industry-first approach.[1]

In this question of the pattern of metamorphosis a number of distinct though connected issues are involved: The relative importance to be assigned to foreign trade and to mobilizing internal resources, especially surplus labor; the order of priority to be assigned to different industries or sectors --their relative rates of growth at particular periods; and the choice of technique, or of methods of production, in the economy at large and in particular industries. These issues are difficult to size up clearly without entering into specific case reasoning, and in the process to focus upon essentials, something that is utterly difficult, especially in the muddled state of the data base and statistical nuances and lack of reliability in conditions of underdevelopment. But such complementary country studies will have to be made if the proper balance is to be achieved.[2]

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[1]The tradeoff of both orientations, as well as whether a compromise approach can be adopted, are addressed below.

[2]Such questions are not raised in free market economics, on the basis that the market device will be the automatic determinant of the proper way to follow. Neoclassical economics is preoccupied with maximizing behavior, given "endowments" and tastes. It assumes that consumers try to maximize utility and producers

The wider issue of growth, however, is relatively straightforward. Assuming that population is increasing at 2 percent per annum, which is not an unusual rate for UDCs, and assuming a capital-output ratio of 3, a country will have to save and invest 6 percent of its national income merely to break even, i.e., to keep pace with population increase while preventing the standard of living from falling. To maintain an economic growth rate of 5 percent, and hence raise output per capita by as little as 3 percent per annum, will require the investment annually of 15 percent of its national income --a very high percentage, and hence too heavy a burden, for UDCs with such very low output per capita and already so near the starvation level.

Dobb (1963: 40-1) provides a rather obvious answer, or at least partial answer, to this: That in most UDCs there are large inequalities of income, and hence a substantial amount of parasitic consumption by feudal and other well-to-do elements (a lot of it of imported goods), which could be reduced if appropriate governmental measures were adopted. *For a principal obstacle to rapid economic growth in the UDCs is the way in which their potential economic surplus is utilized.* The UDCs' surplus is absorbed by various forms of excess consumption of the limited number upper class, by increments to hoards at home and abroad, by the maintenance of vast unproductive bureaucracies and of even more expensive and no less redundant, mostly ceremonial, military establishments, whereby the state --also under constant security threats-- too often means the army, the only "national" institution. Moreover, there are often untapped resources and forms of waste, and these resources could be mobilized legally (i.e., with proper compensation) for investment by a government not too tender about existing vested interests. That does not mean dictatorship; it only means balancing conspicuous consumption with urgent needs, the privileged oligarchy with the destitute masses, and the utterly unjust with the fairly just.

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try to maximize profits, and attempts to show how their actions establish equilibrium prices. The prices of factors of production are included in this via marginal productivity (the addition to total productivity) theory. The marginal technique, using infinitesimal calculus, is the theoretical tool. Policy is not discussed, for Marshall has changed the name of the subject from political economy to economics (see his *Economics of Industry*, 1879; *Present Position of Economics*, 1885; and *Principles of Economics*, 1890).

The pessimistic view[1] takes it for granted that, in order to have rapid metamorphosis, consumption must be depressed absolutely so that the investment ratio may be raised. This, in Dobb's account, is a purely static view, and derives from the snap shot habit of looking at things at a given point of time, with a given total income to be divided in certain proportions between consumption and investment (Dobb, 1963: 41-2). What this static view overlooks is that growth depends quite as much (and in the long-run much more) on what is done with the increment of national output, however small this may be to start with, as on whether the initial rate of investment (and hence rate of growth) is large or small.

In other words, it is the rate of increase of the increase --the capacity of the growth rate itself to grow-- that really matters. It is how one uses the investible surplus one has, and how one harnesses its results, that is crucial, rather than its initial size in year one (the neoclassical so-called "endowment"). True, using the increment for rapidly stepping up development involves not using it to increase consumption for the time being. But to partially forgo raising consumption here and now in order to be able to raise it more rapidly later, is a different thing from absolutely reducing consumption here and now which the pessimistic view sees as the only possibility.

From a planning standpoint, this issue appears essentially as the question of how to distribute investment between industries that make capital goods and industries that make consumer goods. Instead of the notion that savings, as a painful shrinkage of consumption, must always precede and condition growth, there is the notion that the increment that growth yields being used in various ways, with varying effects on growth in the future, result in a staggering force of compound growth at high rates.[2] This is the practical crux of Dobb's

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[1]This view is represented below, e.g., in a heterogeneous mechanism which emanates from Heilbroner's outlook (see Robert Heilbroner, *The Making of Economic Society*, 1972).

[2]If one starts with any quantity (which may be national income or the investible fund available at some starting date) and it grows at 2 percent (compound rate) annually, then at the end of 10 years it will only be larger by a little more than 20 percent and at the end of 20 years by 50 percent. If one can raise the growth rate to 5 percent, it will grow by more than a half of itself in one decade and by more than 2 1/2 times in 2 decades. If, however, the growth rate could be stepped up to 10 percent (which is currently the case in the PRC and was the case in the USSR in the 1930s-1960s), the initial quantity (national income or investible surplus) would increase more than 2 1/2 times in one decade and by 6 or 7 times in two decades. Once one

Marxian contribution, for his many profuse trees are all encompassed within this crowning forest.

1.3 The Keynesian Mechanism

Before Keynes, the prevailing orthodoxy was that the economy tended to a full employment equilibrium through the operation of the price device, with the distribution of income determined by the payment to factors of production according to their marginal productivity. *Economic growth was assumed to be a smooth continuous process.* The twin pillars of classical employment theory were that savings and investment were brought into equilibrium at full employment by the rate of interest, and that labor supply and demand were brought into equilibrium by variations in the real wage. Anyone wanting to work at the prevailing real wage could do so.

In the 1930s the problem that dominated the capitalist economies was that of intense, persistent, trade depression associated with widespread, unprecedentedly heavy unemployment which was aggravated rather than relieved by laissez faire economic policies. Britain, the last stronghold of free trade at that time, therefore, adopted a protectionist strategy in the 1930s. And in the United States, the proverbial home of methodological individualism, the New Deal licensed an unprecedented level of government activism.

The ideological bias associated with the neoclassical paradigm was becoming an anachronism (Keynes had consigned the laissez faire ideology to the lumber room of

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has achieved an adequate growth rate by plowing back the increment, there will very soon be an ample margin for increasing both consumption and investment at the same time.

Once one has succeeded in raising the growth rate to 15 percent, national income would double every 5 years, quadruple in 10 years and increase 16 times in 20 years. A little extra effort and drive in the early years of industrialization may therefore yield a very large harvest within a decade or two from which consumption may be substantially raised. However, to raise the growth rate to an adequate level through geometric progression, and to maintain it there for a decade or two without a relapse into stagnation, almost certainly requires planning (see Dobb, 1963: 42-4). It also requires a stabilized security configuration as well as the appropriate type of political and social organization capable of inspiring human endeavor and mobilizing economic resources to the desired ends, especially in the early years of the metamorphosis.

"vulgar economics" as early as November 1924),[1] and Robbins' view that the cause of economic difficulties since the Great War was due to wages being held above the equilibrium level, though still shared by many economists, provided little practical guidance to policy makers.

This then was the context in which Keynes produced his *General Theory of Employment, Interest and Money* (1936), which he viewed as a complete break with current orthodoxy.[2] Keynes took issue with what he chose to call "classical" theory but which embraced neoclassical theory.[3]

A major objection to orthodox economic theory in the context of the 1930s was that it assumed an economy which was tending towards full employment --not of course that the economy was necessarily in a position of full employment, but that its eventual equilibrium was a full employment position. However, in the prolonged depression of the interwar period, with rampant unemployment, the assumption seemed blatantly to disregard the crucial problem of economic policy. It was thus the classical theory of employment with which Keynes took issue first --in his second chapter of the *General Theory*, which is a

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[1]See Keynes' lecture on "The End of Laissez Faire," in *Collected Writings*, Vol. IX (1971: 277). Selfishness and greed, according to the Smithian concept of invisible hand, is good to society's economics but, paradoxically, not for its morality. Methodological individualism, therefore, is merely a construct of rationalization for the capitalist form of society. In the Keynesian paradox of thrift, therefore, what is rational for the individual may, concededly, not be rational for society.

[2]In his *General Theory*, Keynes strove to show that the classical theory was based on postulates that were applicable to a special case --the case of an economy in which the natural forces were such that aggregate demand would always adjust to aggregate supply, so as to produce a persistent tendency towards full employment. His was then to become the general, not the special case, theory. The first chapter of the General Theory consists of a single dramatic paragraph saying just that. Like Marshall before him, Keynes set out deliberately to make the economic theory in which he had been brought up more general, i.e., more useful over a wider frame of reference in its explanatory power. Unlike Marshall, however, he saw himself as an innovator rather than an adapter; though this was perhaps more a difference in temperament or of starting point than a difference of substance. Marshall, that is to say, changed more than he was prepared to admit of the basic classical model and Keynes retained more than might appear of the neoclassical tradition (see Deane, 1978: 176).

[3]The "classical economists" was a name coined by Marx to cover Ricardo and J. S. Mill and their predecessors, that is to say for the founders of the theory which culminated in the Ricardian economics. Keynes was accustomed to include in the classical school the followers of Ricardo; those, that is to say, who adopted the theory of the Ricardian economics, including, e.g., Mill, Marshall, Edgeworth, and Pigou; i.e., the economic orthodoxy (see Keynes, 1971: 3).

critique of what he chose to specify as the postulates of classical economics. These in his account were fourfold:

(1) That the real wage is equal to the marginal product of labor.

(2) That the real wage is equal to the marginal disutility of the existing employment.

(3) --Which is a logical corollary of (2)-- That there is no such thing as involuntary unemployment in the strict sense; i.e., that all the unemployed could get employment merely by accepting a fall in wages.

(4) That supply creates its own demand in the sense that the aggregate demand price is equal to the aggregate supply price for all levels of output and employment (Keynes, 1971: 9).

With the first of the postulates he did not quarrel. With the second and its logical corollary, the third, he came into head on clash. The implication of the second classical assumption, that the real wage equals the marginal disutility of labor, is that an individual could increase his employment by revising his notion of the disutility of labor and accepting a lower wage. At a macroeconomic level it implies that if labor as a whole would agree to a reduction of money wages more employment would be forthcoming. Keynes' objections to these assumptions were based partly on an *appeal to facts*: It was not plausible to assert that unemployment in the United States was due either to labor obstinately refusing to accept a reduction of money wages, or to its obstinately demanding a real wage beyond what the productivity of the economic machine was capable of furnishing.[1]

In the *General Theory* Keynes strove therefore to demonstrate that contrary to the classical theory the capitalist system left to itself will not generally produce full employment. The key to this theoretical formulation was the development of two concepts, liquidity preference and effective demand. Liquidity preference meant that financial markets may systematically cause interest rates to be at such a high level that they depress private

[1]In one interpretation the facts were not necessarily in conflict with the classical assumption, for the latter was not that there could never be any involuntary unemployment or depression, but that there would not be any involuntary unemployment when the economy was in long-run equilibrium (see Deane, 1978: 177).

industry investment, and that the demand for the stock of money depends on the rate of interest. Effective demand is the notion that aggregate demand, and hence savings, depend on disposable income.[1] Consequently, full employment may be unsustained because its level of output is not matched by aggregate demand. It stands in contrast to the classical or, more accurately, neoclassical view that the price device automatically adjusts to ensure equality between demand and supply, for instead of demand responding only to prices it responds to income.

Keynes was thus confronted not only with the theoretical challenge but mainly with the factual challenge of the large scale unemployment of the 1930s itself. He posited that the working class and the labor unions would show less resistance to a slow erosion of real wages, with a rising level of nominal wages and of inflation, than to a lowering of nominal wages under stable fiduciary (paper) money. His macroeconomic approach thus is less a grand construct than *a pragmatic device for pursuing a given purpose*: Namely to influence decisively *the shaping of economic policies* by the government. His ideas were experimented with during Roosevelt's New Deal and were put into practice in all OECD countries after World War II.

What was lacking was a model of economic reality which started from *the facts of experience*, i.e., a system with a persistent tendency towards something less than full employment. Keynes thus developed a theory in which the level of employment depended on:

(1) The propensity to consume.

(2) The marginal efficiency of capital.

(3) The quantity of money.

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[1]Effective demand is often interpreted as the desire plus purchasing ability. However, the distinction between notional and effective demands is further elaborated upon by Robert Clower. Notional demand is the demand of households at prices which reflect a full employment equilibrium. If the economic system fails to reach full employment equilibrium, however, some households will find that their actual incomes have fallen below their notional incomes, and they will therefore reduce their consumption expenditures to conform to the constraints imposed by their actual incomes. Demand functions which take these constraints into account are effective demand functions (see Mark Blaug, *Great Economists since Keynes*, 1985: 33-4).

(4) The level of wages and prices.

The key factors in the system were:

(1) The principle of effective demand, which acted through the propensity to consume and the rate of new investment to set a ceiling to the level of economic activity.

(2) The role played by money as the link between the present and the future.[1]

Keynes then tackled an empirical question about market economies, the causes of wide swings in economic activity, particularly of long slumps.[2] His thesis in the *General Theory* is that the valuation of assets is sometimes disturbed by a massive shift of business or financial opinion and, in response, the labor market is not generally able to adjust rapidly and dependably so as to maintain the normal volume of employment, not because of any slow workingness in the wage setting machinery --wages may be quite flexible-- but because the participants in that market cannot assess every shift in business or financial opinion that occurs nor the scale of the wage adjustment that each such shift requires.[3]

The theory chosen by Keynes thus was:

(1) Monetary, assigning a crucial role to the current level of nominal wages.

(2) Intertemporal and *capitalistic*, assigning a key place to fluctuations in the rate of interest, or marginal efficiency of capital, as determined in a two sector economy.

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[1]The novelty of the General Theory, then, boils down to Keynes' use of the psychological concepts of the consumption function and liquidity preference, his treatment of the role of effective demand in generating output changes (rather than price changes as in the classical case where prices and wages are flexible), in making the demand for money hinge on choices between assets rather than between flows of income and expenditure, and in shifting the stress from savings to investment as the primary cause of capital accumulation (see Deane, 1978: 178-9).

[2]Keynes rejected the idea that the business cycle was an inevitable result of the operation of the capitalist system, arguing that a correct anticyclical government policy, especially in the fields of taxation, money supply, credit expansion and contraction, interest rates (cheap money), public works and budget deficits (deficit financing) and budget surpluses could guarantee full or nearly full employment, and a significant rate of economic growth for long periods (see Mandel, 1983: 250-1).

[3]The stock market was the staging ground, in Keynes' account, where disturbances arose to attack the economy. The macroeconomic trouble caused by this market lay in its instability. Keynes held the price level in this market to be unstable not in the sense of a high variance but rather in the sense that a small amount of bad news, perhaps coming on top of a previous accumulation of bad news, or simply a random weakening of share prices --the cause unknown-- might precipitate a stock market crash --a drop of prices out of all proportion to external events. The prevailing convention according to which shares are priced abruptly cracks (see Phelps, 1990).

(3) *Anti-equilibrium*, in the expectational sense of the term, invoking uncertainty as an obstacle impeding expectations from successfully coordinating business activity.

(4) *Interventionist*, depicting monetary and fiscal instruments as having the power to improve the stability of the economy.

Spelling out the propagation agency to show how instability in the speculative valuation of capital assets would lead to episodes of below average and above average employment, Keynes made a three step argument:

(1) A decline of speculative confidence --a drop, calculated at the initial level of employment, in what Keynes dubbed "the marginal efficiency of capital"-- implies that there would have to be an equal decline in the nominal rate of interest, if the product market were to remain in equilibrium at the initial level of employment.

(2) If the condition for money market equilibrium is to be satisfied a decline of the interest rate, in increasing the amount of money demand, must be accompanied by a fall of real income, barring an increase of the money supply, unless the disturbance is accommodated by a decrease of the nominal wage level (hence of costs and prices).

(3) Nominal wages do not initially drop by enough, if at all, to forestall the fall of employment because workers in establishing their reservation money wage rates, do not forecast adequately the extent and generality of the weakening of the demand for labor; and they do not complete at all promptly the adjustment necessary to return to the former employment level for reasons that Keynes did not make explicit, but which may be presumed to involve workers' difficulties in gauging the extent and duration of the speculative disturbances. So there is a protracted spell of reduced employment as a result of the marginal efficiency disturbance (Keynes, 1971: 28-31, 135-41).

This Keynesian agenda had been attacked from its earliest days as socialist, although its avowed role was *the preservation of capitalism;* but ultimately it was undermined by *changed circumstances* more than by political attacks on it. The Keynesian dominance constructed after World War II lost its cohesion in the late 1970s, as the international order anchored by the US dollar (the Bretton Woods monetary system) gave way to a less regulated international finance, and the social consensus of domestic politics in industrial capitalist countries was fragmented by the phenomenon of high inflation coexisting with high unemployment (stagflation).[1]

The monetarist criticisms voiced by Milton Friedman et al. for many years took a new line at the end of the 1960s by interpreting Keynesian theory as depending on the Philips Curve, which was proposed in 1958. Friedman gave the latter a neoclassical foundation by introducing expectations of inflation into a model of wage determination, and obtained the anti-Keynesian result that in the long-run unemployment, however high, is at its "natural rate"[2] reflecting workers' choice instead of being involuntary and is not influenced by Keynesian *demand management* policies. Because the dominant form of the Keynesian model itself was based on neoclassical principles, its supporters were unable to argue effectively against this extension despite its anti-Keynesian conclusion. Keynesianism was eventually overturned as an official agenda in the 1980s, when Margaret Thatcher gained power in Britain and Ronald Reagan took the helm in the United States. The fundamental Keynesian objective of permanently eliminating mass unemployment was lost in that period.[3]

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[1]In economic thought, the interpretation of the Keynesian model that had dominated the first two and a half postwar decades was fundamentally challenged by, on the one hand, Keynesian theorists themselves and, on the other, monetarism and neoclassical theory. The dominant existing interpretation of Keynes' theory, the "neoclassical-Keynesian synthesis" inaugurated by J. R. Hicks in 1937 and developed by Pigou, Modigliani, Patinkin, Harrod, Samuelson, Kuznets et al., had attempted to base his conclusions on the neoclassical theory of markets in which prices rather than quantities (such as income and output) were the adjustment agents. In this interpretation, the economy's smooth working was the norm and unemployment appeared as a special case resulting from wage rigidity --in contrast to Keynes' own general theory of unemployment in which full employment was seen as the exception.

[2]By the "natural rate of unemployment" Friedman denotes the minimum level of unemployment that can be sustained without provoking ever increasing inflation. This rate is considered to be "the natural rate" because Friedman attributes it to such factors as impediments to labor mobility, barriers to occupational entry, restrictions on layoffs, etc., which cannot be altered quickly by macroeconomic policies (see Friedman, "The Role of Monetary policy," *American Economic Review*, March 1968).

[3]That criticism of the Keynesian model was carried further by "new classical" writers, who claimed that, in a model where expectations are rational, unemployment is voluntary and at its "natural rate" at all times – not only in long-run equilibrium. Although that refutation of Keynesian conclusions confounds common sense and experience, the dominant neoclassical synthesis version of Keynesian theory was unable to present a grand alternative in the way that Keynes had attempted. While unemployment at prewar levels

But in pressing on economists the uncertainty of future conditions, the difficulty of gauging the analyses of others, and the consequent impossibility of a collective mind and collective rationality, Keynes was a bearer in economics of both the intellectual attributes of his time and of *measured eclecticism*. His outlook paralleled[1] what was turning up in much of art and philosophy --in the cubism of Picasso and Braque, the atonalism of Schoenberg and Berg, the fragmented poetry of Eliot and Pound, and various writings from Nietzsche to Sartre. Keynes brought to economics the outlook generally called modernism:[2] The consciousness of the distance between self and others, *the multiplicity of perspectives,* the end of objective truth, the vertiginous sense of disorder.

The class of Keynesian research problems thus have as their subject the traverse from the old equilibrium path to the new one. Recovery is as much the subject as the recession itself. However, when Europe and much of the rest of the world suffered a protracted depression in the 1980s this phenomenon was not a Keynesian story. The Keynesian theory was unable to explain the protracted 1980s slump.[3] The portrait that Keynes' theory drew of the economy, one in which labor market participants faced daunting uncertainties about the extent of the general fall of wages that will prove necessary to restore employment, and about the extent to which other wage setters have reached the same calculation, hardly seems a propitious environment for government authorities to try their

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returned, mainstream Keynesian theory accepted the concept of a "natural rate" of unemployment and was concerned only with the speed at which economies reached it (see Harris, 1993).

[1]This parallel has continued to a new chapter, for in economics as in some other fields there is now a postmodern inclination to retrenchment back toward classical values. Keynes himself evidently felt that some of his followers had gone too far when he complained of '"much modernist stuff, gone wrong and turned sour and silly"' (quoted in Phelps, 1990, op. cit.).

[2]Macroeconomics has been the field for a see-saw struggle over the 1980s between the modernists --the asymmetric information camp and the expectational disequilibrium crowd-- on one side and on the other the divers postmodernists: The classicals in modern dress who march under such banners as new classical and neoclassical --a present day methodenstreit. While economists debate the meaning of Keynes' writings, Keynesian economic policies are now widely criticized as promoting inflation and the growth of government. They are seen by others, however, as significantly responsible for postwar economic growth and high employment, at least until the 1970s (see Markwell, 1991).

[3]Keynes himself, of course, insisted that his was a theory that could explain permanent depression -- slumps of a nonself-correcting character (see Phelps, 1990: 22). His was, after all, a general theory.

hand at stabilization. And indeed Keynes says in the *General Theory* that even optimal policy decisions by the stabilization authorities will inevitably leave a large amplitude of fluctuation in employment. Yet Keynes was no passivist in the battle over policy.[1]

In its broadest sense Keynesianism is an approach to the political, social and economic affairs of industrial capitalism that validates the state taking a leading role in promoting material welfare and growth, and in regulating civil society. The fundamental idea of Keynesian thought is that capitalist economies systematically fail to generate stable growth or fully utilize human and physical resources. Markets, which are civil society's main economic agents of self-regulation and adjustment, cannot eliminate economic crises, unemployment or, in later versions, inflation. The iconoclastic conclusion of Keynes' analysis was that *there was no Smithian invisible hand translating private self-interest into social benefit.* This was the nub of the Keynesian heresy.[2]

But the principle reason why the *General Theory* had such a powerful impact on the community of professional economists inside and outside the universities, internationally as well as in Britain, was that *the time was ripe*. Its abstractions seemed more relevant to *the conditions of the 1930s* than the competing theories. Its analysis gave a theoretical basis for *policy prescriptions* that were more in tune with *existing political trends* in a world that was

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[1]The Keynesian view of wage setting, which sees it as a wage-wage process rather than a wage-price process, was dealt a heavy blow in the first oil shock of the 1970s. The wage-wage theory implied that if, as was theoretically possible and perhaps empirically the prevalent case, such a supply shock operates on balance to reduce the equilibrium level of the money wage, two results should follow hand in hand: A drop of employment, and a decline of money wages. Employment did drop, as is well-known, but nominal wages actually accelerated. It was a victory for the wage-wage theory that a cut of the real wage was accepted by workers, but a defeat that money wages accelerated at all. What seems to have happened is that many firms had contractual agreements with their employees, implicit or explicit, that called for an increase of wages when the cost of living increased --contrary to the basic tenets of the wage-wage view. As a result, the contractual view of the labor market received a boost: The real wage became the variable focused on in some models, and in other models the labor market disappeared from sight (see Phelps, 1990: 23-4).

[2]However, it was in its broad outlines that Keynes' *General Theory* departed from previous lines of thought:
(1) In the way it formulated the fundamental theoretical problem as one of accounting for the level of economic activity rather than of prices.
(2) In its method: The national income-expenditure framework of analysis.
(3) In its policy implications for deliberate demand management on the part of the political and monetary authority (see Deane, 1978: 180-4).

already in massive retreat from a laissez faire[1] ideology. It thus attracted the interest of economists over a very wide spectrum of political affinity.[2]

The Keynesian project gained political and social momentum, then, from intractable mass unemployment in the 1920s, culminating in the crises of the 1930s, which put the legitimacy of the capitalist order in doubt and appeared to threaten that it could collapse into anarchy or give way to socialism. Keynesianism seemed to offer a "third way" between laissez faire capitalism and socialism;[3] by transforming capitalist society, Keynesianism would strengthen and preserve it.[4] *Keynes thus accepts the logic of the capitalist system and places his proposals squarely within that framework.*

The *General Theory* was thus taken to justify deficit spending to stimulate employment. Keynes contended that poverty and "the economic struggle between classes and nations," which could produce war,[5] could be overcome by social reorganization.

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[1]The adherents of laissez faire fear that if it once became clear to the public that state interference can reduce unemployment the public might begin to think that state interference could do much else besides (Joan Robinson, quoted in Patinkin, 1990).

[2]Paul Sweezy, as an example of the Marxists, in a warm obituary written in 1946 suggested that Keynes' greatest achievement was that of liberating Anglo-American economics from the tyrannical dogma of Say's Law, and of the myth of a harmony between private and public interests which was the corner stone of nineteenth-century economic liberalism (quoted in Deane, 1978: 185). Liberal economists, on the other hand, were attracted by *the profoundly capitalistic nature* of Keynesian views, offering as they did both an antidote to social transformation and an analytical framework which could swallow the classical system as a special case. Many academic economists uncommitted to either ideological stand, however, found it intellectually convenient to identify with Keynes' attempt to modernize economic theory, without jettisoning the familiar Marshallian methodical techniques and concepts.

[3]The "convergence theory," espoused by John Kenneth Galbraith, among others, asserts that both capitalism and socialism are destined to become more and more alike in the "natural course of events" (see Galbraith, *The New Industrial State,* 1967: Ch. XXXV).

[4]See Harris (1993). Indeed Keynes contended that his doctrines could be regarded as a lifeline for private enterprise: If state interference provided the right framework, then the values of free enterprise and choice were much more likely to be fully realized. Keynes held that the adoption of his scheme of thought was an alternative to full blown socialism and indeed the only available alternative since systems of undiluted laissez faire were bound to break down in modern conditions (see Harrod, 1986). The big weakness of that system, which led among other things to the failure of the New Deal to achieve full employment, is that while deficit spending and general measures favorable to popular consumption can indeed temporarily increase sales and output of consumer goods, they can only lead the capitalists to increase productive investment if simultaneously they increase the rate of profit and the expectations of profit. This needs a sum of coinciding circumstances which are not generally given and certainly not produced by Keynesian policies (see Mandel, 1983).

[5]In 1919 Keynes had urged a magnanimous peace with Germany. He resigned the leadership of the British Treasury team at the Versailles negotiations to write against imposing on Germany enormous reparation

Rejecting "state socialism," he held that capitalism safeguarded personal liberty and promoted efficiency through decentralizing decisions and appealing to self-interest. But the economic anarchy of laissez faire capitalism did not ensure full employment or sufficient equality of income and wealth. Keynes thus stressed the control of economic processes to achieve desirable objectives, and perhaps took for granted the political feasibility of his recommendation. He *favored a world bank and international currency.* He *urged the government to stimulate consumption, encourage capital good production and invest in public works*[1] rather than waiting for automatic forces to revive employment. This required collective action. An enlargement of the functions of government, especially through semiautonomous agencies, and greater governmental control over savings and investment, through low interest rates and public work programs, were the techniques he proposed to promote *"social justice and social stability."* This would preserve a modified capitalism in which Keynes hoped pecuniary motives would diminish in importance, an orientation diametrically opposed to that of neoclassical economics.

1.4 The Traditional Mechanism

Official DCs' policy towards development after WW II was based on the premise that the West had gone through a process of modernization whilst the rest of the world was held back in the grip of traditional social forms. A *sociological* basis for this had already been formulated and become widespread in the ideational works of some of the modern realizers of the *discipline*. Emile Durkheim (1960) and Ferdinand Toennies (1974) both distinguished between the preindustrial and the industrial worlds in terms of different forms of social solidarity, whilst Max Weber (1954, 1958, 1971) drew up his ideal types of social

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payments which, he foresaw, would upset the world economy (see Keynes, *Treatise on the Economic Consequences of the Peace*, 1919).

[1]The policy of "public works" (direct state investment in infrastructure), which Keynes saw as one means to promote full employment, had been on the agenda of political debate and partly implemented in Franklin D. Roosevelt's New Deal in the United States before Keynes published his General Theory (see Harris, 1993).

action and legitimated authority to accommodate generalized features of all societies, which can then be seen as skewed towards tradition in the old world and rationality in the new.

These are dichotomous versions of a general concept of social evolution, advocated by modernization theory, through which societies are seen as progressing along a pathway of development or modernization from a traditional to a modern stage. Indeed, the notion of aid to the UDCs is modernization theory operationalized. Official aid agreements always have conditions in them upon which the receiver is expected to conform to whatever version of capitalist economics that is considered orthodox in the West at the time. Development aid, however, has been more of a politico-military device than an economic one (Spybey, 1992: 33-7).

More important, the universalistic pretension of classifying all societies that do not follow the Western pattern as nonrational and traditional (à la Weber) is teleological. The binary categories of rational-irrational, modern-traditional are inadequate tools for dealing with the empirical plurality of rationalities and diversity of sociopolitical values and behaviors.

Besides the works of Durkheim, Toennies and Weber, however, there are a number of other clear examples of this evolutionary form, some of them from the nineteenth century, as exemplified by the work of Auguste Comte (1896) and Herbert Spencer (1972), and others from more recent times such as that enshrined in the overarching theoretical synthesis of Talcott Parsons (1977).

But perhaps the best example of evolutionary modernization theory, because of its direct association with policy formation, is Walt Whitman Rostow's *Stages of Economic Growth* (1960) which uses for a baseline the British industrialization episode as *the* archetypal case of economic development.

Rostow utilizes the sequential theory of history to provide a recipe of sharp stimulus, and propulsive, export leading sector which catapults an economy into "takeoff" (unbalanced growth but with no despair: It is possible for all latecomers; growth is to be measured not by GNP but by the absorption of extant technology). Rostow's ideational vision stipulates that growth can be achieved in five stages, of which the three fundamental ones are: Preconditions for takeoff, takeoff, and self-sustained growth, in an aided global strategy of harmonious DCs-UDCs cooperation for the containment of nationalistic violence as well as Communism, to enable the "democratic way of life" to persist and develop.[1]

For Rostow, like Lewis as is discussed below, a crucial factor which serves to lift an economy out of low income stagnation on to a sustained growth path is a significant increase in the share of savings and investment in national income. For this to occur a new class of entrepreneurs/businesspersons must emerge. Further, to desegregate the nature of the growth process, Rostow introduces the concept of the primary, or leading, sector, which plays a key role both during the takeoff and subsequently (Rostow, 1956: 73-125).

The sectors of an economy are grouped into three categories:

(1) Primary growth sectors, where possibilities for innovation or for the exploitation of newly profitable, or hitherto unexplored, resources yield a high growth rate and set in motion expansionary forces elsewhere in the economy.

(2) Supplementary growth sectors, where a rapid advance occurs in direct response to, or as a requirement of, an advance in the primary growth sectors; e.g., coal, iron and engineering in relation to railroads.

(3) Derived growth sectors, where advance occurs in some fairly steady relation to the growth of total real income, population, industrial production or some other overall, modestly increasing parameter. Food output in relation to population, and housing in relation to family formation, are exemplary derived relations of this order.

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[1]For a concise overview of Rostow's vision on development, see his article "Reflections on Political Economy: Past, Present, and Future," in Szenberg (1992: 222-35). Rostow's thesis that all countries pass through the same sequence of five economic stages, from stagnant subsistence economy to the age of high mass consumption, with each transitional stage being of similar duration in all countries, was soon discredited by appeal to historical evidence. However, his theorization of the takeoff into self-sustained growth proved more enduring.

At any period of time, forward economic momentum is maintained as the result of rapid expansion in a limited number of primary sectors, whose expansion has significant external economy, and other secondary, effects. From this perspective the behavior of sectors during the takeoff is merely a special version of the growth process in general; i.e., growth proceeds by repeating endlessly, in different patterns, with different leading sectors, the experience of the takeoff. Like the takeoff, long-term growth requires that the society not only generate vast quantities of capital for depreciation and maintenance, for housing and for a balanced complement of utilities and other overheads, but also a sequence of highly productive primary sectors, growing rapidly, based on new production functions. Only thus can the aggregate marginal capital-output ratio be kept low.

Achieving satisfactory growth, in balance with rising demand, in the derived growth sectors, requires the diffusion of technical innovations in these sectors too. Thus changes in agricultural technology are also essential for successful takeoff, for modernization of a society increases radically its bill for agricultural products. Examples of leading sectors in the takeoff include the textile industry in Britain; railway development in the United States, Germany and France; the timber industry in Sweden; and armaments production in Russia.

The Eurocentric nature of Rostow's underlying concepts is indisputable. His formula is a generalization of *the* case, i.e., the British. It is generally accepted by the modernization school. His analysis is rooted in the work of the German Historical School of Economics --including List, Hildebrand, Bücher, Roscher, Schmoller, and Sombart. It is, in one way or another, commensurate with François Perroux's (1983) Propulsive Industry and Growth Pole --*pôle de croissance*; Everett Hagen's (1975) Impetus for Growth (the order of economic advance is the reverse of the degree of contact with the West: Japan, China, India, Indonesia); Simon Kuznets' (1966) Entrance into Modern Economic Growth (with population growth, or at least stability); and Margaret Mead's (1953) Purposeful Change.

Not one concept in all of the above directly pertain to, much less originated from, the concrete socioeconomic problems of twentieth century UDCs, Hagen's endeavor notwithstanding. It is no wonder therefore that this Eurocentrism, an offshoot of the ideological construct of capitalism and a form of epistemological imperialism, claims that imitation of the Western model (supposedly laissez faire plus electoral democracy) by all peoples is the only solution to the challenges of underdevelopment.

Insofar as agriculture has been a focus of attention in traditional development economics, the reasons for this interest have been more diffuse than the pre-Marxian analysis of diminishing returns. The focus has shifted in respect to the role of agriculture in surplus generation, equity and employment creation, demand stimulation for the industrial sector and foreign exchange generation. William Arthur Lewis (1954, 1955, 1984) elaborated on his outlook of the Complementarity of Industry and Agriculture (which provide markets for each other's output), with highly elastic labor supply (furnished by the traditional, agrarian sector to the modern sector) in an unbalanced growth process within a democratic framework of social provision.

This complementarity can be augmented by the use of Ragnar Nurkse's (1952: 10-13) concept of surplus/seasonal labor with minimal equipment for rural capital formation: building roads, bridges, irrigation channels, terraces, antierosion barriers, etc. This use would result in no significant fall in other output and hence be costless in real terms (the inflationary pressure resulting from increasing the money supply being damped by the increased propensity to save, as an outcome of increased output of mass consumer goods which is in turn caused by the productive use of surplus labor).

Disguised unemployment, in Lewis' (1954: 24-5) account, is caused by a basic deficiency of the supply of complementarity inputs, such as arable land and physical capital, relative to the population and potential labor force, and not to a deficiency of Keynesian aggregate demand. Disguised unemployment results in too little labor being employed in the modern manufacturing sector because wages are above the social opportunity cost of labor in agriculture.

Lewis equates the steady expansion of the capitalist sector with economic development. However, he too contends that the working population cannot expect an immediate rise in living standards if capitalist growth is to be maximized. Meanwhile, capital export may slow down capitalist growth, although in principle at least there may be some scope for policy control of such outflows. *Lewis' economic growth and development are thus equated:* High growth now accelerates the transition to higher mass incomes in the future.

His starting point is an economy with unlimited supplies of labor at a subsistence wage. This labor is to be found in various branches of the economy, chiefly in traditional agriculture, but also in the urban sector. Such labor surplus economies can be analytically divided into two sectors: the capitalist sector and the subsistence sector. The former is very small, the latter large. The capitalist sector is that part of the economy which uses reproducible capital, and pays capitalists for the use thereof. Capitalist production occurs in mines, plantations and industry. The subsistence sector in contrast does not use reproducible capital, and output per capita is consequently much lower. It is also based upon family labor rather than hired labor (Lewis, 1955: 65-75).

Labor is available to the capitalist sector at a wage that is determined by earnings in the subsistence sector. Since individuals in this sector generally work in household enterprises, and/or pool their earnings with other household members, their effective income reflects the average, rather than the marginal, income of household members. It is thus average per capita income (which Lewis equates with average labor productivity) that is the material opportunity cost to a laborer of moving from the subsistence to the capitalist sector. The wage paid by the capitalist sector is set at the level of this opportunity cost plus a margin which is just sufficient to induce workers to move into wage employment.

The fact that the wage level in the capitalist sector depends upon earnings in the subsistence sector is sometimes of immense political importance, since its effect is that capitalists have a direct interest in holding down the productivity of the subsistence worker's income. For example, the imperialist record in Africa is one of impoverishing the subsistence economy, by taking away land, or demanding forced labor, or imposing taxes to force people to work in the capitalist sector at the prevalent wage (Kwame Nkrumah, *Neocolonialism: The Last Stage of Capitalism,* 1965: 35-62).

For Lewis, the fundamental constraint to growth in output is the lack of accumulation of productive capital, including knowledge and skills with capital, because of low rate of savings. Only when the share of profits in national income increases will the share of savings increase. Where a capitalist nucleus exists, however small, and where there is an unlimited supply of cheap labor, then the capitalists will reinvest at least part of their profits, thereby expanding the capital stock. More labor is then drawn into the capitalist sector. With each round, as the surplus is reinvested, total profit increases. With wages in the capitalist sector remaining at subsistence level, the share of profits in national income rises as the capitalist sector expands.

As the share of profits rises, the share of savings and investment in national income rises too, thereby increasing the rate of economic growth. *Hence the limited savings problem which confronts underdeveloped countries is not because they are poor, but because their capitalist sector is too small.* It is important to note that capitalist here does not mean private capitalist, but would apply equally to state capitalist. The latter can accumulate capital even faster than the private capitalist, since it can use for that purpose not only the profits of the capitalist sector, but also what it can force in taxes out of the subsistence sector.

Private or state capitalists are often imported. If they do emerge internally, this is probably bound up with the emergence of new opportunities --especially something that widens the market-- associated with some new technique which greatly increases the productivity of labor as labor and capital are used together. Once a capitalist sector has emerged it is only a matter of time before it becomes sizable. If very little technical progress is occurring, the surplus will grow only slowly. But if for one reason or another the opportunities for using capital productively increase rapidly, the surplus will also grow rapidly, and the capitalist class with it.

Expansion of the money supply and an associated price inflation, argues Lewis (1955: 78-91), can accelerate the rate of growth in a country with surplus labor when credit is created in favor of private capitalists, or when it is used to finance government capital formation, provided that the projects financed generate increased output fairly quickly. The inflation of monetary demand and prices will be liquidated as new goods begin to flow into the market. Furthermore, in labor surplus economies, output expansion financed by monetary expansion need not entail withdrawing land and capital from other uses (as assumed in the neoclassical theory), since there is significant scope for infrastructural capital creation using labor intensive methods --e.g., roads, viaducts, irrigation networks.

However, three factors may constrain the effectiveness of monetary expansion as a growth promoter:

(1) If prices rise too fast, or for too long, investors may lose confidence and turn to private forms of unproductive investment such as speculation in commodities and land purchase.

(2) The smaller the capitalist class the greater the likelihood that much of the expanded money supply will find its way into the pockets of other groups (such as merchants who speculate in commodities; the general middle strata, who surrender to the demonstration[1] effect; or peasants who buy more land).

[1]The demonstration (Duesenberry, 1949) effect, if Eurocentrism is not to reign at the expense of facts of history of thought, would be called after the Hanbalite master Ibn Taymiyyah, who articulated it in his *Al siyasa al shar'iyah* in the thirteenth century (as quoted above), or after Ibn Khaldun, who repeatedly referred to it in his *Muqaddemah* in the fourteenth century. On Eurocentric exclusionary distortions of world history, and the fact that ancient Greece was less the beginning of "Western" than the continuation of "Eastern" civilization and culture, see Fredrick Teggart, *Rome and China: A Study of Correlations in Historical Events* (1939); Samir Amin, *Eurocentrism* (1989); Janet Abu Lughod, *Before European Hegemony: The World System AD 1250-1350* (1989); Maria Haynes, *The Italian Renaissance and its Influence on Western Civilization* (1993); Cheikh Anta Diop, *The African Origin of Civilization* (1974); K. N. Chaudhuri, *Asia before Europe: Economy and Civilization of the Indian Ocean from the Rise of Islam to 1750* (1990); and Walter Burkert, *The Orientalizing Revolution: Near Eastern Influence on Greek Culture in the Early Archaic*

(3) In an open economy, expansion of monetary demand would put pressure on the balance of payments (Hunt, 1989: 305-7).

Therefore, only if the balance of circumstances is favorable, and the authorities can contain the pressure on the foreign balance while ensuring that the monetary expansion leads to a significant increase in investment, should monetary expansion be used as a means of accelerating growth.

That government try to control price inflation by fixing industrial prices is not recommended by Lewis, since it is the industrial capitalist class that saves most. Industrial price controls reduce profits, and therefore savings and investment, while perpetuating inflationary pressures. However, the emphasis on an overriding savings constraint to development, as Hunt (1989: 108) points out, and as has Dobb above, ignores the possibility that investment is constrained not by lack of savings but by lack of demand (as the recent/current Japanese case may suggest).

Also, while Rostow, like Lewis, does give some attention to the inducement to invest, he does not treat this as an overriding constraint. Yet if the overriding constraint is lack of inducement to invest, pursuit of many of the policies advocated by Lewis can exacerbate the

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Age (1992). See also Martin Bernal's work on "Hellenomania" and the construction of the myth of Greece as the "ancestor of the West" in his *Black Athena: The Afroasiatic Roots of Classical Civilization* (1987), especially vol., I *The Fabrication of Ancient Greece* (and for an opposition to Bernal's perspective see Mary Lefkowitz and Guy MacLean Rogers, *Black Athena Revisited*, 1996). See further Jean-Jaques Wardenburg, *L'Islam dans le miroir de l'Occident* (1963); Bernard Lewis, *The Muslim Discovery of Europe* (1982) and *Semites and Anti-Semites* (1986); and Maxine Rodinson, *Europe and the Mystique of Islam* (1987).

For all but a minor period of the long human history, all but the last four centuries, Europe was ever "marginal" and West Asia (the Middle East) ever "central." It was the "East" that had the gold, the skill, the bulk, the exotic materials, the sophisticated lifestyles and the investment capacity: Why else would Alexander the Macedonian have turned East to seek his fortune? Indeed, Hellas had begun its ascendance after a preparatory period of "orientalizing," i.e., emulating and integrating with the more advanced and prosperous centers of civilization and commerce in the "East" (see Frank and Gills, *The World System: Five Hundred Years or Five Thousand?*, 1993: 21-2 & ch. 5). All the same, without Muhammad, concedes Sture Bolin, there could have been no Charlmagne; that is, medieval Western Europe was systematically related to the East and to Islam (see Howard Adelson, *Medieval Commerce*, 1962). And the important place and role of Venice and Genoa in late medieval Europe were derived from their connections with the Byzantines and others in the "East." The Crusades went there because "that was where the action was, while Europe still was in a backwater of world...history" (see Frank and Gills, *The World System: Five Hundred Years or Five Thousand?*, 1993: 23).

problem. For example, use of capital intensive techniques limits domestic market expansion in three ways:

(1) By constraining the growth of domestic demand.

(2) By concentrating income increases in the hands of upper income groups with a high marginal propensity to consume imported goods.

(3) By making it virtually inevitable in most countries that capital goods will have to be imported, thereby reducing backward linkages (Hunt, 1989: 108).

Moreover, sustained economic growth, according to Lewis, is possible so long as there is an initial capitalist nucleus and an abundant supply of labor at subsistence wages. The capitalist surplus will then be a rising proportion of the national income, but the process will slow down and finally come to a halt when the capitalist sector has absorbed all the surplus labor. Wages will then inevitably rise, eating into profits and reducing the incentive to invest. When the labor surplus disappears, the closed economy model no longer holds.[1] The process may also be brought to a premature halt if wages rise prematurely.

This may happen for one of four reasons:

(1) If the rate of labor absorption in the capitalist sector exceeds the rate of population growth in the subsistence sector. In this case the number of people in the subsistence sector will begin to fall, and even though subsistence output at first remains constant, their average product will rise and so will the supply price of labor.

(2) If the capitalist sector buys goods (e.g., food) from the subsistence sector and if the supply of marketed output from this sector is price inelastic, then as the capitalist sector

[1]G. Ranis and G. Fei (1961: 537-49) subdivide the process of absorption of surplus labor as analyzed by Lewis into two phases. Phase one is the absorption by the capitalist sector of redundant labor with a zero social opportunity cost, and phase two the absorption of the disguised unemployed, where the latter are defined as those members of the labor force whose marginal physical product is positive but worth less than the institutional wage. These two phases are equated with the takeoff stage as defined by Rostow. With the completion of the transfer of the disguised unemployed, wages in agriculture and industry will rise, being determined by competitive market forces and reflecting the true opportunity cost of labor. This landmark defines the end of the takeoff process.

grows the terms-of-trade may turn against it. This will force the capitalists to devote a larger proportion of the value of their output to the payments of wages in order to sustain the real subsistence value of the wages.

(3) Subsistence producers may adopt certain of the improved production methods introduced by the capitalists (e.g., new seeds or crop varieties), thereby raising their average productivity and so also the supply price of labor.

(4) Industrial workers may seek to enjoy the living standards of their employers, and so bid for higher wages (Hunt, 1989: 92-3).

Furthermore, when productivity rises in capitalist plantations and mines producing for export in poor countries this is not followed by a wage increase. Wages remain determined by the supply price of labor, and all the benefits of the productivity increase are passed on to consumers in rich countries in the form of lower prices. However, as Lewis points out (1955: 92-5), in agreement with Marx's contention referred to above, this is not to say that the underdeveloped countries gain nothing from having foreign capital invested in commercial production for export. They gain an additional source of employment and of taxation, but this is not the whole issue; it is only part of the picture that is more than offset by its collateral cost when the entire gamut of the transformation, not merely subsistence employment or even per capita GNP, is taken into account.

On the other hand, because labor in the subsistence sector is paid its average, and not its marginal, product, concedes Lewis (1955: 97-9), *the application of the theory of comparative advantage is usually distorted in underdeveloped countries.* Given diminishing returns to labor in the subsistence sector, the wage paid by the capitalists exceeds labor's true social opportunity cost. Capitalist accumulation may also be slowed down by the distorted operation of the theory of comparative advantage (due to the mode of determination of subsistence incomes), unless the government introduces compensatory measures. Lewis thus suggests that governments *provide tariff protection* to entrepreneurs in such economies as a means of compensating them for this cost distortion.

Industrialization occurs, according to the combined Lewis-Rostow Thesis, when countries increase investment from about five percent to approximately twelve percent of national income (because contrary to the comparative statics of neoclassical economics, which is essentially concerned with the allocation of the given resources, so-called "endowments," economic development is dynamic and concerned with increasing the supply of investible resources through a greater rate of savings and investments).[1]

But whereas Lewis presents a process of expanding capitalist accumulation which over time absorbs the labor force of the traditional sector, Rostow points out the political, social and institutional changes likely to be associated with the takeoff, as well as the likely leading sectors in this process. While Lewis focuses on the interaction of declining rural underemployment and increasing capitalist accumulation, Rostow takes increasing investment, the emergence of a leading high growth sector, and political, social, and institutional change as the three foci of his analysis of the takeoff. Whereas Lewis refers to the key role played by the emerging capitalist class, Rostow, like Schumpeter's contention presented above, refers to an entrepreneurial class. But Rostow's capitalist entrepreneurs are those whom Schumpeter saw in Britain and elsewhere in the nineteenth century (Schumpeter, 1954), not the distinct category of entrepreneurs of a contemporary industrial society.

In sum, the traditional mechanism, as primarily projected by the Lewis-Rostow Thesis, entails the following concepts:

(1) Economic growth, measured by rising per capita income, is the focal defining characteristic of economic development.

(2) More broadly interpreted, economic development entails the conversion of a traditional, stagnant, subsistence oriented economy into a dynamic, capitalist economy (based on wage labor) capable of self-sustained growth and of providing, in the long-term, rising real wages.

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[1]This vision is analogous to that of Alexander Hamilton (1872) referred to above.

(3) It is possible to specify the common and dominant characteristics of this conversion process for all countries, both those now relatively developed and those underdeveloped, provided that their starting point is a condition of abundant supplies of labor in the traditional sector.

(4) A key determinant of the rate of growth is the rate of capital formation, which is in turn governed by the share of savings in national income.

(5) The capitalist/entrepreneurial class plays a crucial role in capital accumulation, for its members have a higher propensity to save and invest out of their profit income than any other class.

(6) An essential element in the initiation of economic growth is the emergence of a class variously described as entrepreneurial (by Rostow) or capitalist (by Lewis), operating either in the private or the public sector.

(7) In order to maximize the subsequent rate of growth it is necessary to concentrate as large a share as possible of national income in the hands of those with a high propensity to save, i.e., the capitalist class. The aim should be to steadily increase this share over time.

The main policy conclusions that follow from the traditional mechanism are that, in order to maximize the pace of economic development, governments should take the following measures:

(1) Use tax policy to contain premature increases in subsistence incomes.

(2) Restrain the premature development of trade union, wage bargaining power.

(3) Judiciously expand the money supply to help finance capital formation.

(4) Refrain from attempting to control any ensuing price inflation by fixing industrial prices.

(5) Protect the domestic capitalist sector from foreign competition in order to compensate for the distorted operation of the concept of comparative advantage.

(6) Discourage capital exports.

What the traditional development doctrine amounts to, evidently, is a marriage of the theory of marginal productivity of the 1870s with that of comparative advantage, which Ricardo proposed in the early nineteenth century and neoclassical economics used to explain the pattern of international trade from the 1950s onward. According to the former, the price of factors of production that are relatively scarce will tend to be high and the price of those that are relatively plentiful will tend to be low. In this case it is labor that is the plentiful factor and capital the scarce.

Hence by concentrating on methods of production and on industries which are relatively labor intensive, a country will be concentrating on those methods of production and industries which are least costly. And this, the theory of comparative advantage claims, is the most economical way of using a country's resources, i.e., using them to the greatest efficiency. This is held to be better since an UDC would export part of the products of such industries, importing such things as machinery in exchange, then use labor and capital to produce the latter at home.

On this basis there was constructed what amounted to a theory of stages of development. First, a country concentrates on fairly primitive, labor intensive techniques and on industries which from their nature require relatively little capital and have low capital labor and capital-output ratios. In the course of time, as capital accumulates and surplus labor gets drawn into employment, it can graduate towards more capitalist techniques and develop the more capital intensive type of industry. Eventually, as it joins ranks of industrial capitalist countries, so the rationale of the traditional mechanism goes, the UDC can shift towards the production of capital goods, and import its foodstuffs and raw materials and even a lot of its industrial consumers' goods from countries at a lower stage of development.

Thus by design, not default, these lower-stage-of-development countries should never disappear, they are a corner stone of the paradigm, on the basis that this method was the traditional order of development for Western capitalist countries. The emphasis of this traditional mechanism for the underdeveloped countries, therefore, is on primitiveness and gradualism: On following the supposedly "traditional pattern" of nineteenth century European capitalism, and avoiding what is considered a grandiose design of engineers and planners.

Juxtaposing the mechanisms of Marxian metamorphosis and those of traditional development, the latter as a mixture of the classical and marginal theories, nonetheless, illuminates several aspects of the sought transformation. The traditional capitalist doctrine of development emphasizes caution and conservatism. It overemphasizes the fact that an UDC is apt to be characterized by acute scarcity of capital and by surplus labor while avoiding untraditional, innovative possibilities. In these circumstances, inevitably, new investment funds must be sparingly used, and used with maximum effect in harnessing surplus labor to employment and in increasing the national product.

This, accordingly, could best be achieved if investment were devoted, not to expensive machines and more productive technical processes, but to equipping labor with the cheapest possible implements, since with limited capital more of these implements could be used and with their aid more labor be employed.

Thus, instead of supplying a relatively small number of tractors and combines to agriculture, it would be more economical to supply a host of spades capable of employing a lot of labor at a relatively low level of productivity. It also follows that those industries must be chosen for development which require relatively little capital compared with labor, i.e., a low capital labor ratio.

Thus in the first stage of traditional development, at least, handicrafts, or cottage industries, are preferable to factory industry equipped with modern machinery, and light industries to heavy industry, especially as the former are quicker yielding, in the sense of augmenting sooner the supply of consumer goods available either for home consumption or for export.

The theoretical reasoning of traditional development thus depends essentially on taking a Ricardian static point of view, for launching the economy to "takeoff" through massive use of abundant labor, in a process of generic complementarity of industry and agriculture. However, the course of action which makes employment and output as large as possible here and now, in the conditions of the moment, is not necessarily the course of action that will maximize the growth potential of the economy, quite the contrary.

A policy of maximizing the latter, even if it is at the expense of making immediate output and employment smaller than they would be under an alternative policy, as Dobb (1963: 45-59) specifically points out, and as the crux of his argument is elaborated on above, could enable both output and employment, and hence consumption, to grow more quickly, and before long be larger than they would otherwise have been at such an early date. Dobb's well-taken insight is that a smaller share of a total that is growing fast can very soon become larger than a bigger share of a total that is growing more slowly.

This of course depends on determinants of the growth potential of an economy, not necessarily the financial limits in the amount that can be invested, but the real production limits --real resources available and production possibilities of the requisite kind. These limits may be of various kinds. Yet in a particular situation there is likely to be one (or a few) that is more important than the rest, because it is in these circumstances more restricting.

If the resources available can be directed towards widening this bottleneck, they will be contributing much more to promote growth than if they are used in the generic complementarity of the traditional perspective. It is in this sense that Dobb posits that achievement in promoting growth may depend more on the way one uses the investible surplus than on its initial size.

A bottleneck of constructional and building materials, in particular iron and steel, fuel and power, for example, is problematic. Obviously, new factories, steel mills, power plants and industrial towns cannot be built faster than cement, steel and bricks become available for their construction, and fuel and power are available to drive the new machinery when it is installed. These operate as effective limits upon the rate at which a country can develop out of its own resources. Whatever investment potential a country has should thus be concentrated upon methods and lines of production which will increase this investment potential still further.

Insofar as the limiting factor consists in the output capacity of the industries which produce capital goods (machines and constructional materials), the possible growth rate in the future will be higher the larger the proportion of current investment that is directed towards expanding this basic/heavy sector of industry: A country will have a larger output of steel and machines in future years with which to construct and equip new factories and power plants and steel mills. To this extent machine tools to make more machine tools will be more growth inducing in the critical start of the transformation than automatic looms or shoe-toe-lasers, not to mention soft drinks or chewing gums. The latter can always come later, once the economy is on a reasonably well-established growth path.

Insofar as the need is greater for foodstuffs and other consumer goods, it will not be the best policy from a growth standpoint to invest in very low productivity, labor intensive techniques (i.e., the Muhammad Yunis' Bangladeshi recipe currently promoted in the US media and academia), even if at the moment these would be capable of affording a lager volume of employment. On the contrary, techniques should be chosen which, even if more costly, are more productive, and which by achieving a higher level of productivity per worker will make the surplus product larger; thereby enabling a larger labor force to be employed in other sectors of the economy: Surplus products will lead to accumulation and later to reproduction.

Labor intensive techniques, as a way of reducing unemployment and underemployment, cannot be a proper strategy for the UDCs because of their low productivity. The key is how high the rate of growth is, how large the surplus is, and then how the latter is handled to stir growth and employment while stabilizing the country and its population.

The way a given rate of investment is used will inevitably influence the size of this total investment in the future. A certain investment ratio and its most desirable allocation are intrinsically connected. A high growth rate policy will involve a conflict between the requirements of growth and a quick expansion of employment and consumption. In the earlier stages one will be under pressure because of high unemployment. But in the medium-range the conflict will peter out, since the high growth rate policy will soon make possible a more rapid expansion not only of investment but of employment and consumption as well. This will be done by causing a larger proportion of the employed labor force to be used in construction and other growth inducing activities. Powerful, self-expansionary forces in growth will be achieved as soon as the growth rate has been raised above a low level.

There are fairly obvious reasons, moreover, why an unfettered free market economy is most unlikely to maintain a high growth rate policy of this kind, whereas a planned one can achieve it: Individual businesspersons in their investment policy are ambivalent about looking very far ahead; and this not because of any innate shortsightedness but because of the situation in which each decision maker is set in an unplanned, free for all, individualist system. One cannot look far ahead because the horizon is limited both in time and space by the (Shackle-Keynes type) uncertainties involved.

In the first place, an entrepreneur can only afford, from a profit making standpoint, to take account of the consequences of her action which accrue to her own firm. Such effects as it may have for other firms and other industries and for society as a whole are none of one's business, except so far as she thinks, perhaps, that they may affect the price, or sales, policy of immediate rivals. One will be uncertain as to what other firms and industries are planning to do by way of expansion; at best one can make rather vague guesses, and the vaguer these are the more one will play for certainty and wait and see.

Yet metamorphosis essentially consists of a complex of interdependent actions, each influencing and being influenced by the rest. If an individual capitalist invests in expansion, it will be, if she is wise, for an immediately foreseeable market, and on the basis of productive possibilities (in the way of supplies of raw material, components, equipment and transport facilities) that are already visible. Hence market demand depends largely on investment decisions taken in other parts of the economy.

Furthermore, the development pattern for Western capitalism has been the way of textiles first. The last thing that an unfettered private enterprise, free market economy is likely to do is to invest in the development of additional productive capacity for making machine tools in advance of any immediate or easily foreseeable demand for them from other industries. To do so would be an act of faith that gambled on the maintenance of a particular rate of investment in the economy at large for decades. When this kind of development has occurred in the past it has either been under the stimulus of war demand or rearmament or a burst of railway building, or else in the heady optimism of boom years which has very soon collapsed into a slump.

It is true that at certain stages of their development the more industrial capitalist countries have expanded their capital goods industries more rapidly than industries making consumers' goods (Dobb, 1963: 45-59). However, this was at a relatively late stage, after the consumers' goods industries, with their demand for machines for replacement and expansion, had shot ahead and an export market for capital goods had developed from the industrializing needs of other countries still at a lower level of growth.

The traditional mechanism then provides useful insights into the process of economic growth for the DCs, but is incompatible with an all out objective of socioeconomic transformation for extant conditions of underdevelopment.

1.5 The Bretton Woods Mechanism

The 1944 Bretton Woods conference was supposedly an attempt to institutionalize at an international level the economic vision of Keynes. Observing the realities of the capitalist system in the 1920s and 1930s, Keynes --as pointed out above-- had concluded and argued that the prosperity of nations --in particular, their levels of production and employment-- did not need to be the unplanned outcome of an uncoordinated and erratic construct, but could be controlled by government. At a national level, this in theory did not require new institutions but rather new approaches to existing ones: Adjustments had to be made in government spending and taxation and in central banks' money creation and interest rate determination. But no devices existed at the international level to perform these functions; there were no international counterparts to central banks or national budgets.

In 1941, then, Keynes developed the idea of an International Clearing Union --a sort of world level central bank. His plan provided the main basis for the Bretton Woods discussions. The forty-four nations represented there had set out to create international organizations throughout the world that would prevent the recurrence of a 1930s' style depression with its massive unemployment, escalating tariffs and collapsing commodity prices.

After considerable negotiation, the International Monetary Fund (IMF) and the World Bank were established in 1944.[1] Although in structure and functioning the IMF

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[1]The Fund is about 1,700 staff members and, unlike the World Bank, has no affiliates or subsidiaries. Most of its staff members work at headquarters in Washington, DC, although three small offices are maintained in Paris, Geneva, and at the United Nations in New York. Its professional staff members are for the most part economists and financial experts.

The structure of the Bank is somewhat more complex. It comprises two major organizations: The International Banks for Reconstruction and Development (IBRD) and the International Development Association (IDA). Moreover, associated with, but legally and financially separate from, the World Bank are the International Finance Corporation, which mobilizes funding for private enterprises in underdeveloped countries, the International Center for Settlement of Investment Disputes, and the Multilateral Guarantee Agency. With over 6,500 staff members, the World Bank Group maintains about 40 offices throughout the world, although 95 percent of its staff work at its Washington, DC headquarters (1987 figures). The Bank employs a staff with a wide range of expertise: Economists, engineers, urban planners, agronomists, statisticians, lawyers, portfolio managers, loan officers, project appraisers as well as experts in telecommunications, water supply and sewerage, transportation, education, energy, rural development, population and health care and other disciplines (see Driscoll, 1988: 5-8).

differs quite radically from Keynes' own plan, its fundamental objective was decidedly Keynesian. According to the first of its *Articles of Agreement* one of the IMF's basic purposes was "to facilitate the expansion of balanced growth in international trade to contribute thereby to the promotion and maintenance of high levels of employment and real income [,] and to the development of the productive resources of all members as primary objectives of economic policy." The IMF was thus jointly established by member nations pronouncedly to promote international monetary stability and to facilitate the expansion and balanced growth of world trade.

Article One of the Fund's charter also called on the IMF to make financial resources available to members on a temporary basis, and with adequate safeguards to permit them to correct payments imbalances. The Bretton Woods Agreement thus charged the IMF with prime responsibility for short-term macroeconomic developments --specifically, with maintaining stable exchange rates, except in situations of fundamental disequilibrium, and with providing finance to assist countries whose balance of payments were in short-term disequilibrium (Stewart, in King, 1990: 330-1).

The Bank was oriented more toward development. As indicated by its official name, the Bank for International Reconstruction and Development (IBRD), it initially had two main functions. The first was temporary: To help finance the reconstruction of the war devastated economies of Europe. The second primary duty, as described by Keynes, was "to develop the resources and productive capacity of the world *with special attention to the underdeveloped countries*, to raise the standard of life and the conditions of labor everywhere, and so to promote and maintain equilibrium in the international balance of payments of all member countries" (*The Collected Writings of John Maynard Keynes*, Vol. XXVI: *Activities Shaping the Post War World: 1941-1946*, 1980).

In 1952 the principle of "conditionality" was implicitly incorporated into the Fund's lending policies. Conditionality was conceived to encourage policies that would make it more likely for a member country to be able to cope with its balance of payments problem and to repay the fund within three to five years (Sidell, 1988: 240). The inception of the practice of conditionality accompanied the birth of the "stand by arrangement." The latter, in its infancy, was intended to be a precautionary device used to ensure access on the part of members who had no immediate need for such resources in the near future. This arrangement, however, matured quickly into a device for linking economic, and later political, policies to financial assistance. Technically, the stand by arrangement can be described as a line of credit outlining the circumstances under which a member can make drawings on the Fund. However, the question of what type of conditions the IMF should attach to loans is of course an essentially political question.[1]

On 20 September 1968 the Fund decided to incorporate the practice of conditionality explicitly into its charter. Prior to this date, the concept of conditionality had generally been referred to in a vague manner. The amendments to the Fund's Articles of Agreement in 1968 ended this vagueness by introducing for the first time clear language which outlined the Fund's position with respect to conditionality (Sidell, 1988: 242).

Until the mid-1970s the typical conditions placed on the use of Fund resources involved policies that influenced the level and composition of aggregate demand. During this period, excess demand was perceived as the most important cause of inflation, currency overvaluation and ultimately payment difficulties. The expeditious elimination of excess demand was viewed as an essential condition for restoring payment equilibrium. This position is the product of the monetarist conception, whereby excess demand is deemed the root cause of inflation and exchange rate disequilibrium. Its goal is the rapid alleviation, typically in one year or less, of inflation and the restoration of exchange rate equilibrium vis-à-vis policies that alter the size and composition of aggregate demand.

Monetarist policies thus generally call for:

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[1]Indeed, Irving Louis Horowitz contends that "the IMF has come to stand for...Capitalism, despite the global character of IMF inputs and outlays...the IMF is increasingly viewed as a fiscal vanguard of a heartless system" (see Horowitz, "The Rashomon Effect: Ideological Proclivities and Political Dilemmas of the IMF," in Myers, 1987).

(1) Control of the money supply.

(2) Reduction of the government deficit.

(3) Exchange rate devaluation.

(4) Deregulation of prices.

(5) Reduction of consumer subsidies.[1]

(6) Elimination of tariff and nontariff trade barriers.

More than any other factor, it is the IMF's neoclassical construct about economics and economic causality that most influences the specific content of Fund programs. This construct, shared also by the World Bank, is thus generally monetarist. For a long period, the Fund explicitly adopted this monetary approach to balance of payments problems and also to inflation (somewhat inconsistently, since one instrument cannot normally be used to achieve those two objectives). The Fund's approach is also laissez faire, with emphasis on price rather than controls, the private rather than the public sector and free trade rather than protectionism. Further, because of its strong and pervasive construct the IMF is not only concerned with policy objectives but also takes a firm view about which policy instruments are preferable. Thus even though the declarations of the Bretton Woods framers were Keynesian, the institutes[2] they created have turned out to be anti-Keynesian (Stewart, in King, 1990: 332).

In the mid-1970s the monetarist strategy gave way to a more "structural,"[3] longer run approach. The introduction of this new approach to payment adjustment was

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[1]Monetarist theory, adamantly against taxes, overlooks the fact that a subsidy cut is equivalent to a tax increase (in economic effect, even if not in theoretical justification).

[2]This inquiry, following Gustav Schmoller of the Historical School, distinguishes institution from institute (although the two terms coincide in some cases). Institution is an ideational term, an imperial ideal type, a crystallization of thought on a time and space bound category, referring to idealistic concepts such as property, marriage, slavery. Institute, on the other hand, is the institution's counterpart in the sphere of social ontology. Private enterprise, for example, is an institution, a company is an institute (see Schmoller's rationale in Jacob Jan Krabbe, *Historicism and Organicism in Economics: The Evolution of Thought* (1996: 60-5).

[3]"Structural Adjustment" is devoted to achieving a boost to the supply side of an economy by the removal of "market imperfections"; it is to be contrasted with IMF stabilization, which seeks to control the demand side, and also with long-term supply side policies --such as research and sectoral investment policy. "Structural adjustment" as a term has made multiple incarnations in development theory. The term was

precipitated by the growing recognition both within and outside the Fund that payment imbalances could no longer be expected to be corrected within one year as the anticipations had been. In response to this recognition the Fund increased its support for programs that called for adjustment over a longer period.

In 1974, the Fund established the "Extended Fund Facility" which was designed to provide members with up to three years of financial support. In addition, the Fund decided in 1979 to allow the stand by arrangements to be extended for up to three years. This development was accompanied by growing support for more comprehensive programs designed to affect the balance of payments through changes in supply as well as in demand.

In practice the implementation of a Fund stand by arrangement is very likely to be preceded by a number of disruptive economic problems including inflation, overvalued currencies, current and capital account imbalances and economic stagnation. Although one can argue about the fundamental causes of these economic problems one cannot dismiss the fact that these problems are probably present at the time of Fund supported intervention (Sidell, 1988: 244).

These programs continued to rely on the typical monetarist instruments but in a more gradual manner. In addition, they called for more structural, supply oriented policies such as reducing the size of the public sector, channeling resources away from the public sector and into the private sector, creating financial intermediaries, promoting savings and discouraging wasteful investment by increasing real interest rates.

To facilitate the success of these enlarged programs the Fund increased by six times the amount of resources that member countries were allowed to borrow. The Enlarged

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originally used in the 1950s and 1960s by the Structuralists who labeled land tenure, dependence on imported technology, and the concentration of exports in one or two unstable commodities important "structural" obstacles to development (see Feinberg, 1984: 55). Structural underdevelopment is based on the notion that the bottle neck theory is simply a top down banking conception of the world (see Horowitz, in Myers, 1987: 111). In the 1980s the phrase "structural adjustment" was used by the World Bank in the context of an overall strategy for the UDCs, through which the Bank favored the removal of "imperfections" by state withdrawal as opposed to state action.

Access Policy of 1981 authorized members to cumulate a maximum of up to 600 percent of their annual quota to the Fund.

Ostensibly the Fund and the Bank exhibit many common characteristics. Both are owned and rhetorically directed by the governments of their member nations. Both organizations supposedly concern themselves with economic issues and concentrate their efforts on broadening and strengthening the economies of their members. Despite these similarities, the Bank and the Fund remain distinct. The Bank is primarily a development organization; the Fund seeks to maintain an orderly system of receipts and payments between nations. Each has a different purpose and a distinct structure, receives its funding from different sources, assists different categories of members and strives to achieve distinct goals through methods peculiar to itself.

At Bretton Woods the international community assigned to the International Bank for Reconstruction and Development (IBRD) the primary responsibility for financing economic development. The Bank's first loans were extended during the late 1940s to finance the reconstruction of the war ravaged economies of Western Europe. When these nations recovered the Bank turned its attention to the underdeveloped countries.

The Fund was assigned a different purpose. The Fund was a reaction to the unresolved financial problems instrumental in initiating and protracting the Great Depression of the 1930s: Sudden, unpredictable variations in the exchange values of national currencies and a widespread disinclination among governments to allow their national currency to be exchanged for foreign currency.

The Fund's Articles of Agreement constitute its code of conduct. It requires members to allow their currency to be exchanged for foreign currencies freely and without restriction, to keep the Fund informed of changes they contemplate in financial and monetary policies that will affect fellow members' economies and, to the extent possible, to modify these policies on the advice of the Fund to accommodate the needs of the entire membership.

To help nations abide by the code of conduct the Fund administers a pool of money from which members can borrow when they are in financial trouble. The fund is not, however, primarily a lending organization as is the Bank. It is first and foremost an overseer of its members' monetary and exchange rate policies and a guardian of code of conduct.

The World Bank is an investment bank intermediating between *investors* and recipients, borrowing from the one and lending to the other. Its owners are the governments of its member nations with equity shares in it. The IBRD obtains most of the funds it lends to finance development by market borrowing through the issuing of bonds (which carry an AAA rating because repayment is guaranteed by member governments) to individuals and private organizations. Its concessional loan associate, IDA, is largely financed by grants from donor nations.

The Bank is also a major borrower in the world's capital markets and the largest nonresident borrower in virtually all countries where its issues are sold. It borrows money by selling bonds and notes directly to governments, their agencies and central banks. The proceeds of these bond sales are lent in turn to countries in need.

The Fund is not a bank and does not intermediate between investors and recipients. Nevertheless it has at its disposal significant resources. These resources come from quota subscriptions or membership fees paid in by the Fund's member countries. Each member contributes to this pool of resources a certain amount of money proportionate to its economic size and strength.

While the Bank borrows and lends the Fund is more like a credit union whose members have access to a common pool of resources, the sum total of their individual contributions. Although under special and highly restrictive circumstances (such as the recent bailout of the Mexican and East Asian economies) the Fund borrows from official entities, but not from private markets, it relies principally on its quota subscriptions to finance its operations. The adequacy of these resources is reviewed every five years.[1]

The Fund thus supposedly:

(1) Oversees the international monetary system.

(2) Promotes exchange stability and orderly exchange relations among its member countries.

(3) Assists all member countries, both industrial and underdeveloped, that find themselves in temporary balance of payments difficulties by providing short to medium-term credits;

(4) supplements the currency reserves of its members through the allocation of special drawing rights (SDRs).

(5) Draws its financial resources principally from the quota subscriptions of its member countries.

(6) Has at its disposal fully paid in quotas.

Thus, at the outset of Bretton Woods, the IMF unfolded with a principle which remains essentially the same: Creditworthiness at the donor level and easy credit terms at the recipient end. A fourfold increase in the number of IMF member nations has occurred -- membership reached 151 nations in 1987, and two dozen states were added thereafter. But size has not changed structure. It was practice that changed (or uncovered) the de facto from the de jure IMF.

The Bank on the other hand presumably:

(1) Seeks to promote the economic development of the world's poorer countries.

[1]The World Bank lends only to creditworthy governments. UDCs whose per capita gross national product (GNP) exceeds $790 may borrow from the IBRD. These loans carry an interest rate slightly above the market rate at which the Bank itself borrows and must generally be repaid within twelve to fifteen years. The IDA, on the other hand, lends only to governments of underdeveloped countries whose per capita GNP is below $790, and some 80 percent of IDA loans go to countries with annual per capita incomes below $390. IDA loans are interest free and have a maturity of thirty-five or forty years. In contrast, all member nations, both developed and underdeveloped, have the right to financial assistance from the Fund to deal with a balance of payments problem. Money received from the Fund must normally be repaid within three to five years and in no case later than ten years. Interest rates are slightly below market rates but are not so concessional as those assigned to the World Bank's IDA loans (see Driscoll, 1988: 13-16).

(2) Assists underdeveloped countries through long-term financing of development projects and programs.

(3) Provides to the poorest underdeveloped countries special financial assistance through the International Development Association (IDA).

(4) Encourages private enterprises in underdeveloped countries through its affiliate, the International Finance Corporation (IFC).

(5) Acquires most of its financial resources by borrowing on the international bond market.

(6) Has an authorized capital, of which members pay in.

During the half century that has elapsed since the Bretton Woods Conference there have been many changes in the international economy. New centers of economic power, notably Japan and Germany, have developed, and the positions of old centers, such as Britain, have sharply eroded. International capital markets have grown enormously and have changed in nature. Of major significance, both politically and economically, has been the displacement of colonialism, to be replaced by neoimperialism, and the subsequent emergence of some hundred and forty independent underdeveloped states. Such shifts have contributed to changes in the Bretton Woods organizations.

The World Bank has become a source of finance and advice for projects, sectoral development and development policy. However, it contributes little to the making of world macroeconomic policy. This has been the responsibility of the IMF. At regular intervals the Fund makes assessments of the world economy. Although it has made some moves toward generalized interventions, it has for the most part --especially in recent years-- focused most closely and vigorously on influencing the policies and finances of deficit countries seeking access to its resources. Accordingly, any attempt to analyze the IMF's effects on underdeveloped countries and on the world economy as a whole must concentrate on IMF country programs (Stewart, in King, 1990: 331).

The IMF's influence on the policies of individual countries has grown over the decades. As pointed out above, the 1950s saw the development of the practice of "conditionality," which made access to IMF finance conditional on a country's adoption of certain macroeconomic policies. Initially, conditionality requirements were imposed only on a minority of countries receiving loans, about one out of four in the 1970s, for example. However, by the 1980s conditionality had become more pervasive and was applied to over three quarters of IMF loans. At the same time, as more countries have experienced economic difficulties, more have turned to the Fund for finance. In the 1970s, an average of ten countries initiated programs each year. In the 1980s, this number never fell below twenty, and throughout the first half of the decade over forty countries had IMF programs in effect for at least one month each year (Stewart, in King, 1990: 335-7).

As a result of its position as a lender of last resort and as the chief evaluator of a country's economic policies, nonetheless, the IMF has been heavily criticized, particularly in the UDCs. In order to meet IMF approval a country is required to follow very restrictive macroeconomic policies, e.g., reducing budget deficits dramatically, cutting the money supply, etc., which lead to high unemployment and to a restriction of social programs. Much of the burden of these policies falls on the poor. In response to IMF policies, therefore, it is not uncommon to see rioting in urban centers of the UDCs. IMF policies, moreover, can only be enforced by coercive, authoritarian governments and *thus the IMF thwarts attempts at democracy in the underdeveloped countries*.

Originally, however, it was not the UDCs but the Untied Kingdom that took a dim view of tight IMF money policies. England's main representative to the Bretton Woods Conference, John Maynard Keynes, argued a position that has now become familiar throughout the UDCs: He advocated the creation of a new international liquidity and a reserve instrument linked only nominally to the gold standard. He urged the granting of substantial automatic credit lines, now called Special Drawing Rights (SDRs). Keynes also argued the case that the United Kingdom should have a large degree of autonomy in its domestic economic policy, and that it should emphasize deflationary policies to safeguard an external equilibrium under a system of fixed exchange rates that no longer seemed acceptable. What emerged was a fluid exchange rate (Horowitz, in Myers, 1987).

Evidently the current policies of the IMF are in sharp contrast to the ideas that Keynes declared when he first proposed the IMF. The IMF has been taken over by the monetarists, whereby the contractionary policies that they recommend have not encouraged the type of self-sustaining growth necessary for economic development. *The IMF should thus follow a more explicitly Keynesian, expansionary approach in its recommendations to underdeveloped countries* (Frances Stewart, "Back to Keynesianism: Reforming the IMF," in King, 1990).

Moreover, the Fund itself generally provides only a small proportion of most countries' financial needs. Yet its influence extends well beyond its strictly financial significance, since other organizations have come to demand that countries have IMF agreements before they will agree to supply additional finance. The private banking sector rather universally makes such a requirement before rescheduling loans, as does the Paris Club, which deals with official loans from bilateral borrowers.

This type of "cross conditionality," whereby conditions imposed by one organization (the IMF) serve as requirements for other organizations as well, has also extended to the Structural Adjustment Loans (SALs) of the World Bank. Consequently, for countries in financial difficulty, obtaining finance from nearly any source --the private banking sector, bilateral donors, the World Bank-- has become contingent on the country's agreeing to IMF conditionality. *The IMF governs the UDCs.*

Indeed, the first half of the 1980s could be described as years of IMF conditionality in Africa and Latin America. Two thirds of the countries in those continents undertook IMF programs; the overall shift in economic climate caused many others to adopt policies similar to IMF programs in order to satisfy their creditors. Thus, in effect, the IMF became the major policy maker in most African and Latin American countries. These years therefore provide an opportunity to assess the impact of the Fund's advice on individual countries.

Further, because of the Fund's central role in the world financial system, and because its advice has been taken by so many countries, its impact has extended well beyond developments in individual countries to the world economy as a whole. There is, however, a paradox in the events of the first half of the 1980s. These were years when Keynesian policies were most needed, and when the IMF had more influence than at any time before that. Yet they were also years when the world economy, and particularly underdeveloped countries, veered away from the path declared by the IMF's Keynesian foundations --that of high income and employment and development of productive resources.

While the Fund's influence has grown over the decades, the condition of the world economy has declined. Unemployment in developed nations has risen in every decade since the 1940s. Output growth has slowed. The 1980s and 1990s have proved the worst decades for many countries, especially the poorer ones, since the last Great Depression. The terms-of-trade of primary producers have been worsening and commodity prices have fallen lower than they have been for sixty years. Making matters worse, voluntary private lending to underdeveloped countries through the banking system, which became a dominant source of finance in the 1970s, has more or less stopped (Stewart, in King, 1990: 334).

This widespread economic deterioration has caused acute problems for many underdeveloped countries. The stagnancy of world markets, the growth of protectionism and the fall in commodity prices have made it increasingly difficult for them to earn their way out of their economic troubles. Their export earnings are constantly declining. At the same time, trade deficits have become less and less easy to finance. The Bank lending that flowed freely in the 1970s has dried up since the 1980s, yet debt service obligations have continued to mount, pushed upward by high interest rates. Some countries have had to set aside more than half of their export earning for debt servicing, which leaves a small portion of a declining total available to pay for imports. From this situation emerged an acute foreign exchange crisis, which further obliged more and more underdeveloped countries to turn to the IMF (Stewart, in King, 1990).

At present, the Fund's programs applied to different countries have a great many characteristics in common. First, they are usually negotiated in secret on a bilateral basis -- in other words, independent parties, other countries and international organizations besides the IMF are not involved. Instead, the details of the conditionality agreement are typically worked out between the IMF representatives and officials from the country's finance ministry and central bank. It is partly because of these individuals' orientation that IMF programs rely heavily on macroeconomic policy instruments and tend to neglect the social and political aspects of a country's situation. Fund programs are usually introduced when a country's economy is in severe imbalance --externally, with large current account deficits in the balance of payments, and internally, with high rates of inflation and deficits in the domestic budget.

In order to offset these imbalances, IMF programs use three types of policy. One is to restrain demand, through cuts in government spending, limits on credit creation, increases in taxation and restraints on wages and public sector employment. Another is to encourage the channeling of resources into tradable goods through devaluations in the country's currency and through price reforms. The third is to implement such measures as financial reform and import liberalization intended to raise the medium and long-term efficiency of the economy.

In actuality, the second and third types of policy, which are supply oriented, tend to receive less emphasis than the first. This heavy reliance on demand restraint is due partly to the short time horizon of most programs --typically twelve to eighteen months. Such a period may be enough to make short-term improvements in the balance of trade by curtailing incomes, expenditure and demand and thereby rather immediately reducing imports. Measures to expand supply on the other hand nearly always take much longer.[1]

Second, there is a general assumption that excessive expenditure by the state, particularly where this takes the form of encouraging higher levels of consumption rather than production, should be reduced. Thus the Fund will attempt to cut levels of government borrowing and this by implication will mean a corresponding cut in the services provided by the state. It will mean a reduction in welfare services for the poor. Subsidies to public sector industries will also be subject to pressure and it is not unusual for the IMF to recommend that such industries be sold off to private enterprise. Furthermore, there is likely to be pressure to reduce state subsidies on the price of either consumer goods or inputs for uncompetitive industries.

Third, associated with this attack on state spending will be an attempt either to reduce wages or to limit their growth to less than the growth in productivity in industry. Rising wages are believed to make it difficult for local producers to compete effectively abroad and therefore to export[2] successfully. Rising wages are also said to generate an increase in consumption which can only be met through imports since local production cannot usually expand rapidly enough to meet the increased demand.

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[1]For example, Brazil's highly successful import substitution strategy in the 1980s was based on massive investments it had made during the 1970s in energy and machinery production. Sri Lanka's tremendous surge in rice production after 1977, which allowed it to eliminate rice imports, was the result of a decade long investment in irrigation. Without such substantial, long-term investment it is extremely difficult to significantly increase output of products that can be exported or can serve as substitutes for imports. Accordingly, any program requiring short-term improvements in the balance of trade will inevitably stress reduction of demand. It should be noted, however, that in the IMF's 1952 decision to endorse conditionality the adjustment period was defined as three to five years --far longer than today's normal standby. The IMF's Extended Fund Facility introduced during the late 1970s is usually for three-year periods; but it has been used relatively infrequently in recent years (see Stewart, in King, 1990: 334-5).

[2]In the mid-1970s there was a mistaken tendency to identify export oriented growth strategies with free market policies. However, detailed case studies of the Asian NICs revealed that a considerable amount of government intervention had taken place: *The NICs apply considerable doses of government intervention.* Bradford therefore criticizes the tendency to identify the export success of some NICs in the 1970s with free market policies, and argues that "getting prices right" is surely not the only business of public policy. Public policy is thus now understood by most observers to play a fundamental role in achieving an outward oriented economic thrust, quite apart from the degree of reliance on the market involved in each instance (see Bradford, in Feinberg, 1984).

Fourth, while it is assumed that these cuts in wages and services will reduce imports it is also assumed that they will lead to an increase in the profits of the private sector since private capitalists will subsequently have to pay lower taxes and reduced labor costs. This will make it possible for both domestic and foreign capital to increase their investment in productive capacity and thereby either reduce the need for imports or increase the overall level of production in the long-run. In this respect an increase in the activities of foreign capital is thought to be especially useful because the capital which they import, as well as the goods which they produce, serve to reduce the level of the balance of payments deficit.

Last, the IMF will tend to discourage the use of direct controls over trade to reduce the deficit. It is very likely to demand a devaluation of the currency and will also try to do away with all attempts to use the rate of exchange to favor local as opposed to foreign producers. Although the Fund may not insist on the full elimination of tariffs it will resist any attempt to increase them and will indeed attempt to have them reduced. Thus, in theory, it will be forcing the country concerned to secure the improvement in its trade by increasing the competitiveness of its goods rather than by using direct controls to favor local over foreign producers.

Disequilibria in the UDCs, however, may be planned or accidental. The former occur when the chosen development strategy involves unbalanced growth paths; for example when planned imports of intermediate commodities and investment goods necessary for industrialization lead to a current account deficit in the initial stages of development. On the other hand accidental disequilibria can be provoked by unforeseen disturbances such as domestic political turmoil, changes in the world demand for the country's exports, in its terms-of-trade or in interest rates.

In the context of the latter set of disturbances, *with a focus on the role of the exchange rate and tariffs when a negative shock in the terms-of-trade occurs,* Enrico Colombatto adopts a short-run, macroeconomic perspective whereby intertemporal effects are overlooked. Using data drawn from the IMF's *International Financial Statistics*

Yearbook, 1990, with reference to all UDCs considered in the terms-of-trade statistics, Colombatto looks at the annual terms-of-trade variation in thirty-eight UDCs during the 1960-89 period. He finds out that for the average UDC, in more than one third of the years *there has been a fall in the terms-of-trade* of at least four percent; and that for nine of these UDCs such fall has occurred in more than 45 percent of the years considered.

As for policies, in most cases a laissez faire attitude after a terms-of-trade shock is hard to enforce, for it would require the absence of significant externalities and low adjustment costs; among other things, all prices should be reasonably flexible and factors should be mobile, both geographically and across industries. *Such conditions are hard to meet in the UDCs.* Moreover, since such a policy would imply a new distribution of income among industries, and thus among factors, *difficulties would arise also from a political point of view.* Furthermore, fiscal and monetary responses to a terms-of-trade deterioration are not always feasible, either. On the fiscal side, tighter policies are hard to enforce. Public expenditure is usually difficult to cut, especially when the country experiences a fall in GDP --which is certainly the case if measured at international prices, likely at domestic ones.

Similar phenomena apply to ordinary revenues as opposed to trade tariff revenues; for unless the ordinary average tax rate is increased substantially after the shock the fall in GDP necessarily implies a fall in revenue. On the other hand, the scope of monetary policy tends to be very limited in many UDCs: *Monetary policy in underdeveloped conditions largely follows fiscal policy.* In many countries the absence of well-developed capital markets limits the instruments of monetary policy to credit controls, interest rate ceilings and changes in reserve requirements. Money creation is in many cases the residual source of financing.

In short, although adjustment is crucial for growth, *in many UDCs fiscal and monetary tools are seldom available,* especially after a negative shock has occurred. On these grounds Colombatto's analysis of the feasible trade policy options --exchange rate and import tariffs-- is justified (Colombatto, 1993).

Colombatto's framework within which to study a specific adjustment policy for a typical UDC after a fall in the terms-of-trade demonstrates that although the immediate consequences of such a shock tend to be similar in the various types of UDCs examined, the appropriate policies may differ according to the nature of the economy, as regards both its domestic features and its initial trade attitude.

As a consequence, whereas in some cases Colombatto's model tends to provide rather standard answers (calling for more free trade and less government intervention), *there are cases where the best response to a shock might be protectionism,* and where the best way to make subsequent adjustment easy is *to keep the degree of commercial openness low.*

Contrary to common belief, then, Colombatto's model suggests that *opening up to trade is not the best policy* under all circumstances after a shock. As a matter of fact if the UDC is not managed according to --by and large-- the rules of the market, a rational response to a terms-of-trade shock may well be protectionism and exchange rate revaluation; a policy that seems to be easier to carry through if trade volumes are relatively low.

Industrial countries, however, are competitive in their home market so that few foreign producers can increase their sales by exporting to them. Their ability to compete more effectively than everyone else leads to deflation in those countries which cannot find expanding markets elsewhere. This growth in the strong countries does expand the market for raw materials, but it inhibits the growth of manufacturing in weaker countries that is essential for the creation of a balanced growth process (Brett, in Latin America Bureau, 1983: 34-5).

Moreover, the intensification of the world economic crisis after 1974 coupled with concurrent oil price rises left the UDCs facing massive deficits that could be controlled only through drastic cuts in living standards and in the level of economic activity. IMF programs designed to reduce balance of payments deficits in the short-term, furthermore, result in substantial cost in terms of reduced consumption, damage to local industry and increased inequality.

Given the need to solve the problem quickly, and for other underlying reasons, most of the improvements have to be secured through a reduction in domestic consumption rather than an increase in production for export or in import substitution. The overall effect is therefore likely to be deflationary involving a decline in the overall level of economic activity, and a corresponding reduction in both local consumption and in long-term economic progress.

In trying to increase their exports, the UDCs immediately confront the strong developed countries which are attempting to do exactly the same. However, the latter have the advantage of producing on a very large scale, selling to a huge home market (a large middle class) as well as having established markets abroad, having direct use of highly trained work-force and sophisticated research and development facilities, and having a monopoly over many areas of technology and skills.

Given all of these factors *the possibility of competing with them on equal terms is rather negligible*. Alexander Hamilton, unconfused by neoclassical scientism, did intuitively recognize this fact very clearly, as is mentioned above. And the politicking with "comparative advantage," by David Ricardo and his latter-day disciples, could not alter this fact.

The only "advantage" that most UDCs have over these established producers is the very low wages that their workers can be paid. Even this, however, is of relatively limited value. On the one hand the existence of low wages means that local markets are very small, thereby making it difficult to produce on a sufficiently large scale to reap the full advantage of modern production methods. On the other, low paid workers tend to be poorly trained and motivated, so their productivity is correspondingly low.

Furthermore, the industrial countries have been able to continuously adopt new technology, the automation secured through the micro-chip is an example, which has enabled them to pay much higher wages to their workers and still produce goods more cheaply than the average UDC producer.

In sectors such as cotton textiles where cheap labor does provide low wage countries with international competitive edge, *the industrial countries have tended to ignore their professed belief in free trade and have adopted protective controls in order to defend jobs and capital investment in that sector.*

Thus by reducing tariff protection in their home markets and attempting to grow by exporting manufactures UDCs render themselves very vulnerable. Several countries have found that established industries in their own countries have been destroyed as a result of tariff barriers having been lowered (Brett, in Latin America Bureau, 1983: 37-8).

Meanwhile, whereas the reduction of state spending might enable producers to pay lower taxes it will also reduce domestic demand for their products. Thus producers will lose some of their home market, usually the most profitable for them, and this loss of demand may mean a reduction in total production. Such a reduction will inevitably mean that the costs of producing each unit of output will rise as fixed costs will have to be offset by a smaller total production. This will lead to increased selling prices and therefore the firm will be less competitive internationally.

Nor will the lower taxes necessarily encourage producers to invest their increased wealth in local industry. When demand is being reduced through the reduction in wages and government spending they are more likely to spend it on consumer goods, which are very likely to be imported, or else to invest it abroad.

The latter is most likely to happen where a significant portion of local production is already in the hands of foreign capitalists who find it easy to remove their profits from UDCs either directly through legal channels or indirectly by various forms of transfer pricing (Brett, in Latin America Bureau, 1983: 38-9). Thus unless the reductions in wages and other costs are very large and the opportunity for increasing export markets very favorable, deflationary policies are quite likely to lead to a cut in society's consumption and productivity without leading to a subsequent improvement.

The effects of these policies on the overall world economy are likely to be very harmful. The UDCs are trying to overcome their deficits by cutting imports and increasing exports. But since most of their potential customers are attempting to do the same, the result can be intensified competition in which only the most powerful might succeed but at the expense of the weaker nations.

Even if the global trade outlook improves, it is illogical that all underdeveloped countries can expand exports all at once, for in the long-run exports and imports are a zero sum interaction. A country's exports are another's imports and vice versa. Exports and imports are two sides of the same coin.

It is therefore impossible for all countries to increase exports and reduce imports at the same time: How can all countries simultaneously export more than they import? Who will import the excess? This simple logic is not even admitted by the neoclassical export led growth model, much less the problem conceded. The neoclassical export led growth, therefore, has this obscurantist quality built into its conception.

An often-uttered rationale for the export led growth motto is that an outward looking economy does not mean trade surplus, thence every country can adopt export oriented growth: A rationale that siphons off the meaning of export led growth. It combines the unattainable neomercantilist best of both worlds: Production for export (mercantilism) and surplusness (free trade). It is a "vent for *no* surplus" rationale.[1]

Andre´ Gunder Frank (1967: 118; 1978: 79) affirms the logical nongeneralizability of the Newly Industrialized Countries' (NICs') export led growth model: Who would

[1]The vent for surplus principle means that "the surplus part of domestic production, for which there is no domestic demand, can be exchanged for those goods and services required by the domestic economy, through exports" (see Hans Singer and Pavin Alizadeh, "Import Substitution Revisited in a Darkening External Environment," in Ron Ayers, *Development Studies*, 1995: 333).

import? If all countries are to increase their exports simultaneously, they will have to also increase their imports correspondingly (for in the aggregate current account surpluses and deficits must sum to zero), in which case the policy could as well be described as import led.

Furthermore, surplus countries, i.e., most industrial and oil producing ones, lend their surpluses to the international banks which invest them through lending to deficit countries. This process has the general long-term effect of increasing levels of indebtedness of the deficit countries, and means they will have higher interest and capital repayment commitments and will therefore have less resources available to develop their own industrial base. Thus their ability to generate exportable production and improve their balance of payments will be hindered. Hence, a short-term solution is being adopted that must worsen the problem in the long-run.

The IMF recommendations thus are the problem for which they purport to be the solution. They correspond to the policies favored by large scale international capital and its supporters in underdeveloped countries. It is the strong transnational corporations[1] that have most to gain from policies which favor the free movement of goods and money, since they are able to move their investments to whichever country offers them the greatest concessions and, therefore, profit potential.

Many of the individuals involved in local political activities depend for their own political and economic privileges on their links with these corporations and with the governments of the major world powers that lie behind them. Many such transnational corporations use their economic power and political leverage to force countries to seek IMF assistance and submit to its conditionality. Moreover, the powerful industrial members of

[1]Because these enterprises usually have *a home base* with operations abroad, the word "multinational" is inappropriate for describing their activities. They are, in fact, transnational.

the IMF have used access to the Fund's resources as an instrument of their own foreign policy objectives.[1]

The Bank too has become like the IMF --pushing simplistic, standardized formulae that slight the particular spatio-temporal circumstances, history, culture and politics of individual nations, and that are based more on preconceived construct than on objective analysis. Of course trade liberalization may be appropriate at times but one has to remember that the relatively closed economies of India and especially China have been doing very well of late, that the debt crisis shackles many economies to trade surplus maximizing strategies, and that successful export promotion policies may involve significant state activism, as the Asian industrialization processes demonstrate.

The financial liberalization process in Latin America is also informative in this regard. Theoretically, the main *economic* causes of capital flight are an overvalued exchange rate; positive differentials in interest rates on foreign and domestic assets; an increase in the domestic rate of inflation, which tends to be accompanied by a fall in the real rate of interest; and inflows of foreign aid, which result in an appreciation of the exchange rate and a fall in the real rate of interest. It is for these reasons that foreign aid and commercial borrowing often are associated with increased capital flight (Keith Griffin, *Studies in Globalization and Economic Transitions*, 1996: 52). The financial liberalization in Latin America has been undertaken under conditions that stimulate either massive capital flight from the economy, intended to avoid local inflationary taxes or domestic inflation risk, or otherwise huge capital inflows, attracted by exceptionally high real interest rates. The result under these conditions has been financial disaster. *Hence, the experience of Latin American nations suggests that opening the economy to internationally mobile, short-term financial flows when such is not supported by a stable economy can generate substantial instability.*

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[1]This has been clearly demonstrated in the case of the US reaction to requests for Bank (and Fund) assistance from Egypt, for the High Dam, and from the different Central American countries (see also Brett, in LAB, 1983: 40-2).

Nor has Asian financial liberalization been free of complications. The Korean liberalization of 1964 was plagued by problems similar to, although of a lower magnitude than, those encountered in the Latin American experiments. Korea's short-term financial inflows flooded the economy in 1966 leading to financial destabilization and inflation (Rivera-Batizs, 1994). *Both experiences, together with the current instability in the East Asian financial markets, show the delicate nature of the UDCs' path toward deregulation and openness.*

It is not surprising, then, that the original Keynesian finance objectives have not been achieved. The record of the 1980s shows just how far short of achieving those objectives IMF programs have fallen. The Bank was making its presence known, fervently pushing free market solutions "to all the world's ills." In 1980, the Bank made its first structural adjustment loan. Although the Bank later acknowledged that it had failed to assess their possible negative social impact, these loans grew to a quarter of the Bank's portfolio by mid-decade and have remained near that level ever since.

In practice, the policies associated with these “structural adjustment” programs -- the promotion of exports, trade liberalization, privatization, deregulation, wage restraints and budget and credit cuts-- led to the deepening and spreading of poverty worldwide. Many countries with Fund programs experienced severe economic difficulties while on those programs (Rich 1994: 68).

Current levels of output and income have fallen and the combination of stagnant real investment, rising malnutrition and falling health and educational standards (as is elaborated upon below) has adversely affected physical and human capital. As a result the prospects for medium and long-term economic growth are being undermined.

Thus, after undergoing tough IMF programs many countries have found themselves with reduced real incomes, increased poverty, deteriorating social conditions, reduced growth potential and often no significant improvement in their external account balance. In this last respect the IMF programs failed even to meet their most narrowly defined goal --to improve the imbalance of the external account.

The inadequacy of Fund programs at a world level becomes clearer if one examines the impact they have had not only on individual countries but on the world economy as a whole. In general the IMF's approach to correcting payments imbalances has created a worldwide tendency toward deflation. Adjustment programs require deficit countries to attempt to eliminate their deficits by cutting expenditure and employment so that their imports fall.

Such a strategy might under the right conditions help reduce deficits in underdeveloped countries' current account balances. But when applied to many of these countries simultaneously it also causes a significant drop in UDCs' demand for both UDCs' and DCs' products (Stewart, in King, 1990: 333-7). Thus IMF mandated cutbacks in UDCs' spending and employment have caused worldwide decreases in demand and therefore output.

Deflation is not the only way to correct imbalances in external accounts. The alternative would be to correct surpluses through reflation: Surplus countries would try to eliminate their surpluses by increasing their spending so that their imports rise. The net effect on external accounts would be the same --because exports, output and incomes of deficit countries would be raised, their deficits would be lowered.

The IMF's original charter did include a "scarce currency" clause designed to encourage symmetry of adjustment by placing pressure on chronically surplus countries to bring their surpluses down. But the clause has never been invoked, and the Fund's approach has remained highly asymmetrical; the major burden of policy change and adjustment is imposed on deficit countries (Stewart, in King, 1990: 338).

Other aspects of IMF conditionality have had similarly negative effects when the same program is imposed on many countries at once. At the same time that the Fund's overall impact has been deflationary, so that basic demand for underdeveloped countries' products has not been sustained, Fund programs have also tended to increase the supply of these products.

IMF country programs have been tailored to expand production of primary commodities --in some cases the same product in more than one country. For example both Ghana and the Ivory Coast have had programs to increase cocoa production. This upward shift in cocoa output, because it did not result from or cause an upward shift in demand, had the result that prices were driven down. In fact, for commodities with low demand elasticities --commodities for which a price cut does not induce a substantial rise in demand, since consumption is not much affected by price-- an increase in production may lower prices so much that a country's total earnings from those commodities actually fall. Past experience has shown that this is the case for many commodities, especially those in which some very poor countries specialize, such as cocoa, tea, and coffee (Stewart, in King, 1990: 338-9).

When the IMF encourages production increases from a number of major producers of particular commodities, without simultaneously taking action to increase demand for those commodities, the net result may be to decrease deficit countries' foreign exchange earnings from commodity production, while increasing the resources they devote to that production.

Fund programs have thereby contributed to primary producers' worsening terms-of-trade, which were in turn partly responsible for the limited improvements many underdeveloped countries were able to make in their current account balances. Therefore, *IMF policy worked at cross purposes to its stated Keynesian goals.*

Currency devaluations have often had a similarly damaging effect on the terms-of-trade of exporters of manufactured goods, since such devaluations lower the relative price that producers receive for their manufactured exports. But in this case, as opposed to that of primary commodities, there is more potential for the UDCs as a whole to increase their share of the world market. As a result, reduced prices may be more than offset by an increase in the quantity sold --*provided of course that developed countries do not impose trade restrictions* (Stewart, in King, 1990: 339). Or consider the appreciation of the Japanese yen, which essentially tripled in value between 1971 and 1991. Without a big jump in productivity, neoclassical economic logic would have predicted a dramatic drop in Japanese exports. Instead, productivity and exports continued to expand geometrically, and Japan's trade balance with most of the world became even more favorable (see T. J. Pempel's *Regime Shifts: Comparative Dynamics of the Japanese Political Economy,* 1998: 11).

According to its originally stated goals the IMF should be responsible for ensuring that the international environment be compatible with increasing world output, employment and development. Yet the IMF has not made its own programs, much less the world economy, consistent with these goals. The basic declarations of the Bretton Woods framers have not been realized, as the IMF has not evolved in such a way as to discharge its original responsibilities. The problem is not technical but political: *The dominant governments which set the major limits on Fund functioning have imposed their own ostensibly technocratic (monetary) views on the IMF.*

Most theorists did accept that UDCs would need long-term international credit in order to finance their industrialization programs. This, however, was defined as a "developmental" as opposed to a "monetary" need and it was to be provided by the World Bank, the private banks and the transnational corporations. Paradoxically the money that the IMF lends to a country makes that country able to continue to import for longer than would have been the case if IMF loans were not available. Without the IMF, abrupt cuts in spending and investment would have to be made to reduce the deficit. IMF assistance allows debtor countries to adopt policies that lead to a more gradual reduction in the deficit. Thus the intervention of the IMF makes possible a higher level of economic activity for deficit countries, especially given that the negotiation of an IMF agreement usually enables the country to also borrow extensively from the private banks (Brett, in Latin America Bureau 1983: 33-4).

Thus when an IMF team visits a country in order to negotiate a stand-by arrangement its primary concern is to reduce the balance of payments deficit within a relatively short period of time, usually within three to five years. The team assumes that direct state intervention is not necessary for the objective to be achieved, and that the balance of payments problem is caused by high local inflation that is itself caused by high government spending funded by a large supply of new money, which leads to high levels of local consumption in relation to the level of output of goods that can be sold abroad.

Given these assumptions such a team tends to require policies which emphasize reductions in consumption rather than an increase in production. It justifies its position by the fact that a country with a balance of payments deficit is consuming more than it is producing, by importing more goods than it is exporting. Unless such a country can obtain continuing supplies of international credit or aid for this process its economy must eventually come to a halt.

Although there is no unique profile for debtor countries, troubled debtors when compared to less strained ones are frequently characterized by a variety of the following traits:

(1) Large debts to private creditors relative to that owed to official lenders.

(2) High debt to exports ratios.

(3) Unprofitable investments and unsound financial strategies that do not provide buffers to economic slowdowns (and other general problems related to moral hazard, taking higher risks on the belief they will somehow be bailed out).

(4) High government deficits.

(5) Capital flight and overvalued exchange rates.

Yet the strength and length of the debt problem that depleted and debilitated the UDCs for over two decades are further related to a series of factors that slowed down their recovery endeavors:

(1) The adverse short-term effects of IMF sponsored austerity programs have been coupled with extended isolation from financial markets, to produce a delay in recovery in some countries.

(2) Negative resource transfers coupled with positive net flows of public and publicly guaranteed external debt have caused protracted financial strain.

(3) Substantially higher real interest rates on dollar denominated assets in the 1980s harmed debtors, while the dislocation of internal financial markets entailed unstable domestic rates that led to capital flight.

(4) Capital flight meant that new lending to underdeveloped countries went to finance capital outflows.

(5) Making matters worse, adverse terms-of-trade changes hit hard on a large number of UDCs, accentuating their difficulties (Rivera-Batizs, 1994: 264-7).

The 1980s and 1990s have thus seen the import substitution consensus of the previous decades, with its preference for high levels of tariff and nontariff trade barriers, all but evaporate in the underdeveloped countries which by and large pushed towards liberalization. The simplification of import procedures, reduction or elimination of quotas, and the rationalization of the tariff structure are the most commonly adopted liberalistic features.

Yet it is perplexing that the 1980s should have become the decade of trade liberalization in the underdeveloped countries. Because of the debt crisis that decade has also been one of intense macroeconomic instability. Common sense would suggest that the conventional benefits of liberalization become muted, if not completely offset, under conditions of macro-instability characterized by high and variable inflation on the one hand and fiscal and balance of payments crises on the other.

A period of macro-instability is the worst time to undertake a trade reform, yet paradoxically so many countries are doing it. The main reasons are to be drawn from the broader domain of geo-ecomics. First, a time of crisis makes possible the adoption of radical measures that would have been unthinkable in calmer times. The second and more important reason has to do with the role of foreign creditors and of the IMF and the World Bank.

The 1980s were a decade of great leverage for these organizations vis-à-vis debtor governments, especially where poorer African countries are concerned. The trade policy recommendations of the World Bank were adopted by cash starved governments frequently with little conviction of their ultimate benefits. This accounts for the high incidence of wobbling and reversal on the trade front. It also indicates that one ought not be very optimistic on the sustainability of liberalization in many of these countries.

When the debt crisis broke, with the announcement by Mexico in August 1982 that it could no longer meet its debt service payments, the IMF was to play a key role in the emergency rescue operation mounted to stave off default and avoid serious disruption to the financial system. Since the resources available to the Fund had fallen substantially in relative terms over the years, the role of the Fund would be less that of provider of liquidity, the function that it was pronouncedly established to perform, and more that of bailiff and policeman acting on behalf of the creditors. *In this capacity the role of the Fund was to extract the maximum possible debt service payments from debtor countries with little regard to the effect that this would have on their economies.*

This operation was carried out by a carefully calibrated process of organizing just enough liquidity to the debtors via new bank loans (so-called "involuntary" lending), rescheduling, World Bank lending, IMF loans, etc., to make it not worth their while to declare outright defaults (with all the costs to them that this would entail), and instead to continue cooperating with their creditors in servicing the loans. These policies were associated with the names of successive US Treasury Secretaries, first the Baker Initiative, then the Brady Plan (Adams, 1993: 153).

The key to these initiatives was the policy package of austerity measures which it was the role of the Fund to *impose* on the debtor countries. The main objective was to secure a rapid reduction in the current account deficit, and this was to be accomplished by the vigorous application of standard deflationary measures of which the main elements consisted of tight monetary policies, high interest rates, cut backs in government expenditures accompanied by increases in taxes and devaluation. These measures were duly applied and the current account deficit soon reduced or eliminated.

But as may be expected the effect of these policy measures was to put the economies of the debtor countries into reverse gear, sending them reeling in a downward spiral towards economic depression: *The primary objective of the policy package was the collection of the debt and the protection of the interests of the creditors,* and in this it largely achieved its aims. From the debtor, underdeveloped countries' point of view, however, the massive policy induced deflation to which they were subject meant a great deal of disruption to their social and economic life, and a major setback to their long-term economic development prospects. It was in Latin America and in Africa, the two continents where the debt problems were most acute, that the disruptions were the greatest.[1]

In the short-term the impact was felt most acutely in high urban unemployment, reduced earnings, economic deprivation and shortages of essential goods, and while most sections of the community had to bear part of the sacrifice, the heaviest brunt of the adjustment was borne by the poorest groups. This was the inevitable consequence of the Fund's approach to policy conditionality, whereby the traditional recipe of tight fiscal and monetary policies and currency devaluation is invariably supplemented by "structural adjustment" policies giving free rein to market forces and requiring the lifting of all

[1]For detailed statistical documentation see Adams (1993: 154).

constraints on full market pricing, including the elimination of subsidies on essential food and other basic necessities, with effects that bear particularly heavily on the poor.

The latter were also those most affected by the reductions in public expenditure on health, education, and social welfare, key elements in the Fund's package of conditionality. But the effects went beyond the short-term since these are expenditures which finance the basic investment in human capital, without which there can be no development. In many cases the severe manner in which expenditure on education was cut, and the low income and status to which teachers were reduced in the ensuing market oriented adjustment process, have so weakened the educational infrastructure in these countries as to greatly damage the prospects for rebuilding it (Adams, 1993: 155). This has disastrous consequences for their development prospects in the medium-term to long-term.

The sharp cut backs in imports that became necessary owing to the external financial squeeze also seriously undermined long-term development prospects. Underdeveloped countries typically depend on imports for a wide range of essential products to keep the economy going, most importantly for machinery and equipment to maintain and expand the productive base of the economy. Such sharp cut backs in imports seriously reduced availability of essential supplies and equipment and led to *import strangulation* of the economy: Falls in output and capacity utilization due to unavailability of imported inputs.

Such import strangulation also means inadequate maintenance of existing capital stock in transport, industry, agriculture and basic infrastructure, with adverse effects on production and, particularly in the poorer countries, shortages of essential imported inputs such as drugs, medical equipment, textbooks and other items necessary to keep the basic medical and educational services functioning. In many cases the unavailability of fuel, inputs and spare parts has also adversely affected export potential, making it all the more difficult for such countries to escape from the balance of payments trap in which they have found themselves.

Hence, while the Fund's declared aim is *the promotion and maintenance of high levels of employment and real income, and the development of the productive resources of all members as primary objectives of economic policy* (Article I [ii] of the IMF's Articles of Agreement), it was the Fund itself, in responding to the balance of payments crisis faced by underdeveloped countries in the early 1980s, that took the lead in imposing the policy measures responsible for the sharp cut backs in incomes and imports, massive unemployment, social deprivation and widespread deterioration in capital stocks and in productive capacity, that were the hallmark of the adjustment process to which these countries were subjected (Adams, 1993: 155-7).

It was a long road that the Fund had taken from its declared Keynesian conception, which sought an organization that could provide temporary liquidity to ease the pains of adjustment to balance of payments disequilibrium and thereby to promote the stability and growth of the world economy, to its present role of debt collector on behalf of private banks and enforcer of harsh policy conditionalities, that leaves little room for independent maneuver in countries which fall prey to it. In the process its purposes have surely been transformed, in practice if not in its legal constitution.

A further telling aspect of the changing nature of the IMF over the years concerns the evolution of the size of quotas relative to trade or other relevant variables. The size of quota determines the extent to which a member can have access to the resources of the Fund. Since potential need for resources can be expected to grow in proportion to the size of trade, one might have expected the idea to be that the size of quotas would grow pari passu with trade. But this is not what happened. Instead, the growth of quotas lagged far behind that of trade.

IMF quotas averaged about 16 percent of total imports in 1948, but by 1980 the proportion had fallen to less than 3 percent (Adams, 1993: 158-9). For the industrial countries themselves, this fall in the relative size of quotas was without significance since they had long ceased to turn to the Fund as a source of liquidity, having evolved alternative arrangements for this purpose. It was therefore the underdeveloped countries, which still depended on the Fund as a source of liquidity, that the quota policy affected, and this of course explains the reluctance to increase quotas.

As an alternative to increasing quotas a whole series of new access facilities was introduced. Apart from the original Credit Tranches these facilities include, or have included, the Extended Fund Facility, Supplementary Financing Facility, Policy of Enlarged Access, Compensatory Financing Facility, Cereal Import Facility, Buffer Stock Facility, and the Oil Facility. All in all members can now draw up to a cumulative total of over 600 percent of quota, compared with a limit of 125 percent of quota in the early years of the Fund.

But the consequence of this approach to enlarging access to Fund resources has been devastating from borrowers' points of view, since it has meant that access to low conditionality resources is now minuscule in relation to needs, amounting to only 25 percent of quota, while increasingly stringent conditionalities are imposed for access to the remaining 575 percent of quota. The result is that low conditionality resources are now virtually an extinct species and any meaningful access to the Fund's resources involves high conditionality. In this way the influence that the Fund is able to exert over members seeking any meaningful access to its resources has greatly increased.[1]

Not only was this niggardly policy towards quota increases pursued to the detriment of underdeveloped countries but equally niggardly has been the policy towards SDR allocations, with similar effect. Despite the Jamaica Agreement of 1976 under which the SDR was to become the principal reserve asset of the international monetary system, the developed countries have argued that there is no need for further SDR allocations since there is no shortage of liquidity. And for those countries of course there is certainly no shortage of liquidity.

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[1]It is true, however, that access to some special facilities, such as the Compensatory Financing Facility and the Cereal Facility, which require special justification and are not included in the 600 percent of quota mentioned above, carry low conditionality (see Adams, 1993: 160-1).

Increases in the price of gold since the breakdown of the Bretton Woods monetary arrangement have meant large increases in the value of their reserves, since these were the countries that held the world's stock of monetary gold,[1] and this, together with the vast expansion of international commercial bank lending to which they have ready access, meant that their liquidity needs are fully met.

Only underdeveloped countries without access to commercial bank lending would be unable to find low conditionality, short-term finance, and hence would remain dependent on the IMF for their liquidity. The bulk of the Fund's resources can be expected to be channeled to countries that by and large are excluded from ready access to private capital markets. Countries enjoying such access probably will remain reluctant to sign up for conditional Fund assistance. After the debt crisis broke virtually all underdeveloped countries fell into the excluded category and most of them reluctantly had to sign up for conditional Fund assistance.

When the Fund approached the balance of payments disequilibrium created by the first oil shock in 1973, it took the sensible position that conceded that "attempts to eliminate the additional current deficit caused by higher oil prices through deflationary demand policies, import restrictions, and general resort to exchange rate depreciation would serve only to shift the payments problem from one oil importing country to another and to damage world trade and economic activity" (Adams, 1993: 161). It therefore called on oil importing countries to accept the consequent short-term deterioration in their balance of payments, and made available the Oil Facility at low conditionality to assist countries in financing the resulting payments deficit.

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[1]In the World-War-I period the convertibility of the dollar into gold together with the inconvertibility of the European currencies resulted in a growing attractiveness of dollar denominated assets as a haven for investment purposes. The dollar became increasingly involved in international transactions. Because gold remained at the heart of the system the growing demand for dollars resulted in rising gold inflows to the United States and ballooning US gold reserves. During the Bretton Woods period, 1944-71, the United States was extracting a seignorage gain from its creation of international liquidity at the expense of the nonreserve currency countries. Because in order to acquire dollar denominated reserves foreign countries had

In contrast, in 1979-80, when the impact of the oil price rise on the balance was compounded by the effects of the interest rate rise, no reference was made by the Fund to the dangers of deflationary demand policies, nor was there any suggestion of the need to prevent damage to "world trade and economic activity." Nor, for that matter, was any attempt made to provide additional low conditionality resources to meet the resulting balance of payments deficits, notwithstanding that the logic of the argument put forward in 1974 applied with even greater force in 1979, given the deep recession that was developing. In the former case a number of industrial countries were among those facing large unforeseen deficits in their balance of payments and requiring support from the IMF, hence the much more lenient and reasonable treatment, while in the latter case only underdeveloped countries needed to turn to the IMF for support, the industrial countries being by then awash with liquidity and having full access to the pool of resources by then available in the international commercial banking system.

In addition, the new thinking in Washington was reflected in a general hardening of the Fund's access policy. Apart from the refusal to supply additional low conditionality resources, thereby forcing borrowing countries straightaway into the high conditionality upper credit tranches, there was also a general tightening of policy conditions that became harsher and overbearing, extending beyond the traditional macroeconomic variables relating to fiscal, monetary and exchange rate policies to include "structural adjustment" policies at the sectoral- and micro-levels.

There was also a hardening of IMF interest rate policy, with interest now being charged at close to market rates (Adams, 1993: 161). It is also common to have a number of important policy dictates in the formulation of an adjustment program. These normally include public sector policies on prices, taxes and subsidies, interest rate policy, exchange rate policy and income policy.

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to release real resources such as those involved in net exports to the United States, the US was benefiting from its almost costless creation of international money (see Rivera-Batizs, 1994: 225-9).

Further, the IMF has not set its programs within a cost minimizing framework. It has treated the balance of payments objective as overriding, and has been reluctant to give weight to other government purposes when designing stabilization programs. From the point of view of an underdeveloped country therefore the Fund's approach is potentially a high cost one.

As noted above, the power of the IMF over underdeveloped country borrowers was further made all the more formidable since, in the aftermath of the debt crisis, all other potential sources of credit, bilateral or otherwise, required an IMF stamp of approval (in effect, that an IMF high conditionality agreement be in place) before any credit was extended. This was a continuation and development of policies started as far back as the 1950s but was to assume particular importance in view of the tight financial squeeze which large numbers of underdeveloped countries now faced.

Concerning the purpose and justification of IMF conditionality, originally the imposition of conditions on a potential borrower was considered to be justified largely in terms of the need to ensure prompt repayment of drawing so as to safeguard the revolving character of the Fund's resources. But the kind of conditionality imposed in recent years cannot be justified on these grounds.

While the rationale for extending the scope of conditionality was ostensibly a laudable one (to respond to a concern that Fund policies should promote not only macroeconomic stability but also economic growth), it meant in practice that the Fund would have free rein to impose on the debtor underdeveloped countries the extreme versions of the free market construct which dominate US academic thinking and official policy making. Thus supply side economics[1] would now become standard fare in the policy matrix of

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[1]In *The Age of Keynes* (1966), Robert Lekachman described the policy of stimulating the economy by cutting tax rates (rather than by increasing government spending) as "commercial Keynesianism," which was to be called "supply side economics" by Jude Wannisky, Robert Bartley, Arthur Laffer and Paul Roberts, among others, in the 1970s. Supply side economics thus constitutes a feature of what Joan Robinson, by 1962, called "bastard Keynesianism." She coined the term to describe the actual practice of Keynesian policies in the postwar years, including a revival of the belief that "money matters," that military expenditures can be used as a form of demand management, and that exports (loans abroad, foreign

debtor countries under IMF tutelage. All this served to make it much more painful to seek assistance from the Fund and to be on the receiving end of its policies.

For most underdeveloped countries that seek IMF assistance, IMF credits represent only a very small proportion of their total debt (Adams, 1993: 162-4). And given the high priority that all countries necessarily attach to meeting their repayment obligations to the IMF it is scarcely plausible to suppose that this formidable array of armor in the guise of conditionality can really be justified on these grounds. The real explanation must surely lie elsewhere.

Undoubtedly the proxy role the IMF plays as debt collector on behalf of the banks, not at all provided for among the Keynesian purposes of the Fund, better explains the severity of conditionality in recent years than the need to safeguard the revolving character of the Fund's resources. But the matter goes further than this. The rather religious zeal with which the IMF announces and insists on its standard package of austerity measures, almost without variation between countries except perhaps as regards the specific percentage targets to be achieved, disregards the complexity of getting into balance of payments difficulties in the first place.

Hence the merciless character[1] of the measures that are insisted upon, the "IMF knows best" syndrome. This character and its implications are best illustrated by a concrete

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aid, or a trade surplus) are an important goal of international trade. Employment creation replaces employment saving (or efficiency) as an overall goal of macroeconomic policy. The two principal strands of "bastard Keynesianism" are military Keynesianism and commercial Keynesianism, the use of defense spending and cuts in tax rates to stimulate the economy (see Lynn Turgeon, *Bastard Keynesianism: The Evolution of Economic Thinking and Policymaking since World War II*, 1996: 113-14).

[1]The following experience from Nicaragua, as representative of UDCs' episodes, succinctly describes this merciless character:

> The IMF is an astute banking institution. Its goal is not to recover the principal from its loans but to charge interest, and...to assure that the flow of money from Nicaragua to it and the World Bank is greater than the flow of new loans it provides.... In 1994, we will get a $20 million loan from the IMF and a $130 million one from the World Bank, but, in exchange, we will pay them $226 million in interest payments, leaving them with a $76 million surplus.
>
> The IMF is not only astute; it is also powerful. If Nicaragua does not sign the Extended Structural Adjustment Fund (ESAF), the IMF will not give it the green light to sit at the

case of applied "structural adjustment." The Chilean experiment, the next section, is a case in point.

Evidently, the IMF and IBRD have been designed with the underlying objective of promoting capitalism; but with the demise of UDCs' unity under extensive pressures in the late 1960s and 1970s, the 1980s and 1990s, these organizations were used in a blatant unapologetic manner to impose upon underdeveloped countries the severest of postulates thought of in neoclassical think tanks spread across the USA.

Britain, in particular, among other industrial countries, was always there to support and rationalize the acts of the US led international organizations no matter what. Having lost the Empire upon which the sun never set, Britain is playing the traditional role of a fading hegemonic power --joining its successor as a junior partner-- and thus acting as a Trojan horse for the United States.

And writings of such arch economic liberals/libertarian Austrian authors as Carl Menger, Friedrich Wieser, Eugen von Böhm-Bawerk, Ludwig von Mises, Joseph Schumpeter, and Friedrich von Hayek, who were always concerned to justify the market system and to reject any and all forms of government participation in the economic affairs, provided the intellectual rationalization for such schemes.[1]

Meanwhile, under the Fund-Bank auspices, the UDCs had to run a lot faster to at most stay in the same place; some countries were negatively impacted upon (as is elaborated on below).

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table of the Donors' Club to renegotiate its debt with the World Bank...so it can get the new financing to keep the economy's head above water one more year.

In the ESAF agreement, the IMF imposes conditions on Nicaragua to assure that it earmark its surplus for debt service instead of spending it on the needs of production and the population. All this gives the IMF the image of a loan shark that lives off the misfortunes and needs of its clients, but this usurer does not force poor countries to accept its "service." It makes a legal offer and lets the potential recipient take it or leave it. The problem is that the poor country does not even have another noose to hang itself with (*The Month*, January 1994: 3-4).

[1]Needless to mention, other distinguished Austrian economists have disagreed profoundly with this orientation on issues of fundamental significance, e.g., Gottfried Haberler, Oscar Morgenstern and Paul Rosenstein-Rodan, as well as the philosopher Felix Kaufmann (see Terence Hutchison, *The Uses and Abuses of Economics: Contentious Essays on History and Method*, 1994: 227).

"Structural adjustment" might well imply a sought destination for a limited minority, but it offers little in the way of sustenance along the journey for the overwhelming majority. Its alternative must constitute an all encompassing transformation mechanism which relates means to ends, thus mitigating the horrible trip for strata not at all prepared for the arduous carnage. *The mazes and jungles of neoclassical technocratic details therefore have no relevance to the situation of the billions of UDCs' peoples,* for the test of relevance is whether that theory informs policy makers about the predicament of those people at the wrong end of global capitalism, which neoclassical economics does not.

The *socio*-Darwinian evolution that subtly underlies "structural adjustment" has no basis whatever. And the theoretical basis upon which the Fund-Bank program is ostensibly built is nothing but a mythical concoction of neoclassical economics which made it up, reiterated it and eventually, perhaps, believed it.

Indeed manifold inconsistencies invalidate the entire theoretical edifice of that dominant school of economics. However, a myth dies hard, especially when it caters for the interests of the globally reigning strata: A myth never goes away as long as it continues to have an ideological utility, and powerful vested interests, in the long march of history, were immune to rational argument.

Empirically, however, even if neoclassical economics underwrites the achievements of contemporary postindustrial capitalism, which is certainly not the case, it is incompatible with the objective conditions prevalent in the UDCs today.

Nonetheless, an interesting phenomenon, an indication of the extent to which the DCs are now firmly in the driver's seat, is the high prestige currently enjoyed by the Bretton Woods' organizations, never mind also their role in putting the squeeze on debtor UDCs in the recent past. Such a prestige reflects, apart from anything else, the overriding power these organizations have come to wield, and the implanted perception by neoclassical economics of a lack of any practical alternatives to them.

This prestige also reflects the enthusiasm now being shown worldwide for membership and active participation in these organizations, notably by the Eastern European countries and those of the Commonwealth of Independent States. Indeed, there is now the prospect that in the not too distant future they will become truly universal in membership, while remaining under tight DCs' (particularly US) control.

Hence the international system created in the aftermath of WW II, heavily criticized and deeply distrusted in the UDCs as it is, and unreformed in any important way, now reigns supreme and its hegemony[1] is virtually unchallenged.

1.6 Bretton Woods In Action

In his visit to Chile in March 1975 Milton Friedman diagnosed for Chile's Pinochet the cause of his country's economic malaise and prescribed the solution: '"The immediate cause of inflation is always a larger increase in the money supply than in output.... The first need is to eliminate inflation and the only way in which Chile can finish with inflation is by eliminating drastically the fiscal deficit, preferably by reducing public expenditure.... Gradualism seems to me to be impossible"' (quoted in Robert Carty, in Latin America Bureau, 1983: 57).

In mid-April 1975 the drastic austerity formula which became widely known as the "shock therapy" was put in place. Following the IMF diagnosis that the ailment in Chile's economy was excessive demand, the authorities applied the Fund's recessionary remedy, a painful bleeding of the economy by intentionally contracting output. Public sector employment was frozen. Government spending was slashed with a one third cut in subsidies to public enterprises and a two thirds cut in government spending on housing and public works. Wage cuts suggested by the IMF were also implemented, resulting in a further decline in real incomes. And, in their zeal, the new Chilean disciples of neoclassical

[1]Hegemony implies an open world economy, in contradistinction to empire, which involves the closing off of part of the world economy from rivals.

economics in charge of managing the economy strictly applied the IMF package in its entirety. They reduced tariff protection for the country's industries and generally moved towards opening the economy to foreign competition.

This "shock therapy" delivered a body blow to the economy.[1] The Gross Domestic Product decreased by 11 percent. Industrial production plummeted by more than 25 percent and capital investment fell below its already low levels. Small and medium sized enterprises protested against the treatment which was sending many of them into bankruptcy. However, it was the Chilean people who bore the brunt of the new measures. During 1975, real wages were almost 40 percent less than their 1969 level and the share of wages and salaries in the national income fell from a high of 63 percent in 1972 to 41 percent in 1976. The biggest sacrifice was made by those who lost their jobs. Unemployment, which averaged 5 percent in the 1960s and which had fallen to 3.1 percent in 1972, grew dramatically to 9.2 percent in 1974, 14.5 percent in 1975 and a peak of 20 percent in March 1976 (Carty, in Latin America Bureau, 1983: 60-1).

The recession caused by the "shock therapy" was the worst in 45 years and the 11.5 percent decline in output greatly surpassed the 3.6 percent fall in output registered in 1973.[2] If the 1974 through the 1980s "structural adjustment" period as a whole is considered, Chile's economic growth became much less than the Latin American average. On a per capita basis, the output of goods and services only returned to its 1972 level by the end of 1979.

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[1]On the limits of applying "shock therapy" in Central Europe, see the chapters by Chavance and Magnin, Kosonen, and Stahl, in Ash Amin and Jerzy Hausner, *Beyond Market and Hierarchy: Interactive Governance and Social Complexity* (1997).

[2]A December 1975 World Bank report, nonetheless, glowed with satisfaction with the new Chilean economic model:

> the Chilean government has made the hard policy decisions required, given its precarious balance of payments and international reserve positions, and has met its international debt service obligations, while at the same time introducing certain fundamental reforms that lay the basis for resuming economic growth. It has gone a long way towards rationalizing the public sector budgetary process and opening the domestic economy to the opportunities and competition of the world economy.... These measures are consistent with the recommendations made repeatedly by the Bank and other international institutions (quoted in Carty, in LAB, 1983: 57-8).

This partial and slow recovery of production was also accompanied by a regressive redistribution of wealth and by a faulty restructuring of the economy. Both processes were reinforced by the inflow of large amounts of foreign capital.

By 1978 the top six economic clans controlled two thirds of the total assets of Chile's largest 200 enterprises. This concentration of wealth contributed to increasing economic inequality. By that year the richest fifth of the population enjoyed more than half of the total national consumption while the poorest 60 percent of the people shared only 28 percent. The fortunes of the rich were won directly at the expense of the bottom 60 percent of income earners. In addition, the government's decrees on wage controls, reduction in its employment and cuts in its spending reinforced the unequal income distribution and even deepened impoverishment.

By 1980 real wages and salaries were still inferior to their 1969 level and almost a third below their 1971 high. The poorest were especially hard hit. Since 1973 the real value of the minimum family income earned by a fifth of the population had been cut in half. The *social wages* of Chileans have also been squeezed. By 1979 both government expenditure as a whole and outlays for social programs in particular were 10 percent less in real terms than in 1969. Spending on education, housing and health services remained well beneath the historical highs recorded under the previous government and as a result serious social problems in these areas remained unsolved (Carty, in Latin America Bureau, 1983: 61-3).

The restructuring of the economy resulted in growth in the tertiary (or service) sector, up from 52.5 percent of the economy in 1970 to 58 percent in 1980, but at the expense of the mining, agricultural and industrial sectors of the economy. Goods production as a whole declined from 1973 to 1979 while finance and banking activity, sectors enjoying access to foreign credit, were the main contributors to economic expansion. The manufacturing sector suffered the most. Many manufacturers never recovered from the "shock therapy." A large number cut output and simply became importers.

By 1980 industrial employment was 10 percent less than in 1970 and 20 percent below its 1973 level. Some diversification of exports was achieved: Dependence on mineral exports declined from 83 percent of the total exports by value in 1974 to 60 percent in 1980. But the nation's export earnings remained highly dependent on natural resources and semiprocessed materials, leaving Chile still very vulnerable to fluctuations in price and demand on international markets. Apart from the growth of the service sector Chile virtually became a hewer of wood and drawer of water. However, the Achilles heel of the Chilean experiment is its failure to generate a sufficient amount of capital investment. *If a country does not invest enough each year to replace worn-out or obsolete production facilities the nation's productive capacity will rapidly deteriorate. If it fails to invest today in its production base it will not have the ability to create new wealth tomorrow.*

Chile's capital investment levels, a traditional weakness in an underdeveloped economy, were about half of the Latin American average for the 1974-79 period and the recession dealt them a further setback. This low level of capital investment points to a failure of the Smithian notion of "invisible hand." Part of the problem is due to the government's deliberate shrinking of its role in public works investment. But it is also due to decisions by Chilean investors to put their savings into nonproductive investments, including speculation, and both banking and corporate concentration. The low rate of capital investment is further caused by the pattern of direct foreign investment: Although the government bent-over backwards to attract direct foreign investment, actual inflows did not live up to expectations and most of the investment that materialized involved use of existing enterprises or supported commercial activities instead of contributing to new capital investment (Carty, in Latin America Bureau, 1983: 64-5).

Above all, the capital investment contradiction in the IMF recipe is a reflection of how large inflows of borrowed capital have been squandered by Chile's neoliberalism. *Rich Chileans, like their counterparts privileged by IMF tutelage in other UDCs, used foreign loans to go on an international buying spree.* Imports of nonessential consumer goods, including furs, alcohol, carpets and home entertainment equipment more than doubled from 1970 to 1978 in real terms and increased their share of total imports from 14 to 21 percent. *But during the same period capital good imports remained static in nominal terms.* The recipe's propensity towards imported consumption at the expense of capital investment and capital good imports worsened in the 1979 to mid-1982 period when the authorities maintained a fixed exchange rate and in so doing caused further damage to an already battered manufacturing sector. With capital good imports less than half of the value of nonessential imports the purchasing binge did not translate into a powerful productive base. In 1981 an unprecedented 58.4 percent of foreign exchange earned by Chile's exports had to be allocated to service the foreign debt.[1] But with a low level of capital investment the country was not generating the productive capacity to pay off its debt.

Chile's experience shows in part that dependence on external finance is a key factor influencing government policies. Part of this dependence derives from the underdeveloped status of the Chilean economy; in particular, its character as a producer of minerals vulnerable to the fluctuation in international markets. The ideology of Chile's rulers has also determined the country's degree of independence or the lack thereof. Adopting an incomes policy designed to increase the share of the pie going to labor, the previous Allende administration, upon coming to power in Chile, raised wages by 30 percent and froze most prices, thereby squeezing the profit rates. With more consumer demand, underutilized capacity was brought back into full production, consumer goods supplies were increased quickly, overhead costs were spread more efficiently and aggregate profits held up despite the lowering of the profit per unit. Thus, in its first year, the Allende administration increased real output by eight percent. Meanwhile, prices rose by a substantially smaller percentage than they did the previous year. "For the first time, an underdeveloped country...[had] been following a 'structuralist' policy rather than that of the 'monetarists' of the International

[1]The IMF usually considers an underdeveloped country to be encountering a debt crisis when its debt service ratio is consistently more than 20 percent (see Carty, in LAB, 1983: 65).

Monetary Fund and the World Bank" (Lynn Turgeon's *Bastard Keynesianism: The Evolution of Economic Thinking and Policy-making since World War II,* 1996: 103).

Despite external campaigns against it, the nationalist coalition formed by Allende resisted foreign financial pressures. In contrast, the Pinochet military government which ousted Allende (with CIA assistance) soon purged and repressed nationalist and progressive forces, and made Chile open and vulnerable to the influence of international financial institutions. The price paid by Allende for striving for independence was extremely high, but not uncommon in the UDCs (Carty, in Latin America Bureau 1983: 66-7). *Governments dedicated to social justice have great difficulty in managing an economy in transition while trying to sustain both domestic political support, by providing subsidies for the poor, and access to international credit in a hostile international environment.* Under the Pinochet government, therefore, the monetarist construct of the IMF became official doctrine, and throughout the 1974-1981 period the recipe's relationship to, and dependence on, the IMF and the private sources of capital was central to that government's existence.

The IMF was able to exert direct and determinant influence on economic policy in 1975, the year "shock therapy" was fully applied and the model took on its complete shape. IMF seals of approval subsequently allowed the regime to wean the economy from official sources of external finance towards a heightened reliance on private banking sources. This change of sources allowed the government to ostensibly shift its external political dependency. After 1975 the continuing IMF approval of the recipe plus the blessing of international banks strengthened the position of the economic managers in the government. In this way continuing international financial support for the government sustained the regime's economic model. And because the model required repression the conclusion can be drawn that *external finance has been instrumental in consolidating and perpetuating the repression* in Chile (Carty, in Latin America Bureau, 1983: 67). Now Pinochet alone is deemed responsible for that repression.

In February 1983, Chile's showcase was in tatters: The government announced that it would stop repaying the principal on its US$17 billion foreign debt while it worked out a rescheduling agreement with its foreign bank creditors. This financial impasse followed a year in which the Chilean economy recorded a massive 13 percent fall in output, by far the worst result for any Latin American country. Unemployment reached 25.2 percent in Santiago in 1983, although that figure does not include the thousands of people employed on meager wages by the Government's emergency work program. A total of 431 bankruptcies was recorded during 1982 and by the end of the year Chile had accumulated a US$4.8 billion trade deficit. Although the world recession has compounded Chile's problems, low commodity prices[1] and high interest rates are not solely to blame. The government's insistence on maintaining an overvalued currency, thereby rendering "structural adjustment" devoid of its theoretical "coherence," made foreign borrowing relatively attractive, led to dramatic falls in reserves, and hindered the country's exports, for its products were overpriced on international markets.

By mid-1982 the ever worsening trade deficit forced the government to comply with the rest of the recipe and devalue the peso. Dollar debtors were hard hit as they now had to come up with more pesos in order to meet their dollar obligations. The devaluation forced many producers into bankruptcy because they were unable to service their large foreign loans. These bankruptcies created a severe liquidity crisis in the country's banking system. In January 1983 the government stepped in to take over five banks. This move, which included the country's two biggest banks, was made necessary by the magnitude of the anticipated loan portfolio losses. The banking sector, which had benefited from the overvalued peso during the previous two years, was badly hit by its customers' inability to repay their debts at the devalued exchange rate. To forestall a total collapse of the national

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[1]Copper, Chile's main export, fetched the same price in mid-1983 in real terms as it had fifteen years previously (see Carty, in LAB, 1983: 67-8). This is no unique phenomenon in UDCs' economic conditions. Oil producing countries, with oil prices in 1999 equivalent in real terms to those of the 1930s, is another example.

banking system the government was forced to undertake a massive intervention, which ran against its IMF formula, further undermining its theoretical "coherence." Furthermore, Chile's foreign creditors were anxious that the government should take over responsibility for the country's private sector foreign debt (about 64 percent of the total). This had long been resisted as the government argued that taking over such a debt would violate sacred, free market economic principles. However, those foreign creditors with loans outstanding to Chilean companies feared their loans would not be repaid if the government did not help.

Using Chile's need to renegotiate its debt as a lever these foreign creditors forced the government to take responsibility for more than half of the private sector debt in the wake of a series of twelve bankruptcies of companies belonging to the country's two largest conglomerates. This again represented a big break with the independence prone past. In March 1983 the government began to lend to other companies which had fallen behind on their debt service. A total of US$15 million was loaned to eight companies to enable them to avoid liquidation (Carty, in Latin America Bureau, 1983: 68-9). The government's decision to intervene in the economy was a dramatic departure from its monetarist policies. *The failure of orthodox, free market policies to provide a stable basis for growth, much less a basis for equitable development, has discredited the doctrines of the Bretton Woods' organizations.* Paradoxically, the recipe of "shock therapy" has been breached at the behest of international private sector creditors whose interests are intended to be served by it.

The record on IMF policies thus makes two conclusions clear. First, *the "shock therapy" administered by the IMF to its underdeveloped country clients aims in the short-term to achieve a reduction in balance of payments deficits essentially through a contraction of the domestic economy, and it usually succeeds in achieving this limited objective, with all the social, political, and economic costs and human suffering that this entails.* Second, *there is no evidence that Fund programs have contributed to achieving positive longer term objectives such as bringing down inflation rates, increasing savings* *and investment or setting the economy on a path to successful long-term growth.* Among the large number of underdeveloped countries that have over the years been the objects of IMF stabilization programs (repeatedly, for some countries) there is scarcely a single example of that kind of success. Indeed, the present sorry state of most underdeveloped countries that have been through the IMF wringer stands as a vivid testimony to the contrary. The particularly harsh conditions imposed during the 1980s seriously disrupted the development potential of the countries affected and substantially lowered their long-term growth path (Adams, 1993: 164-5).

All indications of the 1990s so far are that they are little different from the lost decade of the 1980s for those countries that faced the balance of payments squeeze and were the victims of the debt crisis. They are still reeling under the devastation and upheaval they were forced to undergo. For apart from permanently lowering the growth rates and the long-run growth path of those countries immediately affected, the IMF led strategy was also to have far reaching effects on the development climate in the UDCs and on the course of DCs-UDCs relations. The "shock therapy" of Jeffrey Sachs and the monetarists that underdeveloped countries were forced to undergo, a type of economics of overkill, with its extreme demand deflation, high unemployment, sharp reductions in wages and incomes, severe import compression, heavy cut backs in social services, etc., was a traumatic experience that left a deep impression on the consciousness of the underdeveloped world. "What has been called shock therapy," argues John Galbraith, "is politically acceptable only to those not experiencing it" (John Galbraith, "Economics in the Century Ahead," in John Hey's *The Future of Economics,* 1992: 45).

The noose that the international financial community held around the necks of these countries, and the measured way it was manipulated to keep victims alive but struggling for air, greatly intensified the impact of this experience, paradoxically causing the authoritative segments of the victims to embrace the ideological paraphernalia of the oppressor. After almost two decades of tight financial strangulation and heavy political pressure, there is scarcely an underdeveloped country today that does not ostensibly embrace the free market, private initiative, trade liberalization, foreign investment, deregulation, privatization and so on and so forth. The emphasis now is on the neoclassical "efficient allocation of resources." Dodged are growth, development, equity and transformation. Under the rhetorical rubric of "structural adjustment" there is little real interest any more in deeds of institutional change as essential components of societal development. The market is to determine the distribution of the gains from growth, according to the Schultz doctrine, whereby the Department of State is one of the committees responsible for globalizing unfettered capitalism.

A telegram issued in February 1985 by US Secretary of State George Schultz to US AID officials, setting out matters to be raised with "host" governments in connection with "aid" projects, reads in part:

> Policy dialogue should be used to encourage UDCs to follow free market principles for sustained economic growth and to move away from government intervention in the economy. This allows the market to determine how economic resources are most productively allocated and how benefits should be distributed. To the maximum extent practical governments should rely on the market mechanism --on private enterprise and market forces-- as the principal determinants of economic decisions.... In most cases, public sector firms should be privatized (quoted in Adams, 1993: 169-70).

The IMF is thus only rhetorically a permanent forum for collaboration on international monetary issues among its member countries. Its basic objectives (supposedly to encourage balanced trade and through its expansion, stimulate employment and real incomes, to help countries balance their external payments and to foster economic liberal trade and payments arrangements) (IMF, 1988) are administered with an eye on --and priority given to--the interest of the conglomerate of the industrial states and transnational corporations. In the words of Michel Camdessus, IMF Managing Director, "the transition to a market economy entails inescapable challenges for policy --prices have to be freed; the economy has to be opened to the rest of the world; macroeconomic stability has to be established; laws and institutions have to be reformed; enterprises have to be commercialized and privatized" (*IMF Survey,* February 21, 1994: 52). The neoliberal[1] ideology used is based on the notion that the market does everything by itself and that it is unnecessary for a state to guide the development process, a dangerously blind faith.[2]

The IMF therefore subscribes to a laissez faire economic and political view of the world. This view is predicated on the assertion that free trade and the unhindered operations of market forces are conducive to the welfare of the international economy. The IMF's belief in automatic adjustment by the market has also led it to assume that if all countries were to observe these basic rules there must ensue a "natural" tendency for all balance of payments to remain in equilibrium over time. No direct government intervention would thus be required to bring about this change. So the role of the international monetary agency would be merely to ensure that all the countries involved observed the rules in order to make it possible for this process to take its "sustainable" course. Such a view on how economic growth is achieved and how economic crises are avoided is not universally accepted. The concept of "sustainable development" from the point of view of underdeveloped countries has a sinister aspect lying just below the surface. The logic of all the talk about sustainable development is that there is hardly room for newcomers, and that the poor must remain poor in order to save the planet!

No wonder therefore that President Nyerere of Tanzania stated in 1980: "I doubt whether there are now people who honestly believe that the IMF is politically or

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[1]Neoliberalism denotes the fourth stage in the evolution of liberal thought and practices in the West during the last two centuries: Classical liberalism of the nineteenth century, state monopoly liberalism of the early decades of this century, corporate liberalism (the synthesis between the previous two stages) of the 1940s-70s, and neoliberalism of the 1980s-90s. The neoliberal culmination was the rise in the Anglo-Saxon domain of the "New Right," or the "New Conservatism" of Reaganomics-Thatcherism, accompanied by monetarism and supply side economics as well as the dominance of UDCs' economies by the IMF and World Bank. With the triumph of neoliberalism in the US and Britain, neoliberal regimes emerged in the Netherlands (Lubbers), Belgium (Martens), Germany (Kohl), and France (Chirac) (see Henk Overbeek, *Global Capitalism and National Decline,* 1990: 1-9, 33).

[2]In his treatment of the liberal theory, Robert Keohane concedes that "it tends to forget the disadvantaged groups' position whereby it implicitly downplays the liberal value of equality." Keohane further concedes that an unregulated market is "biased against people disadvantaged by lack of marketable skill, mobility, or sophistication." He therefore concludes that "some regulation is needed not merely to keep markets functioning efficiently but also to counteract the inequities that they generate" (see Keohane, *International Institutions and State Power,* 1989: 18, n. 13).

ideologically neutral. It has an ideology of economic and social development that it is trying to impose on poor countries." The Brandt Commission in its first report, moreover, argued that the conditions imposed by the IMF on deficit countries had forced unnecessary and unacceptable political burdens on the poorest of the poor, on occasions leading to "IMF riots and even the downfall of governments." In addition, the Arusha Initiative, signed in Tanzania in 1980 by a number of UDC representatives, pronounced that far from being scientific and generating economic progress, "the performance tests which the Fund imposes lack scientific basis" and that "the Fund policies conceived to achieve stabilization, have in fact contributed to destabilization and to the limitation of democratic processes" (Brett, in Latin America Bureau, 1983: 30-1). Moreover, the IMF power to lend is a means to overcome short-term difficulties, rather than a means to solve a long-term problem resulting from the fact that certain economies are internationally less competitive than others, and therefore in need of long-term remedy in order to be able to survive and expand. Hence the inadequacy of the IMF even with the best of intentions to address the chronic incompetitiveness of UDCs' economies is indubitable.

Further, if debtor nations accept assistance from the IMF they must accept the conditions that accompany that assistance. However, the Latin America Bureau's case studies illustrate the implications of these conditions for the majority of the population in the countries concerned and show how, even within their own terms IMF policies failed to solve the crises they were intended to confront. Governments effectively abandon their commitment to reform when they agree to implement IMF austerity measures whose analysis of the problem is incorrect. On the other hand, an ideological commitment to the IMF view of the world, to the acceptance of the IMF medicine, is an acid test of the potential effectiveness of its prescriptions and policies. The IMF has failed that test in repeated cases, in many countries.

Latin America Bureau's case studies reveal important insights into the present crisis facing underdeveloped countries, as successive UDCs' governments are forced to turn to the

IMF for assistance in the face of their enormous debt burdens and balance of payments difficulties. IMF programs are not benignly solving the structural balance of payments problems that debtor nations face. The high social costs of IMF restructuring are being paid by the poorest sections of the population, and draconian austerity measures are provoking political confrontation which in some cases may have far reaching consequences. Growing social unrest in the form of spontaneous riots or organized opposition by workers in key economic sectors has an explosive political potential in the underdeveloped world. *By opposing reform oriented governments but failing to provide solutions through its free market recipe, the IMF may well be paving the way for more radical solutions with implications not only for internal power structures, but also for the international economy.* The results of the experience of the last two decades show how the free market formula represents the antithesis of integral development. Instead of enhancing national sovereignty and self-reliance the experiment made the UDCs more and more dependent on and subject to outside forces and influences. Instead of promoting social justice it widened inequalities and the division between social strata. Instead of increasing economic, social and political participation in society the experiment reduced it, concentrating economic and political power in a wealthy minority, while the poor masses were excluded from economic as well as political decision-making.

Policies based on the monetarist response to economic problems fail repeatedly in the underdeveloped context. An example is Arnold Harberger's formula for successful IMF-UDCs' relationships, despite its useful aspects and qualified wording. Harberger asserts the need for the following set of economic rules:

(1) Avoid false mechanism in economic policy making.

(2) Keep budgets under adequate control.

(3) Keep inflationary and deflationary pressures under reasonable control.

(4) Take advantage of international trade since some types and patterns of trade restrictions become excessive and reducing them is politically impossible.

(5) Mount an indirect attack on the program for increasing incentives for export.

(6) Make the tax system simple and easy to administer.

(7) Avoid excessive income tax rates.

(8) Avoid excessive use of tax incentives to achieve particular objectives.

(9) Use price and wage controls sparingly if at all.

(10) Minimize quotas and licenses to arbitrarily regulate imports and exports.

(11) Make the borderline between public and private sector activity clear and well-defined (Horowitz, in Myers, 1987).

The fiscal regimen being suggested by the IMF, while ostensibly nonpolitical, has enormous political consequences. This free market type of approach, seemingly economical, results in a political nightmare. The use of coercion often parallels the implementation of the orthodox stabilization measures of the IMF formula. *IMF imposed structures create the basis of repression by making repayment schedules a class burden. The free market system becomes the cause of rather than the cure for political instability.* Generally, the substance of the debates over the status of the IMF, and between the IMF and debtor nations, as Horowitz points out, "is less the kind of policy guidelines the IMF establishes than it is *the weak status of an economic science itself still painfully linked to ideological proclivities.* In nearly every case...national interest rather than universal science prevails as the measure of IMF decision-making" (Horowitz, in Myers, 1987: 178, emphasis added).

In an odd way, the argument of the IMF represents a new kind of economic world, not the classical and Marxian economics of production but the neoclassical economics of allocation. When one discusses the economics of allocation, however, one is talking essentially of politics: Who is going to get what, how, and when. The policy issue is not as much a matter of what is produced as it is a matter of which is allocated, or of how the political-administrative network disburses what has already been produced, purchased or borrowed. The infrastructure of the new global economy is configured and made possible by this allocational emphasis. Albeit economic production systems are part of this IMF political allocation network, the IMF is merely "an instrument of capitalism." Kari Levitt further holds "that IMF programs are not designed to increase the welfare of the population. They are designed to bring the external payments account into balance.... The IMF is the ultimate guardian of the interests of capitalists and bankers doing international business" (quoted in Horowitz, in Myers, 1987: 182).

IMF conditionality is now further overlapped with that which the World Bank imposes in connection with its program of structural adjustment loans (SALs). The SAL program, as pointed out above, was introduced in 1980 as a form of Bank lending geared to the realization of specific policy and institutional liberalization. The policy areas on which the SAL program focuses include the relative roles of the public and private sectors in economic activity, the way markets are permitted to develop or are organized by governments, the process and criteria by which the level and structure of agricultural prices are determined, and the industrial policy framework within which industry operates as determined by tariffs, import licensing systems and investment promotion schemes. These issues go to the very heart of development policy, and World Bank policy requirements in these areas focus above all on changes needed to give free play to market forces with emphasis on such issues as deregulation, privatization, cut backs in the role of the state in the economy, import liberalization, removal of price controls (typically on basic necessities) and elimination of budget subsidies, and on interest rate policy.

The World Bank's SAL program thus provided a unique opportunity for promoting the neoliberal economic ideology in the underdeveloped world. With the two organizations coordinating their individual country policies and working in tandem countries coming under their sway soon found themselves overwhelmed and left with few policy choices. This was especially so for small or medium-size underdeveloped countries, sometimes stretched so thin in their dealings with the double prong organization that their economic officials find little time left for consideration of other policy issues not in the Bretton Woods programs.

Further, a considerable cost of Fund credit is caused by the excessive amount of high level manpower tied up in the preparation of a credit application, the subsequent negotiations and the monitoring of results. In 1992, for example, the Bank's borrowing countries in the underdeveloped world paid out $6.5 billion to companies in the OECD for procurement of goods and services. The poorer borrowing nations thus wound up paying $198 million more to OECD economies for Bank associated procurement than the borrowing countries actually received from the Bank (Rich, 1994: 155).

It was the Bank's strategy thus, focusing more specifically on the microeconomic aspects of policy making, that provided the fullest scope for promoting the market oriented, supply side economics currently in vogue. Beyond doubt, then, *the present international finance organizations, as far as the UDCs are concerned, have not achieved and are not fulfilling the Keynesian objectives laid down for them at Bretton Woods.* Preoccupied with moves to coordinate policies on exchange rates among the major industrialized countries, with financial bailout of countries deemed important for the process of capitalist globalization, and with perpetual and frantic striving for the marketization of the underdeveloped countries, these organizations have more or less abandoned any attempts to exert a balancing influence on the international economic system *in such a way as to maintain growth throughout the UDCs.* The impact of these organizations has been mainly felt at the level of individual countries through IMF conditionality programs. *The results of these programs have often been cutbacks in expenditure and employment, which have weakened growth prospects and threatened the living standards of many who are already just barely subsisting.*

2. HETERODOX MECHANISMS

Heterodox mechanisms are dissenting and nonconformist courses of action. They include two perspectives which are ignored and ridiculed by neoclassical economics. These are, respectively, the delinking and the structuralist mechanisms. Heterodoxy has no chain of basic principles ensuring its internal consistency in a way comparable to orthodoxy, hence the presumed superiority of the latter. In the case of socioeconomic complexity, however, this is not true (see Robert Delmore, "The Foundational Bearing of Complexity," in Ash Amin and Jerzy Hausner, eds., *Beyond Market and Hierarchy: Interactive Governance and Social Complexity*, 1997: 43-4).

2.1 The Delinking Mechanism

The delinking mechanism is the outcome of the neo-Marxist and dependency perspectives; both are grounded in the intellectual endeavors on imperialism of Hobson, Hilferding, Luxemburg, Bukharin, Lenin, Nkrumah, Galtung and others. A sample of the conceptions in this line of thought would include, e.g., Eric Hobsbawm's (1962) Demand Side Determination, limiting industrialization to Britain around 1800, and Samir Amin's (1974, 1976, 1986) concepts of Resource Supply Limitation, Aid's Perpetuation of Reactionary Regimes, Capital Accumulation on a World Scale and World Systems Analysis. The latter is à la Immanuel Wallerstein's *The Modern World System* (1974). It has emanated from René Descartes' (1927, 1970) seventeenth century World Machine, and is the successor of the Functionalism of Bronislaw Malinowski (1993), A. R. Radcliffe-Brown (1962), Hilary Putnam (1979, 1981, 1983), and David Mitrany (1975).

Bringing history back in the social sciences, especially in economics, is an achievement of the delinking mechanism through the focus on the heritage of imperialism.

The term "imperialism" denotes a classic political economy concept which cannot be properly defined in either political or economic categories alone (Michael Barrat Brown, *Economics of Imperialism*, 1974: 19). Indeed a fundamental problem with the whole "modernization" and "development" schools of modern social science, not to mention the ahistorical neoclassical economics, is that they conveniently circumvent, forget, or at least ignore the role that imperialism played in the evolution of the modern world division of labor, inequality, and underdevelopment.

The geographical extent of core political control in the periphery during the capitalist era has been all but total. Between 1500 and 1970, all areas that were at some time under core control comprise almost all today's periphery. The major exception is China, but even here the leading core states established their "spheres of influence." In geographical terms the result of this political control was areas organized as one huge functional region for the benefit of the core states. "Imperialism, both formal and informal, is the process that created and continues to recreate the periphery" (Peter Taylor, *Political Geography: World Economy, Nation State and Locality*, 1993: 104-5, 113). Therefore, today's "backward areas" of the world, as Dobb (1963: 5-64) refers to them (notwithstanding their precolonial mode of production which Marx gave the unfortunate Eurocentric, but painfully partially true, generic attributes "Asiatic" and "despotic,")[1] have been for the most part the traditional

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[1]See *Capital*, vol. I (1876: 479). The terms "Asiatic" and "despotism," however, are rampant in most works of Marx and especially of Engels. The reason that these terms are only partially true is that it was objective conditions (geography, ecology and history), not some intrinsic "orientalist" whims, which engendered the system of centralized oriental despotism in contrast to the loose structure of an occidental feudal order with its numerous and autonomous centers of power, and with an apex which does not properly dominate the rest. It was this objectively driven contrast that essentially originated modern civil societies in the latter system but not in the former (see Muhammad Jabir Al Ansari, *Al Ta'azzum Al Siyasi `indal `Arab*, 1995). And it is civil society, not some inherent occidental love of freedom, which continuously endeavors to get the Western state to do its job but no more, and to do it properly. It is civil society that constitutes such a countervailing force to the state which ensures that personnel occupying state positions are periodically rotated, and in a manner not totally controlled by those personnel. The oriental mind, *ceteris paribus*, is no more prone to despotism than the occidental mind then, nor is the latter more prone to liberty than the former. It is objective reasons that shape both; the direction of relation is from objective conditions to consciousness, not the other way around. All the same, the contrast is not totally a product of constitutionality (as liberal legalism would have it) either.

In the adaptivist paradigm of society implicit in historical materialism, as opposed to the regulative paradigm espoused by liberal legalism, it is not the objective conditions that originate from social regulations but it is the regulations themselves that adapt to these conditions. People may invent colonial or semicolonial regions --the agricultural, plantation and raw material hinterlands of the big capitalist powers that have exploited these areas as sources of cheap raw materials and foodstuffs and as spheres of investment. Historically speaking, this has been the *main* reason for their underdevelopment (Dobb, 1963: 17-18).

Imperialism used military, political, economic and cultural means of oppression to thwart development of national capitalism in the UDCs. The alliance between imperialism on the one hand and quasi feudal landlords and comprador[1] bourgeoisie on the other made possible the use of such imperialist means as wars of aggression, unequal treaties, economic and diplomatic concessions (capitulation systems such as those ceded to European countries by the Ottomans and which led to deindustrialization, or the decline of handicrafts, among other economic effects, all over the Middle East), control of ports, monopoly of banking and finance, appropriation of raw material, exploitation of cheap labor, military assistance to warlords, cultural domination, and the like (Mao Tse Tung, "The Chinese Revolution," in *Selected Works*, 1939: 310-12).

Different modalities of imperialist exploitation resulted in wide ranging effects in both the colonial and the metropolitan economies:

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various rules of conduct but of these inventions only those are in a position to survive which are adapted best to the objective state of human affairs (see Leszek Nowak and Marcin Paprzycki, *Social System, Rationality and Revolution*, 1993: 7-8). The objective bases of the "Asiatic" mode of production that are entailed in Marx's and especially Engles' elaborate works were anticipated by Plato, in his analysis in the *Republic* of what differentiates the Greek *polis* from the African (and for that matter Nordic) regions, as well as by Ibn Khaldun, in his *Muqaddimah*, along similar lines. Conversely, visiting relatively backward Europe in the fourteenth century, the Arab traveler Ibn Battuta attributed this lag to the inhospitable European climate (see Samir Amin, *Eurocentrism*, 1989: 96). Montesquieu too suggested that there was a link between types of climate and types of political regime. Modern political geography even found a more daring expression in the works of André Siegfried who attempted to demonstrate ecological associations between soil types and voting behavior in France. Siegfried tried to demonstrate, e.g., how different types of soil conditions and farming patterns are associated with different patterns of voting (see Henry Moore, *Generating Economic Cycles*, 1923).

[1]The term "comprador" signifies an "agent" for trade. A comprador bourgeoisie is a functionary stratum that serves external productive masters of goods, services and culture by connecting them to domestic consumers; its role is therefore both politically contingent and economically unstable. A comprador state serves as a gateway or interchange point for others; it is dependent upon the industrial production and commercial interests of those others who use it. Its rise and fall cannot be independently generated, regardless of its local resources or strategic location (e.g., the decline of Malacca, condemned into oblivion by the rise of Singapore and Hong Kong). For a dependent state is one that cannot or does not develop and use its own resources but provides them to others. That is why the un-industrialized oil producing states remain "dependencies" to this day (see Janet Abu Lughod, *Before European Hegemony*, 1989: 310-12).

(1) Merchant capital destroyed colonial national economy and stimulated commodity production. In the metropolis, mercantile profit provided wherewithal for primitive accumulation.

(2) Capture of mines, plantations, etc., resulted in rising ground rent and the appearance of super-profit which flowed from the colonies to the metropolis.

(3) Use of cheap colonial labor power resulted in a high rate of profit which was pocketed by the metropolis.

(4) Import of cheap agricultural goods and minerals into the metropolis from its colonies resulted in the pauperization of peasantry through forced commercialization of colonial agriculture. In the metropolis, it resulted in a higher rate of profit as constant capital became cheaper and variable capital was reduced.

(5) Import of manufactured goods into colonies from metropolis resulted in colonial deindustrialization, displacement of artisans, falling wage rate, and hence rise in profit rate while resolving the realization problem in the metropolis.

(6) Capital exports from metropolis to colonies, while they promoted periphery capitalism and disarticulated industrialization in the colonies, prevented the profit rate from falling at the metropolis.

(7) The advent of the transnational corporation resulted in declining rent, super (monopoly) profit and limited (selective) industrialization in the colonies, and in inflow of profit, export of obsolete machinery, and faster technological progress in the metropolis.[1]

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[1]See Ranjit Sau, *Underdeveloped Capitalism* (1984: 90). Difficulties related to the TNCs, as far as the UDCs are concerned, include:
(1) Excessive repatriation of profits with associated balance of payments problems and crowding out of domestic firms in local capital markets.
(2) The high cost of enticing the TNCs through tax reduction or other means.
(3) Their monopolistic behavior, with overpricing, stultifying effects on domestic entrepreneurship and management that blunts local initiatives and displaces local firms, and political meddling that undermines sovereignty.
(4) Their overcharges for patents and technical knowledge through the use of an internal price system for transfers between branches of the same corporation.
(5) Their marketing of inappropriate goods.
(6) Their use of inappropriate technology (see Jan Hogendorn, "Foreign Private Investment," in Ron Ayers, *Development Studies*, 1995: 420).

It is this history of imperialism that engendered both the neo-Marxist and dependency perspectives, the constituent parts of the delinking mechanism, and focused the attention of UDCs' scholars on extending Marx's theory of exploitation from the national to the international domain. Examples thus encompass André Gunder Frank's dependency theory, Arghiri Emmanuel's theory of unequal exchange, and Samir Amin's theory of accumulation on a world scale. It would be hair splitting, therefore, to try to sharply delineate the neo-Marxist from the dependency perspectives. Scholars of both orientations interchanged and intermingled their thought through the years as a unified front facing neoclassical economics. Separating them for mere taxonomic convenience may, however, prove to be intelligibility enhancing.

2.1.1 The Neo-Marxist Perspective

The neo-Marxist views[1] on the nature and coming into being of the state of underdevelopment is central to understanding why this perspective finds no solution to the UDCs' dilemma other than revolutionary delinking from the global capitalist system. Marx attributes the stagnation (as opposed to progress: The unfolding of human dormant powers) of societies to their generic "Asiatic" mode of production (*Capital,* vol. I, 1867: 479). Private land ownership (the precondition of feudalism) is very limited. Class distinction exists on spurious lines, distorted further by a caste system which creates accepted inequalities. A form of exploitation that is less rigid, owing to the absence of private slavery or personal bondage, prevails, whereby the ruling bureaucracy's capacity for creating illusions is able to absorb the change of productive forces within the existing social

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[1]Neo-Marxism may be subclassified into three main categories, depending on whether the theoretical emphasis is on modes of production, dependency, or the world system (see Samir Amin, "On Development," in Sing Chew and Robert Denemark, eds., *The Underdevelopment of Development,* 1996: 77).

structure. Town and village are hardly demarcated and self-sufficient by agriculture and craft manufacturing in unison, and the State is despotic.[1]

Marx, in *Capital*, vol. 1 (1867: 479), citing a governor of Java during the British occupation, in the period 1811-16, contends that

> under this [Asiatic] form...the inhabitants of the country have lived from time immemorial. The boundaries of villages have been but seldom altered, and though the villages themselves have been sometimes injured, and even desolated by war, famine, and disease, the same name, the same limits, the same interests, and even the same families, have continued for ages. The inhabitants give themselves no trouble about the breaking up and division of kingdoms; while the village remains entire, they care not to what power it is transferred, or to what sovereign it devolves; its internal economy remains unchanged.

But Marx also contends that with colonialism "European despotism, planted upon Asiatic despotism" formed "a more monstrous combination" (The British Rule in India, in *Marx-Engels Reader,* 1978: 212).[2] The age of modern colonialism worldwide began with the global expansion of trade and conquest by European powers. Politically, imperialist control and influence have tended to support and preserve obsolete social and political forms. Economically, foreign investment (i.e., the export of capital) has tended to go into mining and plantations and raw material processing, or into the development of export industries as a kind of enclave of the imperial metropolis, detached from the rest of the colonial economy, both seeking its markets abroad and sending its profits abroad.

A distinction exists, however, between types of precapitalist colonial rule, notably that of the Iberian powers in Central and Latin America, as well as that of the Ottoman

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[1]Pre-colonial Sub-Saharan Africa, however, had its unique mode of production, that cannot be reduced either to Western precapitalist formations or to the generic "Asiatic" mode, in its absence of a true despotism aiming at direct exploitation of the peasant class. The only thing common to both the "Asiatic" and the African modes is the existence of self-sufficient village communities. The West African states were based on a structure very different from Oriental despotism: A confederation of tribes, headed by a King, overlord of the land, and a market place(see Jean Suret-Canale, *Afrique Noire*, 1958: 212-25). In precolonial Sub-Saharan Africa, moreover, there never has been a State engaging in major hydraulic works or general enslavement of society, except perhaps for the Zimbabwean Empire, whose relics have revealed the existence of cyclopean monuments reminiscent of "Asiatic" societies (see Jean-Claude Willame, in *L'Homme et la Société*, Jan-Mar 1971: 117-19).

[2]Nonetheless, Marx, preoccupied with the overthrow of capitalism, gave little thought to colonial questions, for apparently it did not occur to him that colonial and backward regions of the world would be called on to play any part in the fulfillment of his essential objective.

sultanate, on the one hand, and, on the other, the new colonialism that was associated with the birth, development and global expansion of the West European capitalism, beginning with the commercial upsurge of the sixteenth century and itself entering into successive phases of development (Hamsa Alavi, 1982: 57-79). In its dominions, for example, the Ottoman sultanate used the traditional form of direct appropriation of agricultural surplus previously used by world empires, namely that of tribute, in contrast to the other direct appropriation of feudal rent that prevailed in European feudalism, and to the indirect appropriation of industrial surplus of wage labor that constituted the basis of nascent capitalism. Therefore, towns, under Ottoman rule, became parasitic communities, rather than centers of production. Out of its six centuries of existence, except for the successful prelude of counter offense in the fourteenth and fifteenth centuries, especially in 1453 and thereafter, and the gallant and nostalgic but foredoomed[1] efforts of Abdul Hamied at the turn of this century, the four centuries of Ottoman exploitation of the Arab countries, reliant on irreciprocal (parasitic) and unaccountable exaction, engendered a coma which may be analogously called Middle East Dark Ages (1516-1924).

Parasitic strata in Istanbul and its surroundings as well as their agents elsewhere in the dominions, living off the despoiling of the sultanate, created such a degree of tributary exploitation that they undermined the conditions for continuing production in the dominions. No lesson was learnt from the decay of the Roman Empire under the weight of parasitism (taxation) as the prey became increasingly impoverished by the drain and showed strong signs of restiveness. The sultanate "did not enter the mainstream of progress in science and technology and it participated only marginally, and as a periphery, in Europe's economic activity and not at all in the development of its economic thought" (Charles Issawi, "The Economic Legacy," in Leon Carl Brown's *Imperial Legacy: The Ottoman Imprint on the Balkans and the Middle East,* 1996: 240-1). The sultanate finally ceased by

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[1]Foredoomed because by then the unindustrialized "sick man of Europe" was already beyond the point of no return and destined to crash.

demise, succumbing to European industrial countries (not unlike Rome, succumbing to the militarized barbarians).[1] The sultanate found itself then as much underdeveloped as its dominions, for it had furnished its economy in an exchange mode that catered for the nascent industries of European powers.[2] *Hence the significance of industrialization and production, as opposed to agriculture and exchange.* The Ottoman sultanate, therefore, constituted precapitalist colonialism, not imperialism, till its very end.[3]

The object of precapitalist colonialism was direct extraction of tribute from subjugated peoples. Its essential tools were those of political control, a *modus operandi* that was used prior to the Iberian powers and the Ottomans by Pax Romana, the Byzantine Empire, and the Tartars invasions, in their spheres, until their days' ends (Marx, *Grundrisse,* 1972: 151-3). By contrast, in the case of the new colonialism, associated with

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[1]For other factors that "influenced if not sealed" the "ultimate historical fate" of the sultanate see A. G. Frank and Barry Gills, *The World System: Five Hundred Years or Five Thousand?* (1993: 183-4).

[2]Even though Turkey, in the dissolution of the sultanate, inherited 93 percent of the sultanate's military assets and 85 percent of its administrative establishment (see Dankwart Rustow, "The Military Legacy," in Leon Carl Brown, *Imperial Legacy: The Ottoman Imprint on the Balkans and the Middle East,* 1996: 257), the 1927 Turkish census has shown that only 1.1 million people out of a population of 13.6 million could read and write --92 percent illiteracy rate (see Geoffrey Lewis, "The Ottoman Legacy," ibid., 216).

[3]In its dominions, generally ground down by taxation, the sultanate relapsed to old Sasanid ceremonialism and overextension and the Pharaonic (the Old Kingdom tenth dynasty's) *modus operandi* of extortion, while expunging most traces of the latter's glory monumentalized in tectonics and style, of Indian prudence structured around sagacity and literature, of Hellenistic civility built upon philosophy and logic, of Roman enlightenment couched in politics and jurisprudence as well as of the social essence of Jewish heritage upholding preserving adaptation, of Christian ethos focusing on goodness and indeed of Islamic mores centered around justice.

In fairness, however, the decline of Egypt, the hub of those dominions, predated the Ottoman invasion. It emanated from the fearful visitation and recurrence of the bubonic and the pulmonary plagues, with their dreadful decimation of the Egyptian population, from the mid-fourteenth century onward, reducing the eight million people to three million on the eve of Napoleon's invasion of 1798. Egypt's decline further accelerated a couple of decades prior to the Ottoman invasion, when the Portuguese circumnavigated Africa (in reverse direction along the circuitous --and hence previously inefficient-- route used centuries earlier by Arab navigators), thus finally implementing Genoa's "Atlantic solution to the Eastern trade question." Thus the Ottoman conquest of Egypt in 1516 did not initiate, but did certainly solidify, Egypt's loss of position.

See Fawzy Mansour, *Khuruj al Arab min al* Tarikh (1993); Abd Alkarim Rafiq, *Bohouth fi Altarikh Aliqtisadi Waligtima'i Lebilad Alsham fi Al'asr Alhadith* (1985); Ra'uf 'Abbas Hamid, *Taqdiem,* in *Misr wa 'Alam Al Bahr Al Mutawasit* (1996); Alsayed Al'arabi Hassan, *Al Shari'ah Wal Qanun: Dirasah fi Tatawur Al Nuzhum Al Qanuniah fi Misr Al Hadiethah, 1805-1875* (1994); 'Abdul 'Athiem Ramadan, *Misr Qabla 'Abdul Nassir* (1995); Ahmad Al Sherbini, *Tariekh Al Tigarah Al Misriah* (1995); Janet Abu Lughod, *Before European Hegemony* (1989: 58-63); Leon Carl Brown, *Imperial Legacy: The Ottoman Imprint on the Balkans and the Middle East* (1996).

the rise of capitalism, the objectives and tools were essentially economic --direct political control was not essential, though sometimes advantageous. The emphasis was on a search for raw materials and, especially after the industrialization in Britain, for markets.[1] *Realization of both these objectives entailed a restructuring of the economies of the colonized societies.*

Associated with that primary thrust, sometimes, was territorial conquest, with or without the elimination of indigenous populations of conquered territories, and the establishment of European settlements or slave plantations and mining enterprises. Except in the latter cases, given the economic preeminence and naval power of Britain, the principal imperialist power of the day, direct rule was not essential to secure the purposes of the new colonialism, or imperialism as it soon came to be called. Many countries that remained formally independent soon came under the economic domination of world imperialism, in a semicolonial fashion. It was only in the late nineteenth century, with the German and American challenge to traditional European powers, that there was a new rivalry for colonial conquest, *a scramble for Africa*, and a fresh redivision of the world. The bid for direct colonial rule was now largely a preemptive strategy vis-à-vis rival imperialist powers rather than an indispensable condition of the colonial relationship itself. Too sharp a distinction between colonial and noncolonial societies of the underdeveloped world would therefore be misleading, though not without some significance.

To avoid confusion between precapitalist colonialism and capitalist world domination, with or without conquest and direct colonial rule, the term *imperialism* is often used for the latter. However, a further distinction must then be made between the old

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[1]One has to also note, however, that some behavioral aspects of the socialist experiments in the USSR and PRC, this century, overlap with that type of capitalist imperialism. The Soviet Union's economic domination of Eastern Europe; its economic hegemony over Finland; its aggression against, and occupation of, Afghanistan; as well as China's annexation of Tibet, are all signs of the search for raw materials and vents for surplus, by socialist, industrializing powers. The difference, nonetheless, is in the nature of the productive processes of capitalist and socialist modes of production, i.e., production for exchange value versus use value, and the consequences of that on the status of labor, and on distribution. That difference is

imperialism of early capitalism and the new imperialism of industrial capitalism in the late nineteenth century, the era of monopoly capitalism (Alavi, 1982: 79-81). The latter was associated with the preeminence of finance capital, a drive for export of capital and also fierce internationalist rivalry that culminated in two world wars. As for the parts of the world dominated by imperialism, *both its phases entailed a forcible transformation of precapitalist societies and the establishment of a new international division of labor (not any different from the one advocated by international trade theory, on the basis of comparative advantage, today),whereby their economies were internally disarticualted and externally integrated with the metropolitan economies* (Amin, 1974, 1976). They were no longer self-sufficient locally but were now to concentrate on production of raw materials and food demanded by the industrial countries, very often becoming precariously dependent on monocropping. On the other hand, those imperialism dominated countries provided markets for manufactured products supplied by the capitalistic economies. The colonized countries were also profitable fields for investment of metropolitan capital. This was originally mainly in plantations and extractive industries, but later also in labor intensive light manufacturing which takes advantage of cheap labor in the colonies.

Any emphasis on the quantum of capital exported is therefore misplaced, for the most significant aspect of the new imperialism is *the hierarchical relationship in partnership that is established between metropolitan capital and indigenous capital* originating in the colony on the basis of the former's control over sophisticated modern technology, so that the actual extent of metropolitan control over the colonized economy greatly exceeds the nominal value of metropolitan capital invested in it. The nature of these economic relationships provides a key for understanding the problems of postcolonial societies, and hence for the transformation courses of action that can be effective as well as efficient in dealing with their predicament. The market society, with all its economic

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only a descriptive matter-of-fact; it does not imply that such socialist encroachments are any more morally defensible than their capitalist counterparts.

dynamism, did not spread, however, into the underdeveloped areas, certainly not in all of them, despite the prevalence of periphery capitalism. The reason goes back to the fact that the active economies of the developed world did make contact with those regions, beginning with the exploratory missionary and commercial voyages of the fifteenth and sixteenth centuries. Until the nineteenth century, the end of that contact was little more than plunder (which contributed substantially to the capital accumulation of the DCs).

And then, starting in the first half of that century and gaining momentum until World War I, came that scramble for territory, the Age of Imperialism (Heilbroner, 1965: 178). That imperialism was a compound of many things: Militarism, jingoism and, essentially, a search for markets and for sources of cheap raw materials and labor to feed growing industrial enterprises. Insofar as the colonial areas were concerned, however, the impact of imperialism was not solely that of exploitation. The incursions of DCs' powers into the other regions injected the first heavy dose of industrial capital: rail lines, mines, plantation equipment. It brought epiphenomenal concepts of law and order, often into areas in which rule by traditions had previously been the order of the day. It also introduced the notion of freedom, a collateral attribute of commercial and industrial capitalism, which was eventually used against the invading powers themselves.

Yet if imperialism brought these modern influences, it also exerted a peculiarly deforming impulse to the economies of the colonial countries. In the eyes of the imperialists, the colonies were viewed not as areas to be brought along in balanced development, but essentially as immense supply dumps to be attached to the metropolitan industrial economies (Heilbroner, 1965: 181-3). Malaya became a vast tin mine; Indonesia a huge tea, coffee and rubber plantation; Egypt a wheat granary and cotton farm; Arabia an oil field. In other words, *economic development was steadily pushed in the direction that most benefited the imperial exploiter, not the colonial peoples themselves.* Under Machiavellian-Morgenthauian realism, this was only to be expected. The result today is that *the typical underdeveloped country has a lopsided economy, unable to supply itself with a* *wide variety of goods, including food.* It is thereby thrust into the international market with its one basic cash crop commodity.

On the surface, this looks like the supposedly healthy, Ricardian specialization of trade promoted by neoclassical international trade theory. It is not. It impoverishes the UDCs, if only through increasing their remuneratory and monolithic susceptibility, which interbreeds with, and goes to the very heart of, their security vulnerability. *Economic lopsidedness, the fundamental attribute of underdevelopment, was thus a direct consequence of imperialism. Its continuation is the result of free trade imperialism, propagated as science by neoclassical international trade theory.* This lopsidedness spills over into the chronic debt problem. Anwar Sheikh's "The Law of International Exchange," in Edward Nell's *Growth, Profits and Property* (1980), finds the roots of the debt crisis in the uneven development caused by capitalist competition, especially free trade. Competition leads to unbalanced trade which, in turn, leads to interest rate changes which encourage investment in the surplus country and squelch it in the deficit country. This sequence of unequal rates of accumulation (and thus technological development) is matched by a similar sequence of trade imbalances. Countries that have chronic deficits must ultimately rely on capital inflows to balance international payments. International debt accumulation is the result.

No less important for the future course of underdevelopment in the colonial areas was a second decisive influence of the West: Its failure to achieve political and psychological relationships of mutual respect with its colonial peoples. In part, this was traceable to an exploitative economic attitude, in which peoples of the colonies were relegated to second class jobs with tenth class pay, while a handful of colonialists formed an insulated and highly paid managerial clique. However, it ran deeper than that. A racist color line, an indifference to colonial aspirations, and a contemptuous view of the natives run all through the history of capitalist imperialism, with diluted traces extant to this day. It has left as a bitter heritage not only an identification of capitalism with its worst attributes and practices, but a political and social wariness toward the West that deeply affects the general orientation of the underdeveloped nations. There is no room for, much less understanding of, let alone redress for such factors in today's "positivist" economics. Hence, the legacies of colonialism and imperialism cannot be understood by adherence to a perspective which does not account for their existence or consequences.

Imperialism today has certainly changed. The naked power grabs, when imperialism often meant the acquisition of territory that would look good on a map, have all but disappeared. In the past also are the seizures of raw materials on the utterly penniless terms characteristic of mineral empires built in the late nineteenth century. The nature of this imperialism has changed, and is now changing, partly under the pressures exerted by a restive underdeveloped world, changing the demographic composition of the globe, and partly as a result of a post-WW II power shift within the industrial capitalist countries themselves. Yet that is not the whole story. Obscured now are latent attitudes of racial superiority, remnants of times past, so infuriating to peoples whose anthropology was often of far greater roots and delicacy than that of the colonizers. And, more importantly, industrial powers continue to exercise collectively a mixed political and economic hegemony[1] over de jure independent, sovereign nations: Britain, France, Belgium, Portugal, and Italy over portions of Africa; Russia over some contiguous Slavic states, and countries of the Caucuses and Central Asia; the United States over Latin America, Southeast Asia, the Middle East and South Africa; and now Australia (as a NATO proxy) over East Timor: Formal imperialism is dead; long live informal imperialism.

Until the middle of the twentieth century much of the underdeveloped world was subject to direct colonial rule. But with the rise of national liberation movements and, not least, a change in the balance of world forces with the emergence of the Soviet bloc and the

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[1]Immanuel Wallerstein uses a stricter, monolithic definition of hegemony, that "short moment in time when a given core power can manifest simultaneously productive, economical and financial superiority *over all other core powers,"* whereby hegemony and decline are structural characteristics of the world order (see Wallerstein, *The Modern World System,* vol. II, 1980: 38-9).

dominance of American power, which was no longer prepared to accept the monopoly of political control exercised by fading European powers over a large part of the globe, a process of decolonization began with the independence of South Asian countries in 1947, followed successively by the rest of the UDCs. *However, under the new structure, imperialism survives the process of decolonization and outlives the age of annexation.* FDR's advocacy of Wilsonian, worldwide self-determination was essentially a challenge to formal imperialism. He was determined to put an end to the "backward" imperialism of British and French colonial empires, replacing them with his own informal, "advanced" brand:

> When we've won the war," wrote FDR, "I will work with all my might and main to see to it that the United States is not wheeled into the position of accepting any plan that will further France's imperialistic ambitions, or that will aid or abet the British Empire in its imperial ambitions.... I can't believe that we can fight a war against fascist slavery and at the same time not work to free people all over the world from a *backward* colonial policy (Henry Kissinger, *Diplomacy*, 1994: 397, 399, 401; emphasis added).

Informal imperialism renders direct political control unnecessary in the presence of other ways of exercising domination, for example through technological superiority or the free trade stratagem of leading economic powers, let alone cultural imperialism. Economic, financial and social structures of dependence thus still remain, and are being continually reproduced, not least by the disseminated economic "science" and transnational corporation, not to mention international governmental organizations and nongovernmental organizations (NGOs.)[1] The UDCs are thus subjected to indirect political control.

For a time, in the 1950s and 1960s, the fact that many of the newly independent countries opted for nonalignment in the context of the Cold War, reinforced by their quest for social justice, engendered an aura of the underdeveloped countries as exemplars of a new path to economic and social development, neither capitalist nor socialist. But the continuous dependent nature of their economies, organically linked and financially indebted

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[1]For recent UDCs' experiences concerning NGOs' work in their midst see David Hulme and Michael Edwards, *NGOs, States and Donors: Too Close for Comfort?* (1997).

to industrial countries, quickly dispelled that myth.[1] The concept of *dependence* on metropolitan capital and designs soon came to be accepted as the alternative definition of their status, as an attribute of the neoimperialist relationship, with dependence implying political subjugation as well as economic domination. Yet a postcolonial society has a unique composition of the state and a complex alignment of class forces.

The development of the modern form of the state, as a public power separate from the monarch and the ruled, and constituting the supreme political authority within a defined territory, is associated with the slow institutional differentiation of the "political" and the "economic" related to the growth of the centralized absolutist state and *the spread of commodity production*. Absolutist states arose in the sixteenth and seventeenth centuries in Western Europe under the Tudors in England, the Habsburgs in Spain and the Bourbons in France. The introduction in Europe of a standing army, a centralized bureaucracy, a central taxation system, diplomatic relations with permanent embassies and the development of the economic doctrine of mercantilism informing state trade policy, all date from that period. It is at this point that the term "the state," used by Niccolò Machiavelli, in *The Prince* [completed 1513, *à la* the eighth century's Islamic, Arabo-Persian *Mirrors for Princes*, and published 1532] is first introduced into the political discourse (Machiavelli, *The Prince*, Angelo Codevilla, tr., 1997: 5; Harvey Mansfield, tr., 1998: xxi; Todd Lowry, "Preclassical Perceptions of Economy and Security," in Craufurd Goodwin, ed., *Economics and National Security: A History of Their Interaction*, 1991: 14-19).

In societies subjected to colonial domination, precapitalist structures were undermined and new structures necessary for capitalist development were established. This not only allowed metropolitan capital to develop but inevitably also created conditions for the development of indigenous capital in manufacture as well as in commerce and agriculture. In colonial societies the colonial state is the instrument of the metropolitan

[1]This is not purely an economic matter. For example, tribal conflicts in much of Africa, and the fact that the great majority of African countries evolved into corrupt dictatorships (in part because of foreign-caused security threats), surely played a role, in that situation.

bourgeoisie[1] and is deployed against indigenous strata where their respective rights clash. But that is no longer the case in postcolonial societies, where the state is no longer controlled *directly* by the metropolitan bourgeoisie.

In the postcolonial country, neither the Marx's-Engel's conception of the state as the instrument of a single ruling class (Marx-Engel, *Manifesto,* and Marx, *Capital,* III, 1896: 448, 569), nor the neointerpretation of the Marxist theory of the state as the relatively autonomous reproducer of the social formation in the interest of the whole of that class,[2] can be applied in an unproblematic way to the new conditions. The metropolitan bourgeoisie is no longer in unquestioned command of the state apparatus, although it continues to wield considerable influence. Its relationship with the postcolonial state is complicated by the fact that it now stands in competition with the bourgeoisie of other industrial capitalist countries, as well as with the indigenous strata, for influence over the state. The indigenous strata now attempt to use the postcolonial state to advance their own particular class interests, but they too do not have unqualified command over it, for it is subject in some degree to the influence of powerful metropolitan capitalist strata. Indeed, no single one of these foreign and domestic strata qualifies as *the* ruling class, for that would exclude the powerful influence of the others on postcolonial societies.

Those societies incorporate a peripheral capitalist mode of production in which the various strata are all located, including the metropolitan bourgeoisie, who have a structural presence in them. There is an inherent structural symbiosis between these competing strata, for they have a common interest in the preservation of the capitalist social order that the postcolonial state upholds. Subject to their collective influence, the postcolonial state enjoys

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[1]The term "bourgeoisie," in its original sense, denotes a free resident of a burg, or town (see Janet Abu Lughod, *Before European Hegemony: The World System AD 1250-1350,* 1989: 99). The proliferation of commercial capitalism was accompanied by the growth and increasing political autonomy of townships typified by the establishment of burghs or "boroughs," hence the term "bourgeoisie" (see Homayoun Katouzian, *Ideology and Method in Economics* (1980: 10). However, that term's etymology is less significant than the connotation ascribed by Marx, equating it with the capitalist class.

relative autonomy vis-à-vis each of these strata taken by itself, for only by virtue of such autonomy does it mediate their competing interests. Thus the postcolonial society, while being peripherally capitalist, possesses a class configuration and a state that are distinct from those found in industrial capitalist countries as well as in countries that have existed under colonial rule. Classes there are not the technical Smithian ones, the result of the division of labor. Nor are they the pure institutional Marxian ones, the outcome of the ownership and control of the means of production. *They are heterogeneous strata of symbiotic domestic and metropolitan interests located in the peripheral capitalist composition.* Nor is the state that of Hegel, standing over and above the economic and social forces at work in society, a universal and neutral instrument which could be used, once political power was attained, to secure societal advances (Hegel, *Philosophy of Right*, 1965: 137-52). Nor is it purely Marx's state, the instrument of class domination, whereby only revolutionary transformation can bring about its change. *It is an intermediary body between the competing interests at home and abroad. It can be influenced by any of these interests, subject to the rest. Hence, it can be used for modifying the socioeconomic system, through evolution rather than revolution, and only within this capitalist structure.*

This complex configuration of the postcolonial strata and state, and the fact that the latter is amenable to the application of reform, are, however, absent from the neo-Marxist analysis. Instead, the state is still essentially seen in its Marxian form, reproducing the social formation for the benefit of the dominant ruling class, albeit relatively autonomously. From a delinking perspective, therefore, the state has to be overthrown, it cannot reform the socioeconomic system of which it is both a product and a tool. Only revolution can thus bring about the delinking, and salvage the good proletariat from the evils of global capitalism. Delinkers, moreover, and for better reasons, are appreciative of the fact that the Chinese have succeeded, through delinking, in combining growth and structural change

[2]See Amin, *La Déconnexion* (1986), Wallerstein, *The Politics of World Economy* (1984), Frank, *Accumulation and Underdevelopment* (1978), Baran, *Political Economy of Growth* (1968).

(Hunt, 1989: 73-5). The argument can be analogized to cover the cases of India and Brazil as well. That the Chinese brought about improvements in mass welfare made their development experience of particular interest to many neo-Marxist, dependency and basic needs scholars.

Mao Tse Tung's strategy consisted of small-unit production and agrarian commune while exploring and resolving contradictions (a focus on the Hegelian aspect of Marx's dialectic: Contradictions as the incentive to social creativity), dismantling class structure, and trusting the creative ability of the people. Hence the systematic destruction of the superstructure and its reconstruction on the basis of new rationality of ends,[1] insisted Mao (1965: 123-7), must precede the construction of a material infrastructure (essentially overturning Marx's base and super structure). This is to be accomplished in conjunction with uprooting and destroying the underlying means of social reproduction, and by laying down the foundation for a genuine collectivist society. The fundamentals of the Maoist approach which could claim credit for bringing China, virtually *sans* an imperialist component, to the industrial threshold[2] on which it stands today are:

(1) The ultimate aim of economic development is to achieve material abundance, with income differentials abolished and strategic productive property socially owned and operated.

(2) To achieve progress towards this goal it is necessary to simultaneously build up the economy's productive capacity, and to socialize the production process by moving towards communal ownership of the means of production and societal control of production decisions and product distribution.

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[1]On that basis, whereas Stalinism told the people *they might not have the dish washers they want,* Maoism sought to ensure that people *did not want the dish washers they might not have.*

[2]Western, often-repeated arguments that China reached that threshold despite, not because of, Maoism; that, in many ways, Maoism greatly delayed and weakened China's arrival at that threshold; and the emphasis on dictatorial actions as related to the issues of freedom generally, are a matter of counterfactual judgment. Those arguments would probably capture the ears of tens of thousands (or even millions) of young Chinese like the ones who marched in Tiananmen Square in 1989, but would probably not command a consensus of the majority of the one and quarter billions of the Chinese people.

(3) In the development of productive capacity, the build up of modern heavy industry plays a central role.

(4) However, expansion of different branches of production (heavy industry, light industry, agriculture) as well as the emphasis given to different scales of plant, using different technologies, and to the rural-urban distribution of these, are all perceived to be interlinked. It is necessary for the Maoist to search for that set of relative emphases (varying over time) in resource mobilization and allocation, which will *maximize the overall rate of capital accumulation while providing for a sufficient increase in mass welfare to maintain political support for the transformation.*

(5) The expansion of small scale heavy and light industry in rural areas can serve both to increase the rate of surplus mobilization for state investment in heavy industry and to increase mass welfare. It raises the surplus through mobilization of slack resources for productive use in addition to the short gestation and capital cost recovery periods for investment in small scale industry, after which a part of the value of the increased output can be mobilized by the state. Expansion of small and medium-scale rural industry can increase mass welfare through its direct and indirect contributions to expanding employment and labor productivity (indirect via the production of producer goods such as farm implements), and through expansion of the supply of basic consumption goods. Such industries also contribute to human capital formation through the development of technical skills.

(6) In the rural sector, seasonal slack labor can and should also be mobilized for labor intensive capital formation.

(7) Concerning economic equity and economic incentives:

(a) Economic and political equality between regions should be promoted by enforcing regional self-sufficiency in heavy and light industry and in basic foodstuffs, and by giving greater power in decision taking to the regions.

(b) Income differences between persons should be minimized as fast as possible, but not faster than the masses are prepared to accept. As a part of this process reliance on material incentives should be steadily reduced.

(c) Professionals should work among the masses, learn from them about their needs and use their skills towards helping to overcome concrete difficulties.

In sum, the neo-Marxist discourse of the delinking mechanism argues that:

(1) The prospects for the development of the capitalist mode of production in any one country are largely determined by its position in the international economy.

(2) This position is in turn historically determined.

(3) *Present day underdeveloped countries cannot expect to pass through the same phases of economic development as the now industrial capitalist economies because the international conditions are different.*

(4) The DCs at various stages of their development have been able to use today's underdeveloped economies as sources of cheap raw material, markets for their goods and outlets for surplus capital.

(5) These opportunities are not open to contemporary underdeveloped economies. Instead, the very nature of foreign capitalist investment in the UDCs has locked these countries into the production of primary products for export, based on cheap labor drawn from the traditional sector. The manufactured goods supplied in exchange for these exports have destroyed indigenous industries and represent a strong disincentive to the local development of manufacturing production. In these countries production is characterized by export of primary products and by the existence of a small, protected, monopolistic, modern industrial sector dominated by foreign capital and using imported technology. Meanwhile the mass of the population remain impoverished. In some cases the appropriation of land for plantations and mines, the destruction of indigenous industry and the intervention of middle-persons and moneylenders between small scale primary producers and their markets have led to increasing impoverishment.

(6) Given their sources of income, *the dominant strata* --landlords, the commercial bourgeoisie, owners of monopoly capital and, above all, foreign capitalists-- *have limited interest in the development of producer capitalism in the periphery. Instead, they channel most of the surplus abroad.*

(7) Meanwhile, *trade between industrial economies and underdeveloped ones is characterized by unequal exchange* --the difference in returns to labor embodied in the products traded exceeds the difference in labor productivity. In this way too, *surplus is extracted from the periphery.*[1]

(8) Only through delinking following a revolution can these economies embark on a path of full development, through *productive and equitable use of the surplus.*

2.1.2 The Dependency Perspective

A large number of writers contributed to dependency theory as it emerged from the notion of *dependencia* and the deliberations of United Nations Economic Commission for Latin America (UNECLA) in the late 1960s. *Dependencia* emanated from the realization at the time that extant traditional theories both inadequately explained underdevelopment and failed to provide strategies for breaking out of the circle of poverty. Dependency theorists thus began to advance a new framework to explain and overcome the continued impoverishment of the UDCs. Although Lenin's theory of imperialism puts the emphasis on structural changes in capitalism, and the *dependentistas* upon the relation between metropolitan countries and their colonies, dependency theory is clearly based on Lenin's classical works.

[1]Unequal exchange is "the basic mechanism" of informal imperialism; it resulted (even under formal imperialism) in the wage differentials for direct producers of core and periphery from the mid-nineteenth century onward. Citing Frank's figures, Peter Taylor indicates that for 1966, for instance, the periphery's trade of $35 billion would have been worth $57 billion if produced under high wage conditions. The shortfall of $22 billion is the result of unequal exchange. This was *very much greater* than all "aid" programs put together. It is this *un-revealed* (un-Samuelsonian) mechanism of unequal exchange at the global scale that produces the uneven development currently so characteristic of core and periphery. The un-revelation continues under the rubric of the impersonal forces of supply and demand determining prices (see Taylor, *Political Geography: World Economy, Nation State and Locality*, 1993: 137-40).

Paul Baran's *Political Economy of Growth* (1957) is generally accepted as a founding work, but other significant contributors include André Gunder Frank with *The Development of Underdevelopment* (1966), Arghiri Emmanuel with *Unequal Exchange* (1972), Immanuel Wallerstein with *The Modern World System* (1974),[1] and Samir Amin with *Accumulation on a World Scale* (1974). However, it was mainly through the effort of Frank, paradoxically a Chicago trained economist, that the concept of dependency came to be popularized in DCs' academic circles. His work involves the concept of a series of metropolis satellite relationships, developed from Baran's work, which *conflate global economic relationships with social class relationships,* extended throughout the workings of capitalism. Thus the industrialized countries stand in a relationship of exploitation with the UDCs, but there equally exist metropolis-satellite relationships within individual countries. Therefore, Frank's perspective may be seen in the form of a chain which conceptually links the UDC's peasant in the field with the metropolitan capitalist, wherever the latter exists.

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[1]In terms of the study of international relations (IR), the world-systems theory added a third level of analysis to the national level (terrain of the analysis of domestic sources of foreign policy, pressure groups, class conflicts, ethnic and nationality problems, and so on) and the international level (the analysis of interaction of nation states, traditional IR theory). The world-systems approach starts from the holistic premise that the whole (world system) is more than the sum of the parts, and that consequently the parts (the nation states that are part of the world system) can only be understood properly if studied in the context of their place and role in the whole, and the way in which this place influences and possibly even determines domestic relations (see Henk Overbeek, *Global Capitalism and National Decline*, 1990: 2-3). However, while both the *dependentistas* (e.g., Immanuel Wallerstein) and the neorealists (e.g., Kenneth Waltz) theorize about the international system, the two groups conceptualize its structure in very different terms. The international system which Waltz describes is decentralized and anarchical, and its only relevant actor is the state. As a result, the most important feature of the structure of the international system is its distribution of power (see Waltz, *Theory of International Politics*, 1979).

On the other hand, the international system which Wallerstein describes is not anarchic, and its structure consists not of states and the distribution of power between them, but instead of the *principles* through which states and other agents are *produced.* Wallerstein attaches particular importance to the principles which organize the world economy, that is, in this era, to global capitalism. It is the latter, and especially the international division of labor, which constitutes groups of people as "classes" and certain political units as "states" (see Wallerstein, *The Modern World System*, 1974, and *The Politics of the World Economy*, 1984). Therefore, while Waltz's unit of analysis is the agents (states), that of Wallerstein is the structure (or the structural principles). Structuration theory, however, theorizes about both structures and agents as well as their interaction, i.e., the processes that are going on between them, on the basis that people are acted upon by their environment while they are acting upon it --mutual codetermination (see Alexander Wendt, "The Agent-Structure Problem," *International Organization*, 1987, 41 [3]: 335-70).

In dependency theory, the absence of a properly formed working class in the UDCs is no barrier to revolution, for through colonialism these parts of the world have been rendered into a dependent position but within the capitalist world economy. The implication is that the UDCs are open to socialist revolution on Marxist principles without the prerequisite of capitalist industrialization. However, the distinguishing feature of dependency writers (Amin, Baran, Frank, et al.), is that they treat the social and economic development of underdeveloped countries as being conditional by external forces, namely the domination of these countries by other, more powerful ones. The most emphasized aspect of this dominance is *surplus extraction.*

Dependency theory thus entails the notion that surplus is extracted from underdeveloped countries by industrial capitalist countries. The underdeveloped country is impoverished and fails to grow because it loses access to its surplus. Correspondingly, this surplus is appropriated by and invested in the industrial developed countries where it is one of the primary causes of rapid economic growth. Dependency theory further posits that this extraction/appropriation both causes[1] and perpetuates the inequalities among countries. Historically the looting and plundering of the colonies by the metropolitan countries was the initial cause of the latter's primitive accumulation[2] and growth, and of the disarticulation and

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[1]Emmanuel (1972), however, argues that dependence cannot be the cause of economic underdevelopment; it is the consequence of it. One is as dependent as one is underdeveloped; one is not as underdeveloped as one is dependent.

[2]Primitive accumulation is Marx's term for the process, beginning with the gathering together of merchandise, then gold and silver, and finally money, by which nascent capitalism created its material base (through the systematic exploitation of plantation labor, expropriation of resources, the slave trade, and colonial and piracy plunder) down to the nineteenth century. In other words, primitive accumulation is the process through which accumulation took place from sources other than the capitalist mode of production. "Liverpool," noted Marx, "grew fat on the basis of the slave trade. This was its method of primitive accumulation" (see Marx, *Capital,* 1867: 924). With the rise of imperialism in the late nineteenth century, the transfer of peripheral surplus to central capitalism through the unequal exchange took over the role of accumulation that further facilitated DCs' dominance in the economic and political spheres. The point here, as Paul Sweezy discerns in *The Transition from Feudalism to Capitalism* (1976: 48-50), is not that the process is primitive in the usual sense of the term (though it may be and usually is), but that it is not preceded by previous acts of capitalist accumulation. Therefore, "early," "original," or "primary," is a better rendering of the primitiveness in this context.

stagnation of the colonies; and *this capitalist dynamic explains the persistence of underdevelopment today*.

A dependent economy is generally characterized by the following features:

(1) Wide disparity between domestic production and consumption.

(2) Subordinated production to the accumulation needs of metropolitan capital (commodity production for the metropolitan market).

(3) Extreme specialization --production of only a few primary products (the predominance of agrarian capitalism in the national sector) and/or trade with only one or two partners.

(4) Overwhelming use of unadapted foreign technology through direct investment of transnational corporations and/or the licensing of local enterprise.

(5) Incomplete proletarianization (most small producers still own their means of production, especially in the traditional sector).

(6) Heavy reliance on aid and loans from metropolitan countries and international finance organizations.

(7) Domination of production by circulating (unproductive) capital (the comprador bourgeoisie utilize their capital for facilitating the circulation of foreign-produced merchandises, rather than for entrepreneurial production).

(8) Commercial capital possessing a monopoly that is not the outgrowth of a competitive economy but the result of the political action of the state.

(9) Surplus value generally appropriated by central capitalism.

(10) Internally-retained surplus predominantly in the form of merchant's profit.

(11) Agricultural surplus siphoned off into commerce, rather than reinvested in agriculture.

(12) Pauperized agricultural producers, who strive, upon advancing, to defect to trade, joining the externally oriented propertied class running the export-import economy in commerce, in cash crop agriculture and within the state apparatus.

(13) A relatively large contribution to national income and employment by the public administrative sector (for the private sector is essentially circulating products produced by foreign labor, rather than hire labor for native production processes).

(14) A local, mainly merchant, bourgeoisie formed in the wake of foreign capital domination.

(15) An external model mentality --the domination of the consumption patterns of the ruling strata by metropolitan values and the reliance on foreign standards in socio-cultural, educational and professional institutions.[1]

Baran (1952) and Frank (1978) emphasize, in their dependency (spatial) components, as opposed to their neo-Marxist (class) components, that surplus extraction was the cause of the initial division of the world into rich and poor areas, and that the extraction is essentially an aspect of the relationship among *countries*, not *strata*. The tools of the extraction/appropriation process, in the colonial period, took the form of direct, overt appropriation of products (looting and plundering), while in the modern period it takes the form of *indirect, covert repatriation of profits.* What in essence is suggested is that capitalism does not develop *primarily* on the basis of the exploitation of the *proletariat,* but upon the basis of the exploitation of *countries.*

This exposes dependency theorists to the Marxian criticism of adopting a circulationist approach on the basis that they posit that underdevelopment can be explained in terms of relations of domination in exchange, almost to the exclusion of an analysis of the forces and relations of production (Elizabeth Dore, in Bottomore, 1983: 115-16). Even on that score, however, dependency theory does fare better than neoclassical (Francis Ysidro Edgeworth's) exchange; for although exchange is the sine qua non of both, the former provides historically supported explanation of underdevelopment rather than mere abstract hypothetico-deductions, based on unquestioned "endowments" and assumptions

[1]See John Ohiorhenuan, "Dependence and Non-Capitalist Development," *Science and Society*, vol. 43, no. 4, Winter (1979-80); and Rajnit Sau, *Underdeveloped Capitalism* (1984: 6-9).

that lack any realism. As Wesley Mitchell explains, deductive systems which are based upon unsound and untested assumptions, and "pure" theories which are completely synthetic, are not useful. He is thus against the "conscious use of assumptions contrary to fact," and the "use of these assumptions to facilitate comprehension of the complex conditions of reality" (Mitchell, "Rationality of Economic Activity," *Journal of Political Economy,* vol. 18 (1910: 109).

The dependency perspective further draws attention to constraints on the degree of autonomy faced by the UDCs in the choice of development strategy. Such constraints stem essentially from the very emanation of capitalism as well as the DCs-UDCs relations, especially in the last two centuries, and the composite of the state and class structure (Spybey, 1992: 78-81). For dependency theory, therefore, the rise of transnational corporations (TNCs) puts the problem of the economic relationship of capitalist and underdeveloped countries, and hence neoimperialism as the basis of dependency, in a new light. The UDCs are extremely wary of the power inherent in a giant DCs' corporation, yet they do need the big companies.

There are specific areas in which transnational corporations enjoy significant advantages in their dealing with the UDCs. They have privileged access to industrial capital, expertise gained through long-term activity, state of the art technology for the efficient processing of commodities, and membership in established worldwide distribution networks. Further, TNCs pay higher wages, keep more systematic books, provide better working conditions and fancier career opportunities, and bring in more technological expertise and needed capital than do the domestic enterprises of the host countries. The result is that the problem of neoimperialism today has taken an unexpected turn. On the economic side of the question, the danger now is as much that the TNCs will bypass the underdeveloped countries as that they will dominate them. Meanwhile, the political element of imperialism that appeared to be diminishing in the post WW II era is resurgent.

The erstwhile capitalist empires of Britain, France, Belgium, Portugal, Netherlands, and Germany have formally disappeared. What is left is the strong effort of these nations, combined especially with that of the United States, using direct intervention and indirect manipulation through dominated international organizations and some fictitious Non-Governmental Organizations (NGOs) armed with the "human rights" ploy,[1] to preserve and

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[1]The following discussion is to be understood as a rejection not of human rights but of their use as a political stratagem; not of the reasonableness of some rights to be applied to all peoples in a specific epoch, dependent on the development of human commonsense, but of restricting the commonsense to a specific triumphant race, perspective, or super power. The notion of individual human rights determined by some universal (let alone Western) standard is inimical to international society, even with the best of intentions granted. The idea of individual human rights challenges the supremacy of international society in two basic respects. First, it is a direct challenge inasmuch as it emanates in part from a view of individuals rather than states as the privileged actors in world politics. Second, it is an indirect challenge inasmuch as the humanitarian arguments for intervention make up the strongest challenge to the principle of nonintervention, and thus to the principle of sovereignty which constitutes international society.

The notion of individual human rights, moreover, was mostly absent in the long history of Western thought and practice, from the primacy of the *polis* and the family over individual rights in ancient Greek thinking, to the casual/entertaining destruction of the individual gladiator in Roman coliseums (and the extended slavery, from the Greeks, to the Romans, to the Americans), to Augustine's obliviousness to the political, to Aquinas' natural law thinking, bringing the just *society* back into moral purview. Then the way from natural law to natural rights passes from the Inquisition and the demise in the Reformation of the medieval notion of a single Christian commonwealth to the eighteenth century enlistment of Christian doctrine in the service of political principle (see John Vincent, "Western Conception of a Universal Moral Order," *British Journal of International Studies*, 1978, 4/1: 20-46). And Grotius' detachment of natural law from divine law latches back on to ancient Greek thinking, and points forward to the universalism of revolutionaries, like Tom Paine, who bring natural right back to natural law. However, the advent of the nation state made the nineteenth century positivist lawyers treat individuals solely as citizens of states and not as "men," i.e., not humans, for the reconstituted tradition of raison d'état (not of person) tended to deny the role of morality altogether.

Further, not only does the idea of individual human rights mistakenly presuppose universality (applicability irrespective of time, place, culture, situation, etc.), it also confines this universality to a selectivity of Western thought --some thinking of the ancient Greeks, Cicero and Roman law, specific aspects of Christendom and, within the purview of the modern state system, the individualism of a Locke and the harking back to the *polis* idea of the German romantics (see Iver Neumann, *The Future of International Relations*, 1997: 49-56). Indeed, notwithstanding the UN Charter, stipulating the doctrine of nonintervention in the domestic affairs of other states, "Reagan and his advisers," concedes --bluntly-- none other than Henry Kissinger, *"invoked the issue of human rights to try to undermine the Soviet system."* Although Nixon, Ford and Carter had used the same ploy, a reincarnation of the Wilsonian language rather than the evocation of geopolitical interests, "Reagan and his advisers went a step further *by treating human rights as a tool for overthrowing communism*" (see Kissinger, *Diplomacy*, 1994: 772, emphasis added).

It is to be noted, however, that although human rights claims are mostly unhistorical and challenge state sovereignty and power, states in underdeveloped conditions may enhance their international legitimacy, and thereby external security, by displaying real respect for human rights, not just the rhetorical (freedom style) rights but the material (survival brand) ones as well. Noisy confrontation and *"action directe"* may not, therefore, be the best tactic for dealing with so-called international NGOs, ostensibly working on human rights issues. That nonetheless does not curtail the responsibility of genuine scholars of the UDCs to unveil the underlying missionary, economic, political and security agendas and connections of such organizations. In this regard, the excuses made by colonialist and imperialist enterprises in the last several centuries (e.g., *"mission civilisatrice,"* "white man's burden," "manifest destiny") constitute a proper guide to, and analogy with, today's "human rights."

expand their ideological and political influence; this is the second wave of neoimperialism (otherwise known as neocolonialism),[1] the first being the late nineteenth century's rush. Hence nothing has changed with respect to the disarticulation caused by older forms of imperialism. Three coexisting factors pushed precapitalist formations into the direction of disarticulated/peripheral capitalism, and continue to push them in the same direction under the new forms of imperialism: monetization, foreign trade, and foreign investment.

Monetization, essential for capitalist penetration, made possible the formation of indigenous capital in the UDCs. The simple money commodity structures which this created, however, were not transformed into capitalist structures. Foreign trade prevented this, imports replacing locally produced crafts and the competition from imports directing local investment into agrarian capitalism. Investment of foreign capital further reduced the possibility for local capital to be invested freely. The ruination of craftsmen, competition from imports, and lack of profitable opportunity for local capital investment rendered capitalist development chaotic, and were the source of the blocking of such development and of locking the local formations into their peripheral condition (see, especially, Samir Amin's *Imperialism and Unequal Development,* 1977). Therefore, Amin's (1974, 1976, 1986) diagnosis of the UDCs' predicament is a *disarticulated, extroverted economic system,* and hence his only solution is delinking for independence --development could only be effected through revolutionary breaks with international capitalism, à la North Korean Model (an analogy that is probably difficult to understand, much less to accept, by many observers in the West).

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[1]Kwame Nkrumah, the inaugural president of Ghana, in his *Neocolonialism: The Last Stage of Capitalism* (1965: 17), engendered the first substantial use of the term neocolonialism observed in the title of his book and in the following phrase: "The essence of *neocolonialism* is that the state which is subject to it is, in theory, independent and has all the trappings of international sovereignty. In reality its economic system and thus its internal policy is directed from the outside."

In his *Imperialism: The Highest Stage of Capitalism* (1916), which laid down the definitive version of the Marxian theory of imperialism, Lenin argues that imperialism is an economic necessity of the industrialized capitalist economies, seeking to offset the declining tendency of the rate of profit, by exporting capital in pursuit of investment opportunities overseas. For him, imperialism is the monopoly stage of capitalism. Lenin's book, with its five distinguishing features of imperialism (monopolies, finance capital, the export of capital, international cartels, and the territorial division of the world), was inspired by and built upon John Hobson's *Imperialism* (1902) and Rudolf Hilferding's *Finance Capital* (1910).

Eric Hobsbawm argues, and Maurice Dobb concurs, both in Hilton's *Transition from Feudalism to Capitalism* (1976: 159-64 and 57-67, respectively), that the development of capitalism in the most advanced countries, such as Britain, served to retard development in other parts of the world, and this not only in the epoch of imperialism. Frank's (1967, 1978) fundamental concept, analogously, is that the rich underdevelop the poor (underdeveloped development, or development of underdevelopment), whereby repression, furthermore, is not accidental or merely ideologically motivated; it is a necessary concomitant of economic exploitation. Underdevelopment is always primarily the result of industrial capitalist penetration. Therefore, short of liberation from this capitalist structure or the dissolution of the world capitalist system as a whole, the capitalist satellite countries, regions, localities and sectors are condemned to underdevelopment.

Hence *external delinking, internal participation, sociopolitical mobilization, and socialist restructuring* are the solution's components of Frank. Short of that, the alleviation of underdevelopment can only occur during periods of retreat or withdrawal by the industrial capitalist economies (an ineluctable form of delinking). Contrary to the Reaganite-Thatcherite argument that less social development is necessary for more economic development, therefore, Frank (1978: 111-70) stipulates that the prior *development of human capital through education, health and improved social relations* would lead to social and economic development.

Frank's dependency perspective also counters the thesis, advocated, e.g., by W. Arthur Lewis as presented above, according to which the underdeveloped world's first priority need is foreign investment and capital aid on the premise that the principle obstacle to its development is its shortage of capital. He counters this supply side theory with the essentially Keynesian demand side concept that the real economic obstacle is insufficient market demand for productive national investment. *Frank thus argues that policies of "structural adjustment" are insufficient to expand the internal market and generate* *development.* Hence development would not result from minor changes in dual economies/societies, hoping that the modern sector would expand and eliminate the traditional one.

Frank thus eventually concludes that escape from underdevelopment, and subsequent development, are no longer possible for the UDCs as part of the capitalist system, and only liberation from that system offers that possibility; that continued participation in the same world capitalist system could only mean *continued development of underdevelopment,* that is, there would be neither equity, efficiency nor economic development. The course of action he recommends therefore is to deliberately and revolutionarily delink from the system externally, and to transit to self-reliance internally in order to make independent or nondependent economic development possible.

That may be the case economicwise, and Frank's analysis, as well as that of Amin, represents a major contribution to the understanding of the dynamics of underdevelopment,[1]

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[1]However, Frank's recent works, e.g., his *World System: Five Hundred Years or Five Thousand* (1993), co-edited with Barry Gills, unduly cross the line. Frank now finds that the analytical category center-periphery structure in and of the world system, which includes but is not limited to the transfer of surplus between zones of the world system, is also applicable to the world system before 1492. The Frank-Gills recent thesis thus states that "the contemporary world system (one world system, not world-systems à la Wallerstein) has a history of at least 5,000 years. The rise to dominance of Europe and the West in this world system is only a recent --and perhaps a passing-- event" (see A. G. Frank and Barry Gills, *The World System: Five Hundred Years or Five Thousand?,* 1993: 3, and chs., 1, 3, 4, 5, 6 & 11).

Without accounting for the collectivity of Marx's thought, and with little foundation for their alternative perspective, they use some of his categories and terminology, e.g., historical materialism, out of context, together with some lofty expressions of their own, in such a way that undermines the coherence of Marx's thought, especially with respect to the uniqueness of capitalism as a mode of production. In the process, they abstract from the particularism of the very concept of modes of production, reducing it to a notion of modes of accumulation, confuse wealth for capital and equate distinctive types of capital (e.g., merchant capital, industrial capital, and finance capital --which is a post-Marx development).

The main thesis of Frank and Gills, concerning the existence of one continuous world system from circa 2500 BC onward, nonetheless, deserves one's examination, knowing at the same time that Marx's verdict on such a thesis would have been unequivocal: capitalist *ex cathedra pronouncement.* However, Marx aside, Karl Polanyi, the leading economic anthropologist, who was anti-Marx, argued forcefully against the use of market theory to analyze nonmarket economies. Polanyi was also at pains to point out that the current self-regulating or price making market system (the market-money-price complex, operating in its legal context of private property and free contract and its *economizing* cultural context) has *either been absent or has played a subordinate role through most of human history* (see Polanyi, *The Great Transformation,* 1944, and Harry Pearson's "Introduction," in Polanyi, *The Livelihood of Man,* 1977: xxix). Along the same lines, see Carlo Cipolla, *Between Two Cultures* (1991) and *Before the Industrial Revolution* (1994).

It is no surprise, therefore, that Samir Amin and Immanuel Wallerstein disagree with the Frank-Gills thesis, in the same volume (ibid., chs., 8 & 10). They contend that previous world-systems (which Amin calls "tributary" and Wallerstein dubs "world empires") were commanded by politics and ideology, not but his conclusion, not unlike that of Marx, i.e., proletarian revolution, is moot, unworthy of further investigation from a political economy vista, because of its impolitic security consequences, especially because in underdeveloped conditions it is more difficult to separate the security from the economic aspects of social existence. Underdevelopment and dependency cannot be broken simply by autarkic delinking; to break with them it is necessary to change their internal structure, a course that necessarily leads to asymmetrical confrontation with the existing international power structure. This is inaccessible if one is to enact rationality, not revolutionary fervor; delinking is thus doomed by reason.

Quasi feudal Japan, in the Tokugawa period of 1603-1867, prior to the Meiji Restoration of 1868, attempted to retreat from foreign aggression by isolating itself from the world economy. However, this response could not be sustained against the West's penetration through superior military power. The Opium War seconds this conclusion with respect to China. Indeed *delinking* and retreatism from the thirteenth and early fourteenth century "world system" have been used with devastating, long lasting effects on China by the Ming, who upon coming to power in 1368 hoped to dissociate themselves from the commercialism of their Yuan-Mongol predecessors who had occupied and ruled the country for over a century (Janet Abu Lughod's *Before European Hegemony,* 1989: 340-8). And

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by the economic law of value in the accumulation of capital currently in command of this "modern world-system" which began only 500 years ago. They argue in particular that the precapitalist mode of production of the latter distinguishes it fundamentally from "world empires" and all previous world-systems. Wallerstein considers the ceaseless accumulation of capital (an imperative to accumulate "ceaselessly" in order to accumulate at all) to be the *differentia specifica* of the modern world system. He thus emphasizes the distinction between his plural and hyphenated "world-systems" (hyphenated to indicate that the two words together constitute a single concept) and the singular and unhyphenated "world system" of Frank and Gills. Amin, in describing the tributary society (a form of world empire, which existed from circa 300 BC to AD 1500, as opposed to a world economy) emphasizes that the surplus is directly tapped from peasant activity through some transparent devices associated with the organization of the power hierarchy: Power is the source of wealth, whereas the opposite is the rule in capitalism (see Amin, "The Ancient World-System versus the Modern Capitalist World System," ibid., 248). The debate thus has been revolving around three theses concerning the level of analysis:
(1) Wallerstein's thesis that there is now a distinct world-system (unique from all former world-systems in its structural pressure for the ceaseless accumulation of capital) which began with the sixteenth century.
(2) Janet Abu Lughod's intermediary thesis (in her *Before European hegemony,* 1989) that there have been several successive world systems, each with a changing structure and its own set of hegemons.
(3) Frank's and Gills' thesis that there has been only a single world system that has continued to evolve over the past 5000 years (see Abu Lughod, "Discontinuities and Persistence," ibid., 297, and Wallerstein, "World System versus World-Systems," ibid., 294-5).

the delinking argument has been around since the Paris uprising of 1848 and the simultaneous European turmoils. But neither that uprising, nor the turmoils, nor the very 1789 revolution, nor for that matter any other revolution (whether bourgeois/antifeudal, or socialist/anticapitalist) has delivered such a utopian autarkic outcome.

Delinking economically cannot engender delinking from security threats as well, threats that are foreign provoked, whether they are exhibited externally or internally. Indeed, economic delinking exacerbates security vulnerability. This is a great lesson of the twentieth century. Compelled to security over-stretching, the nuclearly-protected Soviet Union overburdened its economy, and eventually abrogated delinking, overturning its world view, by subjugating its economic "base" to the security "superstructure." The New Deal too relinquished the liberal economic dogma, in the face of internal upheaval. *When the economy and security conflict, then, a country --minor or major, developed or underdeveloped-- has to ensure its continued existence, prior to thinking about its mode of production.* FDR's New Deal as much as Gorbachev's Glasnost and Perestroika attest to that. Therefore, delinking is unattainable, and *muddling through the contemporary world power structure, with hegemonic capitalism in its base,* intellectually supported by vast interest-interdependent, international intelligentsia, *is the only potentially attainable objective for the weak, divided, unprotected, poor and desperate UDCs.* A revolution, on the other hand, is not exactly delinking, isolation, or change of the prevailing political system. It essentially involves the awakening of human intelligence, the increasing of inventive spirit. A revolution is rather in the minds of people, as deep and deeper still, than in their external relations.

Frank's difficulty in his dependency circle stems, however, from his theories of underdevelopment and dependency, which are meant to conflate the transfer of value through spatial relations with the Marxist emphasis on the appropriation of surplus value through the class relationship. The exploitative relationship between the capitalists of the core and the peasants of the satellites is seen to exist through a network of spatial relations. This exploitation brand has therefore never satisfied orthodox Marxists, and Frank's work has thus been considered neo-Marxist due to its emphasis on the metropolis-satellite relationship at the expense of the quintessential class relationship of Marxist theory. Neo-Marxist analysis of capitalist exploitation emphasizes the core-periphery division on an equal basis to the quintessential class division.

Even Emmanuel (1974), Amin (1976), and Marini (1972) reject the downplaying of the role of strata in the appropriation of the surplus product. For Emmanuel and Amin the extraction and subsequent appropriation of surplus value is accomplished through unequal exchange between the underdeveloped and the industrial capitalist countries. They argue that as a consequence of the equalization of the rate of profit in the international market, developed countries appropriate more labor time in exchange than they generate in production, resulting in the transfer of surplus value from the underdeveloped to the industrial capitalist countries, on the basis of labor (and hence class) exploitation.

An account of the unequal exchange emanates from the differences between countries in the organic composition of capital (OCC). When the OCC is not uniform, prices cease to be equiproportional to values and the rate of exchange between commodities, being determined by their relative values, is no longer of validity or relevance (Samir Amin, *Unequal Development,* 1976: 141-2; Ranjit Kumar Sau's *Unequal exchange, Imperialism and Underdevelopment,* 1978: 48). Exchange is unequal because varying OCC results both in unequal productivity and, through the working of the equalization of the rate of profit, in determining prices of production that differ from values in isolation (Charles Bettelheim, "Theoretical Comments," in Arghiri Emmanuel's *Unequal Exchange: A Study in the Imperialism of Trade,* 1972).

Three decades before the works of Emmanuel and Amin on unequal exchange, however, the Japanese economist Nawa Töichi articulated the unequal exchange argument (in 1948) in terms of the logic of the labor theory of value (LTV). According to Ricardo's theory of comparative advantage, differences in productivity provided the basis for international trade and ensured that all countries gained from participation in the international exchange of goods. Nawa has undermined this argument: From the perspective of the LTV, international differences in productivity implied that in the process of trade, an unequal exchange of values would occur between more industrially advanced and less advanced countries (his concern was Japan, not the UDCs). Because the average worker in the former is more productive than the average worker in the latter, *exports from the former contain less labor than those of the latter, and a hidden transfer of value from the poorer to the richer nations takes place.*

Nawa illustrated this process of unseen exploitation with the example of trade between an industrialized nation (A) and an agricultural nation (B). The former is assumed to be the more efficient producer both of manufactured goods and of agricultural goods, but whereas it is twelve times more efficient than its trading partner in producing manufactured goods, it is only twice as efficient in producing agricultural goods. According to the Ricardian theory, country A should specialize in industrial production and country B in agricultural production. *However, if A and B trade along the lines of comparative advantage, A will be exchanging an item that required only a single day's labor for an item that required six days of B's labor, hence exchange is unequal* (Tessa Morris-Suzuki, *A History of Japanese Economic Thought,* 1989: 114-15).

Marini (1972: 56-78), on the other hand, argues that underdevelopment persists because the development of capitalism is limited by the size of the capitalist market. In the underdeveloped countries, the role of the working class is that of producers and the product of its labor is exported. *Since the product is exported there is no need for this working class to serve as consumers and its wages can be forced down without limit.* Thus workers are super-exploited in the dependent country and there is no means for their wages to rise since they are not needed for realization; Fordism need not apply to them. Since wages do not rise, the internal market does not expand and accumulation in the dependent country is retarded or deformed (another version of Amin's disarticulation).

Whereas Lenin (1897: 56-73) argued that there is no realization problem inherent in the expansion of capital, since the mass of surplus value is realized through the productive consumption of capital and not by means of the consumption of workers, in Marini's conception the commodities exported from the underdeveloped countries are realized by the consumption of the working class in the industrial capitalist countries, which requires that their wages be high. In essence Marini is arguing that surplus value is produced in the periphery and appropriated at the center. Underconsumption merely provides the means by which this appropriation occurs.

Paul Sweezy's *Transition from Feudalism to Capitalism* (1976) presents an alternative interpretation, drawing upon the historical analysis of Fernand Braudel (1969) and Immanuel Wallerstein (1974), which regards production for extended market exchange as a sufficient definition of capitalist activity. Capitalism, involving economic interdependence in an extending division of labor and global economy, is contrasted with feudalism, involving a high degree of self-sufficiency within the manorial unit. Unequal exchange then comes in. The UDCs have to import at market prices the technology and expertise that they lack but are unable to produce themselves. This can only be financed by selling cash crops and raw material commodities for hard currency, but the price obtained is determined by international commodity markets which are located in industrial finance centers. These respond to economic pressures including patterns of mass consumption in the industrial countries, and in order to remain competitive the latter must obtain raw materials as cheaply as possible. Contrary to the disseminated postulates of international trade theory, selective tariffs then complete the picture by ensuring that only those UDCs' products that are of most advantage to the DCs can be imported at competitive prices, whilst other products attract heavier import duties. The result is a vicious circle whereby the UDCs have little option but to sell their raw material products relatively cheaply, but at the same time buy finished product imports relatively expensively. *In this lies the unequal exchange,* which makes mockery of comparative advantages, the heart of international trade theory.

One of the ways in which UDCs might break out of the unequal exchange predicament, obviously, is to trade amongst themselves, but in this they have been conspicuously unsuccessful. Part of the reason lies in the lack of capital, expertise and technology, but the fundamental factor is the external, politically imposed constraints and security threats which constitute a barrier to mutual cooperation within the UDCs. The DCs use their power leverage to divide and conquer the UDCs, both economically and in their security concerns. Even the group of 77, an economic spin off from the Non-Aligned Movement, and regional organizations such as the Organization for African Unity, have rarely enjoyed much success because of their members' widely varying dependencies, hence political ideologies, extending from Marxism to extreme right wing politics. Therefore, despite the Bandung rhetoric, the UDCs have cooperated neither politically nor economically, and statistics (Spybey, 1992: 113-17) continue to show that by far the greater part of the UDCs' trade is directly with the DCs, not among themselves. Because of this lack of cooperation, and of the pessimism concerning its likelihood, *self-reliance* must come to the rescue. For that purpose, Paul Baran (1952: 54-96) contrasts the supposedly typical way in which the surplus is now actually utilized with the way in which it could potentially be utilized if the domestic economies were self-reliant and thus not constrained by the distorting requirements of current surplus utilization. He thus suggests a radical reallocation of the surplus, based on present and future needs of the indigenous population:

(1) A mobilization of potential surplus through an expropriation of foreign and domestic capitalists and landowners, and an elimination of the drain on current income resulting from excess consumption and capital removals abroad.

(2) The reallocation of unproductive labor.

(3) The planned development of domestic agriculture related to home industry based on a new mobilization of the surplus. Baran tries to show how, by changing current patterns of

surplus utilization towards a planned allocation of the surplus based on domestic economic requirements, the pattern of underdevelopment imposed by the reproductive requirements of the industrialized economies can be overcome, and domestic development generated.

For Baran, underdevelopment is a *state* characterized by low per capita incomes. For Frank, underdevelopment is a *process* of continuing extraction of surplus from the UDCs and transference to the centers of world capitalism --chiefly through monopolistic trade-- and leads to the perpetuation of mass impoverishment. For both Baran and Frank, however, the cause of the perpetuation of underdevelopment lies in the failure of the dominant strata in underdeveloped countries to use the surplus for productive accumulation within the domestic economy. Instead, the surplus that is extracted from peasants and wage labor is either exported or used to finance luxury consumption, land purchase and urban property speculation. Both concur that these propositions apply as much to merchant capitalist and to any capitalist with investments in production as to that traditionally prodigal class --the landlords. For capitalist activity in underdeveloped countries, whether foreign or domestically owned, is typically monopolistic and hence conservative and rigid (undynamic).

Frank (1978) subsequently espoused Arghiri Emmanuel's thesis of unequal exchange (1972), which provides a different account of surplus extraction through trade. An important element of Frank's rendition is his emphasis upon surplus appropriation through trade, implicitly equating capitalism with relations of exchange rather than a system of production. He argued that monopolistic merchant capitalism had penetrated the remotest reaches of all underdeveloped economies via a series of trading networks in which small scale merchants in rural areas were linked to larger monopolistic suppliers, and monopsonic buyers, and so on up the chain to large scale import-export activities dominated by foreign interests.

Frank used this thesis as the basis of his affirmation that all branches of underdeveloped economies have been incorporated into the world capitalist system.

Underdeveloped economies have bypassed the phase of competitive capitalism due to the mode of their incorporation into the international economy. Their monopoly capitalists are content to appropriate existing rigging profits and have no interest in promoting a competitive, dynamic capitalist sector. Meanwhile the strata that control the use of the surplus also hold political power, and they use this power to maintain the status quo. In these circumstances the only possible way forward is delinking through a social and political revolution that will replace the existing alliance of the domestic comprador bourgeoisie and foreign capitalists with a socialist regime committed to social and economic development.

Therefore, dependency theory, as pronounced *inter alia* by Paul Baran, Immanuel Wallerstein, Samir Amin, Kwame Nkrumah, Ruy Marini, Paul Sweezy, Arghiri Emmanuel, André Gunder Frank and others, constitutes the denial of development, and consequently of modernization theory. Denial is on the grounds that DCs' development involved the creation of a capitalist world economy that became a means to exploit nonindustrial countries, prevent them from developing and instead maintain them in an *under*developed, rather than *un*developed, condition. Immanuel Wallerstein (1974) emphasizes that this was a historical process, with its origins in the Renaissance and its culmination in the late nineteenth century, during which the European states colonized large areas of the world. In this perspective, since Europeans took possession of colonies mainly for economic gain, the global economic profile was changed and a dependent and unequal relationship established between colonizer and colonized. The core of the resulting capitalist world economy was, from the beginning, centered on northwestern Europe, but the periphery to the system has been wherever economic activities have taken place in forms subservient to the European core, hence the concept of core and periphery seeks to avoid the simplistic geographical division between Europe and its colonies. Instead it sets a distinction, in terms of economic activity, that is roughly equivalent to the traditional[1] and modern societal dichotomy. The

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[1]Traditional in the sense of Marx's generic "Asiatic" mode of production (see *Capital*, vol. I, 1867: 479).

capitalist core is characterized by modern society, whilst the exploited periphery is handicapped by traditional institutions. Many colonized territories thus became dualistic, containing enclaves of modern activity set against a background of traditional activity, which remained detached socially, politically and economically.

The main point of dependency theory therefore is that the West, operating with a capitalist economic system, has modernized itself through the medium of enterprises and investments which, whether located in the West or in the colonies, fitted into a Western dominated, capitalist world economy. After WW II, pro forma constitutional independence left the former colonies in the position of attempting to modernize with forms of economic activity left over from colonialism, whereas the dependency relation continued in place. Core type activities in the UDCs tended to remain firmly under the control of DCs' companies, especially the transnational corporations, connected directly with the core of the capitalist world economy. Peripheral type activities were normally left under the UDCs' own control but were, in Amin's (1976) concept, *disarticulated* from the capitalist world economy, thereby preventing any significant change in their economic fortunes.

Thus, dependency, on the one hand, is a form of boundary interchange, an external relationship of consistently unequal and asymmetrical core-periphery interrelationships of dominance and dependence between component parts (invariably national economies) of a single world capitalist system. Dependency, on the other hand, is also a conditioning factor which distorts and alters the internal functioning and articulation of the elements of the dependent social formation,[1] whereby the nature and characteristics of internal structural relationships both define and create dependency. Hence, the domestic infrastructure of

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[1]The social formation, in Amin's terminology, is a structured combination of several modes of production dominated by one of them. The domination results in the dominant mode determining the condition of reproduction of the entire formation, the consequent transfer of a portion of the surplus generated in the dominated modes to the dominant mode, the political supremacy of the dominant class in the dominant mode, and the primacy of the ideology of the dominant mode. The two global social formations are central capitalism and peripheral capitalism (see Amin's works, especially Part IV, "The End of a Debate," of his *Imperialism and Unequal Development*, 1977).

dependency is a function of the transnationalization process of disarticulation, but it is also a generative cause of disarticulation by its own autonomous dynamics.

Therefore, modernization theory (adopted by Lewis and Rostow, as elaborated on above in the traditional mechanism) and dependency theory (of Baran, Frank, Amin et al.) are opposites, the one asserting a vision towards economic development and the other to exposing reasons why this development cannot take place within a Western dominated capitalist world economy, respectively. Each theory, however, is premised upon an economistic concept, and any explanation of institutions other than the economy is taken as reducible to the terms of economy itself. Modernization theory posits that the application of the capitalist economic dynamic to the UDCs will result in their modernization and advancement along an imaginary route towards DCs' standards of living. Dependency theory is associated with the Marxist critique of capitalism, with its singular emphasis on class conflict[1] derived from the contradiction between socialized production and private appropriation. Added to this, however, are the concepts of core and periphery which contain the extra contradiction between globally organized production and consumption that is disproportionately Western. This additional proposition has bestowed on dependency theory the epithet neo-Marxist, but it does not detract from the fact that in heterodox dependency theory, as in Orthodox Marxism, the development of economic institutions determines the form of other institutions in society.

The weakness of both modernization and dependency theories is that they do imply preordained eventualities. Modernization theory, in all its variations, bases economic development upon the premise of a capitalist formula derived from the British

[1]In providing foundations for his thesis of factional conflict within the ruling strata rather than conflict across classes, Leszek Nowak points out that the transition from slavery to feudalism was not generated by interclass slave revolts against their masters, and the transition from feudalism to capitalism was not due to interclass uprisings by serfs against their lords. In both "transitions," the conflicts and struggles were intraclass within the old and emerging new ruling classes, which responded to underlying economic changes (i.e., conflicts and struggles were among the existing and emerging ruling strata, not between the "people" and those oligarchies). Slave and serf revolts were at best secondary and supplementary (see Nowak, *Property and Power: Towards a Non-Marxian Historical Materialism,* 1983).

industrialization. Dependency theory, in all its forms, including world systems theory, views all development as one sided in favor of the West, in a situation that can thus be reversed only by socialist revolution. In this prescriptional respect, dependency theory as well as neo-Marxism are not much different from Orthodox Marxism. The latter prescribes worldwide proletariat revolution, the former UDCs' delinking revolution. Neither prescription is attainable, as explained above.

2.1.3 Semiperiphery, Basic Needs, and New Economic Order

In "The West, Capitalism, and the Modern World System," in *Review* XV-IV (Fall 1992: 561-619), Wallerstein elaborates on the characteristics of the capitalist world economy as:

(1) The ceaseless accumulation of capital as its driving force.

(2) An axial division of labor in which there is a core-periphery tension, such that there is some form of unequal exchange (not necessarily as defined originally by Arghiri Emmanuel) that is spatial.

(3) The structural existence of a *semiperipheral* zone.

(4) The large and continuing role of nonwage labor alongside of wage labor.

(5) The correspondence of the boundaries of the capitalist world economy to that of an interstate system comprised of sovereign states.

(6) The location of the origins of this capitalist world economy earlier than in the nineteenth century, probably in the sixteenth century.

(7) The view that this capitalist world economy began in one part of the globe (largely Europe) and later expanded to the entire globe via a process of successive incorporation.

(8) The existence in this world system of hegemonic states, each of whose periods of full or uncontested hegemony has, however, been relatively short.

(9) The nonprimordial character of states, ethnic groups, and households, all of which are constantly created and recreated.

(10) The fundamental importance of racism and sexism as organizing principles of the system.

(11) The emergence of antisystemic movements that simultaneously undermine and reinforce this system.

12) A pattern of both cyclical rhythms and secular trends that incarnates the inherent contradictions of the system and that accounts for the extant systemic crisis.

A. G. Frank agrees with all of the above characteristics, but argues that they are also equally and totally true both of the world economy/system(s) before 1500, whether capitalist or not, and of the medieval and ancient (not merely European) world system (see his Transitional Ideological Modes: Feudalism, Capitalism, Socialism," in Frank's and Gills' *The World System: Five Hundred Years or Five Thousand?,* 1993: 203-4).

In the functionalist terminology of Wallerstein's (1974) world-systems theory, a "semiperiphery" provides a buffer zone between core and peripheral countries. That the core exploits and the periphery is exploited occurs through the different processes operating in different spatial zones. Core processes consist of relations that incorporate relatively high wages, advanced technology, and a diversified production mix whereas periphery processes involve low wages, more rudimentary technology and a simple production mix. There are no semiperipheral processes, only semiperiphery (zones, areas or states which exhibit a predominance neither of core nor of peripheral processes). While the semiperiphery exploits peripheral areas it suffers exploitation by the core.

For example, Nestlé is a transnational corporations for food products, headquartered in the small city of Vevey, Switzerland, with production and sales facilities on every continent and in virtually every country of the world. In recent years its sales turnover has exceeded the Swiss government budget! In the hierarchical spatial structure of the world economy, Switzerland (neutral and innocent but part of the core) exploits Brazil (a semiperiphery state) because the world economy is structured in such a way as to favor Switzerland at Brazil's expense. Switzerland does not have to engage in any overt actions to impose its domination beyond "normal free trade" relations: Swiss bankers are part of an international banking system imposing on Brazil direct conditions to reschedule its debts and indirect conditionality (through IMF clean bill of health) to "liberalize" its economy; Swiss transnational corporations such as Nestlé are involved in profitable enterprises for the ultimate benefit of Swiss shareholders; the operation of the world market, and Swiss and Brazilian relations to that market, ensure Swiss predominance and a resulting flow of surplus to Switzerland. This is a far cry from the original Spanish plunder of the Americas based on a very overt use of power, but it is nonetheless real for all that.

The Swiss are involved in no manipulation of the system; quite the opposite. They are playing the rules of the capitalist game (free trade imperialism) as they are meant to be played. It is just that those rules, the operation of the world economy, are in their favor as a state whose economy is based upon core production relations. With more efficient production they can call the tune in countries that cannot directly compete economically with them, such as Brazil. No overt power coercion is needed, for the most important and effective form of power relation is structural. It drives directly from the operation of the world economy as a system. In that system, power is a direct reflection of the ability of a state to operate within the system to its own material advantage. This depends on the efficiency of its production processes which is measured by the categories of core, semiperiphery and periphery (Peter Taylor, *Political Geography: World Economy, Nation State and Locality,* 1993: 37-8).

As such, Switzerland --a little country of some five million people-- qualifies as a parahegemon. As defined by David Wilkinson, parahegemony is a position in an oikumene (an economic structure of larger scale than the political structures it contains) in which the parahegemon derives economic benefits similar to those which a true hegemon is able to extract by the use or threat of force. However, the parahegemon does so without the threat or the use of force, because it has the economic advantage of being a highly privileged fore-reacher (a center of invention, and/or saving and investment, and/or entrepreneurship), and/or a rentier (monopolizing a scarce resource, a trade route intersection or choke point, an enormous market, etc.); and because it has the politico-military advantage of being strong enough to defend its centers and monopolies, or of being outside the politico-military striking range of its rivals and/or victims. Parahegemony is thus able to compete though less able to coerce; it involves less relative power than the real hegemony; it may be more secure, less assailable, and/or cheaper to maintain than the politico-military hegemony (Wilkinson, "Civilizations, Cores, World Economies, and Oikumenes," in Frank and Gills' *The World System: Five Hundred Years or Five Thousand?*, 1993: 239-43).

The semiperiphery (in Wallerstein's formulation) is thus in a transition, rising or sinking from one state to the other, based more upon political than economic dynamics in this triple tiered spatial structure. This semiperiphery embraces those DCs such as Spain and Portugal which historically slipped from the core of the capitalist world economy, together with the former European settler colonies of Australia and New Zealand. Of course Spain and Portugal are nowadays full members of the European Union whilst Australia and New Zealand are OECD countries and undeniably enjoy DCs' standards of living. Wallerstein's analysis nonetheless is informative to the extent it sheds light on how the post-WW II semiperiphery has not resulted in independent economic strides of any of these countries even several decades later, as was the case, e.g., with the East Asian NICs, not to mention Japan.

In Wallerstein's parlance, moreover, those UDCs which have exhibited significant capitalist economic development, the NICs, have been in effect "promoted" from UDCs to the now more general semiperiphery. One of the results has been the Brandt Commission's (1980) portrayal of a world consisting almost completely of DCs and UDCs, whereby a latitudinal line is notionally drawn around the globe and distorted to include Australasia within an industrialized Northern hemisphere that embraces the former Soviet Union and Eastern Europe. This leaves the UDCs all roughly located in the Southern hemisphere, and as the former Soviet Union and the Eastern European countries have become part of the capitalist world economy, this demarcation has evolved as the natural successor to the three worlds of previous popular terminology.

Although the focus essentially is on the UDCs, the semiperiphery nonetheless is an important concept for dependency theory because of its role as a buffer zone between core and periphery, serving to prevent the two from direct conflict over economic issues. It is conceptualized as a bridge between the haves (à la Galbraith) and the have-nots, projecting to the latter, however, an illusionary kind of potential escape route from deprivation that is, in fact, available only to a few countries which have enjoyed special geostrategic and geopolitical[1] relationships with the West, thereby engendering geo-economic privileges. This special relationship is most clear in the case of the NICs of East Asia,[2] for these have

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[1]On delineating geopolitics from geostrategics see Saul Cohen, *Geography and Politics in a World Divided* (1973); "A New Map of Global Political Equilibrium," *Political Geography Quarterly* (1982, I: 223-42); and "Global Geopolitical Changes in the Post Cold War Era" *Association of American Geographers* (1992, 81: 551-80).

[2]The Latin American NICs of Mexico and Brazil were colonies of Spain and Portugal respectively, but have since been closely connected culturally and economically (and the former politically) with the United States. This phenomenon is a reminder of the separate but interconnected nature of global institutions. Therefore, a composite framework that nonetheless facilitates distinctions between economic interdependence, political separation, military alliance and cultural exchange as hallmarks of an international system best depicts the contemporary world situation. None of these dimensions is reducible to the others, and to single out any one, merely à la Marx, as automatically more important than the others, at least in the case of the UDCs, is a dogmatic oversimplification.

It is difficult to find evidence that *the peoples* of the UDCs are more concerned about their economics than about who they are. Hence their willingness to go out of their way to assert their uniqueness and traditions, and in the process pay the necessary but bearable price. Nation state governments of the UDCs, moreover, cannot manage their internal economies without reference to world markets, nor can they maintain political separation without reference to the global military order.

That applies even to countries of the current core in their earlier times. Friedrich List (1916), e.g., as a German nationalist economist, believed in the primacy of the nation over the individual. Rather than acquiescing to the Ricardian specialization, therefore, he considered protection against foreign competition to be necessary for the industrial education of the nation, to integrate new ideas, rights, duties and institutions to national life. List asserted that Germany, deprived of an energetic commercial policy to restrict international specialization, unlike the United States, became like a colony in the face of the superior productive power of Britain (Quoted in Hilton, 1976: 113). It was List's theorizing that led in 1843 to the *Zollverein* (customs union) which prepared the way to German unification in 1870 (see Taylor, *Political Geography: World Economy, Nation State and Locality*, 1993: 218-19).

Long before List, German cameralists --advocates of economic nationalism-- striving for both political and economic autonomy of the territorial state had called, in the seventeenth century, for such measures that would, in addition to filling the state's coffers, reduce its dependence on other states and make it more self-sufficient in time of war as restrictions on foreign trade, promotion of domestic manufactures, reclamation of wastelands, provision of employment for the "idle poor" (which in some instances amounted to forced labor), and so on.

Following the Thirty Years War, Brandenburg-Prussia used such standard instruments of mercantilist policy as protective tariffs, grants of monopoly and subsidies to industry, inducements to foreign entrepreneurs and skilled workers to settle in its underdeveloped territories, and careful management certainly enjoyed special attention from the West either as colonial entrepôts for trade, strategic and cultural outposts, or as capitalist ideological allies and recipients of military oriented aid during the Cold War. These states have also benefited from their recent association with Japan industrially, and from such common historical and cultural background as post-Confucianism of the China periphery type.

The concept of semiperiphery, together with the Maoist perspective, nonetheless, influenced the basic needs first strategy for development (Chien-fei Hsin, *Mao Zedong's World View: From Youth to Yanan,* 1998). The latter, couched in an ideational layout and concerned more with self-reliance than with delinking, is a kind of bourgeois spin-off from the former. In 1976 the ILO's *Employment, Growth, and Basic Needs* considered the latter to include the minimal consumption requirements for a physically healthy population, certain minimal standards of access to public services and amenities, access by the poor to employment opportunities which would enable them to achieve a target minimum income, and the right to participate in decisions that affect the lives and livelihood of the people. Meanwhile, some analysts concentrated on arguing the case for, and assessing the resource costs of, improved public service provision, chiefly in education and health care, as investment in human capital (Hunt, 1989: 75-9). Others took a broader view of what was entailed in the basic needs first strategy, arguing that the latter incorporates, but goes beyond, improved public service provision. Emphasizing the need also to raise directly the incomes of the working poor, these analysts argued that not only was there no need for a growth-equity tradeoff, but that a basic needs first approach to development could provide the basis for faster and more self-sustained growth.

A central element of the theoretical core of this perspective is that the expansion of a homogeneous mass market is likely to promote faster long-term growth and structural

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of the state's own resources. Through centralization of its administration, requirements of strict accountability on the part of the crops of professional civil servants that were built up, punctilious collection of taxes, and frugality in expenditure, Prussia became an efficient state, exceptional in Europe of its day, and the precursor of modern Germany (see Rondo Cameron, *Economic History of the World,* 1997: 144-5).

change than is the concentration of expanding demand in the upper income bracket, for the latter has a much higher direct and indirect import content than the former. The basic needs approach for the UDCs' development thus aims at guaranteeing everyone a basic minimum livelihood of food, shelter, clothing, as well as health, education, etc.

Complementing the basic need strategy was the 1970s' call for a new international economic order (NIEO), which was decided by the nonaligned countries at their meeting in Algiers in 1973. Then the group of 77 pushed it through the United Nations as resolutions in 1974. The argument was that *since the international economic order of dependence hinders development, a new one was needed.* This NIEO should offer the underdeveloped world better prices for their commodity exports, greater access to northern markets for their manufacturing exports (which according to the Lima target should reach 25 percent of the world total by the year 2000), more finance such as the link between world reserve creation and its distribution to the UDCs (already demanded and negated at UNCTAD III in 1972), and greater group of seventy-seven participation in United Nations and world decision-making. However, the UDCs' bargaining power is still insufficient to make the DCs say yes, let alone to give anything away.[1]

Basic Need (BN) and NIEO were necessary complements to one another. For the UDCs the new order of the 1980s, administered by the Bretton Woods organizations, became worse even than that of the 1970s; and that of the 1990s, promulgated by the Bush Administration early in the decade, fared no better. As for BN, the relative distribution of income and the number of absolute poor and depth of their poverty became far worse than before. Now the debt crisis has vastly increased the foreign dependence of national states.

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[1]The test detonation of several nuclear weapons each by India and Pakistan in May 1989 could prove in decades to come to be a milestone for the attainment of the lacking bargaining power, indeed for the transformation of the entire post-WW II international order, a legacy of five centuries of native power vacuum in that part of the world. The withdrawal of the Chinese fleet after 1435, which left a power vacuum in the Indian Ocean to be filled successively by the Portuguese, Dutch, British and American navies, is being gradually reversed, and those rising Asian powers are endeavoring to get pieces of the expanding and globalizing pie of the world economy. Nuclear power deterrence and status are fundamental in that process.

Their trade, monetary, fiscal and social development policies are even more constrained by foreign debt than they were before the foreign investment. The debt drains surplus from the UDCs.

This flow of capital from UDCs to DCs, for example, was over five hundred billion dollars from 1983 through 1986. Two hundred billion through debt service, over one hundred billion through capital flight, one hundred billion through the forty percent decline in the UDCs' terms-of-trade, and one hundred billion through normal remission of profits and royalty payments. Through much of the 1980s, the annual underdeveloped world debt service was about 6.5 percent of its GNP. This percentage may be compared to one percent of GNP spent by the US on the Marshall Plan or by the West on higher oil prices in the 1970s. Even German war reparations in the 1920s averaged two percent and rose to 3.5 percent in 1929-31, before they contributed to the rise of the National Socialists who abrogated them (UNCTAD, 1988: 76-9; UNDP, 1993: 15-21).

Historically, this drain is not new, but has always increased somewhere in the UDCs during each Kondratieff B-phase economic crisis (Frank, 1976: 39-40). The result is not development, as Frank's case is presented above, but the development of underdevelopment, with disinvestment in productive infrastructure and human capital and loss of competitiveness. Another result is that the earlier Keynesian and structural development theories have been replaced by the irrelevance of neoliberalism, post-Keynesianism, and neostructuralism for development policy. In the real world, the order of the day has become only economic or debt crisis management, instead of socioeconomic transformation, and the related unattainment by the underdeveloped world of delinking and self-reliance. Meanwhile, economic crisis, stagnation, recession and depression, in the disarticulated, capitalistic economies of UDCs, are prevalent problems, in part inherent in the transition from extensive to intensive growth, in part a reflection of a conjuncture in the built-in political investment cycle, in part the result of the importation of economic crisis, inflation and debt from the industrial world through the import led growth. Hence gradual delinking and self-reliance is Frank's, like Amin's, only solution.

Frank (1992: 45-7) thus argues that the basic needs approach should concentrate on the bundle of goods and services that deprived population groups need: food, shelter, clothing, health care and water; that it should focus on the provision of these goods and services as well as on the issue of human choices. Along similar lines, Jacob Viner's (1991) Basic Needs is inferred from the premise that the first requirement for high labor productivity are that the masses shall be literate, healthy and sufficiently well-fed to be strong and energetic. Population growth will decline only after higher income levels have been reached. However, Viner's policy framework is supposed to be one of free trade, with neither central planning, protectionism nor Keynesianism. Rather than a perspective of capital concentration, the basic needs approach is generally one of capital *dispersal.* The emphasis, of Leibenstein (1954) and Myint (1954) for example, is on the importance of noneconomic factors --sociological, political, cultural, moral-- in the development process. Hence, the significance of institutional arrangements in meeting basic needs. Viner (1991) has rejected both duoeconomics and the notion that disguised unemployment existed in the UDCs' agricultural sector, as Theodore Schultz (1990) has argued for example.

On the other hand, Roy Harrod's (1968) "post-Keynesian" recommendations for achieving growth focus on the use of a low interest rate policy and an anticyclical program of public works. In contrast to the capital *dispersal,* characteristic of the basic needs approach, are Roy Harrod's (1993) and Evsey Domar's (1957) conditions for growth with full employment: The focus is on growth not development, whereby growth is financed out of savings. Harrod's warranted rate of growth is that which is sanctioned by the values of two other variables: The planned national rate of savings, and average value of the capital-output ratio as planned by producers. Planned savings represents the sum of the spending power which individuals and firms plan to withhold from consumption in a given period, and which, if the plans are fulfilled, can be made available to finance new capital formation.

The general elements of the basic needs first approach, nonetheless, are:

(1) Economic development includes not merely economic growth but steady, measurable progress towards absolute poverty elimination and a sustained expansion in the employment opportunities and incomes of the poor.

(2) A basic needs first development strategy can lay more effective foundations for sustained growth than any other course of action, primarily because of its impact on the structure of domestic demand and the associated inducement to invest.

(3) Among the range of consequences that flow from the restructuring of domestic demand that is entailed in a basic needs first perspective are an easing of the two dominant constraints encountered by traditional strategies of import substituting industrialization --the domestic demand constraint and the balance of payments constraint.

(4) A redistribution of resources towards the poor would also both increase the productive mobilization of extant untapped small scale savings potential, and provide opportunities to tap and develop the technical and innovative skills of the labor force.

(5) In addition to the foregoing, in agriculture an expansion of small scale, labor intensive farming could lead to greater efficiency of land use, reduced use of imported machinery, and reduced food imports (and/or increased agricultural exports).

(6) Compared with development strategies based on unequal income-distribution, this pattern of development is likely to promote more effectively the development of capital and intermediate goods production within underdeveloped countries. Some of this would be achieved by small to medium scale relatively labor intensive methods. However, where large scale, capital intensive investments remain essential, foreign exchange savings in other branches would increase the supply of this resource to finance essential imports.

(7) Such a strategy can be expected to help promote trade between underdeveloped countries as more goods appropriate to their needs are produced by them.

(8) Meanwhile, the rate of expansion of essential services can also be accelerated by greater and more imaginative use of low cost, often labor intensive methods of capital construction and service provision.

The main policy recommendations that follow from the basic needs concept thus concern:

(1) Removal of the legal, institutional and financial impediments which discriminate against the expansion of small scale and labor intensive production.

(2) Use of a package of policy instruments to promote small farm production --land reform; agriculture research, extension, credit, marketing.

(3) Commitment of more resources to research on the development of small scale, labor intensive production technologies in all sectors in which these are likely to be efficient.

(4) Expansion, and revision of the technologies and methods, of public service provision in order to reach the poor more effectively.

In sum, concerning the delinking mechanism, while the neo-Marxist discourse employs a class analysis, in contradistinction to the spatial focus of dependency theory, to determine the causes of continuing underdevelopment, both orientations derive the same mechanism out of their different analyses (notwithstanding the basic needs first and related concepts, which are an offshoot of the delinking perspective, but without delinking). In neo-Marxist theory, the concept of economic surplus also plays a central role, although the interpretation given to this concept is no longer that used by Marx. Marx's rate of surplus value is the ratio of surplus to necessary labor used in production (Marx, *Capital,* I, 1867: 320-39, 668-72, 956-65; III, 1896: 142, 167, 169). Baran's surplus, however, is the difference between the total domestic output of an economy and the actual consumption of its residents; or the difference between total output and essential consumption.

It was the dependency analysis, however, that effectively broke the hegemony of modernization theory in the field of development studies. Such neo-Marxists as Frank and Amin have further highlighted the concept of dependence --that while industrial growth had indeed occurred in some countries of the periphery, this growth had particular undesirable features that distinguished it from economic growth in the DCs. Specifically, such growth was not generated by autonomous, indigenous capitalist strata within these economies, and these strata remained incapable of generating their own internal growth dynamics. Rather, the underdeveloped economies remained dependent on the world metropolitan economies for access to markets, finance and, above all, technology. As a result, and as a result also of the continuing class alliance between the comprador bourgeoisie of the periphery and the metropolitan bourgeoisie, the latter continue to play the crucial role in determining the pattern of change in the periphery. The ultimate conclusion (of the delinkers) is still that the only mechanism to full autonomous development is via socialist revolution which delinks the UDCs from the world capitalist system.

2.2 The Structuralist Mechanism

In the period 1955-80, developments in underdeveloped, especially Latin American, societies and economies have eroded the position of those who put their faith in laissez faire and have strengthened that of the structuralists --those believing that progress requires deliberate radical change in economic policy, in the allocation and use of resources, in the distribution of income, in social policy and in the nature and the functioning of the political system. The structuralists laid great stress on the position of underdeveloped economies in the international economic system. They considered external factors to be at least as important as internal factors in determining the growth prospects of peripheral economies, and in influencing both their long-term development strategies and short-term economic policies. The structuralists identify the primary case of economic dependence as the cultural dependence of the élite (Furtado, 1973) and transnational corporations (Sunkel, 1972, 1973). However, Cardoso and Faleto (1979) and Warren (1980) contend that not only is dependent transformation possible, and in some countries occurring, but that this may also lead to the breaking of existing dependency relations.

On the other hand, Raúl Prebisch's (1962, 1964) indictment of the false universalism of economics has impelled him and others to a critical assessment of the capitalist conceptual framework. Prebisch, the main founder of the structuralist perspective, as well as other scholars, attacked the concept of comparative advantage,[1] adducing a number of reasons why primary exporting countries could not expect to follow a path of export led growth. Some elaboration on these reasons as well as the incoherence of the concept of comparative advantage, especially in application, are essential for appreciating the structuralist perspective, its policy recommendations, and its relevance to the thesis of this inquiry. The idea, as culminated in the last two centuries, is that a source of comparative advantage is technology differences between nations. Britain, during the industrialization, exported its industrial products and with them, inadvertently, its new technology which was absorbed by European industries.

Technologies, however, spread slowly. One reason is that the technology adapted to one country's factor resources may not be appropriate to the relative resource costs of another country. The abundant timber of the US made it uneconomical to adopt coal fired steam engines on the British model, while the fast flowing waters of Switzerland allowed the Swiss textile industry to use water powered machinery as efficiently as the British textile mills used steam power. One more dichotomy is that once old methods of production have been adopted, it is not profitable to invest in new techniques until either the old equipment is so worn out it has to be scrapped, or the variable costs of generating a given sales revenue

[1]The insight used unsuccessfully by Ricardo in his life time to repeal the Corn Laws, as the leading rivalry tool between the nascent industrial capitalist bourgeoisie and the entrenched landlords in Britain, constitutes the backbone of neoclassical international trade theory, upon which the UDCs must conform to the postulates of static comparative advantages. The Corn Laws were not repealed, however, until 1846, 23 years after Ricardo's death, twenty-nine years after the publication of his *Principles*.

Prodded by the potato famine of 1845 which starved and devastated Ireland and (to a lesser extent) Scotland, Tory Prime Minister Robert Peel who had won the election upon advocating the status quo (contrary to the Whigs' proposed reduction, not repeal, of the Corn Laws), introduced a bill to repeal the Corn Laws which, with the support of most Whigs, passed in January 1846, over the opposition of the majority of his party. The repeal caused Peel, ostracized by his own party, to retire from politics (see Rondo Cameron, *Economic History of the World*, 1997: 297-8). *It was more the potato famine than any remnant from Ricardo's rationalization that brought about the repeal* (see also Homayoun Katouzian, *Ideology and Method in Economics* (1980: 185).

with the old technique exceed the total costs of earning the same money with the new methods of production. There is also the size of the market. The new techniques might require that there be a larger number of higher income customers within an economic distance of the manufacturer in order for profits to be made.

However, contrary to the predictions of comparative advantage, not only did industrial countries tend to retain the fruits of technological progress in the form of higher wages, rather than passing them on in reduced prices, but the world's dominant trading nation in the mid-twentieth century, the United States, had a much lower import coefficient than the previously dominant Britain had in the nineteenth century (Foreman-Peck, 1983: 37-41). Another type of discrepancy between the prediction of the Ricardian theory of comparative advantage and empirical data arises from the neglect by the theory of distance from potential markets and the costs of moving various products. The weight of bricks in relation to their value makes unprofitable imports of these products on a large scale despite the low productivity of the domestic brick industry. One more type of discrepancy results from the emphasis solely on supply, to the exclusion of demand considerations. A strong domestic demand relative to foreign demand can eliminate exports and draw in imports, even though the economy could export profitably according to supply conditions alone. Still another restriction on the empirical validity of the theory is tariffs in the domestic economy and abroad offsetting comparative advantages. Moreover, much of eighteenth century trade was based on products that needed climates different from those of the importing country, such as sugar, tobacco, tea and raw cotton, or as in Ricardo's example, wine.

Even the great nineteenth century export industry, cotton textiles, depended to a considerable extent upon climate for locational advantage. Lancashire's high humidity made cotton fibers more pliable, less brittle and easier to process. In part because of technology advance, that climatic differentiation is no longer a crucial factor in twentieth century's international production and exchange. More importantly, the prototypical Ricardian theory does vaguely explain why technological differences underlying comparative advantages should exist in the first place, which brought about an attempt, a century later, by the assumption ridden H-O-S hypothesis to shift the theory from the fuzzy technology and cost to "endowment." It traces the sources of comparative advantage to the relative scarcities of the factors of production in different countries, a teleological, fatalistic rationalization.

This theory, due to Heckscher (1922) and Ohlin (1933) and disseminated in the interwar period and elaborated upon in the 1950s by Samuelson, was meant to explain much of intra-European trade which could not be ascribed to climatic factors. The Ricardian theory would explain such trade if there were differences in production technology between countries, but the persistence of the differences themselves would then require unprovided explanation. The H-O-S theory in contrast assumes the same technology is available to all countries. Trade takes place between nations because the factors of production do not move across national boundaries and so cannot be used in the most appropriate proportions to maximize productivity. The relative scarcity of productive inputs differs from region to region and from country to country. In the absence of trade these different relative scarcities lead to different relative prices within the countries even though countries are assumed to have access to the same production technologies.

The implication of the theory is that a nation will export products intensive in the relatively abundant factor of production. *However, once there are more than two countries and two traded goods in the international economy, this implication crumbles;* it is not necessarily true that a traded good will be exported if its relative price exceeds its pretrade relative price. Furthermore, the assumption of factor intensity, central to the theory, is ambiguous once it is recognized that there is a choice of techniques using different proportions of factors to make a product, and when large changes in relative factor prices occur. Then factor intensity reversals may occur, *cases in which it is impossible to say which country has a comparative advantage in the production of a good.* And an economy's comparative advantage can be changed not only by imported technology stimulating capital accumulation but also by the new technology inducing the discovery of natural resources by raising their value.

Similar logical difficulties occur with the factor price equalization theorem, another pillar of the neoclassical international trade theory which is predicated on this brand of comparative advantage, as with predicting the pattern of trade from factor abundance and factor intensity. In the simple case of two countries and two goods, equalization may not take place because each country stops producing the good in which it has a comparative cost disadvantage, importing it entirely. Moreover, factor intensity reversals allow the possibility that even without complete specialization, factor price equalization may not occur. Further, both transport costs and tariffs prevent the emergence of a single price for internationally traded commodities, and so also prevent the emergence of a single price for the factors used to produce these goods. *This is why the theory conveniently abstracted from the transaction costs, the very raison d'être of the emanation and perpetuation of the firm and the market per se, according to the same (neoclassical) overarching theory.* Further, if an empiricist rebuke to the factor price equalization theorem beyond the observation of wage and price differentials between the DCs and the UDCs is needed, Foreman-Peck (1983) documents the obvious persistence of those differentials. These must be explained partly by the importance in consumption of goods that are not much traded between regions, but mainly by a growth process that is not captured by the H-O-S theory on which factor price equalization is based. Because economies have different resources per capita of population, any hypothetical, nominal equalization of the prices of these resources and of labor through trade could widen the gap in real income per capita between countries, even if all trading economies are made better off.

Historically, where the regions of recent settlement were concerned, the complementarity of the factor flows from the Old World with the abundant natural resources resulted in persistently higher wages than in Europe, rather than factor price equalization. In other areas, such as Russia, the informational difficulties and institutional restrictions were too great to permit equilibrating tendencies of the international market to operate (Foreman-Peck, 1983: 41-51). Furthermore, the comparative advantage theory of trade suggests that income will be increased by opening an economy to trade, but this does not constitute economic growth in the sense of a sustained rise in income per capita, the *intensive* growth of Eric Jones (1981) and others elaborated upon below. Nor is this considered growth at all in the Marxian sense, whereby all growth takes place in the sphere of production, not that of circulation.

Generally speaking, theories of growth may be classified into those which are demand led and those in which growth is generated from the supply side. An eighteenth century idea of trade was that it increased the capacity and the income of the economy by providing "a vent for surplus" (Smith, 1776: I, 9-19, 179-207). This doctrine ostensibly overlaps with the latter-day, export led growth theory only in the latter's argument that foreign demand, presumably, encourages investment in export industries, which in turn raises income and stimulates further investment and increased income. Supply side growth theories usually emphasize the efficiency of the price system in balancing supply and demand.[1] This balancing, supposedly, prevents the emergence of unemployed labor or underutilized resources on any substantial scale unless certain institutions prevent price adjustment. However, on this assumption an increase in the demand for exports would tend to divert investment and employment away from those industries mainly supplying the home market, so that there would be no increase in growth.[2] Increased investment can

[1]Whereas those formalists argue that the same economic "laws," e.g., of supply and demand, operate in all societies and times, the substantivists (e.g., Karl Polanyi --the foremost economic anthropologist), elevating kinship based, use and prestige good social structures, disagree and counter that most historical societies were organized around redistribution and reciprocity instead (see Polanyi, *Great Transformation*, 1944).

[2]Keynes (1936: 46, 97-9), following Michal Kalecki (1976: 33-40), has identified the role of effective demand in the determination of aggregate output and employment. Increasing savings during a recession may exacerbate the downward spiral of output and employment, whereas increasing public sector spending might be a virtue. Keynes, however, has identified, on the one hand, *protectionism* as a measure for the maintenance of national output and employment and, on the other, *institutional reforms* with respect to international trade and finance.

temporarily increase growth rates but can only take place at the expense of a reduction in consumption, in current living standards.

The sure way in a closed economy that growth in income per capita can occur is through increased technical progress (Foreman-Peck, 1983: 53-4). The introduction of foreign trade raises the growth rate of the economy temporarily as the gains from trade raise income and savings, and the savings are plowed back into industry as investment. But diminishing returns to the increased investment set in and the growth rate falls back to that determined by technical progress. Further, trade can permanently increase the growth rate when there is a natural input, such as ores, semiprocessed metals or agricultural products, for which it is difficult to substitute other factors. In this instance the long-term growth rate of the isolated country is set by the slowest growing natural input. The growth rate can be raised if opening the economy to trade increases the growth of available supplies of this input. This may be considered import constraint growth (Foreman-Peck, 1983: 53-62). Whereas export led growth shifts resources into the export sector, the removal of supply constraints in import constraint growth increases imports, which must be paid for by more exports or capital. On the other hand, for the UDCs, trade with the DCs was not the "engine of growth" (the equivalent of what Hilton calls "prime mover," which is thus used by Takahashi, Dobb and Sweezy, all in Paul Sweezy, ed., *The Transition from Feudalism to Capitalism*, 1976), nor was the foreign investment that went with the development of primary product exports. Instead, the "engine" of whatever growth that took place (if engine was indeed needed at all, rather than impediment removal as is discussed below), was the *shift from primary products to manufactured goods*, by way of *import substitution*.

But import substitution as a development strategy, if it is to be carried out efficiently, must be based upon:

(1) A lower level of protectionism, preferably through tariffs rather than quotas, whereby such near absence of protectionism is detrimental to long-term, nascent industrialization programs.

(2) A lower range or degree of dispersion in the rates of protection provided to specific industries, again lowering the efficacy of targeted measures necessary for a rapid development.

(3) A sustained implementation of supportive policy measures such as technological research, training and education, and development of infrastructure, all of which require finance that can essentially be procured through exports, which is unlikely to take place politically because of the adoption of the import substitution strategy (Nurul Islam, 1990, and in South Center, 1993: 257-71).

This is thus a strategic dilemma for the UDCs: Import substitution is constrained by security considerations, and export led growth is economically unsound and politically repressive. The so-called Four "Tigers/Dragons" in East Asia are projected in the neoclassical literature as the export led growth model. However, the geostrategic factors under the Cold War, and the economic and political importance of the state's role, and its political repression, bribes (from the successive presidents down the ladder) and other forms of corruption and disarticulation go largely unmentioned.[1] Further, if export led growth has been attained in the Republic of Korea and in Taiwan, the above factors notwithstanding, it is in part because of the prior increase in the equity of the distribution of income and the domestic market. These were due in turn to the land reforms modeled after the Japanese case. But it is essentially the exceptional political and strategic factors which make the NICs experience immaterial to the UDCs' situation, a more unique than copyable model. Globally, moreover, the export led growth model ushered in and supported military coups, martial law, emergency rule, etc. The model's inequitable socioeconomic side requires the physical and political repression not only of workers and their unions, but also

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[1]On these factors and forms, see Ming-Chang Tsai, "Geopolitics, the State, and Political Economy of Growth in Taiwan," *Review of Radical Political Economics* 31 (3) (Summer 1999: 101-9); Martin Hart-Landsberg, *The Rush to Development: Economic Change and Political Struggle in South Korea* (1993); Joseph Medley, "Imperialism and Uneven Development: U. S. Policy in Taiwan and Nicaragua," *Review of Radical Political Economics* 21 (3) (Summer 1989: 112-17); and Gordon White and Robert Wade, "Developmental States and Markets in East Asia: An Introduction," in Gordon White, ed., *Developmental States in East Asia* (1988: 1-29).

of industrialists and others working for the internal market. Events of the last few decades in South Korea, the Philippines, Thailand, Bangladesh, Indonesia, Pakistan, Chile, Uruguay, and Argentina are a testimony to that tendency. In many cases the political repression worked, while the export led growth resulted in the debt crisis.

The import led growth in the East European NICs was essentially the same as the export led growth in the East Asian NICs, as Frank (1978: 115-18) points out. The former export to import, the latter import to export. The difference has been that NIC growth in Eastern Europe has been less successful than in East Asia, essentially, again, for geostrategic reasons. Now the East Asian NICs, on behalf of the TNCs, outcompete the East Europeans in the world market and invade their domestic markets too. Export led growth has also been used in some countries in South America. However, all things considered, the East European model is still politically less repressive and less inequitable than in both capitalist NIC areas. However, the South American and East European NICs could not be competitive against the East Asian ones, the TNCs' connection notwithstanding, after their debt service made them fall behind in technological and other competitions on the world market. Hence, for the UDCs, either one of these two clear-cut, monolithic strategies is a zero sum game. Therefore, an amalgam of import substitution and export promotion has to be adopted, and tradeoffs in both strategies have to be made.

The need for learning by doing does of course require infant industry protection, but the sooner it is removed or reduced the better. In a highly discriminatory system of import restrictions the least cost industry often ends up getting the highest level of protection. But empirical data compiled by Nurul Islam indicate that with proper public education, including that of consumers and other interest groups such as importers, traders, export industries or industries using high cost protected products, it is possible to generate the necessary pressure to reduce protectionism over time (in South Center, 1993: 257-71). Other dynamic arguments for net benefits from a specific level of protection do exist. For example, in a growing economy free trade is not the optimal policy for a large country because the growth of exports would cause an excessive deterioration in the terms-of-trade. Again an optimum tariff could offset this deterioration (Foreman-Peck, 1983: 53-62).

Moreover, in the course of economic growth, *comparative advantages will tend to change as different productivity increases occur between industries, and as the factors of production are accumulated at different rates.* The changing pattern of comparative advantage in economic growth is also associated with the changing relative importance of different economic groups and this importance is usually reflected in policy. It is further possible that a country may not benefit from growth through the accumulation of its relatively abundant factor (contrary to the H-O-S postulates), for example labor in a densely populated poor country. The country can, however, produce export goods which use a large proportion of the abundant factor for an initial period, and import needed requirements for its industrialization program. The price of exports relative to imports (the terms-of-trade) will fall and this loss of income may exceed the gain from the increased supply of the factor. However, the tradeoff, on a temporary basis, is the initiation of new industries.

Although comparative advantage theory signifies that free trade is better than no trade (essentially a truism), specialization, historically, was largely determined by national resources, especially climatic factors, arable or pastoral land, coal or labor, rather than by trade through the Ricardian difference in, or gradual diffusion of, technical knowledge. The justification for believing in pecuniary welfare gains from trade, moreover, is the notion that being able to buy more of what one wants is an improvement in welfare. Yet free trade is not necessarily better than reduced trade. For a country large enough to affect world prices, an optimum tariff could result in more benefit by reducing the price at which foreigners can sell than is cost by the fall in that country's imports.

Such, and other, defects in the theory of comparative advantage in its varying forms were the sources of the Structuralists' disenchantment with neoclassical economics.

Hence, Prebisch's (1962, 1964) development recommendations are based on his conclusion that only government promotion of a steady process of *structural transformation*, focusing above all on the development of *a diversified*[1] *domestic industrial sector, including capital goods production,* can overcome UDCs' problems. This is to be achieved using a humane, market oriented economy based on *planning, industrialization and protectionism,* and limiting competition to counteract the secular tendency of primary products' terms-of-trade (TOT) to deteriorate. Prebisch, like Celso Furtado (1954: 33-57) and other ECLA economists, stresses *the central role of rising labor productivity in economic development.* Only this can provide the basis for a steady increase in mass living standards. His attack on the concept of comparative advantage, in addition to the reasons mentioned above, is especially linked to the empirical observation that, contrary to the concept's prediction, *the benefits of technological advance in primary exporting and manufacturing economies are not equitably distributed between the two trading partners.* This factor, as well as the many others pointed out in the Introduction, so-called distortions, is swept under the rug by the neoclassical preoccupation with pecuniary gains from trade and with nothing else.

The data upon which Prebisch's argument is founded indicate an adverse long-run trend in the terms-of-trade for primary commodities from the mid-1870s to the mid-1930s (Prebisch, 1962: 2-65). Major advances in productivity have occurred in the main manufacturing nations since the late nineteenth century. According to the concept of comparative advantage, this should have been reflected in a decline in the price of their exports, and a consequent improvement in the terms-of-trade of primary exporters. Yet this has not occurred. It has not done so, as Prebisch found out, due to the downward rigidity of wages and prices in the manufacturing nations. Instead, these productivity gains have been

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[1]Hans Singer (1950, 1993) too proposes *to diversify out of primary exports* by development of domestic markets and by *industrialization*, either *import substitution* or *export promotion* or a combination of both. Diversification enables a country to escape the consequences of deteriorating TOT --both Prebisch-Singer different commodities deterioration and Charles Kindleberger's (1981) different countries deterioration-- and lower productivity growth, in addition to Paul Streeten's (1981, no. 2) uneven distribution of the gains from trade and economic progress (since the point is not what the TOT are compared with what they were, but what they are compared with what they should and could be).

fully absorbed within the industrial capitalist economies in the form of higher real wages and profits. Consequently the terms-of-trade of primary exporting countries, which should have improved, have not. Indeed, using the international financial statistics of the IMF, Beat Bürgenmeier has found that while the terms-of-trade (the ratio of the unit price indexes of exports over imports) of the DCs improved by 13.2 percent between 1980 and 1987, those of the UDCs deteriorated 24.1 percent during the same period (Bürgenmeier, *Socio-Economics,* 1992: 14).

Furthermore, while the manufacturing nations have retained the benefits of their own productivity gains, the extent of the movement in the terms-of-trade suggests that they have also absorbed part of the productivity gains of primary exporters (which were passed on through a decline in relative prices). *Thus the postulation by the theory of comparative advantage,* that where two countries have different internal relative productivities in the production of two goods, both can gain if they enter into international trade (and even in the unlikely case that all the gains are absorbed by one country, the other will not lose) *does not apply in the real world.* The cause of the center's ability not only to retain its own productivity gains but also to appropriate part of those of the periphery, in Prebisch's account, derives largely from different responses to recession in the two regions. Specifically, it derives from labor success in the center in claiming wage increases in the upswing of the business cycle while ensuring wage rigidity in the downswing. The pressure then moves on to the periphery: *The less that income can contract at the center, the more it has to do so at the periphery.* The characteristic lack of organization among the workers employed in primary production prevents them from obtaining wage increases comparable to those of the industrial countries and from maintaining the increases to the same extent. The reduction of income, whether profits or wages, is therefore less difficult at the periphery. Although the prices of primary products rise somewhat in the upswing of a business cycle, this is more than offset in the downswing, hence the long-run downward trend in the terms-of-trade for primary producers. This is another explanation of a phenomenon that was also noted by Lewis, and referred to above: The failure of the periphery to retain the benefits of its own productivity increases in traded goods. However, while Lewis emphasizes the unlimited supply of low cost labor as the key causal factor leading to the loss of surplus, Prebisch emphasizes the lack of effective unionization of wage labor in primary production in the periphery. But the lack of effective unionization could itself be due to the excess supply of labor that Lewis emphasizes (Hunt, 1989: 136-9).

From his analysis of the causes of the long-run trend in the terms-of-trade of primary exporters, therefore, Prebisch concludes that the countries of the periphery have no option but to *industrialize* and produce their own manufactured goods. They will then be able to reap the benefits of their own productivity gains both in primary production and in manufacturing (Prebisch, 1962: 49-65). Prebisch also adduces a second reason, which is hinted at above, for promoting industrialization in the periphery. In the nineteenth century the leading industrial economy, Britain, pursued a policy of free trade in a context in which a substantial proportion of the gross domestic product of this expanding economy was traded for imports of raw materials. When the United States took over as the leading industrial economy a notable change occurred, for its import coefficient is much lower than that of Britain. Already only five percent in 1929, it fell further during the following depression and stood at three percent in 1948. This low import coefficient reflects the US' high degree of self-sufficiency in many raw materials and does not augur well for the primary export growth prospects of the underdeveloped economies. A third reason both for the downward long-term trend in the terms-of-trade for primary products, and for expecting only relatively low growth of future primary export volume (with slower real revenue growth), lay in the different income elasticities of demand for primary and industrial goods, these being generally low for the former and high for the latter (Singer, 1950: 63-5). A fourth reason is the development in the industrial capitalist countries of synthetic substitutes for primary products (Nurkse, 1952: 10-13). Fifth is the further depressing effects on demand for primary exports from the periphery of growing protectionism in European agriculture and increased efficiency in the industrial economies in the use of raw materials, leading to less input per unit of output (Prebisch, 1964: 127-8). Sixth, a static version of the Prebisch-Singer dynamic TOT argument, also called the optimum tariff thesis, was developed by ECLA and endorsed by Nicholas Kaldor (1996: 69-73). It holds that the underdeveloped countries are confronted by monopolistic markets in their purchases of manufactured goods, and that prices are kept above competitive levels by international private cartels or simply by the absence of price competition among producers operating in imperfect markets.

Singer's (1950, 1993) policy reactions to worsening TOT makes him a bridge between the delinking and the structuralist mechanisms, with his feet well-established in the latter. These include:

(1) Changing the underlying bargaining relations.

(2) Emphasizing collective self-reliance by more inter-UDCs trade and investment.

(3) National delinking (autarky/import substitution). Delinking (the extension of the infant *industry* argument into an infant *economy* argument) is the way of overcoming the institutional and power setup.

(4) Export promotion.

(5) Increasing the volume of trade in primary commodities (by individual nations, not compositionally, or else they would drive prices even lower, which is exactly what export led growth is essentially about) so as to obtain better income TOT (export revenue divided by import prices) and maintain import capacity.

(6) Compensate for declining TOT, and lagging import capacity, by financial transfers.

And Prebisch's (1962) conclusion that *industrialization* ought to be the most important means of expansion became a key element in the structuralist perspective. However, while poor prospects for expanding primary export earnings underlie the case of industrialization, the expansion of the modern sector is itself heavily import dependent. Increased self-sufficiency in the long-term requires, as a precondition, increased imports and, hence, increased access to foreign exchange. Thus, the low income elasticities of demand at the center for the periphery's primary exports combined with high income and low price elasticity of demand for imports in the periphery do render the latter increasingly susceptible to balance of payments crises as it attempts to industrialize. The structuralists' main objections to neoclassical economics, therefore, are that they question the static analysis of the external growth process, the efficacy of market forces to provide needed external and internal adjustments, the use of conventional measures to correct deep seated secular problems, and the reduction of the standard of living, especially of the poorest strata, as a way of promoting growth.

A distinctive feature of the structuralist mechanism then is the rejection of neoclassical-monetarist solutions to the problem of imbalance, as well as to that of domestic inflation. Prebisch (1962: 118-20) and Furtado (1964: 78-81) have questioned whether balance of payments problems in the periphery could be solved simply by applying "sound rules" of monetary behavior. According to the monetarist view, both pressure on the balance of payments and domestic price inflation are symptoms of the same problem: Excess demand generated by an unduly rapid expansion of the money supply. Therefore, whereas Keynes (1936: 67-9, 115-19) argued that a high Public Sector Borrowing Requirement (PSBR) should be allowed when economic activity was depressed, enabling public spending when tax receipts are low, in order to encourage growth in the economy, monetarists (e.g., Friedman, 1962: 102-7) argue that government borrowing fuels inflation and crowds out private investment, and hence the PSBR should be tightly controlled at all stages of the economic cycle. The monetary solutions lie in domestic deflation, and in devaluation of the currency in order to both reduce the demand for foreign exchange and increase foreign currency earnings. The structuralists, however, contend that the recommendation of these monetarist solutions derives from an incorrect monolithic diagnosis of the problem, based on the assumption that all economies function in a similar manner; that adoption of monetarist solutions to these pressures in the periphery would amount to throwing out the baby (development) with the bath water (monetary disequilibria).

Moreover, devaluation, an important element of the monetary, "structural adjustment" strategy, may adversely affect development for three reasons. First, its impact on the balance of payments may be negative rather than positive due to low price elasticities of demand for imports and exports. If the sum of these two elasticities is less than unity then a country's balance of trade will be worse following a devaluation. Particularly in the late stages of underdevelopment, when most imports consist of essential capital and intermediate goods, the price elasticity of demand for imports is likely to be low. Hence only if export demand is price elastic will there be an overall gain from devaluation. If foreign exchange outlays are unlikely to fall significantly, then foreign exchange earnings must rise. Yet in practice the latter is unlikely to occur, partly because the exporting country's competitors may cut their prices rather than lose their market share, while aggregate demand in the developed countries for primary imports is also unlikely to be highly price sensitive. Second, devaluation may have a further negative impact on the foreign balance where primary export production is under foreign ownership. If, due to either external demand conditions, capacity limitations or other reasons it is impossible to expand exports, at least in the short-term, the sole immediate consequence of devaluation on the export side will be to raise the domestic price of the export. All the value of the price increase will accrue to the firm's owners as increased profit, and will most probably then be remitted abroad, thereby increasing foreign exchange outflows. Finally, devaluation will raise the domestic price of imports. The immediate effect will be felt most severely in those branches of the economy with the highest capital intensity. Since in semiindustrialized underdevelopment the import coefficient is higher in investment than consumption, it is here that the effects will be most severe. With an increase in the relative cost of investment there will be a decline in the real value of savings (Hunt, 1989: 135-6, 149, 322).

For these reasons the monetarist response to balance of payments disequilibrium was rejected by structuralist economists, and an alternative response which would not impede development was proposed, namely industrialization, while controlling public expenditure, with an eye on the foreign balance. In addition, Prebisch (1962: 66-75) discusses the impact of inflation on the balance of payments, income distribution, savings and the pace of development. He sees the causes of inflation as lying in the international operation of the Duesenberry (1949) effect in the sphere of public expenditure, and in the belief that inflation is an unavoidable means of forced capitalization where voluntary saving is evidently insufficient. Any inflation, however, redistributes income and wealth, of both individuals and social groups. Those whose incomes are price elastic (merchants, manufacturers, landowners who farm their own lands, peasants with secure tenures and produce for the market) benefit at the expense of wage earners and those whose income is either fixed or changes only slowly (bureaucrats, teachers, pensioners, rent receivers, rackrented peasants). With respect to the consequences of monetary expansion, a moderate credit expansion may contribute to expanded employment and output. But Prebisch concludes that monetary expansion is more likely to raise prices than employment in the first instance, resulting in a redistribution of income towards the recipients of profit: The rise in prices, by creating exceptional profits, places in the hands of a comparatively small group great opportunities for savings (Prebisch, 1962: 45-8).

When juxtaposed to Lewis, Prebisch first does not accept the view that profits are automatically converted into investment. Rather, he concludes on the basis of evidence from the Brazilian case that only some 50 percent of profits are so used. He contends, second, that those who consume out of profits have a high propensity to import, and while monetary expansion may increase savings it cannot increase the supply of foreign exchange needed to finance the import of capital and intermediate goods. Meanwhile it is likely to reduce voluntary savings among other income groups while increasing income inequality. Hence, although Prebisch focused only on the conventionally accepted cause of inflation, monetary expansion, his analysis emphasized a key characteristic of the structuralist school --preoccupation with the foreign balance. The distinctive structuralist analysis of inflation focuses on its structural causes, and their implications for policy. Just as international and domestic demand elasticities render underdeveloped economies inherently susceptible to balance of payments crises, so domestic supply inelasticities in key sectors --agriculture, due largely to tenurial conditions, infrastructure, certain branches of industry, and shortages of skilled labor and entrepreneurial skills-- render underdeveloped economies inherently susceptible to cost inflation during the development process. Such pressures on costs are exacerbated by diseconomies of small scale production in newly created industries.

Inflation, as Furtado (1964: 37-8) points out, is not an autonomous phenomenon, but an overt expression of structural maladjustments which follow in the wake of the growth process in some phases of development. With short-run supply elasticities typically quite low in the UDCs, rises in some prices are bound to be substantial. Inevitably, price rises which are due to supply shortages, while initially located in specific sectors, tend to be transmitted throughout the economy. For example, food shortages lead to money wage increases and so to price increases in the modern sector. Where new industries are protected monopolies, the likelihood of cost increases being fully passed on in price increases is high, and once price rises get underway, there will be familiar cumulative tendencies as each stratum attempts to protect itself from the rise in prices. Meanwhile any attempt to cope with balance of payments disequilibria, however caused, through devaluation will add to domestic inflationary pressures. While the structuralists' analyses concur that inflationary pressures are inevitable during phases of growth combined with structural transformation, they also concur that if inflation gets out of hand its impact on development becomes negative; long-term productive investment becomes discouraged in favor of more speculative uses of capital, such as hoarding inventories, buying foreign exchange and building apartments and shops for the higher income groups. Hence, it is essential to seek ways of *confining the upward pressure on prices within tolerable bounds, but without unduly lowering the rate of growth and structural change.*

Foreign credit obviously has an important role to play in helping to contain inflationary pressures. Governments thus have a role to play in guiding investments into key areas and in the implementation of institutional reforms, particularly agrarian reform, in order to improve domestic supply elasticities. Therefore, the structuralists are convinced that the presumed Lewis-Rostow pattern of inevitable gradual evolution from a subsistence or closed economy through the stage of raw materials exports to full scale industrial or open economy along the lines of England, Germany, the United States and Japan is an illusion. For the structuralists the evolutionary formula is based upon a general theory of economic development which embodies concepts of universality. No underdeveloped, peripheral economy and society, they insist, can be expected to become fully independent and autonomous in its decisions on vital areas of domestic policy because enduring neocolonial structures since independence have profoundly permeated the process of change and impede full scale breakthrough to modernization (Stein and Stein, 1970: 75-9).

Differing development patterns (depending on the composite of natural resources, human resources, stock of capital, market size, flows from abroad and government strategy) are nonetheless proposed by Hollis Chenery (1975). They are postulated upon Chenery's *structural* conclusion of his two gap models: Computable planning models, which rationalize foreign aid until takeoff, and are built on elasticity pessimism. The two gaps refer to the *ex ante* savings- and the foreign-exchange- bottlenecks to increasing the value of the specified objective function (i.e., the savings-investment gap and the import-export gap). These development patterns are also postulated upon Chenery's link between level of development and capital intensity of industrial production. Gunnar Myrdal's (1957) *structuralist* thesis of cumulative causation, on the other hand, focuses on the link between low average incomes in the UDCs and the pattern of change elsewhere in the world economy. He argues that a small group of countries, having achieved major advances in science, technology and industrial production, have become locked into a path of cumulative development, while the majority of countries, which have not achieved these breakthroughs, are condemned to stagnation or, worse, declining per capita incomes.

Factors making for growing international inequality, according to Myrdal, include continuing scientific and technical progress in the developed countries, the presence of larger markets in these countries, the tendency of finance capital to flow into areas where cost structures and market prospects look most promising, and the relative income elasticities of demand in the industrial capitalist countries for manufactured and primary products. Meanwhile, in poor countries low levels of per capita output and savings, high rates of population growth, low levels of skills, the poor health of the work force, a production structure locked into the export of primary products facing poor world market prospects, and the import of cheap manufactures which undercut local artisan production, all contrive to perpetuate and exacerbate existing poverty.

Breaking out of this situation can be achieved, argues Myrdal, only by governmental *planning* and deliberate *activism* within market forces. The simple and static concept of comparative advantage, vehemently attacked by Myrdal, fails to provide an adequate guide to resource allocation. Hence, industrial development must be promoted, and this can only be achieved by *protecting infant manufacturing industries within the entire economy* from foreign competition. Myrdal further attacks Samuelson's factor price equalization, which is built upon Heckscher-Ohlin economic liberalism of factor proportions, and supplemented by Bhagwati-Johnson's "immiserization" and allocative efficiency (Myrdal, 1957: 79-118). Myrdal therefore suggests *egalitarian reforms, protectionist industrial policies, economic planning and control, and higher consumption levels* as a course of action for growth. In addition, he recommends changing such attitudes and institutions as population and population policy, land ownership and tenancy, conditions of illness and health, education for different strata and different localities and its quality, etc. Eventually, the goals would be the elimination of soft state (specific interest-group dominance, rent seeking activities, corruption, etc.), and the circular and cumulative causation of national and global inequalities of resources and power.

A less ambitious course of action than that of Myrdal comes from Hla Myint (1954), for whom underdevelopment is a state of being, characterized by an objective and a subjective complements. The former is reflected in low productivity and stagnation, the latter in a sense of economic discontent and maladjustment generated by awareness of the higher living standards attained in industrial capitalist economies. Myint's basic thesis, which is analogous to Amin's disarticulation thesis and Frank's development of underdevelopment, is that as underdeveloped regions have been opened up to international markets the pattern of trade and development that has ensued has *consolidated rather than transformed* the condition of underdeveloped peoples --they have specialized in unskilled work as wage laborers or peasant producers *(a trend that continues to be inculcated through the focus of neoclassical international trade theory on comparative advantage).*

As producers the UDCs face monopsonistic buyers of their produce, e.g., the Group of Seven (G-7). A cartel is an agreement or contract among nominally independent firms or countries to fix prices, restrict output, limit wages, divide markets, use protective tariffs, employ dumping, or otherwise engage in monopolistic, anticompetitive practices, not only in industrial production but also in monetary and other economic activities and devices. In this sense the G-7 is more of a cartel than OPEC. The fact that Russia is now added to the G-7, thus the group is currently called G-8, to shore up Boris Yeltsin's "liberalization" program, changes little in the nature of the G-7, for this addition is merely cosmetic. As consumers the UDCs face the monopolistic markets of the big export companies and of middle merchants and money lenders. A combination of unequal market forces, military alliances, social institutions and prejudice act to prevent underdeveloped peoples from improving their economic status, and these forces are compounded by their resultant lack of business experience.

In principle, Myint's solution is *the development of countervailing powers to counteract the existing unequal distribution of market power.* The development of labor unions, state marketing boards and peasant cooperatives are all potential sources of such countervailing power. But the problem of finding investment outlets remains. Meanwhile, the scope for use of such forms of countervailing power as economic protection or development of labor unions is also limited by the potentially adverse effects these may have in terms of reduced efficiency and increased costs of production. Therefore, while questioning the adequacy of the neoclassical discourse as a framework for studying economic development, Myint advocates free market and free trade policies for the UDCs on the basis of dualistic analysis and nonneoclassical rationales: The Smithian notion of vent for surplus, and the educative effects of foreign trade in introducing new wants, new technology and new forms of economic organization into an UDC.

For Myint, underdevelopment in the undensely populated countries was caused by the limited local demand for the additional agricultural output that the extant underemployed labor could have produced with the extant uncultivated land. Hence, the role of international vent for surplus, by bringing more land under cultivation. Another insight of Smith upon which Myint elaborates and depends is the productivity theory of international trade, emphasizing the role of international trade in widening the extent of the market and the scope for division of labor. These changes in turn raise the productivity of resources by improving the state and dexterity of labor, by overcoming technical indivisibilities in production, and by encouraging technological innovations.

However, in Smith's implicit theory about the determination of the course of economic development or underdevelopment, referred to above, productivity is a function of the degree of the division of labor, i.e., specialization. Specialization is achieved through the separation of agriculture and manufacturing and their assignment to country and town; the degree of specialization depends on the degree of the development of trade. Hence the division of labor is limited by the extent of the market. While this Smithian theory may accurately describe certain aspects of the way productivity is increased, it rests on the premise of capitalist social relations of production. For example, it takes for granted the mobility of labor and the potential for developing, and continuing to develop, the productivity of labor. However, it is exactly the emergence of these relations of production which is the crucial focus of originating sources of capitalist economic development (Reuven Brenner, "Origins of Capitalist Development," *New Left Review,* 1993, 104: 25-92).

Hence, structuralists Celso Furtado (1973) and Osvaldo Sunkel (1973), who adopt as historical an approach as that of Baran's neo-Marxism, conclude that the central features of economic underdevelopment have been caused by the impact of the developed countries on their underdeveloped counterparts. *Underdevelopment is not a phase through which every growing economy passes, but a specific historical condition.* Furtado further draws a seminal distinction between growth and *development,* the latter *consisting not just in rising output, but in the steady incorporation of the labor force into lines of production in which the most capitalist technologies are applied, and potential labor productivity is maximized.* These two Furtadoian definitions are the senses of economic growth and economic development adopted in this critique, whereas transformation is the wider Sieversian concept that encompasses not merely the economic but also the security, political, social and psychological aspects of the nation, as mentioned in the Introduction. Hence, transformation implies institutional --structural organization of society-- and distributional change in addition to rising incomes.

Central to Furtado's analysis also is the contrast he draws between the development path pursued in the past by the industrial capitalist countries and the paths possible for present day UDCs. The economic development of the DCs over the past two centuries has been based on a continuing technological progress in domestic production, first in consumer and later in capital goods. DCs development, in other words, was initiated and sustained by internal supply side dynamics. In contrast, in the underdeveloped countries what development has occurred has been generated externally, on the demand side (in concurrence with Amin's disarticulation thesis). This dichotomy is crucial in explaining differences in development performance and development potential.

Furtado (1954, 1964) thus takes the structuralist perspective to as high a latitude of realism as Dobb has done for the Marxian metamorphosis. Realism, judiciously used, strips away epistemological illusions nurtured of rationalizing ideology, by juxtaposing all fabrications to the acid test of ontology. Furtado thus aims at *deliberate creation of comparative advantages,* in sectors enjoying an elastic foreign demand, thereby short circuiting or circumventing the "endowment" basis of the H-O-S theory. For Furtado, protectionism is always necessary in the initial phase of industrialization, thereby throwing off the "immiserization" argument of Bhagwati and Johnson as well. Contending that the Physiocrats' social surplus, whether a stock or a flow, underlie the process of accumulation, Furtado calls for reforms of the structural rigidities that hinder authentic development, giving preference in accumulation to meeting the basic needs of the population. Accumulation is what makes it possible, through innovation, to introduce transformative changes in *the production system* and *social structures,* a process of *reshaping social relations* founded on accumulation.

Rather than the traditional forms of accumulation, in the building of defense walls, pyramids, temples, palaces, cathedrals, etc., *developmental accumulation in productive forces aims at the appropriation of a surplus generated by the opening of new lines of trade, discovery and extraction of new natural resources, or increase in the physical productivity of labor by the introduction of more efficient methods, more effective division of labor and improved manufactured instruments.* An intense developmental process of accumulation, moreover, can be achieved only through strict transformative social discipline: hard work, economic incentive, and moral motivation. Such a restructuring demands a guiding force that can only come from the state. The complexity of the government's task calls for a comprehensive approach, both temporal and spatial, which is possible only through *planning*. Industrialization should contribute to the diversification of exports, and at the same time operate as an instrument to expand the domestic market.

Furtado further contends that reduction of social inequality depends on the creation of new employment by *industrial activities*, on an increasing domestic supply of wage goods at decreasing relative prices, and on the opening of new outlets for export. However, a country with a low income level and large population cannot establish an industrial system that is internationally competitive in all sectors. Therefore, incorporation in the world must be selective, which, again, requires *planning*. Thus, even resource allocation has to be accomplished by *comprehensive planning,* rather than a price system. Getting the prices right, the neoclassical motto, will not do. Dependence, for Furtado, is essentially technological, albeit it is based on the lack of control of finance, markets, skilled and cheap labor, information, communication as well as technology. These power resources determine the bargaining position of different states to appropriate the generated global surplus. Hence, Furtado's key policy recommendations for countries wanting to develop are:

(1) *Abandonment of the criteria of static comparative advantage as the basis for incorporation in the international division of labor.*

(2) Introduction of planning as a guiding instrument for the government, whose functions in the economic area are likely to expand as the endeavor to overcome underdevelopment becomes more intense.

(3) Strengthening of the institutions of civil society (chiefly rural and urban labor unions), which may be expected to enlarge the underlying social basis of the state and to oppose the prevailing patterns of income distribution.

Other Furtadoian recommendations include accumulation, development of productive forces, increased efficiency, diversification of production, free trade areas, customs unions, common markets, joint financing and the use of instrumental rationality in all paths of the social network. Industrialization (technological takeover of all productive activities) is the key, including the introduction of production techniques already tried out in the DCs, to which access could be gained on the international markets or through bilateral agreements. Urbanization (the spatial structuring of the population to satisfy the needs of the labor market) is also important, together with secularization (prevalence of reason in the legitimating of power systems). The dismantling of craft guilds, the abolition of usury (i.e., excessive interest rates), the elimination of feudal privileges are also advocated. The liberation of traditional forms of social organization (paternalistic relations, over-extended family obligations, etc.), and the rejection of dogmatism and authoritarianism in the spheres of knowledge and value judgments are added (i.e., resorting more to reason, pluralism and diversity, and less to ideology, metaphysics and hierarchy). Linking legitimacy to the social representativity of power through the democratization of the Hegelian *civil society* --the social structures situated between kinship groups and the state, in contradistinction to the all-encompassing theocratic community ruled by divine rights-- is another Furtadoian recommendation.

In sum, the structuralists argue that structural aspects play an important role in processes of economic growth and development. These aspects include:

(1) The endogenous change of the economy's institutional framework in the course of its growth and development.

(2) Distributional shifts in output and employment between different sectors of the economy.

(3) Different forms of technical and organizational change (Adolph Lowe, *The Path of Economic Growth*, 1976).

The main tenets of the structuralist perspective, therefore, are:

(1) An underdeveloped economy is characterized not only by a low per capita income but also by certain structures:

(a) The sectoral composition of output, employment and the capital stock.

(b) Economic institutions, including agrarian systems.

(c) The joint effect of elasticities of supply and demand.

(2) Key structural features of underdeveloped economies are:

(a) Those economies combine a traditional, largely agricultural sector using a technology with low levels of productivity and a modern sector using more capitalist technology.

(b) The modern sector is usually established by foreign capital engaged in primary production for export.

(c) The modern sector is characterized by a high degree of openness (i.e., a large proportion of its output is exported and a large proportion of its requirements both for capital equipment and for manufactured consumption goods is imported).

(d) These economies are not able to design and manufacture the capital goods required by the modern sector.

(e) The numbers employed in the modern sector are typically a small proportion of the total population.

(f) The indigenous agriculture sector is usually characterized by forms of land tenure which constrain the expansion of output.

(g) These economies are characterized by domestic supply rigidities in key branches of the economy, and by high income and low price elasticities of import demand in the modern sector. These elasticities of supply and demand mean that economies do not respond effectively to conventional monetary measures of control. All the above characteristics inhibit the generation of internal growth dynamics. Meanwhile, low elasticities of supply and demand also create inherent tendencies towards inflation and balance of payments crises.

(h) These economies, moreover, are usually characterized by high rates of population growth.

(3) Economic development consists not only of raising per capita incomes but also of *structural* change, so that economies acquire the *internal* capacity to initiate and sustain economic growth.

(4) The structural features outlined above are the main constraints to economic development. Policy recommendations center on finding ways in which governments can take an active role to help private producers change these structural characteristics, via the promotion of *import substitution* in individual UDCs and the establishment of common markets among them, as a means to develop their industrial sectors and to diversify the structure of domestic production into a pattern which is capable of sustaining economic growth. *Land reform* is also advocated, but does not receive priority attention.

(5) Main policy instruments are tariffs and quotas, foreign exchange rationing, low formal sector interest rates and tax concessions to industrial investors. Foreign investment is welcomed as a potential purveyor of finance and technology.

(6) *Underdeveloped countries cannot be expected to replicate the development paths of the now industrial capitalist countries due to the nature of their position in the global economy.*

(7) However, industrial capitalist countries can assist the development of the periphery by opening their markets to its exports and by providing financial aid to ease foreign exchange shortages. With respect to the latter, evidently, the configuration of international relations, and perhaps contemporary attributes of human beings, necessary for such idealism to take hold are not in place. The unwarranted optimism of the structuralists, concerning DCs' assistance to the UDCs, is thus unrealistic. On the other hand, a crucial difference between Furtado's structuralist approach and the traditional perspective of Rostow, Lewis et al., is that the latter assume that there will be reinvestment of profits within the host economy. The structuralists argue the contrary occurs --an outflow of profits from the host economy. This is central because the dynamism of a capitalist system depends greatly on how profits are

appropriated. Besides, the scale of demand generated in the Rostow-Lewis, traditional, export oriented capitalist nucleus depends on:

(1) The amount of labor the modern nucleus employs.

(2) The average real wage.

(3) The amount of tax paid by enterprises in the modern sector (which determines the possible scale of public sector expenditure).

(4) The demand for locally manufactured producer goods which is generated by this sector.

(5) The extent to which profits and salaries are spent within the underdeveloped economy (Hunt, 1989: 125-6).

For Furtado the extent of the expansion of the modern capitalist enclave depends on the relative importance of the income to which it gives rise, and *the extent to which this income remains within the underdeveloped national economy.* The latter depends very much on the inducement to invest in that economy, so the question becomes what determines this inducement. Initially the inducement is production for export (external demand). However, external demand cannot be relied upon to sustain growth indefinitely. The central issue therefore is whether export production can in turn generate an internal impetus to further growth, i.e., whether it can generate sufficient internal demand to induce a process of sustained investment to supply an expanding domestic market. There is, moreover, a consensus amongst the leading structuralist economists that the rational sequence for industrial development runs from light industry (consumer nondurables and then consumer durables) through to intermediate goods, and, lastly, basic capital goods. This is the reverse of the sequence which the Marxist economists --Preobrazensky, Feldman, and Dobb-- argue will maximize the long-run rate of growth.

The main reason for this difference of views lies in the structuralists' preoccupation with the impact of market size upon the inducement to invest, a factor that does not have the same significance in a centrally planned economy. To Furtado and Prebisch, however, it seems self-evident that this is how industrialization will proceed, whereby they point to the experience of industrialization in the more capitalist regions of Latin America, such as Southern Brazil, in support of their contention. Comparatively, furthermore, the traditional perspective of the expanding capitalist nucleus of Lewis and Rostow assigns the central role in economic development to increased savings and capital accumulation. It gives little scope to the notion that slow growth rates may be due not to lack of savings but to a lack of inducement to invest. It ignores too the possibility of a growth constraint due to a lack of foreign exchange, meaning that necessary capital goods cannot be imported. In contrast, these constraints are central to the structuralist perspective. Many of the policy recommendations that stem from structuralist analysis of underdevelopment, therefore, relate in one way or another to the international context. The tenor of the policy debate, with its preoccupations with the balance of payments constraint, the small size of the domestic market and domestic supply inelasticities, is noticeably different from that to be found in other analyses, e.g., Lewis, which perceive inadequate domestic savings to be the dominant constraint to growth.

Concerning wages, while Lewis argues that if growth is to be maximized there must be no increase in wages until the labor surplus has been absorbed from the subsistence sector, the structuralists have no equivalent preoccupation. Indeed, many structuralists uphold a preference for a degree of wage increase. For Prebisch, if productivity in agriculture can be increased by technical progress, and real wages raised by industrialization and adequate social legislation, the disequilibrium between incomes at the center and the periphery can be gradually corrected. A general increase in wages resulting from greater productivity in industry step by step spreads to other activities, which are thereby obliged to use more capital, per capita, in order to achieve the increase in productivity without which they would be unable to pay higher wages. For the structuralists, therefore, economic development is fundamentally concerned with *raising the productivity of labor* and with reaping the benefits of increased productivity through *increased incomes.*

Apart from *equity* reasons, Prebisch (1962: 15-18) suggests a consistency between some real wage increase in the modern sector and economic development for the following reasons:

(1) This helps to expand the domestic market.

(2) Some general increase in wages may act as a stimulus to raising labor productivity in technologically underdeveloped branches of productive activity.

(3) Real wage increases are a crucial means of retaining the benefits of rising productivity within an open economy.

Felix (1964: 39) also argues that implementing a decline in *real* wages as part of a deflationary package (which is exactly what the neoclassical "structural adjustment" calls for) is developmentally counterproductive. Through its impact on the structure of domestic demand, the reduction of *real* wages tends to divert investment in the industrial sector excessively and indiscriminately to consumer and capital goods that are technologically sophisticated and import intensive. In contrast, the less sophisticated and more labor intensive consumer goods industries are generally ones whose demand depends more heavily on nominal wage income. These, according to Felix's structuralist account, are precisely the industries which in the early stages of industrialization offer the best prospects for export development.

Finally, juxtaposing the neo-Marxist paradigm to the structuralist perspective indicates that the existing pattern of class control over the disposition of the surplus in the former, rather than existing economic structures in the latter, is the immediate cause of underdevelopment. The structuralists aim to influence policy design and achieve policy reforms within individual countries and within the international economic system. They emphasize *import substitution* as the device to *structural change* and economic development. Neo-Marxists, however, conclude that the path to development within the international capitalist system is blocked for underdeveloped countries. If economic development is to occur, the masses must replace the existing ruling class alliances in the countries of the periphery, take control of the economic surplus and move immediately to a socialist development path, withdrawing from the international capitalist system (again in contrast to Marx's conclusion that a revolution would ripely originate in the most industrial capitalist countries, not in the UDCs with their condition as is).

3. HETEROGENEOUS MECHANISMS

Heterogeneous mechanisms are courses of action potentially useful for economic growth and development, and ultimately for socioeconomic transformation, which could not be accommodated within the mechanisms analyzed in the other chapters. They are nondoctrinal and eclectic; they are adogmatic, sociological and/or nonuniform. These heterogeneous mechanisms include the impediment removal thesis, Weberian perspective, industrial revolution thesis, imperatives of food security, balanced growth, critical effort for growth, and linkages by unbalanced growth. These courses of action are dealt with, successively, in the following sections.

3.1 The Impediment Removal Thesis

The politico-institutional impediment thesis (Jones, 1981: 234-8) posits that historically speaking growth in the UDCs was in the cards, until it was actually frustrated. This thesis is in contradistinction to the one called "causes of the industrial revolution," to be analyzed in the third section of this chapter. Eric Jones (1981) conceives of a motion from extensive to intensive growth. The former takes place when the total output and total population are both increasing at approximately the same rate so that there is no secular rise in output --average real income-- per capita, no intensive growth --no rising per capita GNP. Gradualism is the key to the latter. Jones' long-term growth in the UDCs can be achieved through *a conjunctive device of growth promoting forces that result from the removal of impediments,* contrary to Smiths' conclusion that "little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes and tolerable administration of justice; all the rest being brought about by the natural course of things" (Quoted in Jones, 1981: 235).

Growth for Jones did not begin with, nor was it, a disjunction driven by an "industrial revolution," or "takeoff," or "propulsive force." Industrialization was a symptom not a cause. Growth is not an aberration. It is the norm. The Jonesian primary catalyst in bringing about growth lay outside either objective resource constraints or ideational cultural rigidity. It lay in the removal of political disincentives. The focus should thus shift from hypothetical push forces to whatever forces blocked growth --the depressants on intensive growth, pushing energies back down into extensive growth. Intensive growth, for Jones, who bridges Petty with the structuralists in his heterogeneous perspective, involves structural change --part of the occupied population shifts from primary production into secondary or tertiary sectors,[1] large fractions of the population use new methods and consume more than ever before, whereby change continues for a long time. Moreover, capitalism is not a sine qua non for growth. Modern socialist countries have (or had) economies that grow (or grew). The USSR of the 1930s-1960s and the PRC of the 1970s-1990s are epitomes of socialist intensive growth.

Hence, seeing development as the "rise" of capitalism, à la Tawney (1926), or a single, great "discontinuity" as a result of Weberian religion sociology of sudden Protestant ethic (1904-5), does not do, for either view is not only mere ideation but also implies that growth (or transformation for that matter) occurred spontaneously only in Christian Europe, which although it broadens the Lewis-Rostow approach beyond Britain, it contradicts historical evidence that growth was not limited to Europe. Neither Confucian-Shintoism, of the Tokugawa Shogunate and Meiji Restoration, was Calvinist nor were the earlier Renaissances of the Sumerians at the turn of the second millennium BC, the

[1]William Petty generalized in the seventeenth century that agriculture should show a decline in its relative importance in employment and in national product, with manufacturing showing first a rise and then a decline in favor of services (see Petty, 1963: 167-81). Petty's generality anticipated the latter hypothesis of Colin Clark (1957), stating that economic advancement entails a movement of labor progressively from primary to secondary and then to tertiary economic activity. Petty also originated, apparently *sans* pedigree, the concept upon which political economy evolved, namely social surplus. He is further credited with such other concepts as surplus labor and money's velocity of circulation, in addition to a theory of rent (see Tony Aspromourgos, *On the Origins of Classical Economics: Distribution and Value from William Petty to Adam Smith,* 1996: 5-21).

Abbasids in the ninth century[1] or Sung China in the tenth to thirteenth centuries, Protestant. Hence, rather than conforming to the revolutionary thesis, Jones joins the diffusionist thesis of Francis Bacon (1611), William McNeill (1967), Joseph Needham (1986) and Marshall Hodgson (1993). Major civilizations were evolving pretty equally, until the acceleration of Europe at its Renaissance. Polanyi had already concurred earlier: "In its economics, medieval Europe was largely on a level with Ancient Persia, India, or China, and certainly could not rival in riches and culture the New Kingdom of Egypt, two thousand years before" (Polanyi, 1944: 45).

Further, in his "Civilizations, Cores, World Economies, and Oikumenes," in Frank and Gills' *World System: Five Hundred Years or Five Thousand?* (1993: 221-46), David Wilkinson stresses the emergence and development of a single "central civilization," which was formed out of the relations between Egypt and Mesopotamia around 1500 BC, and then successively and incessantly spread through the world to incorporate all other "civilizations" within the "central" one, which has been dominant long since. *McNeill* (1967: 44-133), *indeed, sees the entire modern European growth as an epiphenomenon of Sung commercialism, and Jones* (1981: 7-16) *agrees.* What frustrated the earlier Renaissances, in their account, were external factors such as the Jurchen and later Mongol invasions and conquests, and partly the socially or politically structured institutions, e.g., guilds, undermarket, undergovernment, militarism, conquest, rent seeking conflict --the use of political means by different élites to capture the surplus produced by others, rather than direct economic activities in the pursuit of growth. In addition, there existed extravagance, corruption, superficiality, repetitiveness, antiquarianism, regionalism, sectorism,

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[1]See Smith on the "opulence of the Saracen empire under the Abbasids," in his *Wealth of Nations* (1776: I, 427). Frank and Gills further argue that "the super hegemony of the Abbasids in the eighth century was reflected in their ability to defeat Tang China at Talas in 751, their treaty of alliance with the Tang in 798 AD, and their continued ability to control Central Asia" (see Frank and Gills, *The World System: Five Hundred Years or Five Thousand?*, 1993: 105).

conservatism and lack of investment finance, and legalism and rudimentary administrative structures under the Ming and Ch'ing (Manchu).

Following the US naval intervention in Japan, which took place in 1853-4 under the command of Commodore Matthew C. Perry, who sailed into the Tokyo Bay threatening to bombard the city, the US forced the Tokogawa shogun to accept asymmetrical diplomatic and commercial relations. Soon other Western countries gained privileges equivalent to those ceded to the USA in "unequal treaties" which prevented the government of Japan from levying tariffs of more than five percent ad valorum. Westerners also imposed rights of extraterritoriality, and thereby became not subject to Japanese law.

Members of the former warrior class, the *samurai,* aided by the accession of a young emperor, Mutsuhito, forced the foreign dominated shogun to abdicate and brought the emperor to Tokyo, the de facto capital. This event, marking the beginning of Japan's industrialization through the use of a mixed economy, is known as the Meiji Restoration (Meiji meaning "enlightened government," which Mutsuhito chose to designate his reign). The Meiji era lasted from 1868 to the death of Mutsuhito in 1912 (Rondo Cameron, *Economic History,* 1997: 271-4). Japan of course managed to achieve transformation internally without the help of outside powers. The lack of a land owning aristocracy during the Tokugawa quasi-feudal Shogunate was a crucial factor. This allowed the Samurai, formerly a warrior and then an administrative group, to carry out the modernization process after the 1868 Restoration when the Shogun was replaced as head of state by Emperor Mutsuhito.

On the other hand, both the Republic of Korea and Taiwan, other examples of the practical implications of the impediment removal thesis, were colonies of Japan during the first half of the twentieth century and as in most cases of colonialism this can be held to account for some changes to their social structures. But, more recently, both enjoyed considerable military and economic support from the USA in the global military order as bastions of capitalism, outposts in an area seen as vulnerable to the spread of communism and simultaneously well-positioned to contain it. That type of support has become problematic diplomatically since Nixon's détente with China in the early 1970s, but by that time the development process in South Korea and Taiwan was well underway, and the misperception of potential communist domino effect was still in the Western air.

US economic and military aid to South Korea and Taiwan was of such magnitude and importance to their survival and long-term development that it was a veritable Marshall Plan exclusively for two. In the 1950s, US aid financed more than 80 percent of South Korea's imports and 95 percent of Taiwan's trade deficit. By 1987, the cumulative economic aid received by South Korea alone was almost as much as that received during the same period by all African countries combined, and 41 percent of the Latin American total; in three decades of sustained US military spending on the peninsula, South Korea's total military aid was 3.5 times that of the whole of Latin America and nearly 9 times that of all Africa. And both South Korea and Taiwan benefited greatly from US spending in the region connected with the Vietnam War.[1]

When US aid started to taper off, the dollar continued to flow in the form of direct foreign investments and loans. The United States was the main source of foreign investments that entered Taiwan between 1951 and 1985 (amounting to 43 percent of all nonoverseas Chinese sources), followed by Japan (28 percent) and European sources (13 percent). Along with Mexico on the other side of the Pacific, Taiwan benefited from the first wave of relocation of US assembly operations to low wage sites for products that would be re-exported to the US market; by the late 1960s, roughly half of such US "imports" came from US owned factories in Mexico and Taiwan. When the Japanese countered by themselves relocating operations in Taiwan, the island took on its specialized function as a

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[1]See George Aseniero, "The Transnational Context of South Korean and Taiwanese Development," *Review* (1994: 275-336), and his "Asia in the World-System," in Sing Chew and Robert Denemark, *The Underdevelopment of Development* (1996: 179-80).

receptacle for declining Japanese industries at every stage of that dynamic economy's industrial restructuring process.[1]

Ever the nationalist, South Korea's preference (until the mid-1980s) was for foreign loans over direct foreign investments. Following a sharp rise in the early 1970s, the country's total foreign loans soared in 1978 and remained at nearly $3 billion a year for almost a decade. The state's total control of the banking system and its complete autonomy in the allocation of subsidized credit, enabled it to concentrate capital on a handful of favored conglomerations, the *chaebol,* the backbone of Korean industry. With heavy deficit spending, South Korea in the 1970s embarked on a public sector heavy industry and chemicals development program in defiance of World Bank protestations; Taiwan did likewise.

The trade policies pursued by Seoul and Taipei ran parallel to each other through the decades: Initially, stringent import substitution and other protectionist strategies, which Washington chose to benignly overlook; then a determined export promotion program while still behind protectionist walls; then, with an eye to full access to the US market, some sort of liberalization and a full speed drive for exports. The market was ready even before the exporters were: It was the United States itself. With an unprecedented worldwide export expansion that followed in the 1980s, "Newly Industrialized Countries" became a well-known word.[2]

Analogously, Hong Kong and Singapore were formerly entrepôt ports of British imperialism in its trade with China and the Far East, occupying the niches held in European medieval times by such sites of the Champagne trade fairs as Troyes and Provins. Hong Kong especially has for a long time benefited from its position as an unofficial outlet onto the world market for goods manufactured in China, often indistinguishable from those mass

[1]Joining in this product cycle game, Singapore and Hong Kong quickly transformed themselves (or, rather, they were transformed) into veritable industrial platforms for transnational capital (ibid.).

[2]Ibid.

produced within its own small territory.[1] Both Hong Kong and Singapore have since converted successfully into manufacturing locations.

Undoubtedly, all four of these newly industrialized countries have benefited from their special connections with the industrial world and institutions generally, and the USA and Britain in particular, for the above mentioned geopolitical and geostrategic reasons. For Japan and the "four little tigers" have, in various ways, all served as allies of industrial capitalism in the face of the establishment of Marxist regimes in China and North Korea after WW II. *Their industrial development is a testimony to the impediment thesis: Once the impediment to transformation has been removed, the latter took place as a norm.*

It is the Confucian principles of collectivism rather than neoclassical methodological individualism, and merit rather than ascription, that are reproduced in post-Confucian form to achieve work group productivity and industrial success throughout contemporary East Asia. The Confucian principles include emphasis on education and familial ties; guidelines for proper and ethical behavior among individuals, placing them in hierarchical relationships; and stressing social harmony. In business/economic terms these principles are reflected in cooperative industrial relations; authoritarian corporate bureaucracies; close business/government coordination (quasi bureaucratic capitalism, or plan rationale economy); labor treatment as human capital rather than as business outlays (hence lifetime employment); small gap between the compensation and living standards of top executives and the average workers (Mark Borthwick et al., *The Pacific Century*, 1992: 85-96). There

[1]Hong Kong was granted to Britain in the dictated Treaty of Nanking which ended the Opium War (1838-42). It has already been reintegrated in the People's Republic of China on July 1st 1997, after 156 years of subjugation to British colonial rule, and most probably will add significantly to that country's transformation process. However, this "gateway" to China has perhaps already seen its greatest glory in the last several decades, when it enjoyed privileged access to a China otherwise closed to outsiders. Having reverted to the Chinese motherland, Hong Kong is expected to lose its special relationship with the billion people market, whereby the potential for divesting and expatriation of local and foreign capital, as well as relocation of traders and their companies to more privileged locations, should come as no surprise. Foreign interests could thus forge more ties with the Chinese economy without the intermediary role of this comprador city. There was no neoclassical "miracle" then that caused the rise of Hong Kong, nor can neoclassical economics prevent its decline.

is, however, more to the subsequent social relations accompanying the capitalist industrialization process in East Asia than the post-Confucian thesis alone.

Confucian collectivism and merit may serve as part of the explanation for successful industrial relations and management in East Asia, but innovation and marketing would seem to lie elsewhere. The flexibility of manufacturing techniques in East Asia is the definitive example of post-Fordism, contrasted with the rather inflexible mass production of Fordism. Post-Fordist consumerism in the industrial countries, involving a wider choice of product, is propagated through the attractiveness of notions of individualism, even if those notions are mainly illusory given the nature of consumerism. East Asian manufacturers have been particularly successful at identifying market niches at which to aim their flexible production runs, hence the invasion and prevalence of their consumer durable products the world over, especially the UDCs.

The complexity of production range and the brevity of life of particular variations lend themselves to notions of individualism in consumption, and to planned obsolescence in manufacturing and marketing. In this way, flexibility of product has successfully provided a broadening of demand, and people in East Asia are just as enthusiastic in the consumption of these individualized products as people in the West. Thus, there may appear to exist some grounds for skepticism over the full appropriateness of the post-Confucian principle of collectivism, at least when it is applied to consumption patterns in contemporary East Asian societies. However, the discrepancy could be accounted for by the fact that individualism, properly understood in that part of the world, is individualism rooted in social responsibility and permeated by concern with a viable socioeconomic order: stable, free, dynamic, and equitable. In that order, the private and the public sectors are essential and balanced, and the latter is conceived as the guardian of the viability of the former.

Authoritarian democratic capitalism, on the other hand, characterizes not only the Japanese system but also and to a larger extent that of its East Asian neighbors: Hong

Kong, Singapore, South Korea and Taiwan. This authoritarian nature of the employment relationship distinguishes East Asian capitalism from the industrial liberal democratic model. It may not be so much post-Confucianism as a broader authoritarianism in the social structure that is responsible for the former industrial relations success. This authoritarianism is, however, served by Confucianism and takes deliberate and instrumental forms when reproduced in the industrial institutions of these countries.

These cases are of highly centralized states exercising repressive political power directly in the economic sphere, in contradiction with the theoretical liberal democratic principle of separation between polity and economy as the only way to capitalist development. Therefore, attempts by neoclassical economics to hold up the East Asian NICs, and present them to the UDCs, as examples of the free play of market forces are spurious rationalization, as they are among the more corporate, planned and *dirigiste* economies in the world. Similarly, attempts at prescribing that only liberal democracy can produce economic growth,[1] or that a country can be transformed only as a result of an industrial "revolution," are equally fallacious.

The rise of industry in East Asia has thus given rise to a burgeoning research industry on the phenomenon itself. Cultural explanations (Confucianism), political theories (authoritarian developmentalism), business strategies (lean and mean approach, shop floor focus), economic history (late industrialization), and macro-historical postulates (Spengler's "decline of the West" updated) have been elaborated in best sellers and fashionable MBA courses to account for the ascendancy of the Pacific Rim (George Aseniero, "Asia in the World System," in Sing Chew and Robert Denemark, *The Underdevelopment of Development,* 1996: 196). It was, however, the restructuring of the world economy under the strategic pressures of the Cold War, and the consequent world economic downturn, which resulted in a new international division of labor that *removed the* impediments and

[1]For a discussion on whether democracy is a necessary condition for economic development or an outcome of it, see Adrian Leftwich, *Democracy and Development* (1996).

propelled the rise of the East Asian NICs. State activism in the NICs clearly mattered in responding to those global opportunities and dislocations, but as it did, it was thanks to transnational conditions (prewar Japanese colonialism, postwar US patronage, Cold War subsidies) uniquely affecting them.

As to the population factor in the socioeconomic transformation process, which is another concern of the impediment removal thesis, the latter dissents from the Malthusian argument about the effect of increasing population rate on economic growth. The Malthusian invention pull premise stipulates that inventions and innovations (the latter being the insertion of the former in the productive system),[1] succeed in pulling up output and enable more people to be supportive, but are eventually overtaken and exhausted by the pressure of human numbers.[2]

The Ester Boserup's and Julian Simon's thesis (in Jones, 1981: 116-21) points out the positive contribution which population growth can make. On the assumption of a normal distribution of intelligence, the supply of gifted individuals will grow to the point where, *ceteris paribus*, it may attain critical mass for solving a country's problems. Boserup-Simon's is a population push model, in which, while the invention rate is independent of population growth, the adoption of new techniques of production depends on a rising population. And population growth presses the available stock of inventions into use. The higher the density of population growth, furthermore, the more the economies of scale achieved in such matters as transport, trade, and government.

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[1]Invention, i.e., patentable novelty of a mechanical, chemical, or electrical nature, has no particular economic significance. Only when it is inserted into an economic process --that is, when it becomes an innovation-- does it assume economic significance. Then the role of diffusion comes in. Diffusion refers to the process by which an innovation spreads, within a given industry, between industries, and internationally across geographical frontiers (see Rondo Cameron, *Economic History of the World*, 1997: 198).

[2]See Malthus (1798). The theory of population of "Reverend" Malthus (the nemesis of the French Revolution and its proclaimed humanitarian principles, blaming the fertility of the "lower classes" rather than the social institutions of nascent capitalism for their misery, and standing for the status quo in opposition to change), goes back to earlier tradition, when the Carthaginian ecclesiast Tertullian argued in AD 195 that "scourges, pestilence, famine, earthquakes and wars are to be regarded as blessings to crowded nations since they serve to prune away the luxuriant growth of the human race" (quoted in James Trager, *People's Chronology*, 1994: 257).

Julian Simon and Gunter Steinmann (in Jones, 1981: 123-5) further argue that the larger of two populations will have the higher output per worker, because of scale advantages in learning by doing. *The recrimination of the UDCs' population growth as the cause of poverty and misery, therefore, needs serious reconsideration.* Indeed, the history of European economic thought testifies to the fact that economic growth and prosperity followed high rates of human development and population growth, whereas low or negative rates of the latter, e.g., in the fourteenth century's "Black" Death, resulted in hampering and rolling back economic growth (Maurice Ashley, *History of Europe,* 1973).

Indeed, Harrod's work is predicated on the premise that population growth sets the upper limit for economic growth. Harrod's (1968, 1993) capital-output ratio represents the value of the capital needed to produce a given output divided by the value of that output. It is a stock flow ratio, whose value depends partly on the time period over which the output flow is measured. If planned savings are represented as a proportion of national income, then this proportion divided by the planned capital-output ratio gives the warranted rate of growth of output: $G_W = S/C_P$.

The actual capital-output ratio diverges from that which had been planned, and actual rate of growth of output therefore diverges from the warranted rate. The actual growth rate is given by the actual savings rate divided by the actual capital-output ratio. Where output growth is above the planned rate, C will be forced below its desired level, and vice versa. Harrod assumes not only a constant C_P, but also a constant capital labor ratio, and, given this assumption, *the economy cannot, at full employment, grow faster than the rate of growth of the labor force.*

However, as ideal types, the models of Boserup-Simon and Simon-Steinmann clarify some relationships, but by neglecting the institutional and political setting they leave the final outcome indeterminate, for example whether talent will be mobilized, i.e., whether rates of invention and innovation will keep ahead of population growth or whether foreign pressures and intervention will abort the entire enterprise. These factors, the direct interdependence of population and security notwithstanding, cannot be decided by population studies alone. The political strategic context, particularly in the case of the UDCs, is crucial. Hence the need for further research on the role of the population factor in the transformation process.

Recently, UNDP (1990) categorized the human development experience, still another aspect of the impediment removal thesis, in various countries during the last three decades into three broad categories of performance. First are countries that sustained their success in human development, sometimes achieved rapidly, sometimes more gradually. Second are countries that have their initial success slow down significantly or sometimes even reverse. Third are countries that had good economic growth but did not translate it into human development. From these country experiences emerges the typology of sustained human development, disrupted human development, and missed opportunities for human development.

Analysis of these UNDP country cases leads one to several important conclusions. First, *growth accompanied by an equitable distribution of income appears to be the most effective means of sustained human development.* Second, well-structured government social expenditures can generate substantial improvements in a relatively short period. This is true not only for countries starting from little human development, but also for those that already have moderate human development. Third, to maintain human development during recessions and natural disasters, targeted activism may be necessary. Fourth, growth is crucial for sustaining progress in human development in the long-run, otherwise human progress may be disrupted. Fifth, despite rapid periods of GNP growth, human development may not improve significantly if the distribution of income is bad and if social expenditures are low or appropriated to those who are better off. GNP growth in statistical tables is not always perceived as such by ordinary people trying to put bread on the table and keep a roof over their heads, for it, more often than not, does not entail any immediate benefits for the masses. Finally, while some countries show considerable progress in certain aspects of human development, particularly in education, health and nutrition, this should not be interpreted as broad human progress in all fields, especially when one focuses on the question of democratic freedoms. John Galbraith underlines the role of education by making the case that "no literate population is poor, no illiterate population is other than poor" (John Galbraith, "Economics in the Century Ahead," in John Hey's *The Future of Economics,* 1992: 46).

Nonetheless, mere literacy, as important as it is for the initiation and sustenance of economic development, is not sufficient for this high technology world on the threshold of the twenty-first century. The ability of individuals to participate fully and effectively in the current scientific technological matrix, whether as scientists and technicians or in its commercial and bureaucratic structures, increasingly requires advanced studies and sophisticated brain-power. The brain drain from the UDCs has to be viewed in this human capital demanding context, and solutions thereof must be sought accordingly. Simon Kuznets (1966) argued that it was the growth of knowledge which was the most decisive characteristic of modern economic growth. Kuznets was not merely writing about practical knowledge in the sense of knowledge directly applied in transforming inputs into outputs, but also of the basic sciences which are increasingly having profound impacts on transformations in the sphere of production, that are leading to changes in the international economy.

The main policy conclusion that can be discerned from the country study cases, however, is that *economic growth, if it is to enrich human development, requires effective policy management.* Conversely, if human development is to be durable it must be continuously nourished by economic growth. *Excessive emphasis on either economic growth or human development will lead to developmental imbalances* that, in due course, will hamper further progress. So, the impediment removal thesis is accepted, at least in terms of its ultimate inference, by UNDP.

3.2 The Weberian Perspective

For Max Weber beliefs are autonomous; they drive history by causing people to modify their actions. Reacting against the German Historical School and Second International Marxism, let alone his bitter opposition to Marx, Weber thus provided an ideational,[1] heterogeneous perspective for development, namely *The Protestant Ethic and the Spirit of Capitalism* [1904-5] (1958). The influence of the Protestant ethic on the capitalist spirit was pinpointed by Marx, in the *Grundrisse*, seven years prior to the birth of Max Weber in 1864: "The cult of money has its asceticism, its self-denial, its self-sacrifice --economy and frugality, contempt for mundane, temporal and fleeting pleasures; the chase after the *eternal* treasure. Hence the connection between English Puritanism, or also Dutch Protestantism, and money making." Indeed David Hume, two centuries before Weber, did raise the question of the distinctive role of Protestantism in the birth of the modern world (Hume, *Natural History of Religion,* 1992, and the essay "Of superstition and Enthusiasm" in Hume's *Dialogues Concerning Natural Religion,* 1935). [2]

Weber's view is commensurate with the puritan ethics of New England and the Confucian ethics of Japan and the Republic of Korea, as well as other ideational views. Indeed, Werner Sombart, not to be outdone by Weberian Protestantism, and anticipating Schumpeter's "entrepreneurial spirit," published *The Jew and Modern Capitalism* in 1911, arguing that the "spirit" of capitalism was introduced into Northern Europe by the dispersion of the Jews after the Inquisition, bringing with them a new morality, a new conception of legal relations, and a genius for commercial enterprise. Sombart followed that by *The Quintessence of Capitalism* [1913] (1915), explicitly attacking Weber's thesis that Calvinism had played a key role in creating the "spirit" of modern capitalism. He argued

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[1]The best and most focused critique of idealism is still Marx's in *The German Ideology* (1947).

[2]In addition, attributing the analysis of bureaucracy, impressive as it may be, only to Weber ignores Marx's major theoretical conclusions on the subject, and indeed Hegel's earlier contribution concerning the "universal class" (see Shlomo Avineri, *Social and Political Thought of Karl Marx,* 1971: 64-83).

that Calvinism in particular and Puritanism in general were actually hostile to the bourgeois values of thrift, rational calculation and this-worldliness.

At any rate, Weber's economic emphasis, as well as that of Oscar Lange (1945), is on the elements of exchange, the use of money and rationalization. His perspective is heterogeneous because he has combined with the Protestant ethic propertyless proletariat to produce the spirit of capitalism. This Marxist dimension, together with Schumpeter's concession,[1] despite his invidious opposition to Marx, that the Marxist analysis prescribing that capitalism would fall through its own contradictions might come true, begged the adjective "bourgeois Marxism" prevalent in the literature of transformation (Stark, 1958: 127, 212, 272). However, the significance of the Weberian perspective is that it engendered other scholarships which expanded his approach with more realist, transformative and remedy propositions unfolding from the ideational vision. The way this Weberian school identifies the nature and causes of underdevelopment, even as one disagrees with such reasoning, is crucial to understanding its proposed remedies.

In his study of modern Indonesia, Sievers (1974: 95-6) argues that the twentieth century did not invent the problem of economic development; it confronted the European imperial powers when they were ruling where they had been trading in the ancient but crippled civilizations of Asia; that it was the Europeans who perceived the elementary point that increased production was necessary for prosperity, whereby the late eighteenth and early nineteenth centuries witnessed the popularity of liberalism. "Liberalism in this colonial context includes progress [both along humanitarian lines as well as along the lines of economic and social reorganization]; freedom from government sanctioned debasement of man by man (corvée and the like); freedom of trade, that is, toleration of competition of foreigners and free agents in place of mercantilist monopoly; freedom of capitalistic

[1]Schumpeter concedes, in *Capitalism, Socialism and Democracy* (1943), that capitalism can eventually fail because corporate bureaucratic conservatism will dissipate the risk taking attribute of entrepreneurship. As more large rigid corporations eliminate small dynamic entrepreneurs, the recession phase of the business cycle will deepen (there are not enough stimulating clusters of entrepreneurial innovations to bring about vigorous boom) and the system will eventually crash.

enterprise, both capital intensive and small peasant; development of habits of economic responsibility in the peasant class via freedom to produce for the market; substitution of private property for village communalism; and the preferability of a money economy to all manner of dealings in kind" (96). Hence, that heterogeneous liberalism "was a program based on a mixture of Rousseau, Quesnay, and Adam Smith" (ibid.). Ultimately, however, that rendition of liberalism means the free right of private individuals and firms to exploit the soil, and people, of a country (Sievers, 1974: 96, 104, 124).

Sievers' focus is on the ideational account of underdevelopment. He analyzes the anthropologically grounded literature, together with Weber, Schumpeter, Boeke, and others who argue that precapitalist societies are not primarily economic minded (Sievers, 1974: 284-7). However, while cultural aspects certainly influence social formations' abilities to progress, even Marx has not disagreed with that, *qualifying the role of the economic base only to the last instance,* it is going too far, along the road of ideas and their effects, to hang the entire phenomenon of underdevelopment on cultural traditions, à la Boeke. After all, the entrenched customs, while stable, are not immutable.[1] Was South Korea much culturally

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[1]Jan Tinbergen (1952) concurs with this; he stresses:
(1) The need for and possibility of cultural change (most cultures are not static; starvation avoidance is more sacrosanct than cultural features, hence the significance of cultural change, including the adoption of some "degenerate" aspects of Western culture, especially its materialistic greed).
(2) The use of appropriate adapted technology (analogous to the concept of geotechnology of Gerard Karel Boon, 1964, 1980).
(3) The necessity of a public sector (commensurate with the Dutch Mines case in 1900, and the Kemalist State Enterprises in 1923 --i.e., Kemalism's *only relevant* collage of state control, nationalism and secularism, but not wholesale {as opposed to evolutionary} heritage denial and repudiation).*
(4) Human capital investment (analogous to that of Jacob Mincer, 1993).
(5) Rural employment creation.
(6) Shift from intergovernmental to internal policies, from paternalism to self-reliance and from idealism to long-term common interest.
(7) Regulating unstable markets.
(8) The choice of "Churchillian" politicians, who think of the next generation and not only of the next election.
(9) Paying attention to the orders of magnitude of socioeconomic phenomena, for programming is not an alternative to common sense.

* At the price of suddenly distorting their nation's identity, in the social measures that accompanied the Kemalist economic reform of the 1920s, and especially under the Truman Doctrine's aid and NATO's umbrella of the last four decades, as well as that of the OECD and the special arrangements with the European Union more recently, successive Turkish governments changed the country's economic and military edifices. Today, granted, Turkey's per capita GNP is three times that of Egypt, and its military

different from, or more modernizationally congruent than, China when the former was introduced to industrialization by the imperatives of the Cold War? Were Hong Kong's traditions different from those of its mainland surroundings? Were Singapore's mores uniquely compatible with industrialization? Or was it *the geostrategic-geopolitical circumstances that removed impediments to economic growth,* and pushed those formations in different directions other than their very culturally similar neighbors? Why is it that Sievers' Indonesia, "mystical" only a few decades ago, has since achieved one of the highest economic growth rates in Asia, third only to China and Malaysia, and the latter currently having the tallest building in the world in its capital, Kuala Lumpur, rather than that being in Chicago or New York?[1] The problem evidently is with the ideational conception of history, the Weberian as well as the generic, for Weber too had it backwards, standing Marx's paradigmatic breakthrough (historical materialism) on its head.

Sievers (1974: 285-6) is on the mark nonetheless in pointing out the facts that in underdeveloped conditions social recognition and other social goals come before economic prosperity; that economic needs are static at some minimal level, enough to satisfy the demonstration effect; that in consequence, economic rationality may frequently be sacrificed for noneconomic goals. For he is cognizant of the facts that the precedence of social needs over economic needs is the source of social unity in the UDCs; that it induces cooperation and harmony; that large scale administration is unnecessary in the UDCs, and accordingly productive activity is family based and/or governed by tradition; and that such societies may be relatively stationary in economic terms but dynamic in social terms.

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capabilities are far greater than that of Egypt or Iran (see *World Development Report,* 1996, and *The Military Balance,* 1995-96). The social cost is one of long-term, however, and the fact that the military has seized power three times since the 1960s is indicative of instability in the making. Indeed the military dominance of the political culture there goes back to General Mustafa Kemal himself.

[1]The current monetary crisis of East Asia, that surfaced in the last quarter of 1997, has no bearing on the thrust of this argument, or else the Great Depression would repudiate the growth achievement and potential of the US. It, instead, points out the deficiency of the IMF in handling global balance of payments problems.

Sievers' (1974, ch. XIII: 279-97) reading of Julius Herman Boeke's rendition of dualism also identifies the latter as the result of the intrusion of capitalism, of the penetration by a colonial power. Dualism in the tradition of Boeke concerns the implications of a society divided into precapitalist and capitalist sector. It is the consequence of interaction between village society and the capitalist socio-politico-economic system. Some societies have been drawn into a modern economy but are yet held in traditional ways and values: Traditional customs and land tenure still have a strong grip. The pristine, precapitalist society's perturbed state reflects capitalistic traits. More importantly, Sievers points out that dualism is the consequence of the intrusion of a total socioeconomic system, not merely a particular power relationship (281, 293).

Whereas Sieversian dualism is not by definition either colonial or foreign because indigenous individuals can become part of the capitalist regime, and indigenous élites can preside over the capitalist sector and perpetuate dualism even after the colonial power has departed, Sievers (1974: 293) tolerates Clifford Geertz's argument that it was colonial policy which caused dualism, for people do not become impoverished because they are static, they become static because they are impoverished. The intrusion of capitalistic traits into traditional societies through imperialism and neoimperialism resulted in dualism: The capitalistic was separated from the syncretistically and traditionally inclined. The mentality is the product of economic situation, and not the other way around.

Dualism for Sievers thus means the coexistence within one society of two heterogeneous subsystems, imported capitalism and indigenous peasant precapitalism, each of which is a mature system sui generis. The two systems are separated by a genuine chasm, the absence of the intermediate stage of early capitalism. If it were not for the missing stage, there would be a continuity in which the early stage would be but a lagging transit to the higher stage, as from feudalism to capitalism or from capitalism to socialism, and hence not dualism. However, this kind of heterogeneity, contends Sievers (as has the modernization school's argument presented above, for both perspectives emanate from the same ideational origin), is transient and will disappear as the early stage disintegrates and is everywhere replaced by the new.

Sievers, nonetheless, points out that dualistic society is unique in that it is a stable heterogeneity; two distinct systems subsist simultaneously. The capitalist sector does not absorb the lagging sector, which in turn does not progress. The lagging sector is viable, hence it fights to maintain its own identity; and so the essence of dualism is conflict. The lagging sector is not converted, but neither does it win: In the process of interaction with the capitalist sector great damage is done to the fabric of village life and also to the value system and the sense of worth of the adherent to that lagging sector. He or she is left out of the decision-making process, having neither consultation nor participation, and finds a different sector governed and administered by aliens. One loses both control and the sense of responsibility for oneself: Dependence is forced on him/her.

Sievers thus contends that involution is a response to dualism (304); the peasantry, cut off from an expanding capitalist sector are forced back onto their own resources. They adapt but not progressively in a modernizing sense. The entire social structure runs madly to stay in the same place. When the villager finds himself the victim of a rising capitalistic system of which he cannot be a part, with no viable alternative, he turns inward for survival.[1] So, while primitive manufacturing is characterized by rehabilitation, expansion and new industries, the formation of a proletariat, a desideratum of modernization, is hampered. The institutionalization of a dual system is thus solidified, by a policy of excluding a segment of the population and a sector of the economy from participation in the modernizing process, while one part is stimulated the other is stultified, and by making the alienation of the traditional segment of society permanent. Meanwhile, private enterprise dualism, in the name of liberalism, permits the continuation and crystallization of the unequal symbiosis between the modern sector and the traditional sector. In this system the old sector is disorganized by

[1]This Sieversian insight could also account, at least in part, for the twentieth century fundamentalism, annotating the resurgence of Christianity in the USA's Bible Belt in the first half of the century, and attributed to the phenomenon of retreat to Judaism and Islam in the Middle East in the second.

capitalism but is not permitted to become capitalistic. Moreover, the lack of integration of the market sector, insofar as the productive, marketing and financial units do not interact enough as to constitute a unified whole, in addition to the dualistic cleavage between the market and nonmarket sectors, become two problems that need continuous attention (254). The response to population explosion, moreover, is more labor intensiveness, a process of static or stationary (Eric Jones' extensive) expansion.

Sievers thus discerns a crucial underlying foundation which guides Boeke's dualism: *That conventional analytic economics can have only a limited relevance to a dualistic society, for it is a discipline with a limited scope*. Hence, conservative as he may have been, Boeke rejected the universal pretensions of orthodox economic analysis (291). A dualistic economy requires dualistic economics, which is neither conventional capitalistic economics nor anthropological precapitalist economics, but a blend of both. Likewise it is necessary to have a differentiation in respect to policy. The policy usually called economic is not the most appropriate instrument to deal with the dualistic conflict or with the problems of the lagging sector.

Sievers' (1974: 217) implicit conglomerate of development can be epitomized in his term "production promotion." And inasmuch as political stability is a condition for success in the economic sphere (233-4), a perceptible improvement in the lot of the masses is a Sieversian condition for transformation. The latter can only be attained through increased participation in the structure of political life of *all* societal strata, and a real commitment to the attainable democratic processes, civil liberties, due process of law and freedom of the press: a thorough democratic *ambiance*, albeit not necessarily a replica of DCs' institutions, political or economic (236).

Any successful reform must involve the *psychological and social* transformation of the masses, but transformation does not take place quickly, and crash programs are doomed to failure (289). Policies could be meaningfully formulated only in terms of the actual conditions in, and the particular heritage of, a country; hence, no monolithic dogma could do for Sievers.

Technical progress at an *acceptable and agreed upon* social cost can be effective in laying the basis for an economically, politically and sociologically modern state. Stabilization policy aimed at controlling inflation via governing monetary supply, government finance, bank credit and foreign exchange is unavoidable (212). Decentralization, increased political autonomy especially in the fiscal and budgetary domains, is also essential.

While national income may increase, cautions Sievers, *the mass of the working class may not improve their lot,* because the increments in national income may not be distributed to them. This caution was formulated one full decade before the abysmal results of "structural adjustment" made it prophetic almost in every case the latter was applied, virtually all over the UDCs.

Education: primary, higher, vocational, and advanced, is a key to development; so, the economic endeavor is set into a *context* by Sievers, far from reductionism. Further, schools and universities are important; but more important are the attitudes and values which prevail (245). Education should not be viewed as a license out of the working stratum into the bureaucracy. The aristocratic ideal that militates against manual labor should be dismantled and abandoned.

Transmigration may be adopted as a better than nothing approach to relieving population pressure on overcrowded regions with adjustment to the *industrialization* program in mind (244). Building infrastructure and *social services* and then encouraging migration are also of the building blocks of Sievers' course of action for transformation. Government mediation can play a role in development via technical education, promotion of research, *import controls,* extension of credit and the like (146).

Yet that the Sieversian government is committed to the welfare of the masses does not mean it is hostile to private enterprise, especially indigenous private enterprise. And

Sievers' acceptance of a governmental role in a country's transformation, including his understanding of the need for stability, is *no license for totalitarianism.*[1] He nonetheless concedes that the word democracy, so quick to the Western tongue, becomes most illusive when it comes time for definition (166).

For his Indonesian case purposes, Sievers postulates that democracy is both the ideology underlying the political system in the West and institutional structure of Western polity, which is presumably designed to fulfill the goals of that ideology. He then relaxes that definition to describe the political ambiance of a society insofar as it is more or less successful in realizing the democratic ideal.[2] Sievers thus concludes that *"a degree of consensus is essential if a democratic nation is to function with sufficient harmony to be workable"* (168), and that "the history of the fall of democracy...is essentially a story of *instability*, of an *inability to govern"* (172).

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[1]Not a single sentence in this inquiry's thesis calls for, condones, or even implies dictatorship, benevolent or otherwise. However, democracy does not equate with laissez faire; nor does it mean surrendering a country to vested interests, domestic or foreign. Nor does democracy dictate a wholesale importation of an alien value system, even when the latter is cloaked under a lofty notion of human rights.

[2] From this point of view, Sievers asks the question where on such a scale he should place different phases of the Republic of Indonesia. This question is easily answered. The typical Westerner would have felt far more at home in Indonesia during the early fifties than under Sukarno's Guided Democracy, despite the lack of domestic tranquillity even in the earlier period. The Sukarno regime failed the Sieversian test of democracy in terms not only of its *ambiance* but also of its ideology, institutions and practices. However, it is this "tranquillity" that is needed if the country is not to slide into anarchy. *Sukarno came to the conclusion that his country could not get both democracy and tranquillity. He had no choice other than the latter.* If not, his country would have passed through the episode that Lebanon encountered from 1975 to 1990. Sievers therefore contends that constitutional democracy failed: It succumbed in time to the powerful antidemocratic forces in the country, the divisiveness, the violence, the legal but destructive internecine struggles, and the de facto obstacles facing a government attempting to function more or less democratically by being responsive to the public will and to social needs, maintaining civil liberties, and governing citizens to the rule of law and through the instrumentality of a professional civil service.

The two most important enemies of democracy, according to Sievers, were the excessive pluralism of the people, and hence their politics, and widespread violence aimed against the government. *His explanation for the failure of democracy boils down to the inability of the government to maintain authority* (in the legitimacy as well as in the power sense) *in the face of the forces of disruption and disunity. Such,* albeit Sievers does not make the generality, *is the fundamental source of authoritarianism in the UDCs,* especially because they are encountering continuous attempts at penetration by the DCs. Moreover, economics in the UDCs is often subordinated to security requirements, and hence to a higher latitude of power politics than in the DCs. Sievers has found that economics was thoroughly subordinated to politics (pp. 211-12) and suggested that a superior military power and technique must support political and economic endeavors, which must be based on an elaborate, disciplined, and efficient organizational structure (p. 82).

3.3 The Industrial Revolution Thesis

The concept of an industrial "revolution" did not appear spontaneously with factory development in the late eighteenth century. It was made popular only after (the elder, the uncle --1852-1883) Arnold Toynbee's *Lectures on the Industrial Revolution in England,* published in 1884, whereby it enjoyed immediate acceptance at a moment of intense international economic competition, a faltering of British industrial supremacy and the feverish first wave of neoimperialism.

The word "revolution" implies a suddenness of change that is not, in fact, characteristic of economic processes. Nor was the change taking place in industry alone in that period of roughly 1760-1830. Nor did the change start at that time, nor has it ended yet. This inquiry, therefore, uses the word "industrialization" instead of "industrial revolution." On the fact that the term "industrial revolution" is a "misnomer," "both inaccurate and misleading," as well as on the fact that industrialization is much less British than is commonly believed, see Thomas Ashton, *The Industrial Revolution: 1760-1830* (1948: 2); and Rondo Cameron, *Economic History of the World* (1997: 164-7). See also Henri Pirenne's sketch dealing with "the evolution of capitalism through a thousand years of history," entitled "The Stages in the Social History of Capitalism," *American Historical Review,* vol. XIX (1914).

Further, J. U. Nef, in *Industry and Government in France and England, 1540-1640* (1940), has shown that what he calls the first industrial revolution in England occurred between 1540 and 1640, and included investment in such industries as mining, metallurgy, brewing, sugar refining, soap, alum, glass and salt making. Some of these industries, e.g., glass, were of course already in existence in the Levant in the eleventh century, as the Crusaders found out. The reference here is to the use of glass in architecture: In windows, doors, etc., for the material "glass" itself, and glass artifacts, were first made in Mesopotamia before 2000 BC. The process was indeed cumulative and dialectical, whereby changes in quantity were at critical junctures transformed into changes in quality.

Heilbroner's *Making of Economic Society* (1972), nonetheless, is an engineering of development blueprint which focuses on how an underdeveloped country can emerge from its poverty. His fundamental thesis is that the prerequisite for economic growth for the underdeveloped countries today is not essentially different from what it was in Britain at the time of the industrial "revolution." To grow, an underdeveloped economy must build capital: Another version of Lewisism, but couched in a dose of idealism and anticipation of practical issues. The question for Heilbroner then becomes how a starving country is going to build capital. When the majority of the population is scrabbling on the land for a bare subsistence, how can the nation divert its energies to building dams and roads, ditches and houses, railroad embankments and factories, which, however indispensable for growth tomorrow, cannot be eaten today? If postage stamp farmers were to halt work on their tiny, unproductive plots and go to work on a great project in the urban areas, who would feed them? Whence would come the necessary food to sustain these capital workers?

At first sight, the problem seems insuperable. If an underdeveloped country is to amass capital, it will have to swing labor from agricultural tasks to capital building tasks. But when a country can barely feed itself, how can it make this switch? At a second look, however, Heilbroner (1972: 115) finds that the prospect may not be quite so bleak. These economies do have unemployed factors, and a large number of peasants who till the fields are not feeding themselves. They are, in a sense, taking food from one another's mouths. The crowding of peasants on the land in the underdeveloped areas has resulted in a diminution of agricultural productivity far below that of the developed countries. Hence the abundance of peasants working in the fields obscures the fact that a smaller number of peasants, with little more equipment, perhaps even with no more equipment, could raise a total output just as large.

In concurrence with this vision of Heilbroner, one can point out that one of the major structural changes in European economies in the nineteenth century was a decline in the relative size of the agricultural sector. That does not imply that agriculture ceased to be important; quite the contrary. The prerequisite for a decline in the relative size was a proportional increase in agricultural productivity. Agrarian reform, involving a change in the system of land tenure, was frequently a prerequisite for substantial improvement in productivity. The latter can contribute to overall economic development in several potential ways; for example:

(1) The agricultural sector can supply a surplus population (labor force) to engage in nonagricultural occupations.

(2) The agricultural sector can supply foodstuffs and raw materials for the support of the nonagricultural population.

(3) The agricultural population can serve as a market for the output of manufacturing industries and service trades.

(4) By means of either voluntary investment or taxation, the agricultural sector can provide capital for investment outside agriculture.

(5) By means of agricultural exports, the agricultural sector can furnish foreign exchange to enable the other sectors to obtain necessary inputs of either capital goods or raw materials that are not available domestically (Rodno Cameron, *Economic History of the World,* 1997: 275-7).

Now Heilbroner (1972: 54) begins to see an answer to the predicament of the underdeveloped societies. In nearly all of these societies, there exists a disguised and hidden surplus of labor which, if it were taken off the land, could be used to build capital. This does not mean that the rural population should be literally moved in toto or en masse to the cities where there is already a hideous lump of indigestible unemployment. It means rather that the inefficient agriculture conceals a reservoir of both labor and the food to feed that labor if it were elsewhere employed. By raising the productivity of the tillers of the soil, a work force can be made available for the building of roads and dams, while this transfer to capital building need not result in a diminution of agricultural output.

This rationalization of agriculture is not the only means for growth. When agricultural productivity is enhanced by the creation of larger farms, or by improved techniques on existing ones, part of the ensuing larger output per person must be saved (p. 96). In other words, the peasant who remains on the soil cannot enjoy his enhanced productivity by raising his standard of living and eating up all his larger crop. Instead, the gain in output per cultivator must be siphoned off the farm. It must be saved by the peasant cultivator and shared with his formerly unproductive cousins, nephews, sons and daughters who are now at work on capital building projects.

A hungry peasant is not expected to do this voluntarily. Rather, by taxation or exaction, the government must arrange for this indispensable transfer. Thus in the early stages of a successful Heilbronian development program there is apt to be no visible rise in the individual peasant's food consumption, although there must be a rise in his food production. What is apt to be visible is a more or less efficient, and sometimes harsh, method for ensuring that some portion of this newly added productivity is not consumed on the farm, but is made available to support the capital building worker (Heilbroner, 1972: 65-9).

This Stalinist style method, of course, is not a formula for immediate action. In many underdeveloped lands, the countryside already crawls with unemployment, and to create overnight a large and efficient farming operation would result in an intolerable social situation. This is a long-term process that covers the course of development over many years. One should also be cautious in the extraction of rural surplus to create new infrastructure and to develop local and centralized industries, remembering Mao's often quoted injunction from experience in the context of condemning Stalinism, namely that it is counterproductive to impoverish the peasants in order to build industry: This is draining the pond to catch the fish.

Capital building, moreover, is not just a matter of freeing hands and feet. Peasant labor may construct roads, but it cannot with its bare hands build the trucks to run over them. It may throw up dams, but it cannot fashion the generators and power lines through which a dam can produce energy. What is needed to engineer the ascent is not just a pool of labor, it is also a vast array of industrial equipment.

An allied problem of no less importance arises from the lack of technical training on which industrialization critically depends. At the primitive level, this is evidenced by UDCs' appalling rates of illiteracy, which make it futile, for instance, to print instructions on a machine or a product and expect them to be followed. At a less primitive level, the lack of expert training becomes an even more pinching bottleneck. To bring about such expertise will be a task of staggering difficulty without much remuneration. Yet without them it is often difficult to translate development plans into actuality.

How is equipment going to be obtained? By expanding the machine tool (that is, the capital equipment building) sector; hence the heterogeneous orientation of Heilbroner. But an underdeveloped economy does not have a capital equipment building sector. Consequently, in the first stages of industrialization, before the nucleus of a self-contained industrial sector has been laid down, an underdeveloped economy must obtain its equipment from abroad.

The country can do this in one of three ways, suggests Heilbroner (1972: 115-23): It can buy the equipment by the normal process of foreign trade; it can receive the equipment by foreign investment when a corporation chooses to invest in that economy; or it may receive the foreign exchange needed to buy industrial equipment through a grant or a loan from another country or an international organization, that is, it can buy industrial equipment with foreign aid.

Of these three avenues of capital procurement, the first and most important is foreign trade. A lion's share of export earnings of the underdeveloped countries must go to pay for such indispensable imports as procurements of equipment, or supplementary food, and replacements of old equipment, or to pay interests on loans contracted with the industrial world.

In addition, *the Ricardian problem, i.e., comparative advantage,* reckons Heilbroner (1972: 135-50), *plagues the underdeveloped countries in foreign trade.* International trade is the supposed means by which a great international division of labor can be achieved; that is, by which productivity can be enhanced in all trading countries, by enabling each to concentrate on those products in which it is most efficient. *With the underdeveloped countries, however, this international division of labor has worked badly indeed.*

Their structural underdevelopment has prevented them from developing their productivities even in their main occupational tasks. And most of them suffer from another problem: As sellers of raw commodities --usually only one raw commodity-- they face a highly inelastic demand for their goods. The terms-of-trade --the actual *quid pro quo* of goods received against goods offered-- are likely to move against the poorer nations, who must give more and more coffee or cotton for the same amount of machinery.

This is to the contrary of the argument of neoclassical economics that quality of machinery and industrial products is constantly improving, whereas the quality of raw commodity is not, so that the higher prices of industrial goods are offset by their greater productivity when put to use. Moreover, when commodity prices take a particularly bad tumble, the poor nations actually lose more in purchasing power than the total amount of all foreign aid they receive; *in effect they subsidize the developed countries* (Heilbroner, 1972: 212).

That is why the UDCs are seeking commodity stabilization agreements, not altogether dissimilar from the support programs that stabilize US farm incomes, but nonetheless is disapproved of by neoclassical economics and attacked by the Bretton Woods organizations. This commodity stabilization is essential if the underdeveloped countries are to be able to plan ahead with any assurance of stability.

Another possibility lies in the prospect of encouraging diversified exports from the underdeveloped countries --e.g., handicrafts, light manufacturers. But this is unlikely to happen as long as the industrial countries refuse to allow the underdeveloped ones equal access to their own markets.

A second main avenue of capital acquisition for the underdeveloped countries is foreign investment. Before World War II, this was a major source of their investment programs. Today, however, it is a much diminished avenue, as a corollary for the existence of transnational corporations. The former capital exporting nations are no longer eager to invest private funds in areas over which they have lost control and in which they fear to lose any new investments they might make.

On the other hand, many of the poorer nations view DCs' capitalism with ambivalence if not suspicion: They need capital, technology, expertise, but they see in the arrival of a branch of a powerful corporation run by faraway headquarters another form of the domination they have just escaped, at least de jure. As a result, foreign investment is often hampered by restrictive legislation in the underdeveloped countries, even though that investment is badly needed: *Humans do not live by pecuniary incentives alone,* as neoclassical economics would have it.

Another difficulty is that DCs' corporations partially offset the growth producing effects of their investments by draining profits out of the UDCs. Even when plant and equipment remain in the underdeveloped world, where it continues to enhance the productivity of labor, the pattern of economic flows sucks the surplus produced by the UDCs in such a way as to make foreign investment a negative influence: The earnings on this capital are not plowed back into still more capital goods, *they do not trickle down;* so their potential growth producing effect is far from realized, contrary to the neoclassical supply side hypothesis.

The third channel for securing capital is foreign aid from the industrial countries or international organizations. Foreign aid could make possible the accumulation of industrial capital much faster than could be accomplished solely by underdeveloped countries' resources. It could also provide a source of technical assistance that enables the underdeveloped countries to partially overcome their lack of skilled and trained personnel. Yet foreign aid may displace domestic savings and relax the effort of an underdeveloped country to generate capital. Such aid also carries political and cultural attached strings, which is the more dominant factor. In a great number of cases, furthermore, the aid provides a golden opportunity for much of it to be siphoned off by corrupt members of the governing stratum.

In sum, the revolution thesis, insightful in some aspects as it is, is based on the premise that for growth to occur it needs creation of some novel, unique, positive force or means such as what started in Lancashire at 0601 a.m. on January 1, 1760. But the "event," in concurrence with Jones, was really a process, smaller, far less British, infinitely less abrupt, part of a continuum, which took much more time to run. The proponents of this revolution rationale can have no range of comparative cases to help isolate the sources of the change, unlike what the impediment thesis can provide.

3.4 Food Security

No commodity can have graver consequences to a country's security and political economic orientation and stability than basic food items. Allocation of foreign food deals, as part of aid, or as a commercial transaction, is influenced by noneconomic, that is, other, more stringent, political and strategic considerations. UDCs that depend on foreign food sources, or on food aid, especially if heavily dependent on such foreign supply, not only face uncertainty, but also lose a certain independence of action, both internally and internationally. Heavy reliance on food aid is a specially sensitive issue because food is, by its Maslowian nature, a basic need. A shortfall in food supply resulting from a reduction in food aid has thus much graver social and political consequences than does a shortfall in other forms of aid. However, to reduce dependence on food aid to a level which is socially and politically tolerable is not to eschew commercial food imports financed by export earnings, for the former does not lead to self-sufficiency in food. Further, sharp year-to-year fluctuations in food prices, caused by variations either in domestic food production or in import prices, lead to deprivation and distress among the poor when prices rise; conversely, low prices discourage production and long-term investments. A policy of stabilization of food prices within a reasonable margin thus requires either domestic food stocks or a compensating variation in imports. The domestic prices of food imports can be regulated by means of taxes and subsidies on imports. If import prices rise above the domestic ceiling price, subsidies are needed; if they fall below that level, taxes could be changed on imports.

In addition, the optimal combination of domestic stocks and reliance on food imports, financed either by accumulation of foreign exchange reserves or by means of guaranteed access to international financing facilities, depends on the particular circumstances of the country concerned. Criteria that determine the appropriate size of domestic food stocks include the degree of fluctuations that are politically tolerable and economically efficient --this will determine the price band, that is, the gap between ceiling and floor prices-- within which stabilization of prices is to be sought; the cost of food stocks, including the required amount of investment in stocks and costs of storage (in the UDCs both spoilage in storage and storage costs tend to be higher, the latter because of higher interest rates); the time interval between the procurement of supplies from abroad and their distribution at home --which determines the amount of food supplies to be released from stocks at times of shortage (Nurul Islam, in South Center, 1993: 79-83).

Another important issue related to food security, especially during an attempt at industrialization, is the assurance of access for the poor. The South Commission (1990: 108-9), dealing with the question of food subsidy for the poor along lines no less harsh than those of Heilbroner, apparent good intentions in both cases notwithstanding, stresses the subsidy's high cost, in the sense that resources devoted to the subsidies could be used alternatively in raising employment and income opportunities for the poor. In addition, the Commission, but now rightly so, highlights the possibility of leakages of the benefits of the subsidy to the nonpoor, and gives qualified support to food subsidy plans which could be used for the improvement of the nutritional status of vulnerable groups.

Any reasonable person who is directly informed as to what poverty in the UDCs means will opt for a second best solution, trying to avoid as many inefficiencies and high costs as possible. Experience, compiled by Nurul Islam (in South Center, 1993: 95-6), indicates that one such measure which tends to ensure self-targeting is the introduction of public employment plans such as public works projects, including food for work programs. Wages may be paid in cash and partially in food, provided that employment is offered at less than the going wage rate, that is, less than what is available in alternative private employment opportunities or self-employment, without circumventing a reasonable minimum wage limit. Such plans are not likely to compete with existing employment opportunities and are most likely to attract those who are otherwise unable to find employment or feed themselves.

A second potential measure is some kind of specifically targeted, subsidized food distribution plan. Feeding programs for particular vulnerable groups among the poor, for example the landless poor or female headed households, are unlikely to involve any considerable risk of leakages to the nonpoor. Both the public employment plans and targeted food distribution programs can be integrated with development programs, that is, provision of physical infrastructure such as roads, irrigation and drainage plans or training and education of the poorest groups for income earning activities in both self-employment and wage employment. Admittedly the administration of such poverty oriented plans is costly. But a considerable body of experience has been accumulated (Nurul Islam, South Center, 1993: 103-5) which can provide guidance for successful and cost effective replication, and perhaps can be adjusted to the special circumstances of the country concerned.

Several requirements seem to be clear. First, such plans should be decentralized to the level of local government for their implementation if not also for the mobilization of resources. Second, transparency and accountability in the administration of such plans must be assured, in order that the beneficiaries and local populations at large are kept informed not only about the criteria for the selection of the beneficiaries, but also about the nature of projects undertaken and the way in which resources are spent on these projects. Third, explicit linking as far as possible of the poverty alleviating plans to development projects, that is, to investment in physical and social infrastructure, will ensure that they are less like welfare plans and more in the nature of development projects, contributing to the formation of either physical or human capital. Ideally, the UDCs should aim at self-reliance rather than self-sufficiency, such that a UDC should be able to procure the basic food it needs on its own, in order to achieve a minimum level of food security. This minimum could then be complemented either by further domestic production if it is a low cost, efficient producer, or through imports in exchange for exports, either nonfood or nonagricultural exports.

However, that does not mean surrendering to export led growth in order to procure the needed food complement. Comparative advantages cannot always be realized mutually; markets are neither perfect nor competitive, they are oligopolistic and oligopsonistic (whereby small numbers exchange relations dominate); trade is severely hindered by protectionism; and social and security considerations override Ricardo's static concept of comparative advantage. Further, unlike capital, labor is not mobile enough internationally, its flow is hindered by a great many obstacles and discriminatory practices; there is no integrated labor market on the world level; international trade cannot perfectly substitute for factor mobility; paradoxical trade structures are contrary to the H-O-S theory, and the perverse flow of capital also contradicts the assumed equalization.

Neither the unorganized workers nor the weaker UDCs can attain a just or even a reasonable remuneration for their work, furthermore; world production, while causing oversupply and wastage, is failing to satisfy basic human needs. And on the world level, despite all the loud talk about "human rights," there is no state like institution regulating income redistribution, and neither safety nets nor systematic welfare measures are applied, yet economic dictates come in the form of conditionality and sanction from the global dictatorial organizations.

A one sided specialization in primary production, that this conditionality ultimately entails, has disintegrative effects on the economies of the UDCs, and dooms them to losing, instead of realizing, advantages in international trade, and to lagging further and further behind the DCs. By its very nature export oriented primary production fails to provide conditions conducive for the economy to develop its productive forces, to expand the domestic market, to promote technological progress, to realize internal and external economies, and particularly to improve the quality, and hence productivity, of labor. However, more important, it sacrifices the very base upon which national security can be attained, namely industrialization.

None of these fundamental objectives bothered Ricardo, for his immediate aim was to repeal the Corn Laws and the old Poor Law.[1] Nor do they bother the characteristically neoclassical Bretton Woods organizations, for their underlying aim is to globalize unfettered capitalism, at whatever cost. Therefore, the vulnerability of many UDCs which are importers of food, concurrently with agrarian export orientation, makes imperative a shift in the pattern of production and exports from raw materials to manufactures, and, within the latter, to products with medium research and development intensity; that is, *the creation of dynamic comparative advantages* to develop economic structures, rather than surrender to "endowment" and "static" comparative advantages of the neoclassical creed.

Further, efforts of the UDCs have been hampered by such external shocks as declining commodity prices, high interest rates, protectionism, negative net financial flows

[1]With respect to the Corn Laws, Ricardo was in opposition to Malthus' stand; they represented the views of the two competing strata, the nascent industrialists and the entrenched landlords, respectively. As to the abolition of the old Poor Law with its provision of locally administered unemployment compensation, which was one of Malthus' favorite deductions from his theory of population, Nassau Senior as well as Ricardo agreed with Malthus' indictment of that law. Senior thus worked on the Poor Law Inquiry Commission of 1834, eleven years after the death of Ricardo in 1823, wrote its report, and managed to abolish outdoor relief to the able bodied, replacing it with a new system of "indoor relief" (an early version of Newt Gingrich's infamous orphanages proposed in the "Republican Revolution" of 1996) for the sick, aged and destitute (see Mark Blaug, *Great Economists before Keynes*, 1997: 221).

and the unresolved debt crisis (EEC Commission, *Lomé IV*, 1990: 25-33). The dynamics of capitalist individualism, the underlying striving of capital to transform labor into a commodity capable of producing, and ever increasing, surplus value, furthermore, tends to have the sinister effect of the dissolution of societal coherence, especially within the family, for only then is the labor market rid of so-considered noneconomic variables, externalities or distortions. This phenomenon turns the collectivity into uprooted masses, so lonely and disoriented that they are mobilized further behind the very ideology that estranges them.

What unfettered capitalism pursues, compelled by its very inner workings, is rather constant: Access to raw materials and cheap production factors for processing under its control (not necessarily in the DCs) and universal marketing, including in the UDCs. Deploying the lofty ideal of freedom, neoclassical economics calls this desideratum "free trade," and has a rationalization for it dubbed "comparative advantage," and a strategy titled "structural adjustment and development assistance."

All the desiderata, rationalization and strategy are highly attractive to the élite comprador bourgeoisie in the UDCs, who learn neoclassical economics, engage in trade, benefit from development aid, accumulate wealth, deposit it in Western banks, send their children to the USA to learn neoclassical economics, and bribe the politicians (e.g., Mexico's former president, Salinas, and Republic of Korea's two former presidents) to further "liberalize" the economy. Never mind the price: Hunger, misery and death for the poorest of the poor. This condition of neoimperialist dependence has in many respects been far worse than that of direct colonial subjugation. For now the poor peasants, under disarticulated capitalism, have even lost their little plots of land that previously ensured their insular autarky and traditional way of life.

This deepening dependence shows no sign of abatement with continued "financial aid," transfers of technology, and technical assistance for furthering economic "development" of the UDCs. However, neoimperialism may not be the only onus, nor is merely the legacy of colonialism, although both factors account for the bulk of the problem.

Apathy, involution, dualism, lack of work ethics, absence of middle class industrial habits -- reliability, punctuality, time awareness, progress cognizance, limited birth rate, competitiveness, etc.-- all are abundant in underdeveloped conditions. For, as Marx put it succinctly in the *Preface* to vol. I of *Capital* (1867: 91),

> alongside of modern evils, a whole series of inherited evils oppress us, arising from the passive survival of antiquated modes of production, with their inevitable train of social and political anachronisms.

3.5 Balanced Growth

Paul Rosenstein-Rodan's (1958) development formula is balanced growth. Elaborating on "the vicious circle of poverty," he contends that low per capita incomes lead to low rates of savings and investments in the face of rapid population growth, and thus perpetuate the initial low incomes. For Rosenstein-Rodan, the hard core of the amount of stock of capital goods --whether infrastructure or superstructure, machinery or human resources-- together with its distribution and expansion is the post-Keynesian Harrod-Domar model. The central concept of the latter is the capital-output ratio, meaning that the portion of national product to be available for investment should be several times the annual rate of growth of national product desired (capital-output ratio being in the time period for which output equals capital invested, hence the construed use of the word "ratio"). The model, which attempts to give a dynamic perspective to the Keynesian discourse, postulates that the growth rate equals the savings income ratio divided by the capital-output ratio.

In the Roy Harrod's (1968, 1993) and Evsey Domar's (1957) general works on growth (despite the differences between their theories), the rate of growth of output which is warranted is given by the planned savings rate divided by the planned capital-output ratio. Since current investment plans are largely independent of current savings and consumption plans, there can be no certainty that output will actually grow at the warranted rate, for investors may be forced to adjust to unanticipated changes in demand. Such adjustments entail short-run variations in the capital-output ratio followed by adjustment of investment plans. Harrod and Domar were concerned that the planned savings rates "s" in Western Europe and North America were too high for the maintenance of stable growth, for actual "s" warranted a long-run growth rate in excess of that permitted by the rate of growth of the labor force. The physical impossibility of carrying out a rate of investment at full employment sufficient to match "s" would generate periodic deflationary pressures.

Paul Rosenstein-Rodan's Big Push (1958, ch. II) is inferred from the axiom that obstacles to growth are not solid (thus in concurrence with Eric Jones and the impediment thesis), and the premise that there is a minimum level of resources that must be devoted to a development program (an economic sort of the critical mass concept in physics), if it is to have any chance for success. Hence accelerated, coordinated investment is recommended, in a *planned*, balanced growth pattern enacted simultaneously *in several complementary industries*. The approach, predicated on elastic pessimism, suggests customs unions, massive capital flow from abroad and an international court of economic justice, still in an institutional framework of international division of labor.

The critical mass aspect of Rosenstein-Rodan's Big Push is commensurate with the Boserup-Simon critical mass of population necessary for innovation to take place, referred to above. More closely, it is analogous to the *critical time* of Alexander Gerschenkron's (1962, 1977) conception of Great Spurt: A big state assisted push of industrialization (for delay may mean the crucial moment will pass, opening the way for reaction) in the pattern of the German and Russian latecomers. The pattern entails joint stock enterprises, investment bank financing, heavy industry, state support, stage skipping (leap frogging), originality and creativity in deviating from the older industrialization path.

Jose Goldemberg too (in South Center, 1993: 240-5) advances the leap frogging argument that technology is the answer to development and not labor, inexpensive and abundant as it might be. What is required to make development a reality for Goldemberg is a dynamic entrepreneurial (Schumpeterian) class backed up by enough science and technology to allow it to make the correct technological choices and leap to the frontiers of productivity innovation to gain comparative advantages --"leap frogging," the path followed in the past by today's industrialized countries, as he interprets it. The UDCs have to incorporate in their process of development the new technologies tested and available in the DCs, that is to leap frog stages of development which do not necessarily have to be retraced.

Contrary to such a big push, Ernst Friedrich Schumacher, in his telling subtitle *Economics as if People Mattered*, made famous the notion that *Small is Beautiful* (1973), stressing the need to protect the process of organic growth from any attempt to speed up development through a large scale industrialization. His caution is analogous to Karl Polanyi's principle of Cultural Devastation, and in tune with Sievers' warning against precipitousness, doomed crash programs and grand schemes. Schumacher also emphasized the need to use small organizational structures and intermediate technology, for UDCs' tools are too primitive and DCs' ones too complex.

Rosenstein-Rodan's course of action incorporates many other concepts that can be summarized as follows:

(1) The economic development of "backward" economic regions --his focus is on Eastern and Southeastern Europe-- is necessary for international political stability.

(2) The key economic characteristics of these regions are low income and hence purchasing power and substantial unemployed and underemployed labor in the agrarian sector.

(3) In order to raise income it is necessary to *industrialize.*

(4) Industrial development strategy may be pursued either under conditions of autarky --developing self-sufficiency in all branches of industrial production including capital and intermediate goods, i.e., establishing a closed national economy-- or through specialization and integration into the international economic system (still according to the principle of comparative advantage). The latter is preferable to the former for Rosenstein-Rodan because it supposedly permits a higher level of aggregate world output, prevents an increase of international excess capacity in certain sectors, and permits the mobilization of international

capital to fund part of the development effort with loans to be repaid from export revenues (its detrimental effects on the UDCs are ignored on the unrealistic basis that autarky is always attainable as an alternative, or else delinking would have been feasible).

(5) Three key factors impede spontaneous industrial investment by private enterprise in underdeveloped regions: The small size of the domestic market, the inability of individual firms to internalize the value of the external economies that they generate --e.g., the training of labor which may leave to work for other enterprises-- and the inability of individual firms to anticipate the external economies which may be generated by the investment of other firms.

(6) These constraints can be overcome by state investment in the training of the work force as well as state planning and organization of a large scale investment program. The more or less simultaneous implementation of a range of investments in different branches of light industry and essential infrastructure will permit individual firms to find larger market outlets --due to the expansion of wage employment-- and to benefit from external economies.

(7) *State activism* would also be needed to help mobilize the financing for a large scale program of industrialization in underdeveloped regions. If consumption standards were not to be forced down to intolerably low levels, up to half the necessary funding would have to be borrowed abroad. State activism would be necessary to guarantee these loans. This must be combined with international collaboration in programming the expansion of exports in order to permit loan repayment from export revenues without major disruption to the light industries of creditor countries.

Another balanced growth device, relatively less regimented than that of Rosenstein-Rodan, is that of Ragnar Nurkse (1952). It entails an inward looking, synchronized (but not necessarily planned or protectionist) application of capital to a wide range of industries. Nurkse's economic development formula entails *import substitute industrialization*, with unlimited (City of London or Canada style) capital supply, *since international trade* *cannot constitute an "engine of growth" for the UDCs,* given only the absence of expanded world demand to induce growth (pp. 53-4); again export pessimism. Moreover, the linkages effects --the secondary multiplier-- of a primary product, export based economy are limited because of its enclave character. In conditions of underdevelopment, contrary, e.g., to the Canadian case, staple exports, instead of spear heading growth, tend to lead the economy into a trap, reinforcing the existing growth inhibiting patterns.

Nurkse's course of action is thus built on the diagnosis that underdevelopment has two key causalities that jointly lock underdeveloped economies into a vicious circle of self-replicating poverty and stagnation (pp. 60-5). These are low per capita incomes which limit the size of the market and hence the inducement to invest, and inability to generate significant savings from low per capita incomes, so that even if the inducement to invest existed, the domestic resources to finance such investment would not be available. This latter problem is exacerbated by the operation on an international scale of the Duesenberry effect --even if per capita incomes in underdeveloped regions rise due to buoyancy in primary export markets, any potentially favorable impact on savings will be annihilated by an increase in the propensity to consume as people in these regions try to keep up with the consumption standards prevalent in the industrial capitalist Joneses. A way out of this condition requires simultaneous action on both fronts: The inducement to invest and the mobilization of investible funds. With respect to the former, *Nurkse considers and rejects the neoclassical growth strategy based upon the continued expansion of primary exports,* i.e., upon an external market. He rejects this due to the low international income and price elasticities of demand for primary products (Nurkse, 1952: 43-7).

Nurkse, like Rosenstien-Rodan, confirms the case for balanced domestic growth in consumer goods industries in order to create a balanced market, and *accepts the need for state planning to promote this.* With respect to resource mobilization, Nurkse accepts Rosenstein-Rodan's notion of mobilizing both domestic and foreign resources to finance the investment program. However, his analysis of the prospects for achieving this takes a different road, which can be summarized as follows:

(1) Increased voluntary savings is improbable due to the Duesenberry effect.

(2) Some of the UDCs have large masses of disguised unemployment on the land, which could be mobilized for real capital formation, but not without strict curbs on any immediate rise in consumption (in concurrence with Heilbroner). Again the demonstration effect may hamper such restraint.

(3) Any increase in domestic incomes is also likely to put pressure on the balance of payments as people demand more imported consumer goods.

(4) Luxury and semiluxury import restriction, if implemented, is likely to be only partially successful as a means of raising capital formation, for the release of foreign exchange must be matched by a corresponding increase in domestic savings. However, the potential consumers of luxury imports will not necessarily replace their thwarted consumption outlays by savings; they will look for domestic consumption outlets. The likely result is that there will be increased inflationary pressure in the domestic economy. This may generate some forced savings as profits are built up while real consumption is curtailed by availability, so that, as long as inflation does not get out of control, there may be some increase in net investment, but not to the full extent theoretically made possible by import control; however,

(5) apart from the question of the quantity of investment, there is also that of quality. If import restrictions are not matched by restraints on consumption, and if there is sufficient effective demand, the increase in investment is likely to be channeled into relatively inessential uses, producing luxury and semiluxury items; and

(6) the automatic efficacy of foreign aid in raising investment is spurious.

Nurkse's (1952: 39-40) conclusion is that *the onus for breaking the vicious circle of poverty in the UDCs rests firmly upon their governments,* with respect not only to planning a program of balanced industrial investment but also to mobilizing domestic resources, and ensuring effective use of foreign aid, through curtailing the growth of domestic consumption. The key to growth lies in the ability of these governments to match expanded investment with an *effective fiscal policy*. No solution is possible without strenuous domestic efforts, particularly in the field of public finance.

3.6 Critical Effort for Growth

Along lines compatible with Marx's Feuerbachian dialectics and physics' concept of critical mass, Harvey Leibenstein (1954, 1957) develops his means of critical minimum effort, which suggests that to achieve or regain growth an economy needs an effort which transforms changes in quantity into changes in quality of innovations: technical, organizational and regional --i.e., concentration. Conceptualized within Leibenstein's strategy of critical minimum effort are subconcepts of micro-micro theory, gap fillers, input completers and x-efficiency[1] (slack is ubiquitous and effort sporadic and unreliable in the absence of special pressure situations --à la (the younger, the nephew --1889-1975) Arnold Joseph Toynbee's environmental challenge and human response-- and obstacles, in concurrence with Jones and Rosenstein-Rodan, are not solid).

According to Toynbee's *Study of History* (1934-61), civilizations (or transformations) arise because of a creative response by a minority of individuals to a situation of special difficulty. In general, the more severe the *challenge* posed by difficulties, the more creative and fruitful the *response*. Toynbee calls the process of response etherealization, using the term "mimesis" to name the process of imitation by which the uncreative majority follows the creative minority. Among the challenging situations that serve as stimuli to creative individuals are hard countries, that is, places where it is difficult, rather than easy, to survive; new grounds, where no effort to build a society has previously been made; blows, defeats of one sort or another; the pressures of *frontier* conditions; and

[1]For a succinct exposition of these concepts, see Mark Blaug, *Great Economists since Keynes* (1985: 129-30).

penalizations, that is, coercive conditions and regulations imposed on one class or race by another.

Leibenstein's special pressure situations are therefore a restatement of Toynbee's thesis. His perspective is also analogous to Joseph Schumpeter's (1947, 1954) notions of industrial growth, commandeered fixed capital, innovative entrepreneurship and role of minorities (outlanders, marginal groups, nonconformist entrepreneurs, social deviants, transnational groups, captains of industry, robber barons, rugged individualists, etc.) in economic progress, and is commensurate with Schumpeter's lack of emphasis on capital accumulation. It is also analogous to Angus Maddison's (1989) amalgam of innovation, accumulation and risky change, and to Raymond Firth's (1929) sequence of transformation, which is deduced from *The Primitive Economy of the New Zealand Maori:* Material accession through the introduction of new or better tools and instruments, then technical processes, then forms of organization, then beliefs and institutions. Here the introduction of new tools and of new technical processes constitutes a cultural change, a break with established continuity, a Schumpeterian national deviant representing a new social control group, or his external deviant, adopted and adapted by the local élites (e.g., the reforming élite of Meiji Restoration of 1868 in Japan, the Maori case, or the role of foreigners in the Swiss transformation).

Leibenstein explains economic underdevelopment in terms of a low level equilibrium trap: At low levels of income, forces operate to restore increased per capita incomes to their original level. Of these forces the most important are population growth, and a high marginal propensity to consume stimulated by the Duesenberry effect. In contrast, capitalist economies are disequilibrium systems in which change is cumulative, while development itself is an explosive disequilibrium path (Leibenstein, 1957: 15-17, 60-61). The problem then is presented as one of breaking out of the trap (in concurrence with Eric Jones' impediment removal thesis) into cumulative growth (Jones' intensive growth). Any relatively small scale effort designed to generate gradual change will be inadequate (contrary to Sievers' gradual, though comprehensive, production promotion); any potential increase in savings will be absorbed in increased consumption, and any initial increase in per capita incomes will soon be offset by an induced acceleration in population growth.

Leibenstein's only solution thus lies in *a critical minimum effort* in which the scale of increased investment enables a country to achieve and sustain a growth rate, which exceeds the maximum feasible rate of population growth by enough to permit the following to occur: Rising consumption per capita, maintenance of the growing capital stock, and generation of sufficient net savings to sustain further growth. An effort on this scale should make it possible to reap the benefits of external economies and industry interdependence, and to achieve balanced[1] growth in interindustry demand. Attainment of the critical minimum effort will depend heavily on the development of entrepreneurship, knowledge and skills. *Governments can help to foster the growth of these factors.* Meanwhile the supply of savings per se, although important, *is not the dominant constraint on growth.* The problem lies at least as much in achieving more productive use of the existing savings potential, currently used up in luxury consumption and unproductive investments such as land purchase.

Unlike Nurkse's, Leibenstein's analysis leaves the international trade aspects of economic development out of the discussion. The central causes of underdevelopment and the main key to growth lie within the underdeveloped economy and not in the international sector. However, like Nurkse's, Leibenstien's main impetus for a substantial-growth

[1]The use of input-output analysis as a planning tool, in the 1950s and 1960s, was linked to a preoccupation with the need for balance in national investment programs. From there the notion spread into growth theory, hence *balanced* growth (see Leibenstein, 1957: 96-106). In Wassily Leontief's input-output analysis, the economy is broken into industries or sectors and the flow of goods and services among industries or sectors is recorded systematically in rows and columns to indicate their interrelationships. These interrelationships are called input-output vectors because they indicate what inputs of one industry are required to produce the output of another, which in turn become the inputs of still other industries. Input-output analysis, therefore, is sometimes called interindustry analysis. It has been put to numerous uses: To calculate the resource costs of conversion to peacetime production after WW II, to calculate the flow of trade between regions in a country, to analyze the pollutants generated by different industries in a country, and to spell out relative factor intensities of exports and imports. Through this very tool, Leontief discovered (as pointed out above) that US exports are labor intensive, while its imports are capital intensive, which contradicts the H-O-S theory by this Leontief paradox (see also Mark Blaug, *Great Economists since Keynes*, 1985: 134).

program must be generated internally, through the interaction of government and domestic entrepreneurs, and scale of the effort to mobilize resources for productive investment must be massive, as would the investment program itself, for only in that case could the diseconomies of small scale be overcome, risks of market failure reduced and external economies fully exploited. Only then, too, could growth of output surpass that of population and generate sustained increases in per capita income (Hunt, 1989: 57).

3.7 Linkages by Unbalanced Growth

Albert O. Hirschman's (1958) Backward and Forward Linkages (à la Harold Innis, 1956) is another proposed means for achieving growth, in an import substitution, unbalanced growth model. The latter is to be achieved through the use of shortages, bottlenecks, capital intensive investment, inflation, balance of payments deficit, etc., in contradistinction to the ideas of balance, coordination, comprehensive overview, integrated plan, etc. That unbalanced growth is conducted as an antagonistic sectoral/targeted growth; hence: Voice and exit play an important role. To *exit,* is used by Hirschman in the sense of to leave, or to vote with one's feet. In his analysis of the relationship between group members and group leaders, members of organizations may express their dissatisfaction with leaders by leaving the organization. Members may also *voice,* use the threat of exit as a way of exerting pressures on leaders. Actors may thus threaten "exit" in order to increase influence (voice). The possibility, terms and control of the exit option are consequently viewed as important dimensions of intragroup politics (Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States,* 1970).

Cultural, institutional, socioeconomic obstacles to growth, as with Jones, Rosenstein-Rodan and Leibenstein, are not considered solid. *Economies of scale*[1] encourage firms to

[1]Kaldor's (1996) economic development strategy is founded on the premise that the cumulative process rests largely on the combined operation of land saving and labor saving innovations in agriculture with increasing returns to scale in industry. The *economies of scale,* in the distinction drawn by Mahalanobis

reach backward to control their supplies of raw materials and forward towards further fabrication and marketing. Hence priority is to be given to industrial investment with strong linkage effects. Albert Hirschman (1958: 206-8) contends that attempts to identify dominant causes of underdevelopment in terms of the lack of a key factor, be it savings, entrepreneurship or skilled labor, have all been disproved; each being latent in underdeveloped economies. What is lacking is *a binding agent* --the organizational capability to call forth and combine these latent resources in order to generate growth (another repudiation of Smith's invisible hand).

Hirschman has also argued that where organizational and managerial skills are in scarce supply, the pursuit of balanced growth would overstretch these resources. Consequently, he proposed a strategy of unbalanced growth, in which planners and policy makers would not attempt to anticipate supply and demand imbalances, but would be guided by major resource bottlenecks as demonstrated in the market. Such a strategy would emphasize induced investment in both the public and the private sectors. Therefore, *Hirschman, too, identified an active role for government in guiding resource allocation.* To maximize the rate of development, investment should be encouraged in branches of production with substantial backward and/or forward linkages. His analysis can thus be interpreted as providing a justification for backward linked import substitution --starting with consumer goods production. Hirschman (1958: 109-12) further advocated the use of large scale, capital intensive techniques of production which tends to minimize demands on organizational and managerial resources. He also favored foreign capital for its ability to pick successful priority sectors and regions, its innovatory capacity, and its foreign market contacts which can be used to ease temporary input bottlenecks.

Agriculture received little attention in Hirschman's analysis though. Primary production in general has, in his view, virtually no backward linkages --he even ignores its

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(1963) between the *machine building sectors* and *machine using sectors* for producing consumer goods, are a pronounced characteristic of the former.

demand for means of production. Meanwhile, the foreword linkages from agriculture to other branches of production he also sees as minimal, since most agricultural output in underdeveloped countries is either consumed or exported. Again Hirschman played down the scope for forward linkages into the expansion of agricultural processing. On the contrary, John Kenneth Galbraith's (1973 and in South Center, 1993: 230-6) basic principles governing the economics and politics of his development strategy are:

(1) *To recognize the primary role in early economic life of agriculture --the peasant.*

(2) *Land reform.*

(3) The central role of universal education.

(4) The limits of the *role of the state*: To supply honest and effective administrative talent.

(5) A firm fiscal context.

(6) Minimal role of the military.

(7) The devastating effect of international or internal conflict between or within the countries of the UDCs: Tolerance and *peace* must be a prime goal in all of the UDCs.

(8) The writing down and writing off of debt by the DCs.

Hirschman nonetheless argued (à la Schumpeter) that a crucial scarce resource in the underdeveloped economies is a binding agent, which will call forth the resources that are available and promote their use in ways that will most effectively contribute to economic growth. In contexts in which experience and knowledge of efficient growth paths are lacking, and in which difficult decisions have to be taken, some of which conflict with traditional norms and/or with current ideas concerning the nature of development itself, there is a need for pressures and inducement devices that will elicit and mobilize the largest possible amounts of resources for development while minimizing the need for difficult development decisions. One must call forth as much decision-making ability as possible by maximizing induced and routinized decision-making.

Hirschman (1958: 203-6) further argued that the inducements to invest in the industrial sector could be maximized if economies followed an investment path in which each stage of investment generated, through backward and forward linkages to other branches of the economy, cumulative inducements to invest in these branches also. He emphasized the need to use the market as the main inducement device, an approach which indicated a strategy of backward linked industrialization, starting with *import substitution* in consumer goods production, i.e., goods for which a known market exists, given by the existing scale of imports. Hirschman foresaw that with time the development of these branches could generate sufficient demand for intermediate and capital goods to induce investment in local production of these also.

Meanwhile, the development of manufacturing production could also be expected to put increased pressure on existing supplies both of agricultural output (food and raw materials), and of infrastructure of transport facilities, power supplies, communications, etc. It would thus induce expansion in agricultural production, while bottlenecks and shortages in the use of infrastructure would provide the necessary information to guide public sector investment, into the areas where it too would be most effective in promoting growth. These, in sum, are the concepts that underlie Hirschman's advocacy of unbalanced growth and his rejection of the opposing balanced growth strategy advocated by Rosenstein-Rodan, Nurkse and others. For Hirschman it was quite unrealistic to assume that the latter strategy could be effectively organized and implemented. Of course an increase in foreign earnings or in private capital imports would have equally powerful effects on growth. But the difficulty is in the way of rapidly increasing receipts from these sources. For ultimately, "in the last instance," growth depends on the interplay of three key variables.

First, is the rate of investment that an underdeveloped country can generate. This depends on the proportion of its current effort that it can devote to capital created activity. In turn, the rate of savings, the degree of success in attracting foreign capital, and the volume of foreign aid, all add to that critical fraction of effort on which growth hinges. Second, is the productivity of new capital. The savings that go into new capital eventually result in higher output. But not all capital boosts output by an equal amount. A specific money amount invested in a given industry will have an impact on GNP very different from that invested in education. In the short-run the industrial investment may yield a high return of output per unit of capital investment; in the long-run the education may. But in any event, the effect on output will depend not merely on the amount of investment, but also on the marginal capital-output ratio of the particular form of investment chosen. And third, is population growth. Here is the perplexing factor. Economicwise, if growth is to be achieved, output must rise faster than population, a simple enough dictum. Otherwise, per capita output will be falling or static, despite seemingly large rates of overall growth. However, securitywise, that is, in terms of political economy and not just economics, things are a little more complicated, for a declining rate of population growth involves changes in the demographic composition of the population, both internally and with respect to the outside world, that may be of great importance beyond the economic domain. In specific cases, if the nation is to survive at all, it has to achieve a rate of population growth that ensures the difficulty of erasing it off the map, even though that simultaneously risks erasing off a large portion of the product of output growth.

But even merely within the economic domain, economic growth is dependent upon population growth. Indeed, even the USA cannot maintain its status as the leading power in the world without continued *above average* population growth, both from natural and immigrational sources, with all the unintended accompanying demographic consequences of that dilemma. That fact is to be in part discerned from Alvin Hansen's explanation of this century's great depression in the USA by the interwar period's declining rate of population growth (in addition to declining rate of resource discovery, because of the disappearance of the frontier, and declining rate of technological progress, for lack of great new industries). Hansen elaborates on the effect of the declining rate of population growth upon investment, showing that a rapidly growing population, *ceteris paribus,* will call forth more investment than a slowly growing one.

There are two main ways in which population growth affects investment:

(1) A growing population provides a growing labor force. So long as population growth keeps pace with capital accumulation, the marginal productivity of capital will, in the absence of other influences, remain constant. However, when population growth falls off, capital accumulation must also fall off, if, apart from other influences, the marginal productivity of capital is not to decline.

(2) A growing population provides an increasing demand for goods and services. The correlation between long-run increases of population and of consumption is so high that one can be more or less substituted for the other, and consequently the acceleration principle (which states that a mere drop in the rate of increase in consumption may cause an absolute decline in investment) can be applied to population (see Hansen, *Business Cycles and National Income,* 1957, and Benjamin Higgins, *Employment without Inflation,* 1998: 83-9).

4. TRANSFORMATION VERSUS GROWTH MECHANISMS

This chapter deals with neoclassical efficiency and UDCs' need for equity. For the purpose of this critique, efficiency means continuously rationalizing production, circulation and distribution. It entails the promotion of the greatest aggregate surplus of benefits over the costs of economic activity. Equity is to allocate these benefits and costs, following David Barnes and Lynn Stout (1993: 70), "in accordance with reasonable societal values," always keeping in mind the ultimate Rawlsian (1971) objective of improving the lot of the worse off, and that *justice is fairness*. While foundational equity is that of treating people as equal beings, distributional equity is that of justifying a more equal distribution of economic goods, social opportunities, and/or political powers among people (Amy Gutmann, in Miller, 1987: 136). The latter concerns this inquiry as much as the former.

There would be no reasonableness in an argument that extracts efficiency, which is common to all strands of transformation albeit to differing degrees, from the basis of economics and its relevant legal postulates, for that would amount to not only undermining economic growth, thereby distributing poverty, but also abstracting from the very concept of economizing. For extracting efficiency would contradict *the economic principle:* Optimizing the output input ratio, or, to use Wilhelm Roscher's Historical School terminology, "satisfying society's greatest needs with the smallest expenditure of means" (quoted in Jacob Jan Krabbe's *Historicism and Organicism in Economics: The Evolution of Thought*, 1996: 24). Any argument that seems counter efficiency in this chapter is thus to be taken as confined to the rejection of the specific notion of basing economics, or for that matter "law and economics," the juridical shrine of neoclassical economics, *only on efficiency,* --whether it is defined in terms of Benthamite pure utilitarianism, Kaldor-Hicks wealth maximization, or Kantian-Paretian optimality of individual *autonomy*.[1] An administrative agency of constitution and law that is based on efficiency rather than justice cannot, without a tremendous degree of hypocrisy, be called the Justice Department, but should rather be called the Efficiency Department. Mr. Chief Justice and each of the Associate Justices would be called Mr. or Ms. Efficiency. Because such a change would make no human sense, it is not adopted. However, basing economics only on the basis of efficiency is the explicit and declared goal of "law and economics." The latter is the school of law that promotes and advances the neoclassical doctrine. It is the outcome of the growing phenomenon of economic imperialism, whereby the neoclassical mode of rationalization is applied to legal thought (as well as to other branches of the social sciences), in order to produce economically based postulates, determined only by neoclassical economics.

4.1 Efficiency: the Neoclassical Growth Mechanism

In today's world there are not too many "lands of plenty," "frontiers,"[2] "headrights," "freehold grants" and "homesteads," where the efficiency alone mechanism is inadequate to bring down the social order. Images of concentrated prosperity, in the land of plenty, nonetheless, mitigate and/or mask societal disorders caused by the insistence on making efficiency the only sought objective of law and economics. Such disorders in the UDCs' conditions, lacking "plenty," are disastrous. Rather than a mechanism for growth, then, confining the basis of law and economics to promoting efficiency is tantamount to negating the very essence of person and hence precluding substantive human rights in their entirety, not just the potential of economic advancement.

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[1]Voluntary agreements, from Hobbes' *Leviathan* to Rawls' *Justice*, have a special claim to legitimacy since they limit the behaviors of those who are parties to them in the only way consistent with their personal *autonomy* (see Hobbes, 1946: 141, and Rawls, 1971: 119-20, 251-57); hence the existence of consensus at the heart of the contraction tradition.

[2]Frontiers are outward oriented; boundaries, to the contrary, are inward oriented. Whereas a boundary is a definite line of separation, a frontier is a zone of contact. Contrary to boundaries, which are a necessary component of the sovereignty of territories, frontiers recognize no external sovereignty. Imperialism is about pushing forward the frontier of the expanding power (see Peter Taylor, *Political Geography: World Economy, Nation State and Locality*, 1993: 163-4).

Although centrally planned countries have demonstrated that they can generate brisk growth of real GNP (the issue of freedom notwithstanding), whereby the People's Republic of China currently has by far the world's highest GDP growth rate,[1] an explicit policy inference of neoclassical economics', and the neoclassically based school of law and economics', focus on efficiency, to the detriment of equity, calls for a least state "intervention" in the economy, and consequently a minimal judiciary "meddling" in private bargains. This inference is supposedly based on the rational-behavior premise, axiomatic to neoclassical economics, which implies the automatic efficiency of the left alone market, and is underlain by an ideological perspective that seeks to explain away and justify privileges and disadvantages, richness and poverty, work and unemployment as the mere consequences of individual choices. A "revealed preference" is considered rational because it supposedly maximizes individual and, through the invisible hand, societal utility. Conforming to this particular world view, benignly or malignly, helps create, preserve and legitimate socioeconomic inequalities inter- as well as intrasocieties.

The case for the efficiency of the free market rests on the mystique of the invisible hand, which Adam Smith first set forth in *The Wealth of Nations* (1776, I: 477) based upon Bernard Mandeville's [1670-1733] *Fable of the Bees: or, Private Vices, Public Benefits* (1997). Through the market, greed is harnessed to serve social purposes in an impersonal and seemingly automatic way. Important among factors informing human action is the recognition that people tend to respond to incentives. Not always as mechanically as neoclassical economics projects them to be, but they do respond. However, Smith missed witnessing the two Great Depressions of the nineteenth and twentieth centuries, to see for himself that actions of individuals working for their self-interest do not necessarily result in a beneficial outcome for society: Private gain did not translate into public benefit. When "the butcher, the brewer or the baker" regarded only "their own interest," not also

[1]That rate was 12.8 percent in 1992 (State and Commerce Departments, *Salt Lake Tribune*, 11/19/93: A13). Ever since, the PRC has maintained its leading position with comparable, double digit (or no less than 8 percent) growth rates.

"benevolence," the economy broke down, on a world scale, and millions of people went without "dinner," quite contrary to Smith's invisible hand's hypothesis.

Suffice it to point out that when Adam Smith was appointed commissioner of customs in 1778, two years after the publication of the *Wealth of Nations,* the appointment gave rise to a sharp irony: "While Smith was an adamant proponent of free trade, he was to spend years in the Custom House upholding duties and regulations that promoted mercantilism rather than free trade" (Dugi, 1992: 147). Academic pondering is one thing, functional duty is quite another. Nor were the *state* measures taken by Franklin Delano Roosevelt, which mitigated this century's Great Depression unprecedented. In the "Great Depression" of the second half of the fourteenth century, which hit the core economies of Venice and Genoa following the Bubonic Plague,

> individualistic Genoa was poorly positioned to mobilize communal wealth to create a safety net for its merchants, whereas the *state* of Venice had always provided subsidy and insurance to its merchants through the provision of collective goods --whether ports, vessels, or defensive arms. Thus, state...[action] tided Venice over the shoals of depopulation and economic contraction on which Genoa foundered (Janet Abu Lughod's *Before European Hegemony: The World System AD 1250-1350,* 1989: 128, emphasis added).

In both the cases of the fourteenth and the twentieth century, then, it was state activism, not laissez faire, perestroika, open door policy, or neoclassical shock therapy, that saved the day.

A competitive market, the neoversion of economics that replaced Smith's political economy, supposedly transmits signals to producers that reflect the values of consumers. If the manufacture and distribution of a new product is profitable, the benefits it provides to buyers necessarily exceed the cost of production. And these costs in turn measure the value of the other outputs that are sacrificed by using labor and capital to make the new product. Thus, profitability channels resources into more productive uses and pulls them away from less productive ones. The producer has the incentive to make what consumers want and to make it in the least costly way. Nobody is required to evaluate what is good for the economic system or for society; if one merely pursues her own economic self-interest, she will automatically serve the social welfare and maximize its function. Only the market is allowed to make allocative decisions. And allocation as a function of income distribution through the market is a different matter than allocation as a function of legal revision of legal rights. Hence the neoclassical economics' rejection of social change through constitutional and legal means.

The efficiency, however, is bought at the cost of inequalities in income and wealth and in the social status and power that go along with income and wealth. These inequalities stem from the limitless private ownership of property, including the basic means of production, and from market determined wages and salaries. For "the same concepts which leave the free market system basically intact also leave the highest and lowest incomes far apart" (Okun, 1975: 51). And the efficiency construct, in its Edgeworth boxes and H-O-S's "endowment," takes the existing distribution of income and wealth, and underlying institutions that generate such order, as given. Therefore the market economic system, in which the role of law, and of government generally, is just to control externalities and reduce transaction costs, generates substantial inequalities in the distribution of income and wealth both domestically and internationally.

Hence, contrary to Jean-Jaques Rousseau (in Miller, 1991: 455-58), the classic exponent of democratic equality, who was concerned with redistributing economic resources largely as a means of redistributing political power among citizens, neoclassical economics is uncritical of the changes in resource allocation that are brought about by efficient transactions between persons and nations unequally controlling the world's tangible and intangible goods and services. Unrestricted private ownership of industry permits a few people to exercise too much control over many other people's lives. Unfettered markets create inequalities not only in the distribution of wealth but also in the satisfaction of human creativity (Amy Gutmann, in Miller, 1987: 137). Institutional, especially law's, bias in favor of the status quo from which interactions take place in a market economic milieu of unequal bargaining power, cannot be reasonably denied. Trades that are made as a last resort could not be fair trades and would be distorted by vast differences in the bargaining power of the participants, and by the desperation that spawns them (Okun, 1975: 19-20). Of course modern societies cannot be as small as Rousseau's Geneva. But economic equity can go a long way towards providing citizens with opportunities to participate directly in governing their destiny. Just as a few public officials should not have the power to decide the political fate of all citizens, so a few property owners should not have the power to decide the economic fate of all workers, and of all society for that matter.

The major ethical, but also political, issue posed by the efficiency approach to national and/or international law and economics, is the discrepancy between efficiency maximization and socially just distribution of income and wealth. Obviously it is hardly possible to separate efficiency in resource allocation from equity in income distribution. Yet whereas Scandinavian governments have wielded tremendous economic power without compromising democratic institutions, fascist governments that oppressed political opponents have maintained a private enterprise economy. The conflict between equality and economic efficiency therefore is inescapable, while the perception of a direct relationship between laissez faire and democracy is spurious. If capitalism and democracy need each other, it is to put some rationality into equality and some humanity into efficiency.

Therefore, Charles Louis Montesquieu (1689-1755) postulates in his theory of government, developed in *Esprit des Lois* (1746: 146-9), that governmental powers should be "separated" among legislative, executive, and judicial bodies to safeguard personal liberty. Montesquieu's “tripartite” separation of powers (whose simpler versions go back to Marsiglio of Padua --the greatest political thinker after Aristotle-- and then to Locke), was not meant to assign the judiciary mere executionary role for the constitutional and statutory wills of the legislative and the executive, or else there would be no need for the separation. On the other hand, the task of judging cannot be mere reading or interpretative process of legal texts; that much may be done by a well-programmed laptop. Nor is judging limited to deciding like cases alike,[1] or else Dred Scott would still be the "law of the land." Judging cannot be based only on Benthamite pleasure and pain, Robbinsian tradeoffs in a world of scarcity, or Samuelsonian preference revelation. Judging is essentially related to a sophisticated, though instinctive, sense of human equality and to justice. Only then can democracy mean what it preaches. Only then can the Jeffersonian dictum of the Declaration of Independence "all men are created equal" somewhat pertain to reality.

Neoclassical economics resolve competing claims by allocating the benefits and burdens of a legal rule according to the single principle of economic efficiency (Barnes and Stout, 1993: 1). Scarcity and rationality provide the basis for efficiency. Scarcity means that item's supply is sufficiently limited that not enough exists to satisfy all desires. The item must be allocated among competing uses. Rationality means that people generally attempt to make themselves as well off as possible, and more is better. The neoclassical concept of efficiency involves minimizing opportunity costs and getting the maximum amount of physical output of the product mix of any enterprise or any economy from a given bundle of resources. An economy is efficient if its market functions in such a way that a Pareto optimum can be achieved. Allocating scarce resources efficiently means allocating them in a fashion that maximizes the happiness or utility people derive from them. Rational maximizers reallocate their resources through exchange. Voluntary exchange efficiently redistributes resources so as to maximize utility. The exchange would not increase the total amount of resources available, but it would increase the total amount of utility those resources provide by making both parties to the exchange better off (Barnes and Stout, 1993: 4). There is an element of circular reasoning in this construct: On the one hand, efficiency is defined in terms of the functioning of the market (Pareto optimum, marginal cost equals price, average cost minimized), and, on the other, an economy is considered efficient if its market functions in this way. Any departure from this pattern is inefficient,

[1]The reference is to the Aristotelian principle of justice, which admonishes one to treat like cases alike and different cases differently (see Alan Goldman, in Miller, 1987: 127).

and any policy that causes such a departure is bad policy (Higgins, in Savoie and Brecher, 1992: 32-6).

Evidently it is a futile and costly task in the short-term to heretically dissent from this lieu commun, for the notion of efficiency is utterly hegemonic in economics today. However, efficiency is also deficient on various other grounds, which makes silence a collusion in the crime committed day in and day out by neoclassical economics against billions of the poorest strata the world over. These grounds include imperfect knowledge and foresight, incomplete information, misleading advertising, externalities, and inapplicability to public goods. Empirically, virtually all societies impose some limitations on the Samuelsonian freedom of choice in the market, to prevent people from harming themselves or other people through ignorance or perverseness: Controls on purchase and sale of drugs, firearms, alcohol, securities, and so on. As a society moves along this road it further and further contradicts the revealed preference postulates. As knowledge grows, more and more goods and services are recognized as being harmful to their users and/or to society as a whole: tobacco, various carcinogens, prostitutional AIDS, leaded gasoline, aerosol bombs, antipersonnel mines, sarin, anthrax, etc.

In underdeveloped countries, where malnutrition is a barrier to breaking out of the vicious circle of poverty, it is also a question of whether people should be free to produce, sell and buy foodstuffs that are less nutritious than others that could be produced with the same resources; whether, that is, the production of more Giffin goods such as pasta for the deprived strata is more important than allocating resources for more production of soda pop and chewing gum for the well to do. This is why the so-called "welfare economics"[1] is predicated on the relativism of preference ordering. For it is this abstraction from

[1]Welfare economics is paradoxical for at least two reasons:
(1) Although it is policy oriented, much of it is concerned with a highly technical abstract theory that may be elegant in structure but devoid of practical application.
(2) Although one of its main purposes is to set up criteria for making *objective* judgments about welfare, its development (from the old Pigouvian type to the new Paretian theory) has exhibited the difficulty of formulating these criteria free of *normative* judgment (see Harry Landreth, *History of Economic theory: Scope, Method, and Content*, 1976: 403-16).

interpersonal utility comparisons and the refusal to distinguish basic needs from superfluous consumption, that play the role of precluding the examination of whether social welfare would be enhanced by policies of income redistribution, as well as those which shift production away from frivolous products toward goods which meet people's needs.

The money pump argument concerning the rationality of transitivity (upon which the Samuelsonian preferences are founded) is based on the spurious notion that since intransitivity is irrational, then rational choice is a transitive one. First, the notion of rational choice presumes private property, exchange, and money. This is not a universal condition. Second, these institutions cannot be justified by the rationality argument without circularity (the classical problem of tautological reasoning), since they are presupposed by the very argument. Third, private property, exchange, money, transitivity and rationality say nothing about social relations which must not only be accepted as given but also cannot be derived or explained by any theory of economic behavior within this inadequate framework (Higgins, in Savoie and Brecher, 1992: 32-44).

Neoclassical economics, moreover, defines welfare in terms of choice: One is better off when she gets what she chooses, for she chooses what makes her better off. The circularity notwithstanding, before one accepts this logic, one must be convinced that choice is, at the very least, pleasure yielding, value maximizing. This can only be attained if one abstracts from her knowledge of the complexities of human sociality: A chooser is a human being, and a human being does not live alone on earth, she *socially* interacts, affects and is affected by the social group. She has a personal history, self-consciousness of past and future, and a specific, binding, social framework beyond which she has limited choice. A human being also has habits and addictions, can be adapted, induced, swayed, coopted, threatened, coerced, duressed, starved to death, and may make a choice that she later regrets, and can have constrained income, imperfect information and inadequate market power.

Motives, beliefs and preference thus are neither identical across individuals nor stable over time. They are shaped and continuously modified by social forces, not least of which is deliberate manipulation. Hence, "revealed preference" or "rational choice" explanations offer a shallow and transitory understanding of behavior and must be superseded by an account of how preferences, beliefs and motives emerge from within the social structure and what to do about that. *Human sociality then renders unattainable the mechanistic assumptions of completeness, transitivity and reflexivity of preferences and their pleasure yielding, value maximizing implications upon which the Samuelsonian theory of revealed preference, that underlies neoclassical economics' notion of efficiency, is based.*

Neoclassical economics, further, postulates that all commodities are comparable, on the basis that the chooser's income is limited, commodities are priced and the aim is to maximize utility. But given the functions utility is supposed to fulfill in consumer behavior, this argument puts the cart before the horse. The theory assumes that commodities are circulated via exchange in a market that has a definite price quantity structure at any given moment.[1] But the marketplace is supposed to be an outcome of the theory, built on the preference revelation, and therefore cannot be presupposed by the very theory, if the latter is to be noncircular. In the formulation of utility theory, moreover, the consumer's preference ranking is not supposed to depend on prices or income. *The single purposed, utility maximizer model therefore is fallacious.*

Furthermore, such neoclassical parables, where, e.g., an initial distribution of wealth (so-called endowment) has to be assumed, for the translation of consumers' preferences in terms of market demand, then income distribution is derived, as part of the general pricing process (as a constituent set of equations in the total equational system of market equilibrium), is utter circularity: *Income distribution is a constituent assumption for the*

[1]On the incoherence of this concept of *tâtonnement* (groping), whereby Smith's invisible hand was converted to Walras' invisible auctioneer, see Staley (1989: 173-4).

determination of income distribution. In addition, income and wealth are indicators of people's economic positions. Income is the more important of the two, because it provides the basic purchasing power for maintaining a standard of living. Moreover, when property incomes are included, the income distribution reflects holdings of wealth. Nonetheless, wealth is important in its own right. At the upper end, people accumulate wealth by saving the extra margin of income above their consumption expenditures. At the bottom of the income pyramid, people accumulate debts to the extent they can borrow (Okun, 1975: 65-6).

Besides, the relative ranking of a fixed pair of alternative social states will vary, as Kenneth Arrow (1963) has realized, with changes in the values of individuals. Therefore an assumption that the ranking is immutable with changes in individual values, and hence social choices are completely independent of individual tastes, would be analogous to Platonic social philosophy, whereby there exists an objective social good defined independently of individual desires. Such a philosophy is "meaningless and was basically meant to justify government by élite, secular or religious" (Arrow, 1963: 463). On the other hand, the utilitarian philosophy of Jeremy Bentham which sought instead to ground the social good on the good of individuals is also misplaced. The hedonist amateur psychology associated with that philosophy was essentially used to imply that each individual's good was identical with her desires; hence the social good was a composite of the desires of individuals. This view "served as a justification of both political and economic liberalism" (Arrow, 1963: 463-5).

William Stanley Jevons and Léon Walras, nonetheless, reduced social phenomena to mathematical equations (Blaug, 1986: 216), although there is nothing in the physical sciences that corresponds to theories which deduce the nature of a social optimum from certain fundamental value judgments. Mathematical statistical (econometric) models, moreover, ignore many important factors which need to be studied, since they focus on the quantifiable elements in the economy and society at the expense of the qualitative ones.

While Smith dealt primarily with the issue of production, and Ricardo focused on distribution, Jevons was thus preoccupied only with exchange (Rajani Kanth's *Against Economics: Rethinking Political Economy*, 1997: 25). "Economists," wrote Mark Blaug (1986: 25),

> have talked a great deal of nonsense about 'value free' welfare economics on the curious argument that the standard value judgments that underlie the concept of a Pareto optimum --every individual is the best judge of his own welfare; social welfare is defined only in terms of the welfare of individuals; and the welfare of individuals may not be compared-- command...consensus [which] somehow renders them objective.

Economists, concedes Blaug (1986: 255-6) along lines analogous to Schumpeter's dictum of Ricardo's Vice,

> have also swallowed whole the untenable thesis that 'normative' as distinct from 'methodological' value judgments are not subject to rational discourse and have thus denied themselves a fruitful area of analysis. But these issues apart, the intimate relationship between normative and positive economics has been a potent source of 'ad hoccery' in economics, *the effort to retain theories at all costs by the addition of assumptions that lack testable implications* (emphasis added).

This leaves out the *justice* of the associated distribution of personal income; optimal allocation is strictly defined with reference to the above mentioned three basic value judgments of Paretian welfare economics. Yet relative incomes have cultural and sociological importance. Hence, the large relative disparities in the income distribution mar the social scene. To "promote equality up to the point where the added benefits of more equality are just matched by added costs of greater inefficiency," as Okun (1975: 90), still influenced by utilitarianism, stipulates, just would not do, albeit it is a step in the right direction.

In his *Critique of Welfare Economics*, 2nd. ed. (1957), Ian Little rejected the "new" welfare economics, casting doubt on the sense in which perfect competition is characterized by welfare theorists as an "optimal" solution. He thus effectively denied that questions of "efficiency" can be divorced in practical terms from questions of "equity": Every step towards efficiency involves changes in the distribution of income, which alters the efficiency state itself and, moreover, these income changes are liable to be far more significant for social welfare than the changes in efficiency.

In the sixth century AD, Isidore argued that "law should be framed, not for any private benefit, but for the common good of all the citizens" (in Aquinas, 1981: 66). If this principle is adopted it makes wealth maximization an insufficient basis for law making, since it does not necessarily secure the common good. To limit the ruling basis to wealth maximization is to limit the distribution dispute within the boundaries of who gets the market share from among the capitalist stratum, thereby excluding the majority of the population from consideration in the underlying basis of the law. This is why neoclassical economics is concerned only with efficiency, not fairness, not justice.

Directing resources to their most valuable uses, and measuring value according to "willingness and ability to pay," bias allocations towards those with the greatest ability to pay. And because efficiency analysis proceeds from a preexisting set of distributions of wealth it does not question whether the initial distribution of abilities to pay is proper. However, "because the distribution of wealth among people influences the allocations that result from bargaining, changes in the distribution of wealth may change the allocation of resources." Hence, "focusing on efficiency rather than fairness does not make economics a neutral and unbiased exercise" (Barnes and Stout, 1993: 17-20).

The structure of property rights governs the structure of coercion and thereby the flow of payment. Property rights convey the right to benefit or harm oneself or others (Demsetz, 1967: 347). It is precisely here that the distributional limitation self-imposed by welfare economics breaks down: *Resource allocation is a function of wealth allocation and income distribution, and both in turn are functions of the distribution of legal rights.* Problematic then is the incompleteness as well as the circularity of the basis of efficiency. The moral which neoclassical economics overtly draws from this discourse is that agents' choices and "endowments" determine relative prices; but the moral which it is really drawing is that *the concept of unlimited property rights is beyond discussion.* Property rights, nonetheless, are decisional power; to create new property rights is to create new decisional power, thereby altering existing structure of decisional power. Since Pareto optimal adjustments are possible within any number of power or rights structures, to argue for particular changes in property rights so as to produce conditions propitious to achieving some Pareto optimal adjustments, is to beg the broader question of who will have what power to create which externalities and thereby engender which adjustments (Samuels, 1981: 60-1).

The creation of a property right in quest of conditions propitious to Pareto optimal solutions functions to vest in certain individuals wealth- and/or income-acquiring power whose justification is beyond the capacity of the Pareto criterion to provide. The Pareto criterion cannot justify particular changes in property rights without an additional judgment or ethical assumption as to income and wealth distribution. Change of the law of property is an exercise of power that goes far beyond the self-imposed limits of welfare economics. It is inconsistent to support legal change in the interest of a certain outcome that ignores distributional consequences, while opposing other reforms under the rubric of avoiding interpersonal utility comparisons and distributional-ethical questions; *welfare economics, evidently, is incoherent*. It is one thing to avoid making interpersonal utility comparisons and to avoid ethical judgments; it is quite another to fail to develop a comprehensive model of welfare attainment with income distribution consequences --to treat income distribution as if it were absent from the social decision-making process. It is not a matter of making economics relevant to practical problems, though that is not unjustifiable; it is a matter of generating a complete theory of welfare, one that does not exclude certain phenomena and thus yield only partial, biased and capricious conclusions (Samuels, 1981: 58). *Thus welfare economics is but a rationalizing ideology for the status quo.*

Economic behavior, in addition to preferences, depends on the extent of legal responsibility, upon the structure of legal rights and obligations, upon the relative existence and scope of rights to behave in one way or the other, and ultimately of legal standing in tort law, criminal law, or under the police power of the state as well as the law of property. Rights vary from generation to generation in accordance with the variations in the moral consciousness in the community. In times past, a "man" had a right to graze his sheep on the common lands, to drive a carriage on any side of the road, to build houses without reference to sanitary conditions, to keep the children at home without giving them education, to own slaves, because the community believed that one ought to have these "rights." With the change in the forces and relations of production, and with it the growth of moral consciousness, man ceased to have these "natural" rights, because the reconstituted community has come to realize that one ought not to have them if it is to function properly. Rights are thus space and time contingent.

Central to the social choice involved, then, is the determination of what is of public importance. Here is where the power structure enters: The judgmental process is one in which decisions are a function of the structure of power, in which decisions are power-structure-specific, and decisions based on the status quo power-structure are skewed toward the perceived interests of those with more of *the say*, whether power be based on wealth, property, votes, position, rank or brute force. Optimal levels of the policy variables, moreover, depend on how various losses are perceived. The political process will determine how the interests of various groups will be reconciled or which groups will be able to impose their will on the rest of society. It is clear that these losses will be perceived differently among social and economic groups within any society (Harris, 1993: 171). *Any social welfare function will thus depend upon the power structure or institutional framework within which society decides upon such matters*. Hence there are no unique Pareto optimal solutions; there are only solutions specific to the underlying power structure. "The functioning, indeed the very life, of the market depends on the coercive powers of political institutions. The state uses these powers to establish and ensure rights in the marketplace, directly supply some essential services, and indirectly generate the environment of trust, understanding and security that is vital to the daily conduct of business" (Okun, 1975: 71).

Inequality of wealth, income, position, legal status and so on leads to inequality or asymmetry in the patterns of capacity to function in the market. In any historically given situation there is a social state that has a preferred status in social choice in that it will be adopted in the absence of a specific decision to the contrary. Politically, the status quo has this property, as is frequently all too obvious (Arrow, 1963: 119). This is a matter of social valuation, in some sense the result of the aggregation of (rather than mere) individual preferences, however learned. Part of the social process is the perception of which --whose-- injuries are to count, which are to be considered important and thereby suitable for inhibitory policy. Whoever is poor or weak by the criterion of the selection system used will be sacrificed so long as their interests do not coincide with the interests of the corresponding rich or strong (Samuels, 1981: 68). Thus the central economic problem, economic growth included, is conflict. In every society conflicts of interest among society members must be resolved. The process by which that resolution (not elimination) occurs is the sine qua non of the *category* of that society, with respect to the control over distribution of costs and benefits and therefore over the structure of power. Welfare economics must come to grips with this; it treats this issue any way, by design or by default, in the interest of the few.

Politico economic analysis, therefore, cannot be conclusively justified in terms of the optimality solutions they yield, nor can the optimality solutions be conclusively justified in terms of the decisional structures, without smacking of circularity. There is potential conflict between the quality of the decision-making structure and the quality of the resulting decisions: A criterion of one may be satisfied but not a criterion of the other, and tradeoffs will have to be made. There is in addition the intractable problem of evaluating the status quo and potential changes of the status quo --in terms of the cost price structure generated by the status quo. Costs are a partial function of the state of the law, and one cannot conclusively rationalize costs by reference to the law, nor the law by reference to the costs, nor changes in either costs or law by reference to the other (Samuels, 1981: 68-71).

The preoccupation of neoclassical economics with how to improve efficiency and reduce transaction cost while extracting the economy from the social matrix, is thus a classic example of not being able to find the right answer because of having asked the wrong question, of looking for the lost keys under the street light only because this is where keys can be seen by night. The peculiarity of the wrongness in the case of the neoclassical question, however, is that it deals with people's lives. The Coase Theorem --leaving aside its more problematic Invariance Hypothesis, the strong version of the theorem-- states that as long as there are no obstacles to bargaining between the parties involved resources will be allocated efficiently regardless of how property rights are initially assigned. One "may speak of a person owning land and using it as a factor of production, but what the landowner in fact possesses," argues Coase (1960: 1-44), "is the right to carry out a circumscribed list of actions. The rights of a landowner are not unlimited.... This does not come about simply because of governmental regulation. It would be equally true under the common law. In fact, it would be true under any system of law. A system in which the rights of individuals were unlimited would be one in which there were no rights to acquire." That is to say, it is always possible to modify by transactions in the market the initial legal delimitation of rights; hence voluntary exchange not only allocates goods efficiently, but costs as well (Barnes and Stout, 1993: 41-51).

The Theorem is obviously designed to undercut the notion that liability rules determine who is legally accountable for harm in cases of externality, on the basis that liability rule will not affect substantive results, therefore to deny the inevitability of political decisions on the contours of the polity. If the Coase Theorem is thus applied in the area of civil rights it would lead to abrogating the freedom of some people so long as that renders more total freedom, which is back again to the classic problem with pure utilitarianism: tyranny of the majority. Welfare theorists at least since Debreu (1969: 40-5) have recognized that a situation might exist in which competitive equilibrium was reached with a segment of the population living below a subsistence level, in which case it would be Pareto optimal for society to have them work for nothing, inasmuch as they will soon perish any way. They have thus hypothetically and unrealistically assumed that each individual has the resources with which to both survive and participate in the market (Koopmans, 1957: 59-62). As Warren Samuels (1981: 21) has noted, the latter assumption has the interesting implication that the consent and no loss requirements[1] of Pareto optimality, operate within a paradigm precluding death such that the laissez faire implications often attending the Pareto rule are inappropriate and gratuitous.

Whereas welfare state support is generally seen as a departure from Pareto optimal conditions (except where it represents Pareto optimal redistribution, which relaxes the assumption against interdependent utility functions), i.e., constituting an involuntary loss for the support of others, Pareto optimality seems to require by this consumption set assumption the very existence of a welfare state (Hochman and Rodgers, 1969: 542-56). Therefore, aside from limiting it to a description of the case of a society of self-sufficient farmers who do a little trading on the side, and aside also from assuming instantaneous elimination by starvation of those whose resources prove insufficient for survival, and conditions ensuring existence of an equilibrium involving survival of some consumers, *a more realistic alternative to the Pareto criterion would be to recognize the existence of income transfers through taxation and social insurance, and to look for conditions, including tax and benefit schedules, ensuring general survival* (Samuels, 1981: 21).

Not only is there no unique Pareto optimum (the contract curve represents a set of Pareto optima with respect to which some additional value judgment, e.g., a Bergsonian (1982) social welfare function, is necessary as a basis on which to choose between the optima); not only are there a multiple number of Pareto optima represented on the contract curve which reflect alternative initial (unquestioned, status quo) "endowments," but the

[1]The no loss requirement is incurred in a Pareto optimum adjustment.

Pareto optimum varies, e.g., with income and wealth distribution, with wealth as a function of ability and willingness to pay, with *the* power structure, and, most significantly for policy issues, with *the* law. Pareto optimal redistribution also constitutes a secondary redistribution which depends on the initial distribution of earnings. This distribution is determined by such factors as inheritance, earning capacities, education and market structure. It may itself be changed through the political process (Musgrave, 1970: 17).

Optimizing in terms of existing cost price ratios generated as a partial function of status quo income distribution, power structure and working rules, serves to reinforce the existing distributional institutions. Hence not only is income distribution a partial function of resource allocation, but resource allocation is a partial function of income distribution: A bias in favor of the status quo enters whenever one aims to bring the economy closer to an optimum using the existing set of prices, since this set of prices itself emerges from the existing distribution (Mishan, Dobb, Schmid, and Samuels; in Samuels, 1981: 34-8). The fact is that Pareto optimum solutions take place within the status quo moral and legal rules. Pareto optimal solutions are specific to the state of the law. Pareto optimality exudes the spirit of laissez faire but if one changes the law one changes Pareto optimality; if one changes the law the substance of the formal solution will change.

Laissez faire markets thus constitute a power structure within the law. Market positions relevant to Pareto optimizing behavior are partially a function of the working rules which govern the acquisition, structure and use of power, e.g., property rights (including any right to monopolize). The relative capacity of an economic actor to enter and participate in the market, to acquire gains and to thrust costs upon others, to reach optimal adjustments, etc., all are a function of the structure of legal rights and of the legal and moral rules governing those rights (Samuels, 1981: 22-3). The legal and moral rules are an object of power play: Government is a vehicle available to whomever can control or use it, so that individuals and groups, international as well as domestic, seek to buy and/or control government in order to formulate legal rules of benefit to them. The working rules govern the distribution of power, and the distribution of power governs the development of the working rules. *Efficiency depends on the relevant input-output categories and it is property rights which determine relevancy.*

Prices and costs, then, reflect not only existential scarcity, revealed preferences and production technologies, but also *the institutional distribution of that scarcity through the power structure,* e.g., through the legal distribution of things that are or become cost items to other people. And if costs and prices are partially a function of power structure and wealth distribution, then productivity too is similarly governed, which means that *factor pricing according to productivity is partially factor pricing according to institutional arrangements,* and that to justify income as a proxy for productivity by reference to institutions, and to justify institutions by reference to how they reward productivity, is to reason in a circle, as when rights are justified by results and results are justified by rights. Institutional arrangements figure very much then in economic efficiency, while the latter conceals inequity (Samuels, 1981: 38).

But the focus on efficiency while eliminating sociality, for one to be fair, has not emanated from neoclassical economics but from social Darwinism. On the basis of efficiency some devotees of laissez faire capitalism in the nineteenth century opposed in principle any right to survival, beyond the right to beg for private philanthropy. However, any help of philanthropic organizations, "available only through some demeaning proof of dire need --thus imposing a toll of shame in lieu of cash, or a sacrifice of pride for a dinner" (Okun, 1975: 18) is too inhuman and, any way, is unacceptable in some cultures. Charity, soup kitchens and other means of volunteerism may appear to reduce the demand for costly public welfare programs, but they do not solve the vast inequality problem in society. Worse even, they degrade people at the receiving end and breach their dignity.[1] Those who never

[1]Fourteen centuries ago, 'Umar chose direct fund transfers, from the public treasury to the people, in the form of bonus on special occasions, in preference to soup kitchens, in order to "preserve people's dignity" (see Taha Husayn, *Al Fitnah Al Kubra,* 1959: 76).

quit resorting to the human rights ploy, therefore, need to answer: What about the human right of survival? Of social justice? And of dignity?

Writing in 1884, Herbert Spencer argued that the command "if anyone would not work neither should he eat[,] is simply an enunciation of the universal law of nature under which life has reached its present height --the law that a creature not energetic enough to maintain itself must die" (quoted in Okun, 1975: 17-18). For the Spencers of yesteryear as well as of latter-day Spencers, therefore, economic efficiency requires the forceful implementation of the rule that those who do not work shall not eat; never mind the fact that a society that turns itself into a giant vending machine which delivers anything and everything only in return for the proper number of coins is, in the long-run, self-destructive.[1] This is the result of pushing sociality down the drain, replacing political economy by economics, and of measuring social welfare merely by GNP.

But society is not a mere aggregate of individuals, and the gross national product cannot measure social welfare. The latter is a vector and cannot be adequately accounted for by a scalar (Okun, 1975: 13). Dudley Seers (1962: 145-60) thus suggests that rather than by per capita GNP, development is to be measured by what happens to poverty, to unemployment and to inequality. Market forces, argues Seers, reflect a country's income distribution. Per capita income is therefore a defective measure. It is also misused; the early explorers of quantification in economics --William Petty, Gregory King, François Quesnay, Antoine Lavoisier and Joseph Lagrange-- were the initiators of GNP and GDP. This statistical tool came to prominence when it was used for the quite specific purposes of Keynesian demand management. It was then popularized by the work of Simon Kuznets, who compiled official estimates of US GNP and compared them with those of other countries which he also compiled. GNP was eventually elevated by neoclassical economics

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[1]On "the problem of democracy," the tendency of liberal regimes to undermine themselves unless checked in their most extreme proclivities, see Raymond Aron, *In Defense of Decadent Europe* (1996) and *Thinking Politically: A Liberal in the Age of Ideology* (1997).

to become the central icon of its ideology as the measure of all things (Tessa Morris-Suzuki's *A History of Japanese Economic Thought,* 1989: 137).

Employing costs as an objective measure of value, which is what is done by the GNP aggregate, leads to paradoxes. Spending more on petrol because of congestion raises GNP, even though the same amount of travel is undertaken. Money spent on expensive technologies to counteract the effect of pollution (clean up technology) adds to GNP, even though all they achieve is to return the world to its previous state. If technology is employed that cost the same but did not pollute in the first place (clean technology) GNP would be lower, not higher. Even though the same amount of benefit is yielded, less "growth" occurs. Increased economic activity, or economic growth, may therefore not correspond to an increase in economic "welfare," in the sense of well-being. Nor does the GNP as a standard economic aggregate reflect the well-being of individual members of society (Jon Mulberg's *Social Limits to Economic Theory*, 1995: 148-9).

GNP growth is thus necessary but not sufficient for human development. Human progress may be lacking in some societies despite rapid GNP growth or high per capita income levels unless some additional steps are taken. National income figures, useful though they are for many purposes, do not therefore reveal the composition of income or the real beneficiaries. Also, people often value achievements that do not show up at all, or not immediately, in growth figures: better nutrition and health services, greater access to knowledge, more secure livelihoods, better working conditions, security against crime and physical violence, satisfying leisure time and a sense of participating in the economic, cultural and political activities of their communities.

Of course, people may want higher incomes and more material things, but these are not the sum total of human life. And excessive preoccupation with GNP growth and national income accounts has obscured the fact that human beings are the real end of all activities; this powerful Kantian perspective was ignored, whereby neoclassical economics supplanted a focus on ends by an obsession with merely the means. Indeed, theories of capital formation and resource development are anti-Kantian: They view human beings primarily as means rather than as ends. They are concerned only with the supply side --with human beings as instruments for furthering commodity production. True, there is a connection, for human beings are the active agents of all production. Human beings are both the means and the end of development. However, human beings are more than capital goods for commodity production. They are also the ultimate ends and beneficiaries of this process.

The presence of nontradeable goods and services and the distortions from exchange rate anomalies, tariffs and taxes make per capita income data in nominal price not very useful for international comparisons either. More importantly, averages conceal wide disparities in the overall population. The GNP figures typically used for international comparisons do not adequately account for national differences in purchasing power or the distorting effect of official exchange rates. The purchasing power adjusted GDP estimates developed in the International Price Comparison Project, a collaborative effort of the UN Statistical Office, the IBRD, EUROSTAT, OECD, ECE, ESCAP and USAID, is still in its experimental stage (Lance Taylor, 1988).

Conceptually, in the UDCs and some sympathetic circles in the DCs, there was a generalized revolt against the straitjacket of economic definitions of development, constraining its goals to more or less irrelevant quantitative indicators. However, the *dethronement of GNP*, as this endeavor was then called, did not go very far (Lance Taylor, 1988): No international or academic consensus around any other definition was possible, given the hegemonic power of neoclassical economics. On the other hand, efficiency as wealth maximization means a preference for the technical, quantitative, mechanical, material, individualist, over the human, just, fair, right, moral, and communal. It is on the side of the calculating engineers against the innocent poets, the loaded factory owner against the wretched worker, the railroad against the farmer, the rich against the poor, the powerful against the weak. Efficiency is a tool of class, gender, and race invidiousness. *Efficiency as the only criterion of law and economics is a rationalizing ideology, pure and simple.*

> The distribution of wealth...is a matter of human institutions only.... The rules by which it is determined are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chose.

These are the words of John Stuart Mill (1926: 200), by no means an institutionalist,[1] much less a Marxist.

Neoclassical economics, with its focus on efficiency and the Coase theorem, has served domestically in the US under the Reaganomics of the 1980s, to undermine the ad hoc socioeconomic programs that were generated by the New Deal and the social counterculture of the 1960s. The advent of the New Deal essentially meant to address what was perceived to be a temporary gap between socioeconomic expectations and reality. This gap, however, is endemic in the capitalist system (e.g., as projected in homelessness in the US and wide regional and class economic differentiation in capitalist countries, and among the latter and their suppliers and consumers in the UDCs), while no exogenous economic measures are thought imperative, for the market will take care of everything through the invisible hand: pure fiction. Only the acute nature of the second Great Depression, which threatened the political stability of the US, and indeed capitalism per se, prompted the ad hoc measures that FDR thought urgently needed, even before any theoretical basis for taking such action was available, i.e., before Keynes' publication of his *General Theory,* containing his thoughts on demand management, and thus giving a fatal blow to Say's law.

Reaganomics focused on monetary policy (with Milton Friedman's views as a spearhead) and supply side economics (with Jack Kemp as a prime spokesperson). A component of the supply side bent was the Laffer curve argument --that reducing tax rates

[1]The institutionalists retain the primordial common sense of social science that neoclassical economics seems able to remove from most of its adherents. Contrary to the latter, who buttress the status quo with rationalizing, untested ideas at no personal risk, the institutionalists entertained no wagon to jump on, and thus paid hefty fees for insisting on maintaining touch with reality. A sample of them would include, e.g., Thorstein Veblen, John Maurice Clark, Clarence Ayers, John Commons, Wesley Clair Mitchell, Gunnar Myrdal, John Kenneth Galbraith, Allan Gruchy, Warren Samuels, and John Gambs.

would increase tax revenues-- but both aspects of Reaganomics were not conceptually novel: They had been advanced seven decades earlier by Joseph Schumpeter, in a monograph on the *Crisis of the Tax State* (1918). Supply side economics held that if tax rates were lowered people would save more and work harder. A surge of economic activities would follow, resulting in more tax revenues and hence keep fiscal policy in a budgetary balance. Combined with the improved efficiency expected from deregulation, the end result would be avoiding recession and implementing an antiinflation program. However, this “populist type of supply side economics has been fully discredited” (Lawrence Klein’s “Macroeconomic Policy,” in Werner Sichel’s *The State of Economic Science: Views of Six Nobel Laureates,* 1989: 53). Neoclassical economics has also been used globally by the IMF and the World Bank, in conjunction with resolutions taken by the UN security Council, to abstract the UDCs from the little postindependence social justice they had achieved. It provided rationalizations for ignoring, and hence concealing, economic and political inequalities.

Underlying all that is the intellectual absurdity of the claim that defining the good --efficient-- society as one that maximizes opportunities for people to buy what they want is "value free." One can of course make such a skewed *value judgment,* and even defend it on nineteenth century economic-liberal grounds; people should be free to choose even if they are ignorant, ill informed and have atrocious tastes and their choices are consequently harmful to themselves and offensive to others. But it must be openly declared that this is *a value judgment,* and it must be clearly recognized that others have the right to reject this value judgment and can make a strong case for doing so.

Benjamin Higgins (in Savoie and Brecher, 1992: 5) makes the point that the case for the superior efficiency of the market economy rests (contrary to the "value free" claim), on *the value judgment* that a good society is one that allows individuals to do what they want to do, including buying the goods and services they want, within constraints imposed by limited resources and the wishes of other individuals to do and buy what they want. The crux of the neoclassical concept of efficiency is *the value judgments* that market choices provide information about individual welfare, and that people know what is good for them, or at least what they want if one yields to Samuelson's revealed preference, and behave accordingly in spending their incomes, choosing their jobs and making the rest of their life decisions. *The guise of positivism is thus spurious: Efficiency is a value judgment; it is normative indeed.*

The Pareto criterion, as Samuels (1981: 34-8) readily discerns, does not rest simply upon the one fundamental ethical postulate that individual preferences are to count, but also upon a much more complex and elaborate, if subtle, structure of untrue or ununiversal *value judgments:* That the individual is the best judge of his own wants, the sole judge of his own welfare; that individuals should have what they want; that an individual is better off if she is in a chosen position; that the welfare of the community depends on the disjointed welfare of the individuals comprising it, and on nothing else; that if at least one person is better off, and no one worse off, the community is better off; that it is a good thing to make one person better off if nobody else is made worse off; that any Paretian allocation is welfare superior over any non-Paretian one; that economics, the "exact science," should not go beyond the Paretian criteria; that maximizing per se is to be prioritized first, independent of any constraining moral rules; that justice is what justice can get in the market, ethics is the ethics of bargaining of a business clique, values are the values of a bourgeois subsociety; that there is a market price on considerations of equity; and that structured limits imposed by a status quo system of social control, working rules, income, wealth and power distributions are not to be questioned, much less contested. *These are all value judgments.*

Moreover, a Pareto superior change in allocations, that left at least one person better off and no one worse off, is considered desirable from any perspective to neoclassical economics (Barnes and Stout, 1993: 10-11), although it may eventually result in a minority amalgamating the wealth and the means of production of the country. *This is a value judgment.* Optimization in terms of the extant cost price structure tends to reinforce the distributional institutions out of which that structure had been generated. *This is another chosen value judgment.* The Pareto criterion thus accepts and reinforces the consequences of power play and non-Pareto optimal change taking place outside of its domain. The basis of the standard compensation tests is the protection of status quo property rights. Optimizing that is a function of the existing state of the law serves to reinforce that status quo law. It serves as an ideological limit to change, to admit or to exclude particular changes from taking place or even from being discussed (Heilbroner, 1965: 65-6). *These are all value judgments.*

The quintessence of the Pareto criterion thus functions conservatively to reinforce the status quo decision-making process, its incidents and its results. The ethical character of the Pareto criterion therefore resides in taking positions in precisely the areas of the larger paradigm of power, with respect to which Pareto optimality is plainly deficient. The Pareto criterion serves to rationalize that part of the status quo brought within its scope. Its ultimate normative function is to limit change. It restricts deliberative change to only Pareto safe change. At bottom, it postulates that justice is what power can get in the market, because conditions are not propitious for market negotiation (the distribution of wealth and income and the structure of legal rules, e.g., legal standing, do not permit certain individuals to have bargaining power).

Thus the instrumental function of the Pareto criterion is to promote the market and to discourage legal change, in a manner consonant with the historical-ideological role of the nineteenth century gold standard and laissez faire. The Pareto criterion is used selectively to rationalize certain seemingly consensual, no loss activities and to oppose others. Where the criterion is to apply, and where not, is subjective, which means based on *value judgment* if not on whims, and where it is to apply it functions conservatively in support of the market and to limit change of the law. Above all it defends and reinforces the position of certain established property rights, defending them against legal alteration, while at the same time enabling them to participate in coercion in the market.

It conservatively protects private power against legal alteration, if not against the exercise of other private powers; in so doing it neglects the conflict between the principle of the security of property and the principle that a capitalist society, if it is to work, has to be competitive and that concentrations of private power yield different Pareto optima than do competitive conditions. The point here is specifically related to competition. In many cases, it is the competition between corporations that urges the government to enact the antitrust laws. The use of private power against private power is one of the safeguards within both the public and private sectors against exploitation of society by specific capitalist groups. Different elements of private power often are in conflict with other private powers. Much of the thrust for regulatory laws to be adopted and enforced, comes from other private interests hurt by the actions of those at whom the regulatory measure is directed. These power struggles often benefit large segments of the general public. As referred to above, many antitrust actions, e.g., are brought by other companies. Trucking companies and railroads compete. The stake airline pilots and stewardess have in safe airplanes redounds to the benefit of general public. Big employers (private and public) want affordable and effective health care for their employees, and bargain for it with HMOs. And so on and on.

But the ethical contradiction is also enormous: The same criterion that emphasizes that individuals' welfare is maximized if they are in a chosen position also accepts the coercion of the market and whatever power structure exists to operate through the market (Samuels, 1981: 48-56). Higgins (in Savoie and Brecher, 1992: 5) agrees that competitiveness limits the scope for gross misuse of resources, and would leave most routine decisions about allocation of resources among various goods and services to the market. He denies, however, that the market guarantees the achievement of any maximum or optimum that is truly significant in terms of human welfare. Higgins itemizes important factors for human welfare that the market leaves out, and maintains that the most important factors for welfare --and thus for development defined as improvements in human welfare-- are efficient collective/public choices, rapid and efficient adjustment to change, innovative technological progress and Schumpeterian entrepreneurship. He considers management of private enterprises to be deficient in all these respects, especially in underdeveloped countries, and therefore insists on the need for the injection of the requisite range of expertise[1] into the decision-making process.

Neoclassical economics also ignores the fact that marginal theory means that inequality robs the poor of more satisfaction than it adds to the rich, that the gratification of a frivolous vanity in one luxurious person costs more than bread to many hard working families. All neoclassical economics needs to abstract from this marginal theory implication, is to invoke the Robbinsian maxim of impossibility of interpersonal comparisons of welfare; from there it reaches its ultimately sought conclusion: Wealth and/or income redistribution can in no way maximize welfare; only consensual exchange can.

Under the Kaldor-Hicks position, moreover, compensation need not be paid for a reallocation to be efficient. A reallocation is efficient if there is sufficient gain to create the "potential" for full compensation. As long as the winner gains more than the loser loses the loser does not actually have to be paid. "It is not necessary, or even desirable, that the

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[1]Higgins' (1995: 65-8) policy recommendations for development include the injection of requisite expertise as needed at all stages and for all aspects of the development process if it is to take place in an optimal manner. In many situations, contends Higgins, the management of private enterprises has within it the expertise needed for good choices to be made, about what to produce and how to produce it in response to market signals. Surprisingly, however, often neither individual consumers nor the individuals comprising management of private enterprise have the expertise that good choices would require. In many cases they are unable to acquire this expertise, cannot afford it, do not recognize the need for it, do not know quite what kind of expertise is needed nor where to find it even if they do.

When it comes to collective choice, the expertise is even more frequently missing, and in those cases, there must be some device for providing it collectively. It is often of a sort that is not normally engaged by private enterprise in its regular production of goods and services, or by government in its routine, bureaucratic operations. It must be recruited and organized through other channels: Private consulting firms, various blends of governmental and private nongovernmental organizations (including not only the officially recognized NGOs but a lot of other organizations outside government and private enterprise as well), international organizations and mixtures of all of these. Organizations outside government and private enterprise are already playing an increasing if mixed role in the international development effort and in domestic development as well.

compensation be paid; compensating everyone who suffers as a result of state action is complicated and expensive, and interferes with the government's every day operation" (Barnes and Stout, 1993: 16); this is the rationale taken to its logical conclusion. This conclusion makes a mockery of the Paretian compensation principle, for it can always be used as a justification for the powerful to become more privileged at the expense of the poor. Despite its alleged practicality, furthermore, the Kaldor-Hicks concept of achieving wealth maximization via "potential" Pareto superiority, given that the winners would compensate the losers, does not function well in practice, especially in conditions of underdevelopment where power is admittedly autocratic and by necessity centralized, and litigation cannot take a plaintiff seeking her right far.

Further, the term wealth as used in neoclassical economics is not an accounting concept; it is measured by what people *would* pay for things, or demand in exchange for giving up things they possess, not by what they *do* pay for them. Thus leisure has value and is a part of wealth, even though it is not bought and sold; its implicit value is the shadow price. Even explicit markets create value over and above the price of the goods sold in them. Consumers obtain consumer surplus from being able to buy them at the competitive price. This value is considered part of the wealth of society (Posner, 1992: 14-16).

By using individuals' relative "willingness and ability to pay money" to judge the propriety of a particular reallocation of resources, on the basis that wealth is easier to quantify than utility, neoclassical economics and law and economics further skew distributional equity: Wealth maximization inevitably requires that a greater share of resources go to the wealthier people, for the rich outbid the poor. This is the case despite the fact, which Richard Posner (1992: 14-16) concedes, that adherence to generally accepted moral principles increases the wealth of society if the principles are appropriately ordered and made instrumental to social rather than to private interests.

Disagreeing with the "highly optimistic theory of Adam Smith that the national dividend in given circumstances of demand and supply tends 'naturally' to a maximum," i.e., the mystique of invisible hand, Pigou (1932: 104-30), certainly no leftist, argues that if self-interest does promote economic welfare it is because human institutions have been devised to make it so; John Stuart Mill has a neoclassical companion then. Therefore, Pigou's implicit response to those who suggest that no state action is needed for the capitalist economy to function is that the system has performed as well as it has because of state action. This is not what the Reaganomics of the 1980s iterated: That government was the problem.

Singularly, the US government, with its federal, state and local levels, is not only one of the largest employers, but also the largest consumer in the world, not just in the USA. The latter, the shrine of free market economics, has several million governmental bureaucrats, civilian and military, distributed all over the globe, as well as at home, without whom the system cannot function, the prosperity cannot continue, and the very entity of the US cannot exist as is. This is only at the federal level; millions more exist at the state and local levels. If there is a degree of free market and freedom from government "intervention" it is because of this very large scale governmental "intervention" inside and outside the country. The very security and prosperity of the US can be attributed, among other variables, to what those government bureaucrats do. And it was members of government who wrote, interpreted and developed the Constitution and its economic provisions in the last two centuries. It is the Supreme Court, an arm of the US government, not the "invisible hand," that ultimately adjudicates the dos and don'ts, and in part determines the haves and have-nots. Even Donald Coase (1960: 44) concedes that

> there is no reason why...governmental administrative regulation should not lead to an improvement in economic efficiency...[,] particularly...when...a large number of people is involved and when therefore the costs of handling the problem through the market or the firm may be high.... It is [his] belief that economists...have tended to over-estimate the advantages which come from governmental regulation. But this belief, even if justified, does not do more than suggest that governmental regulation should be curtailed. It does not tell [him] where the boundary line should be drawn.

As excessively noncompetitive markets exist, moreover, government should operate to lead them to the competitive and just solution. This is no innovation; in his ideal *Republic*, to be established by design from tabula rasa and ruled by perfect philosophers, Plato (1991: 233) recognized "that some living authority would always be required in the State.... Even [his] own state requires the addition of the living authority." This twenty four centuries' old dictum is yet to be conceded by neoclassical economics. Indeed the term "republic" as used in the Arabic, Latin, French or English translation of Plato's *Republic* was originally simply a synonym for "state," rather than the contemporary implications of the term "republic," because Plato's Greek title was "Politeía."

On the other hand, situations in which wealth maximization requires enslavement, as is referred to above, cannot be ruled out *a priori*; if the costs of the physical coercion were very low relative to the costs of administering contracts, slavery might be "efficient." Efficiency as *the* criterion would thus certainly dictate slavery or some other monstrous theory of rights. Utility maximization and its pleasure-pain calculus would allow thieves, rapists, and other criminals to rationalize their crimes on the basis that they derive more pleasure from the act than the pain suffered by their victims, that this act maximizes happiness to society.

The "greatest good, or greatest happiness, of the greatest number" approach to ethics is an extreme tyranny of the majority, which profoundly contradicts human intuitive sense of right and wrong, of justice or fairness. Utilitarianism must countenance the punishment of innocent persons if that produces better aggregate of consequences than their nonpunishment. When politicians cause the death of innocent people by skewed public expenditure schemes, "structural adjustment" strategies, or bellicose resolutions and legislation to maintain a semblance of international order, utilitarianism is always there to justify their acts. Utility maximization taken to its logical conclusion would thus lead to grotesque results.

Wealth maximization, as a normative problem, fares better neither than Pareto superiority, with its claim to Kantian individual autonomy and consent, nor than pure utilitarianism. It just combines the worst features of both continuum extremes: fanaticism and slavery, respectively. That maximizing welfare is a good thing for society begs the question of income distribution, of equity and of social justice. Under ideal market conditions, postulates neoclassical economics, every individual draws from national income what she contributes to it, either by providing labor, land or capital she owns. Yet some sort of income policy to relieve the absolute poverty and gross inequity that such an income distribution would entail in most societies is a necessity. The trouble is that if the market is to continue to function efficiently on neoclassical criteria, any redistribution of income undertaken on grounds of equity must leave the allocation of resources unchanged, and that may turn out to be impossible.

Another flaw is that the maximization of society's welfare or satisfaction requires equalization of marginal satisfaction of all individuals, and that in turn requires redistribution of income away from those with limited capacity for enjoyment to the pleasure machines and super enjoyers. *To those who have shall be given and from those who have not shall be taken away even that little which they may have. This is what neoclassical economics and its rationalizing postulates of Pareto optimality, revealed preference, comparative advantage and "structural adjustment" are essentially about.*

In sum, it may be fine that an individual can increase her satisfaction without reducing the satisfaction of any one else. But the Pareto optimum is consistent with any income distribution whatever and thus with widely varying levels of social welfare. A society, national or international, must thus go well beyond a Pareto optimum in making common sense by generally accepted interpersonal and intergroup comparisons of utility, in order to adopt an affirmative action in favor of the sick and disabled, the very young and the very old, the involuntarily unemployed, the weak in bargaining power, the residents of underdeveloped regions and countries, the victims of catastrophe and the similarly situated.

That does not necessarily negate the role of the market. Still, a society can take steps to protect the underprivileged and nonetheless utilize the market device for most of the tasks of resource allocation, by balancing efficiency with equity.

4.2 Equity: the Transformation Intermechanism

The term equity is akin to social justice: Every one should have a fair shot, a fair go; all members of society, international as well as national, should be protected against exploitation by any member of that society, and every social group should be protected against exploitation by any other social group. Equity means not permitting greater inequality of income, wealth, power, privilege and social status than a good society should. There may not be a compelling neoclassical economic argument for a policy of making incomes more equal in general, but, concedes Posner (1992: 463-4), "there are economic arguments for governmental efforts to reduce the gross inequality in society's distribution of wealth." Posner does contend that poverty imposes costs even on the nonpoor that warrant, on narrowly economic, wealth-maximizing grounds and without regard to ethical or political considerations, incurring some costs to reduce it.

Poverty in the midst of plenty is likely to increase the incidence of crime. The forgone income, or opportunity cost, of a legitimate alternative occupation is low for someone who has little earning capacity in legitimate occupations, while the proximity of wealth increases the expected return from crime. The criminal sector is in effect the employer of the last resort; it is no wonder this sector thrives in countries with a less arrested capitalist order. Moreover, humans are entitled (by their very humanity, or for mere pragmatic reasons if they are not to be left prey to social Darwinism, or if one only adopts the rights doctrine upon which the entire Western structure of constitutional democracy is erected) to *a reasonable standard of social justice.* Generally, the gap in yearly personal incomes between several million dollars and a few thousand dollars is unreasonable, and can only result from the skewed distribution of unjust institutional structure of society, not from human difference in efficiency, merit, or whatever.

No good society should tolerate absolute poverty, unemployment, malnutrition, bad housing, exclusion from access to health facilities or exclusion from as much education as each individual wants and can effectively use. Hunger and homelessness in the midst of plenty are inexcusable. Indeed a fair distributional share should be based not only on the Keynesian-Fordist notion that high income for the masses constitutes a support for prosperity and for profits but, above all, as the essence of societal rights, for a good society cannot be dualistic. A good society is essentially a pluralistic entity in a general monistic motion based on equity. Cicero says that "beneficence, which (one) may call kindness or liberality, belongs to *justice*," and that "the object of justice is to keep (people) together in society and mutual intercourse" (in Aquinas, 1981: 124, 108, respectively).

Underdeveloped countries of course are too poor to eliminate all their deficiencies at once, but these should not be accepted with resignation, hence *the role of government and the public enterprise sector.* One should honestly concede however, along with Benjamin Higgins (in Savoie and Brecher, 1992: 36-8), that a basic contradiction haunts the mixed managed economy. Given the normal tendency to risk aversion and reluctance to venture into the unknown, more in the public than in the private sector, the redistributive aspects of equity measures are likely to dilute incentives, diminish risk taking, retard innovation and slow down growth until the rate of development is reduced, possibly to the point where even the very level of welfare of the underdog, which the equity measures are designed to help in the first place, is lowered instead. This risk is in part a price of equity, but falling into the trap is not inevitable, provided there exists clarity of objective. Again, one has here a question of facts, and of facts not easily come by, but the policy makers and their advisers must do their utmost to pin them down lest ill construed measures to promote equity destroy efficiency, slow down development and lower welfare all around.

Every economy, one has to remember, is a blend of private and public property. The US government, e.g., is into the businesses of pensions and unemployment insurance, of financing basic research, electrical power, alternative energy development and strategic transportation, among many other endeavors. However, precisely because the government must take on so many tasks, one would prefer to keep it out of the doubtful areas in order to focus its energy and effort on the essential ones, and to safeguard against excessive growth of the power of, or burdens on, the bureaucracy, hampering efficiency for an ill conceived notion of equity. Justice, the age old conceived notion of equity, however, should never be sacrificed. Not only "Plato," as Sievers (1974: 9) discerns, "centered his *Republic* around justice," the latter has literally constituted a permanent aspiration of human society ever since its very inception, until the nouveau aspiration of efficiency took over with the neoclassical hegemony of the twentieth century.

Fifteen centuries prior to Plato, justice *(ma'at)* "was a characteristic of the age" in Egypt, which "insisted upon social justice for all men and...demanded of the ruler the quality of *ma'at.*" Running through the names of the Twelfth Dynasty, therefore, is frequent repetition of the term *ma'at* (justice). Amen-em-het II took the names "He Who Takes Pleasure in Justice," and "the Just of Voice." Sen-Usert II was "He Who Makes Justice Appear." Amen-em-het III was "Justice Belongs to Re," and Amen-em-het IV was "Just of Voice is Re." Hence, Egyptian rulers took formal throne names which expressed their obligation and desire to render *ma'at* to the Egyptian people, "an emphasis on social justice and the right of the common man." This was also a formulation of the concept of the "good Shepherd" (John Wilson's *The Culture of Ancient Egypt,* 1956: 133, 140). Since time immemorial then justice (i.e., equity, not efficiency) has been regarded by political thinkers of different persuasions as one of the primary qualities of a good political economic order. Indeed there has been a temptation to regard justice as the all encompassing political virtue so that the good society and the just society are one and the same.

In the *Laws* (1967), Plato's utopian communal doctrines contained in the *Republic* (i.e., community of property) are replaced by an equal division of land, with regulations to prevent future concentration of ownership. Inheritance laws would make illegal the building up of large estates. Counterfactually then, but only in that egalitarian sense, Plato would have made a good Marxist. More appropriately put, Marx has just followed the humane aspect of Plato. Aristotle (1925: 43-56) gave a separate treatment of commercial justice. For exchanges to be fair, he argued, there had to be a common standard of value by which the products of the two parties could be measured. A somewhat similar idea lay behind the medieval notion of the just price, for justice is as axiomatic to law making in Christianity as to other major religious traditions: "Woe to them that make wicked laws, and when they write, write injustice, to oppress the poor in judgment, and do violence to the cause of the humble of My people" (Isaiah x. I ff.). It was not sufficient for medieval justice that an exchange was voluntary and within the bounds of law. The parties to it were obliged to sell their commodities at a just price --though as to how the latter was to be established, whether by tradition or by observing current prices in the market, the medieval commentators were less clear. A second idea, again to be found in Aristotle, was that goods ought in certain circumstances to be distributed on the basis of merit. Aristotle had mainly in mind distribution of public funds, though he may also have been thinking of the division of benefits within private clubs and partnerships (see Miller, 1987: 260-1).

There is a problem with merit, however, namely that it is contingent upon luck, taste and technology. It is thus not immutable. Moreover, it may be also based upon shrewdness and industry, and in the market context on greed as well. Gifts and handicaps are to an important extent accidental. It is therefore difficult for one to see why someone should be awarded an advantage just because she happens to be accidentally gifted, or that an accidentally handicapped person should be denied such an advantage. Wealth maximization accentuates rather than tempers the distribution of such advantages and disadvantages. Social institutions, including the law, should be used to mitigate the effects of accidental traits; for the law to intensify them is perverse. In contrast to Aristotelian meritorious grounds of justice, therefore, the idea of need had a firmer place in medieval thinking about justice. Although the general duty to relieve the needy was usually regarded as a duty of charity, it was often said that people with superfluous goods --goods over and above those required to maintain them in their station-- had an obligation of justice to help those in need.

In medieval times, "lawyers have...defined justice as being the perpetual and constant will to render to each one his right.... Further, it belongs to justice not only to distribute things duly, but also to repress injurious actions" (Aquinas, 1981: 58, 72). Augustine of Hippo (1948) ascribes to justice the act of succoring the needy and contends that "a law that is not just, seems to be no law at all; " "wherefore," argues Thomas Aquinas, "the force of a law depends on the extent of its justice" (in Aquinas, 1981: 105, 124, respectively). Aquinas[1] recognized that "a judge renders to each one what belongs to him by way of command and direction, because a judge is the personification of justice," not of efficiency. "It is of the essence of law to be just," added Aquinas; he said nothing of efficiency. Aquinas defines law as "an ordinance of reason for the common good, made by him who has care for the community, and promulgated" (Aquinas, 1981: 66). Aquinas went further still (p. 124) when he argued that a man in extreme need was entitled to take another man's property to sustain himself, thereby legitimizing theft for need, quite contrary to both the now sacred private property and efficiency postulates. For there is much more to humanism than efficiency and bourgeois "human rights." As one moves forward into the modern period, to speak of *social justice* implies that it is realistic to attempt to bring the overall pattern of distribution in a society into line with principles of justice. The term social justice first appeared in the political economy debate in the early nineteenth century (it was employed by, among others, John Stuart Mill) and its use has since become widespread. It rests on two assumptions: First, that social processes are governed, at least in broad outline,

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[1]Aquinas benefited tremendously from taking up intact Ibn Rushd's *summa*, composed in the latter's polemic against al-Ghazzali and the adversaries of reason (see Samir Amin, *Eurocentrism*, 1989: 44-5).

by discoverable propositions, so that it makes sense to try to reshape society deliberately; second, that it is possible to find a source of power --usually in government-- sufficient to carry out the reshaping.

There have thus been two major conceptions of social justice, one embodying the notions of merit and desert, the other those of need and equality. The first conception entails that each person's social position and merited rewards should as far as possible correspond to their place on a scale of merit, an idea also expressed in demands for *careers open to talents* and *equality of opportunity*. It implies the ending of hereditary privilege and an open society in which people have the chance to display their desert. However, there are differences of view about what desert means and how it can best be assessed in practice. For some, desert is a matter of contribution: What talents someone has and how effectively one employs them. Others argue that talent as such has nothing to do with desert: People deserve reward only for the effort they spend, as perhaps for choosing to expend it in a more or less useful direction (Miller, 1987: 261). On the issue of assessment, economic liberalism has always projected the free market as the best means for rewarding desert in practice, arguing that the price someone can command for his products or services is a reasonable indicator of their value to others. Critics of this view have pointed out that market receipts are often affected by factors such as luck and social background which have nothing to do with merit; some have proposed instead that desert should be measured directly, for instance by a public body responsible for fixing salaries in a planned economy (Miller, 1987: 261). The second conception of social justice entails that goods should be allocated according to each person's various needs. It is closely allied to an idea of equality, since a program which successfully satisfies needs makes people materially equal. However, the idea of need, concededly, is difficult to define precisely. Although there is a biological (Maslowian) core to the concept of need, as manifested in needs for food, clothing and shelter, there is also a large periphery in which needs depend on culturally specific lifestyles.

In the face of this variability, need based conceptions of social justice have followed one of two broad patterns. The more radical, found in ideal typical or hypothetical communism, allows each person to define her needs, and assumes that sufficient resources can be created to meet all needs so defined. The more cautious, and more realistic, found in social democracy, assumes that a public authority must define needs according to the standards prevailing at a particular time and place (Miller, 1987: 261). The latter view may allow more of a compromise between the claims of need and those of desert --some social resources being allocated on the basis of need through the welfare state, others being allocated according to desert through an economic market or through bureaucratic processes. This view is therefore the one more commensurate with the reformist purposes of this critique. Some theories of social justice avoid giving fundamental place to either desert or need. Henry Simons (1931: 12-13) developed a case for reversing the income distribution: The talented are unavoidably favored by being more talented; giving them higher incomes compounds their accidental and unmerited advantages.

Of course, according to utilitarianism, all questions of distribution are to be resolved by reference to the overall consequences; a socially just allocation is ultimately an allocation that produces the greatest sum of happiness. John Stuart Mill's *Utilitarianism* (1861) contains the most elaborate and refined presentation of this position. John Rawls (1971: 62-100), however, has developed an alternative theory, the most distinctive element of which is the principle that inequalities in the allocation of goods are permissible, if and only if they work to the benefit of the least well-off members of society. Indeed, this principle of redress is a common feature of family life, where extraordinary efforts are often devoted to the education and happiness of physically and mentally challenged children (Okun, 1975: 44). Fairness is clearly not interpreted as reward for contribution or merit in such cases. Rawls' difference principle stipulates that all social values are to be distributed equally unless an unequal distribution of any is to everyone's advantage, in particular to the advantage of the typical person in the least advantaged group. *This gives the notion of* *justice an egalitarian flavor but allows for departures from equality when these serve, e.g., as incentives, creating a greater stock of goods for redistribution to the worse off.* This principle of redress means that to provide genuine equality of opportunity society must give more attention to those with fewer native assets and to those born into the less favorable social positions. Rawls' egalitarian difference principle is supposed to emerge as a consensus of people in the original position, when they develop social rules without knowing where their own future incomes will lie on the pyramid. *No inequality is tolerable unless it raises the lowest income of the society. According to this maximin*[1] *criterion, and contrary to the blanket consequentialism of Bentham, society is worse off if the lowest income family loses one dollar, no matter how much everybody else in the society gains.*

Proponents of economic neoliberalism such as Hayek (1976, 1978) and Nozick (1974) reject the notion of social justice altogether, and argue instead for an understanding of justice as respect for law and established rights. Justice, they argue, is a property of processes rather than of outcomes. If the correct procedures for acquiring and transferring benefits have been followed, it makes no sense to describe the resulting distribution of resources as either just or unjust. Their arguments begin from different paradigmatic starting points and contain three central claims. First, that the notion of social justice assumes that there is some agency responsible for the distribution of benefits in society, whereas this distribution arises through the uncoordinated activity of many agents, none aiming at the overall result (an argument consonant with Smith's invisible hand). Second, that the quest for social justice involves replacing the market economy with a stultifying bureaucracy which tries, albeit unsuccessfully, to exercise complete control over the flow of resources to individuals (this is obviously a rampant exaggeration that can apply only to

[1]The term "maximin" entered economics because neoclassical economics (following F. Y. Edgeworth) uses the maximin tools of calculus to address many economic problems, on the basis that these are problems of finding maximums or minimums. For example, the consumer spending a limited income so as to maximize utility; the firm hiring inputs so as to maximize output with a given cost; the firm making decisions to maximize profits; etc. (see Harry Landreth, *History of Economic theory: Scope, Method, and Content,* 1976: 390).

socialist systems). Third, that this quest also involves fundamental interference with personal freedom, in so far as people must be prevented from doing as they please with the resources they are allocated if the preferred distributive pattern is to be maintained (this reverts to the asocial orientation of methodological individualism, whereby individual behavior is taken as the necessary and sufficient unit of analysis to explaining economic phenomena).

These arguments are spurious for more fundamental reasons, however. The notion of social justice does not presuppose a single distributor of resources, but only that the pattern of distribution depends on major social institutions which may themselves by altered politically. For instance the relative incomes of employers and employees in a market economy will depend partly on the way in which the law defines the contractual rights of either party, a matter for political decision. This line of reasoning also helps to counter the second and third objections. If conceptions of social justice are intended to shape institutions, the idea need not imply that all resources are to be allocated by a central bureaucracy. It might, e.g., be preferable to allow many benefits to be distributed spontaneously through a market while at the same time regulating the background institutions, such as tax and property systems, so that the general shape of the distribution conform to substantive principles of desert and need, and ultimately of justice. This would also permit each person a considerable, albeit not unlimited, degree of freedom in the use of resources, without sacrificing the justice of the overall distribution.

Evidently the polarized debate about social justice (Miller, 1987: 262-3) illustrates a subterranean tension in thinking about justice in general. On the one hand, justice has to do with rules and procedures: Treating people justly means applying the relevant rules to them in a fair way. On the other hand, justice has also to do with outcomes: People should end up with whatever it is they deserve and need. A problem arises when procedures that appear generally just lead to particular outcomes that are not. Here one must move from the justice of consistent rule application towards the justice that demands that rules should be revised or abandoned if their results are unacceptable. A satisfactory theory of justice thus needs to straddle both horns of this dilemma.

It would carry the analysis too far afield to attempt to articulate a strict definition of justice within the frame of this critique. Naturally political economy has to choose one of the several accounts of justice in political philosophy, i.e., highest, total or average utility, e.g., or equality, or maximin over welfare or wealth, or relief of poverty or some meritocratic or desert theory. Rawls' justice as fairness *cum* guide for this critique is adequate however. Any theory adopted becomes problematic when it is a patterned rather than a historical theory, to use Nozick's (1974) distinction. Historical theories argue that a distribution is just, whatever inequalities or other features it displays, if it is reached in accordance with correct principles of justice in acquisition and transfer. Patterned theories argue that a distribution is just only if it conforms to some pattern --e.g., goods should be in the hands of those who would pay most to have them-- that can be specified apart from the history of how that distribution occurred (Miller, 1987: 260).

Justinian's general definition is still relevant as well: Justice is the constant and perpetual will to render to everyone his due. And Kant contended that the demands of justice must be carried out regardless of circumstances (Miller, 1987: 260-1). Of the four objects of law, set by Adam Smith who is not a mere free marketeer, justice comes first, and efficiency is nowhere to be found. Smith's four objects of law are justice, police, revenue, and arms (Smith, 1976: xxiv, 231-43, 435-45). So, historically there has been a strong tendency to see close connections between justice and law: To be just is to be law abiding. The law embodies general rules specifying how people are to behave towards one another, and in particular cases determines what each is entitled to by way of property, services and so forth.

The law not only decides who is to own something and what price is to be paid for it but also regulates its sale, by, e.g., prescribing preconditions for a valid sale or forbidding a sale altogether. Hence not only property and liability rules but inalienability ones as well, all based on the same efficiency and/or distributional goals. Justice implies respecting those conventions, entitlements and regulations. Courts thus have a duty to reappraise old doctrines, particularly old common law doctrines which the courts themselves created and developed, in the light of facts and values of contemporary life. For most thinkers in this tradition moreover the law itself had to meet certain moral requirements if it was to be regarded as just. This was often expressed in the terminology of natural law: Behind the positive law there stood a moral law, discoverable by reason, and in cases of conflict it was the latter that defined justice.

Besides, the case for a right to survival is compelling. Rights of survival set floors under the consumption of the various items identified as essential. They thus preserve some incentives for economizing, and leave considerable scope for the marketplace in determining the production and distribution of food, health care, housing and the like for citizens who wish to, and are able to, spend more than the basic minimum that is guaranteed to all. Issues surrounding the extension and implementation of a formal right to a minimal decent existence, e.g., are the heart of debates about health insurance, the negative income tax and welfare reform. *The assurance of dignity for every member of society requires a right to a decent existence --to some reasonable minimum standard of nutrition, health care, and other essentials of life.* Starvation and dignity do not mix well. Every person, regardless of merit or ability to pay, should receive medical care and food in the face of serious illness or malnutrition (Okun, 1975: 17-19).

Under whatever health care scheme, *citizens* may not be left to roam the streets with their teeth aching, lacking access to the system. This in part is what the term society means, not to mention the *good* society. The government obligation to provide suitable housing or adequate diets for every citizen, and set a higher basic minimum of real income for all families, comes close to the top on the list of raisons d'être of the existence of government. The interior form, the tribunal of conscience, obliges all to fairness, to law premised upon justice, not on ad hoc calculus of wealth. Anyone who takes a woefully underpaid or excessively risky job must be acting out of desperation. That desperation may result from lack of alternatives. "Minimum wage laws and work safety legislation can be viewed...as...examples of prohibitions on exchanges born of desperation" (Okun, 1975: 20-1).

Government is not just a tool to protect the *protégés* of the economic system from the deprived masses, it is rather a means towards the *good* society. Society's concern for human dignity can be directed at reducing the economic deprivation that stains the record of democracy *--through gauged progressive taxation, transfer payments,*[1] *job programs, broadening equality of opportunity,*[2] *eliminating racial and gender discrimination and lowering barriers to access to capital.* The guiding principles to achieve these goals are judicial as well as political temperance, evenhandedness and, first and foremost, fairness to all, *which can be achieved only if law and economics are based on equity as well as efficiency.*

The tradeoff between equity, hence social justice, and efficiency is thus unavoidable. John Rawls' (1971) answer is to give priority to equality; Milton Friedman's (1962) answer is to give all priority there is to efficiency, to the absolute exclusion of equity. This is the point of economics' rigor, exactitude, and jargon. Ostensibly a theory of equilibrium, neoclassicism disavows balance, under the rubric of scientificity. The Rawlsian pluralistic conception of justice, on the other hand, disclaims any single value like efficiency, utility, equality, wealth or merit as making up all of justice in distribution. It instead argues that a truly just distribution will achieve *a sensible mix of several of these values.* Along these lines, "whatever the needs of legitimacy may require of policy makers, welfare economics

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[1]By transfer payment is meant redistribution of income by means of taxation and expenditure.

[2]John Hobson (1858-1940) contended that "inequitable distribution of opportunities" locked up human initiative. Individuals needed access to productive resources if society were to benefit from their potential. This entailed collective control of crucial industrial and infrastructural resources and their provision to individuals on the cheapest terms. Hobson thus argued that "equality of opportunity" implied: Mobility (cheap, nationalized railways), the option of self-sufficiency (cheap, nationalized agricultural land), access to power (cheap, nationalized electricity) and security (cheap, nationalized personal insurance) (see Hobson, *The Crisis of Liberalism: New Issues of Democracy* (1909), 1974: 98-107).

can and *must* specify all relevant valuables if it is to explain adequately and thoroughly the forces and factors governing the attainment and distribution of welfare" (Samuels, 1981: 62).

The right mix may not become easily determined *ex ante,* may not become rigorously operationalized, but reasonable people, for now, will know justice when they see it, until, if ever, that mix can be consensually operationalized. Till then, the just distribution has to be one in which the average level of welfare is reasonably high, in which there is not unreasonable inequality and in which what people have is at least roughly related to how much they do need as well as how hard they have worked or how much they have produced. Changing millennia of settled philosophy of law and ethics by the mere ideological whims of neoclassicism, based on a bonanza of ad hoc calculus of wealth maximization, is counterproductive in the long-run. Analyzing the deterioration of oligarchy, Plato (1991: 309-10) contended that

> the men of business...pretending not even to see those whom they have already ruined, insert their...money...into someone else who is not on his guard against them, and recover the parent sum many times over...[,] and so they make drone and pauper to abound in the State...[;] the evil blazes up like a fire; and they will not extinguish it...[;] the governing class...[,] habituated to lead a life of luxury and idleness...care only for making money, and are...indifferent...to the cultivation of virtue...[;] the State falls sick, and is at war with herself...even when there is no external cause.

Two and half millennia have not rendered that depiction but more relevant.

Common law should not be biased toward the already privileged then, it should not serve systematic and perverse distributive ends. To argue that the courts should be confined to elaborating common law principles guided by the criterion of efficiency, while leaving to the taxing and spending branches of government the responsibility of fine tuning market distribution, as the Law and Economics school does, is to not only abstract from morality but also conceal the raison d'être of the judiciary in the Montesquieuian system of democratic government. Under that system making the slices more equal is as much the responsibility of public institutions, particularly the law and government, as increasing the size of the pie. "The domain of rights is part of the checks and balances on the market, designed to preserve values that are not denominated in dollars" (Okun, 1975: 13). Historically, caste positions, feudal obligations, entailed land and guild memberships have been maintained among the things that money should not buy and sell. Those bans served to promote inequality as well as economic inefficiency. Indeed across the spectrum of primitive, ancient, medieval and modern societies the market has been restricted more often to preserve unequal power and distinction for the few than to guarantee equal rights for the many. Money, on the other hand, can buy many things that de jure are not for sale in a capitalist democracy, whereby in the US, for example,

> performance and principle contrast sharply.... Money buys legal services that can obtain preferred treatment before the law; it buys platforms that give extra weight to the owner's freedom of speech; it buys influence with elected officials and thus compromises the principle of one person, one vote. The market is permitted to legislate life and death, as evidenced, e.g., by infant mortality rates for the poor that are more than one and one-half times those for the middle-income (Okun, 1975: 21-2).

The market, an efficient system for spurring and channeling productive efforts and for promoting experiment and innovation, is also a protector of individual freedom of expression. Hence other values must be protected from the potential tyranny of the dollar yardstick, and many rights and powers should not be bought for money, they must be protected from transgression by the market. For the most part, there is no such thing as the goals of society (see Higgins, in Savoie and Brecher, 1992: 38). There are only the aims and ambitions of particular social groups or strata, individualistic trends and characteristics granted. The goals of each group or stratum conflict with those of the other groups or strata. Some groups have much more power than others, so only their goals will be achieved even if at the expense of others. Therefore, for the masses to achieve their aims and ambitions, power, including a cost *effective* control of some basic means of production, must be democratized.

Unbridled capitalism is a rich source of pecuniary as distinct from technological externalities --that is, of wealth transfers from, rather than cost impositions on, unconsenting parties (Posner, 1992: 7). Capitalist institutions, in the words of Okun (1975: vii, 1), say "find a job or go hungry, succeed or suffer." They award prizes that allow the big winners to feed their pets better than the losers can feed their children. Such is the double standard of a capitalist democracy professing and pursuing an egalitarian political and social system and simultaneously generating gaping disparities in economic well-being based upon the calculus of economic efficiency. The resulting mixture of equal rights and unequal incomes creates tensions between the political principles of democracy and the economic principles of capitalism. This mixture of equality and inequality smacks of inconsistency and even insincerity. Surely it is not all conflict between equity and efficiency. Lots of overlapping and sharing of goals also exist. However, under unarrested market economy, efficiency and redistribution are essentially antithetical; *therefore there must exist a limit as to when equity becomes as important as efficiency, and a line at which government has to step in to correct the problems created by seeking efficiency, and to bring about an acceptable level of relief from inequity.*

Measured progressive taxes are one way to reduce inequality. The purpose of heavier taxation at the top of the income and wealth scale is not to bring down the affluent but to raise up the deprived. Another way is expenditures toward income gap reduction programs. Transfers are especially important to the aged. Efficiency is not a serious bar to society's ensuring the right of survival at some reasonable minimum, for those who cannot work because of age or disability, or because of the dysfunctional aspect of the free market economy. Transfers are, in effect, negative taxes --payments by the government to finance spending by citizens. They place the government squarely in the role of redistributing income (Okun, 1975: 105-7).

Judges as well as politicians could and should uphold social goals and apply principles of justice. *The functional instrumental character of these goals and principles should encompass distributive as well as efficiency policy.* Through both judicial construction and judicial review judges must as much alter the slices of the pie which the various groups in society receive as increase its size. If effective redistributive policies require taxing and spending powers that judges lack, they can use their Marshallian (Marbury v. Madison's) judicial review, not only in the contractual, constitutional sense but also in the ultimate sense and objective of judging: To uphold justice, not merely to promote efficiency. The latter concept must include some societal standard for growth and development as well as standards for resource allocation at a point in time. It must include some planetary as well as societal standards regarding distribution of income among nations, regions, social groups and individuals. It must also include targets or norms for public goods such as health, education, nutrition and the like.

Yet much of the growing literature on public goods and collective choice is directed towards finding means of making public choice approximate individual choices in a market; the underlying concept of efficiency remains the same, and the analysis is subject to the same structures, as in the case of neoclassical welfare economics. This kind of analysis relies on a basic harmony of interests and the invisible hand to promote efficiency, but both are mythical and the latter is mystical too. Contrary to the harmonious implications of neoclassical economics, Smith's invisible hand, and Kuhn's paradigmatic shifts, Michel Foucault (1970, 1980) highlighted the arbitrary nature of discursive changes --analogous to Stephen Jay Gould's (1981) concept of *contingency*. Foucault, as well as Hans Morgenthau (1978) before him, has classified power as an integral component in the production of truth, whereby truth and power function interdependently. Power thus is an inherent feature of social relations. One cannot act without affecting the conditions under which others act.

Foucault further argues that the modern state governs less through the use of force than through its use of the knowledge and practices of the human sciences to construct its citizens' subjectivity --through a micro-physics of power. Life is *the will to power,* argued Nietzsche (1887), insisting that one's natural desire is to dominate and to reshape the world to fit one's own preferences and to assert one's personal strength to the fullest degree possible. The harmonious aspects of neoclassical economics, in this light, are mere fiction. Without some degree of conscious and articulate consensus, however, significant movements to close gaps between norms and the current, actual state of affairs cannot be achieved. When welfare functions are defined by government, efficiency can be measured by the degree to which the objectives laid down are actually achieved. It must thus be recognized that equity, development and the capacity to resolve conflicts are parts of what makes any society and any economy efficient (Higgins, in Savoie and Brecher, 1992: 37).

But technical efficiency as the only value a society's public institutions should pursue is indefensible. "Selfishness is the basis of the supposed efficiency of the market economy" (Boulding, in Savoie and Brecher, 1992: 5). The inner city dreary slums and suburban lavish areas provide a sad indicator of economic differentials in many efficient capitalist democracies whereby the income distribution is shockingly unequal. The ethical case for capitalistic efficiency is therefore totally unpersuasive. It favors the privileged and disregards the true purpose of the law as well as its moral dimension: To correct injustices and thereby vindicate the moral sense.

A theory of law as a system for promoting only economic efficiency is thus biased, incomplete and immoral. And a law that is based upon biased, incomplete and immoral concept can be honored only in the breach. It is no wonder that the wealthiest and most efficient country on earth has the highest rates of homicide, gang violence, school shooting, incarceration, teenage pregnancy and poverty caused out-of-wedlock birth[1] in the world, and that its government has, uniquely among those of all industrialized countries (except Japan), upheld capital punishment against individuals in its population, disproportionately convicting and executing offenders in its African and Latino racial minorities, human-rights' bragging notwithstanding.

[1]Out-of-wedlock birth is fine for those who accept it out of a value judgment, out of an informed, voluntary choice, which is not the case here, whereby it is essentially the result of poverty and illiteracy.

One may not be able to prove it,[1] but the ultra capitalistic socialization peculiar to the US as a result of neoclassicism must top the list of causes of the country's unparalleled social ills (Andrew Schotter, *Free Market Economics: A Critical Appraisal,* 1990: 68-80). This in no way is a model for the UDCs, if only because they cannot afford it. Therefore, the court system may not be used in the service of preserving the status quo for a ruling clique: *Judicial* construction and *review* should be enacted to ensure equity and justice as well as efficiency. *Logic thus requires a clear empathy with equitable transformation and its ultimate objective of justice as fairness, before efficiency can be sensibly determined, much less attained.* Conversely, one must clarify what is meant by efficiency before one can say anything meaningful about equity. This is why efficiency and equity are inseparably intertwined.

In sum, authentic relevance, critical analysis and rational discourse are essential for the apprehension of the nature of power distribution within society, as the first step towards understanding the role of institutions directly effecting distributional justice, especially that of law. The central role of socio-critical analysis and discourse is to reveal how contemporary law and economics help mystify the law in the eyes of the public, through the veil of autonomy, coherence, permanence, benevolence, apoliticality and objectivity of legal rules. Law is policy, policy is politics: Law is politics, even though the latter's sphere is more encompassing. Demonstrating the indeterminacy of law needs no more than the often issued five-four rulings of the nine member Supreme Court. Applying law only through abstract economic concepts, and through manipulating the formal logic of legal syllogism (as the school of law and economics is evolving), is an inadequate theory of law: Justifying a ruling in purely economico-legal terms without reference to value considerations (e.g., equity and justice), is an identity of circularity; it means that there is

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[1]Social phenomena are hardly amenable to simplistic proofs, if only because of Hume's problem of induction: The impossibility of inductive certitude. Social proofs cannot thus be unambiguously tested at a workbench as neoclassical "positivism" would have it. Further, variables are unobservable, initial conditions shift, and data are only sporadically reliable.

really no adequate basis for the ruling. It renders much validity to the much over-repudiated base-superstructure outlook.

"Law and economics," as a subdiscipline of economics, must explicitly employ, and hence be grounded in and transformed by, the social sciences in their entirety, not only a narrow pecuniary creed of efficiency and/or constitutional syllogism, through articulating and cohering both individual rights and public interests via legal justice, grounded in a *humane* political economy theorizing. Law and economics can find a base to restart from and build upon, in this direction. Such a base was laid down by John Commons in the 1930s. In attempting to analyze the "working rules" of "going concerns" that amalgamated individual action, Commons formed a theory of collective action. The latter was conceived as a set of controls on conflicting private interests. By interpreting these controls as "laws," Commons placed jurisprudence at the center of political economic inquiry.Commons thus characterized the US Supreme Court as "the supreme faculty of political economy" for the nation. He thereby inaugurated the "economics of law," which views the courts and judicial decisions as the arena for reconciling not just disagreements about the ends of economic policy, but also for determining the appropriate means to achieve these ends (Commons' *Institutional Economics,* 1934). Law and politics cannot thus be divorced, which is not to say that interjecting too much ideology at the expense of consistency and principled reasoning is unavoidable; it means rather that objective reasoning is grounded in an Aristotelian metaphysical first principle or a Schumpeterian preanalytical vision. Concern for social justice should guide concern for transformation with equity as well as efficiency, because the determinant factors in transformation processes, even in their narrow economic growth aspect, are really social: *Social change is the key to transformation, and the law, government and other public institutions are to be in the service of efficient but also equitable transformation.*

5. TRANSFORMATION THEMES

This chapter, after manifesting underdevelopment in more concrete terms, regroups the transformation themes discerned from the previous chapters. For expository convenience the chapter is divided into sections. The first attempts to manifest underdevelopment. The second elaborates upon the thematic nature of the needed transformation, given the circumstances surrounding the UDCs. The third entails main themes of bridled capitalism. The fourth includes themes on distributional corrections. The fifth deals with themes on fiscal efficacy and equity. The sixth proposes reforms of Bretton Woods organizations. The seventh muddles through UDCs' adaptation to survive the Bretton Woods regime. And, finally, the eighth explores thematic prospects for transformation.

5.1 The Manifestation of Underdevelopment

Despite UDCs' intensive effort at development in the "postcolonial" era, tremendous human deprivation remains in the UDCs. The statistical data in this section are compiled from UNDP (1990), UNDP (1993), WDR (1993), UNDP (1994) and UNCTAD (1997). Those are published by the corresponding UN *special* agencies. Those agencies have external independent finance from, and hence less accountability to, the UNO. As such they tend to be rather on the conservative side vis-à-vis the UN agencies proper. This conservative United Nations' balance sheet of human deprivation in the UDCs, nonetheless, manifests a grim picture indeed.

Most poverty estimates for underdeveloped countries use the income required to meet minimum food needs and thus measure absolute poverty. Poverty is defined in absolute terms if the content of a poverty standard, whether defined by commodities or characteristics, is taken to be fixed across time and space. A historical notion of subsistence reflecting a very minimal list of basic needs is at the foundation of this notion, whereby the defining variables are commodities or their characteristics. This absolute poverty is rampant in many UDCs. Relative poverty is even more rampant. By relative poverty is meant that human requirements are not merely for existence but for leading a full life as members of a social community. It also has to do with comparing economic levels with those of other countries.

Today, there still are nearly 900 million adults in the underdeveloped world who cannot read or write. Literacy rates are only 41 percent in South Asia and 48 percent in Sub-Saharan Africa, and seven countries have literacy rates less than 25 percent. Adult literacy rate in Somalia is only 12 percent. About 100 million children of primary school age do not attend school. Tertiary enrollment in the so-called "least developed" countries (the poorest of the poor) is 1 percent for females and 4 percent for males, despite the fact that for underdeveloped countries as a whole, average social returns for every level of education exceed 10 percent to 15 percent. And the female literacy rate is only two thirds that of males.

In the UDCs today, only 61 percent of the people have access to *primary* health care services; 1.5 billion people are without such access. For the poorest of the poor and Sub-Saharan Africa, the corresponding figures are 46 percent and 45 percent, respectively. Life expectancy is still less than fifty years in twenty UDCs (it is forty-two years in Ethiopia and Sierra Leone). There are 1.75 billion people in the UDCs without safe water. In a third of the African countries having current data the access to safe water has declined since 1975, and in eight African countries fewer than a fifth of the people have access to safe water. Percentage with access to safe water in Ethiopia and Mozambique is only 16 percent. Access to safe water in Bangladesh has declined by ten percentage points since 1975. Three billion people live without adequate sanitation and about a third of the UDCs' population have no access at all to proper facilities.

Children and women suffer the most. Some forty million newborns still are not properly immunized. Fourteen million children die each year before reaching their fifth birthday, three million children die each year from immunizable diseases, 150 million children under five, one in every three, suffer from serious malnutrition, and the maternal mortality rate is 12 times that of the DCs. There are around 100 million people in the UDCs completely homeless, some 800 million people who still go hungry every day, and more than a billion who survive in *absolute* poverty. Real per capita income in the 1980s (the full decade in which Fund-Bank "structural adjustment" was applied) declined by 2.4 percent a year in Sub-Saharan Africa and 0.7 percent a year in Latin America.

The renewed concern about human deprivation in recent years has generated a growing body of research on poverty. The results are startling:

(1) The poor are not a homogenous group. The *chronically* poor are at the margin of society and constantly suffering from extreme deprivation. The *borderline* poor are occasionally poor, such as the seasonally unemployed. The *newly* poor are direct victims of the World Bank's "structural adjustment" implementation from 1980 onward, such as retrenched civil servants and industrial workers.[1]

(2) Between 1970 and 1985, the *absolute* number of poor increased by about a fifth. In 1985 more than a billion people in the UDCs were trapped in *absolute* poverty. Asia has 64 percent of the underdeveloped countries' people in *absolute* poverty, Africa 24 percent and Latin America and the Caribbean 12 percent. In Bangladesh more than 80 percent of the people are poor. The 1980s-90s have been especially harsh for some countries: In Sri Lanka and Bangladesh the poorest income groups saw their shares of household income fall. Poverty is growing fastest in Africa however, with the number of *absolute* poor having increased by about two thirds between 1970 and 1985.

[1]These, it is to be remembered, are findings and classifications of studies conducted by the United Nations agencies pointed out at the beginning of this section; they are neither allegations by leftists nor claims by Marxists. Nor are there any implications here that poverty is caused only by the World Bank: There are the roles of tribalism, civil wars, natural disasters, desertification, AIDS, etc.

The ILO estimates that the number of *absolute* poor rose in Africa in the five years between 1980 and 1985 (under the auspices of "structural adjustment") to more than 270 million, about half the total population. More than half the people in Africa thus live in *absolute* poverty. And the number of Africans below *the poverty line* rose by two thirds in the first half of the 1980s --compared with an increase of about a fifth for the underdeveloped world as a whole. Of all the underdeveloped regions, Africa has the lowest life expectancy figures, the highest infant mortality rates, and the lowest literacy rates. Nearly 400 million people were living in extreme poverty in Africa in 1995. On current projections, the number of people in *absolute* poverty is likely to increase from more than 1 billion to around 1.5 billion by the end of this decade.

(3) Three quarters of the underdeveloped countries' poor people live in rural areas. There is, however, a recent trend towards the urbanization of poverty owing to the rapid increase in urban slums and squatter settlements, expanding by about 7 percent a year.

(4) Poverty has a decided gender bias. A large proportion of poor households are headed by women, especially in rural Africa and in the urban slums of Latin America. Female members of a poor household are often worse off than male members because of gender based differences in the distribution of food and other entitlements within the family. In Africa women produce 75 percent of the food yet they suffer greater deprivation than men.

According to the World Food Council, more than half a billion people were hungry in the mid-1980s. Between 1965 and 1985 sixteen African countries, of the thirty-four having data, recorded declines in their supply of calories per capita. The IBRD, in a study of 87 underdeveloped countries with 2.1 billion people, put the number of undernourished people whose diet does not provide them with enough calories for an active working life, at 730 million in 1980. The figure is growing constantly, with as many as eight million people joining the ranks of the hungry each year during the first half of the 1980s. Hunger today is stunting the lives of over 800 million people in the UDCs.

Three billion people have joined the world's population since 1960, doubling the world population in less than forty years. Most of the population growth has occurred in underdeveloped countries, and this trend is likely to continue for decades. The underdeveloped countries' overall population growth was expected to decline from 2.3 percent a year between 1960 and 1988 to 2.0 percent a year between 1988 and 2000. But some parts of the world have not achieved even this modest slowdown in growth --Africa's population is projected to continue growing by 3.1 percent a year until the year 2000, and the underdeveloped countries' population by 2.8 percent a year.

Moreover, the underdeveloped countries' share of world population, 69 percent in 1960, 77 percent in 1990, is projected to rise to 80 percent by 2000 and 84 percent by 2025. Between 1980 and 1987 the underdeveloped countries' share in world GDP fell almost two percentage points (from 18.6 percent to 16.8 percent), while their share in world population moved up one percentage point (from 74.5 percent to 75.6 percent). The combined impact of these changes proved difficult for them to accommodate. For most underdeveloped countries therefore human development poses a triple challenge. They have to expand the development opportunities for a growing number of people. They have to upgrade living standards. And they often have to achieve more with less --to meet the first two challenges with stagnating or even declining resources.

More than 900 million people have joined the underdeveloped countries' labor force in the three decades prior to 1990. High population growth was not the only reason. The ranks of the labor force were increased by women seeking jobs, and by poorer families trying to increase the number of income earners in the family. However, economic growth has failed to provide enough employment opportunities for all the job seekers of those three decades. It is common knowledge that unemployment and underemployment are extensive in many underdeveloped countries. By the end of the 1990s another 400 million are likely to join the labor force. The fuller use of such human capabilities requires sustained economic growth and considerable investment in human beings.

This is also the century of the urban explosion. The number of people in underdeveloped countries was estimated at 4 billion, in 1990, and will reach some 5 billion in 2000. In 1990, 87 percent of all new births were in the UDCs. The very rapid population growth in the UDCs is becoming concentrated in cities. In the 35 years after 1950 the number of people living in cities almost tripled, increasing by 1.25 billion. In the underdeveloped world the number of urban dwellers quadrupled, from 285 million to 1.15 billion. The UDCs' urban population increased tenfold, from 100 million in 1920 to 1 billion in 1980. Meanwhile, its rural population more than doubled. The number of urban dwellers is likely to increase to nearly two billion by the year 2000, when eight of the ten largest megacities of thirteen million people or more will be in the UDCs.

The population of many of Sub-Saharan Africa's larger cities increased more than sevenfold between 1950 and 1980. Among these are Nairobi, Dar es Salaam, Nouakchott, Lusaka, Lagos and Kinshasa. During these same thirty years, populations in several other UDCs' cities tripled or quadrupled. These are Seoul, Baghdad, Dhaka, Amman, Bombay, Jakarta, Mexico City, Manila, São Paulo, Bogota and Managua. In-migration has usually contributed more than natural increase to their growth. The housing problem for such a rate of population growth is staggering, and shantytowns are creeping into most UDCs' major urban centers.

As a result of the lingering debt crisis underdeveloped countries owed foreign creditors $1.3 trillion at the start of 1989, just over half their combined GNPs and two thirds more than their annual export earnings (which exposes the senselessness of the strategy of Bretton Woods' organizations and neoclassical economics labeled "export led growth"). The annual interest obligations on this debt were $100 billion; with amortization the annual total debt service bill was over $200 billion.

This mounting debt burden of underdeveloped countries has reversed the DCs-UDCs resource flows. According to a United Nations study, a sample of 98 underdeveloped countries transferred a net amount of $115 billion to developed countries between 1983 and 1988. Capital flight of billions of dollars, particularly from Latin America, made the situation much worse.

Averages of progress in human development further conceal large disparities within underdeveloped countries --between urban and rural areas, between men and women, between rich and poor. In many countries, rural-urban disparities reflect the distribution of income and the locus of power, whereby rural areas systematically lag behind urban areas in human development. Rural areas in the underdeveloped countries have on the average half the access to health services and safe drinking water that urban areas have, and only a quarter of the access to sanitation services.

For more than half a billion poor rural women there has been little progress over the past three and half decades. Literacy rates for women are still two thirds of those for men. Women typically work about 25 percent longer hours than men, but their total remuneration is less because of their lower wage rate and their preponderance in agriculture and the urban informal sector, where pay tends to be less than in the rest of the economy.

It is estimated that unpaid household work by women, if properly evaluated, would add a third to global production figures. However, much of the work that women do is invisible in national accounts and censuses despite its obvious productive and social worth. One reason is that women are heavily involved in small scale agriculture, the informal sector and household activities --areas where data are notoriously deficient. However, there is another aspect. Women's work, especially their household work, often is unpaid and therefore unaccounted for --processing food, carrying water, collecting fuel, growing subsistence crops and providing child care. Even when women are remunerated for their work, their contribution is often undervalued. In formal employment, women earn significantly less than men in every country having data. In the informal sector, where most women work, their earnings at times reach only a third (Malaysia) to half (Latin America) of those of men. But women remain invisible in statistics above all because little value is attached to what they do.

Inequality is conventionally expressed by the Gini coefficient which varies from zero (each percentile of the population owns 1 percent) to one (one percentile of the population owns everything). In nine of the twenty-eight underdeveloped countries for which the Gini coefficient is available it is 0.5 or higher, showing that a small part of the population in these countries is getting a very large part of the income. Another indicator of inequality is the per capita income of the richest 20 percent of the population compared with that of the poorest 20 percent. In twelve of the twenty-three underdeveloped countries for which such a comparison is available the income of the richest group is fifteen times or more that of the poorest group.

A further distributional indicator in predominantly agricultural economies is the concentration of land, which is notoriously skewed, especially in Latin America, in favor of the rich, protected by the local oligarchic ruling strata (misnamed the "elites," or the "power elites") in alliance with their counterparts abroad. In most Latin American countries, the Gini coefficient for land distribution is around 0.8 --in Panama 0.84, in Brazil 0.86 and in Paraguay 0.94. Of seventeen Latin American countries surveyed in a UNDP study, ten show land concentration indices (Gini coefficients) above 0.8, and five between 0.7 and 0.8. The FAO estimates that about 30 million agricultural households have no land and about 138 million are almost landless, two thirds of them in Asia. Brazil's per capita GNP was $2,020 in 1987, but the poorest 40 percent of Brazilians received only 7 percent of the aggregate household income. The top 2 percent of landowners control 60 percent of the arable land, while the bottom 70 percent of rural households are landless or nearly so. Maldistribution of land is by no means confined to Latin America. In Egypt the richest 20 percent of landowners still control 70 percent of the agricultural land, Nasser's successive land reforms notwithstanding. In Bangladesh small farmers, with less than 2.5 acres, account for 70 percent of farms but have only 29 percent of the land area.

In these countries there cannot be true participation in the rural areas without far reaching reforms of land tenure and the extension of services, training and credit for smaller farmers to help them become productive and self-reliant. Whether in urban or rural areas, vested interests that currently enjoy economic, financial, political or social power are usually determined to defend their position either individually or through close knit associations, well-financed lobbies and even violence, the equipment and training for which are provided by the DCs.

UDCs' military spending has risen three times as fast as that in the industrial countries in the three decades of the 1960s-80s, whereby it exceeded $200 billion a year by the end of the period. While the value of trade in illegal drugs is said to exceed that of trade in oil, it is surpassed by the trade in arms (UNDP, *Human Development Report*, 1994: 37). This spending buttresses the affluence of the few leading industrial countries at the expense of the impoverished peoples of the UDCs. UDCs as a group spend more on the military (5.5 percent of their combined GNP) than on both education and health (5.3 percent). In many underdeveloped countries with specific security problems current military spending is sometimes two or three times greater than spending on education and health. And there are eight times more soldiers than physicians in the UDCs.

Furthermore, powerful domestic vested interests in the UDCs in alliance with their foreign counterparts, driven by personal greed and lust for power, erect enormous obstacles to block off the routes to the general citizenry's political and economic power. These obstacles are numerous:

(1) In the legal systems, laws are often arbitrary and capricious and favor those with political influence or economic clout. In too many countries legislation fails to measure up to ideals of transparency, accountability, fairness and equality before the law. Some countries' laws exclude the participation of women for example or of religious or ethnic minorities, or deny certain basic rights to workers.

(2) Using bureaucratic constraints, many UDCs' power oligarchies have shackled the disempowered people with innumerable regulations and controls, demanding all sorts of permits and permissions for even the most modest human initiative. Recently, moreover,

many governments, pressured by IMF conditionality, have started to dismantle the protective controls for nascent industries and public sector enterprises, and are opening new avenues for untrammeled "free market" activity currently in vogue the world over.

(3) Social norms persist through which, even when laws change, many old dysfunctional values and prejudices exert great influence --whether against women or different tribes, castes or religious groups-- and are often deeply embedded in every day language and behavior. Laws, de jure, may call for equality but, de facto, it is usually left to the discriminated group to struggle against prejudice, albeit this evidently is not exclusively a UDCs' phenomenon.

(4) Maldistribution of assets continues, especially the most significant asset in UDCs, namely land. A high proportion of the people struggle to make a living in agriculture, but their efforts are often thwarted by the dominance of quasi-feudal oligarchies, who exert an overwhelming control over land.

The income gaps between DCs and UDCs have widened in the last three and half decades, and despite the fact that more than a billion of the world's people still languish in *absolute* poverty, the poorest fifth find that the richest fifth enjoy more than 150 times their income. The average per capita income in the UDCs is only 6 percent of that in the DCs. The maternal mortality rate in the UDCs is twelve times higher than in the DCs, and the female illiteracy rate is at least fifteen times higher. Infant mortality rate per 1000 live births is 172 in Mozambique and Angola, for example, as compared to fifteen in the DCs.

In the 1970s-80s, informatics has transformed traditional services into modern banking, finance, advertising, communications, business management and public administration. Services today generate nearly 70 percent of the GNP and employment opportunities in the industrial nations as compared to 48 percent in the UDCs. Most underdeveloped countries are still net importers of services. DCs-UDCs gaps have continued to widen not only in the new global services economy but also in advanced knowledge and high technology. No doubt the widening gaps in science and technology further threaten the

UDCs' future development. A breakthrough in technology by the DCs, especially in space, genetics or nuclear technology could spell a disaster without any precedented proportion for the UDCs.

Human development during the 1960s and 1970s differed greatly from that in the 1980s. In the late 1970s and early 1980s very large imbalances had developed in the current account of the balance of payments in many underdeveloped countries. Unlike the situation in much of the 1970s there was no voluntary bank lending to finance the deficits. Voluntary lending from the DCs dried up because the crisis was so widespread, affecting more than two thirds of the countries of Latin America and Sub-Saharan Africa as well as several Asian countries. The result was a reverse in human development.

Except in Asia the economies of most underdeveloped countries slowed down in the 1980s, the decade that witnessed the most aggressive intervention in the UDCs by the Fund and the Bank through the "structural adjustment" program. Acutely affected by the crisis, the UDCs experienced a nearly continuous economic decline, and despite intense "adjustment" efforts they were still showing severe imbalances at the end of the 1980s. The growth of per capita income was 2.9 percent a year on average for all underdeveloped regions between 1965 and 1980. This trend broke sharply in the 1980s. Sub-Saharan Africa's per capita income grew by only 1.6 percent a year between 1965 and 1980, but it has since been declining by 2.4 percent a year. Latin America, in part because of persistent debt problems, moved sharply from 3.8 percent annual growth in per capita income in 1965-80 to an annual decline of 0.7 percent in the 1980s. In 17 Latin American and Caribbean countries per capita income fell as badly in the 1980s. Average income per person in the region declined 7 percent between 1980 and 1988, and about 16 percent if account is taken of the deteriorating terms-of-trade and resource outflows. Net investment per capita fell 50 percent between 1980 and 1985.

In Africa income per person declined more than 25 percent for the region as a whole in the same period, 30 percent taking into account the deterioration in the terms-of-trade.

GDP growth was still slower than the growth in population, and incomes per capita fell at roughly the same rate in countries with strong reform programs as in countries with weak or no reform programs. Investment fell more than 9 percent a year, and per capita consumption 1 percent to 2 percent a year. According to ILO estimates, concerning the 1980s' economic mishap under the auspices of "structural adjustment," wage earners have borne the brunt of the inflating prices, with real wages cut back severely. In Africa and Latin America wage cuts of a third to a half were not exceptional.

Between 1980 and the mid-1980s real wages fell 50 percent in Peru and Bolivia, 30 percent in Mexico and Guatemala and 25 percent in Venezuela. The share of labor income in that Region's GNP declined by 25 percent between 1980 and 1987. In Africa too real wages fell more rapidly than per capita income during the first half of the 1980s. Many countries also recorded major social reverses in the 1980s, with rising rates of child malnutrition and infant mortality, particularly in Sub-Saharan Africa and Latin America. Budget cuts further squeezed social spending. For several countries, the proportion of government expenditure on education and health fell between 1972 and 1987. The rate of investment also declined precipitously in several African and Latin American countries in the 1980s.

The refugee problem also grew tremendously during the 1980s, mostly because of the continued civil wars in the UDCs. Some 14 million people were displaced in 1988 alone, compared with an estimated total of 8 million at the start of the decade. In addition to international refugees were the millions of people displaced during the 1980s in their own countries: 10 million in Africa, including 2.7 million in Uganda, 2 million in the Sudan and 1.1 million in Mozambique. Added to these numbers are the numbers of environmental refugees, who rank today with political refugees: 12 to 14 million people who have abandoned their homes because of natural resource degradation and its sequels --drought, flooding, soil erosion, lost productivity, failed harvests and threats of hunger and death.

In the highly indebted countries, per capita GDP declined by 1 percent a year on average during the 1980s, while countries that escaped the debt crisis had annual increases of 4 percent. The World Bank regards seventeen countries as having a serious debt problem. These are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cote d'Ivoire, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and former Yugoslavia. For those seventeen highly indebted countries, most of whom are in Latin America, gross capital formation fell by 40 percent in real terms between 1982 and 1985. In Africa capital formation fell from 21 percent of GDP at the start of the decade to less than 16 percent in 1988. A UNICEF study concludes that in the thirty-seven poorest countries, many of them also weighted down by debt, health spending per capita has fallen more than 50 percent during the 1980s; spending on education has fallen more than 25 percent. And in some of the more indebted countries infant and child mortality rates have risen. There is also accumulating evidence of falling employment, substantial cuts in real wages and deteriorating social indicators in the indebted nations.

Concerning the external environment for human development, the net transfer of resources to the underdeveloped countries has turned negative --from a positive flow of nearly $43 billion in 1981 to a negative flow of nearly $33 billion in 1988. Primary commodity prices have reached their lowest level since the Great Depression of the 1930s. Foreign debts of underdeveloped countries have crossed $1.3 trillion, which require over $200 billion a year in debt servicing. Never before have the underdeveloped countries faced such difficult external circumstances as those since 1980, and that has been a major cause of the setbacks in human development during that period.

The latest publication of the United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report* (1997), further highlights the problems of capitalist globalization. Unfettered globalization is polarizing the world economy, among and within countries and between rich and poor. The *Report* focuses on mounting evidence that slow growth and rising inequalities are becoming more permanent features of the world economy, and enumerates stylized facts[1] of the effects of the current globalization.

Gaps between developed and underdeveloped countries, as well as within the latter, are steadily widening. In 1965, average per capita GNP for the top 20 percent of the world's population was thirty times that of the poorest 20 percent. Twenty-five years later, in 1990, the gap had doubled to sixty times. The rich have gained everywhere and not just in comparison to the poorest sections of society. The hollowing out of the middle class has become a prominent feature of income distribution in underdeveloped countries.

Finance has been gaining the upper hand over industry, and speculators and traders overshadow investors. In some UDCs, debt interest payments have reached 15 percent of their gross domestic product, and trading in existing assets is thus often much more lucrative than new investment in productive ventures. The share of income accruing to capital has gained over that assigned to labor. Profit shares have risen. In four out of five UDCs, the share of wages in manufacturing value added products today is well below that in the early 1980s.

Job and income insecurity is spreading in the UDCs. As rising interest rates have eaten into business revenues, corporate restructuring, labor shedding and wage repression have become the norm in the poor countries. The growing wage gap between skilled and unskilled labor is becoming a rampant problem. Absolute falls in the real wages of unskilled workers --20 to 30 percent in some cases-- have become commonplace in underdeveloped countries since the early 1980s.

Concerning the world trading environment, protectionist pressures have continued to increase, even during the Uruguay Round of multilateral trade negotiations whose aim was to the contrary. There has also been a move in the 1980s and thereafter towards consolidating and/or establishing regional, exclusionary trading blocs; e.g., the EU, ASEAN, NAFTA,

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[1]Stylized facts are initial inferences, made prior to the stage of conjecturing (see Nicholas Kaldor, "Capital Accumulation and Economic Growth," in *The Theory of Capital,* 1963).

APAC. Because the trading interests of the underdeveloped countries were not protected through those negotiations, were circumvented by this reorganization, and were side stepped in the formation process of the World Trade Organization (WTO), the result is that these countries are as marginalized under the WTO as they were under GATT.[1]

The role of economic coercion in international relations is indubitably biased against the UDCs: Economic sanctions in pursuit of foreign policy goals, ever since Pericles' embargo of the Megarians in the fifth century BC (Hufbauer, 1990), down to the United Nations' comprehensive ban on trade and financial transacations with Iraq in 1990; and the United States' economic sanctions against China and Pakistan in September 1993, India and Pakistan in 1998, and Serbia in 1999, have been an often used weapon in the foreign policy arsenal. If the UDCs' new generations cannot improve their conditions through access to international capital markets and the opportunities for trade, therefore, the urgent need for a better global distribution of development opportunities will not only be more acute, but it will also take a potentially violent turn.

Many parts of the underdeveloped world are witnessing a growth of joblessness. Even when output increases, increase in employment lags way behind. Informal employment has also increased, offering low wage, nonpermanent jobs, instead of remunerative

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[1]The 1944 Bretton Woods conference had envisaged the creation of an International Trade Organization (ITO) that would formulate trade rules among nations. A more limited General Agreement of Tariffs and Trade (GATT) was all that transpired at Geneva in 1974. GATT aimed to extend most favored nation (MFN) treatment to the others (i.e., not to discriminate in trade), to seek to reduce tariffs, not to resort to quantitative restrictions (quotas) and to remove those that existed, and to consult mutually before making major policy changes. These provisions were much less than had been hoped for from ITO, and they were not always observed in practice. And MFN sounds much more significant than it really is. It denotes a nondiscriminatory status; it grants no special favor but simply extends to the recipient whatever privileges are available to all others; it facilitates *normal* trade on the basis of commercial reciprocity. Arrangements in the Uruguay Round were struck for services, tropical products and the functioning of the GATT system prior to 1990. Among the issues resolved in 1990-94 were:
(1) Agriculture and the UDCs' agreement to a time bound commitment to partial liberalization.
(2) Textiles and developed market economies agreeing to a time bound commitment to return to GATT rules of bound tariffs, the elimination of nontariff restrictions and MFN treatment.
(3) Establishment of safeguards and conditions under which average is to be selective or universal, and of what the role of multilateral surveillance is.
(4) Agreement on intellectual property rights.

Eventually, in 1994, the WTO replaced GATT (see Rondo Cameron, *Economic History of the World*, 1997: 371).

employment. In many underdeveloped countries, moreover, the amount of technical assistance flowing each year into the salaries and travel of foreign experts exceeds by far the national civil service budget. Unemployment of trained personnel and a national civil service demoralized by low salary levels often exist side by side with large numbers of foreign, high priced experts and consultants.

Between 1980 and 1991, nearly 7,000 state enterprises were privatized, most in the eastern states of Germany (4,500) and other countries with formerly centrally planned economies. Only around 1,400, or 20 percent, were in underdeveloped countries (i.e., underdevelopment does not seem too conducive to privatization), of which 59 percent were in Latin America, 27 percent in Africa, 9 percent in Asia, and 4 percent in the Arab States. Privatization is obviously not merely a technocratic exercise. It is also a political process.

Governance in the UDCs is not decentralized, and political liberalism is generally lacking. Authoritarian political traditions are entrenched, for Western democracy evolved mainly in association with capitalist ontology and ethos, and most UDCs have no capitalist economies. Authoritarianism, therefore, has its objective reasons, not that the UDCs' peoples are stupid or nonfreedom lovers. One of these reasons is the security threats: The *current* fundamental reason the UDCs' political systems do not evolve into Western type democracies is the threat posed by the West, among others, to them. Peter Taylor provides a more economically inclined rationale, but one which comes to the same thing, arguing that core states are the most stable; they generate hegemonic consensus rather than use coercion to maintain control. Taylor bases his argument on the contention that controllers of capital in core states are strongly placed in the world market and thus pass on some of their surplus to core labor, stabilizing their own systems while milking the UDCs. This process he calls "social imperialism" (Peter Taylor's *Political Geography: World Economy, Nation State and Locality,* 1993: 187 & ch. 3).

In most UDCs, decentralization has generally been limited to deconcentration. Chile, Indonesia, Morocco, and Zimbabwe, e.g., have dispersed relatively little real power. All four have ostensibly autonomous levels of local government --the municipalities in Chile, the villages in Indonesia, the communes in Morocco, and the district councils in Zimbabwe. But the resources they control are small, their decision-making powers narrow, and many local appointments are imposed from above. The ontology of centralism in these diverse cases emanates essentially from the vulnerable security condition of small and middle size UDCs, and the lack of social security as a decentralizing factor for all sizes of UDCs (i.e., including China and India). While in such an industrial capitalist country as France nearly 20 percent of GDP is spent on social security, in the UDCs social security systems are only a fraction of that financially and much weaker organizationally, that is when they exist, and so do not have a decentralizing influence.

More generally the concentration of political and governing power is associated with several factors:

(1) Centralization was adopted for the purpose of nation building. Many countries lack the institutions and traditions necessary for decentralization, partly a legacy from colonial times. The colonial powers tried wherever possible to concentrate finance and decision-making in the capital. And the newly independent governments continued this practice partly to enhance their political and economic control, but also because they became convinced that the state should assume the major responsibility for economic development and nation building. This resulted in an overwhelming concentration of national power in the hands of central governments, as well as a massive accumulation of rules and regulations.

(2) A weak democracy has a tendency to be conducive to centralization. Many governments have been ruled in a nondemocratic way with overly authoritarian schema. Many local power structures are dominated by oligarchies little interested in human development. This perpetuates strong centralizing tendencies as central governments seek to maintain complete control. In the absence of democratic structures, local governments lack an effective political power base from which to generate local control over decision-making; democratic regimes, however, are the most likely to encourage genuine decentralization and popular participation.

If power remains concentrated in the hands of oligarchies, decentralization might further empower them rather than the people.

(3) Low social spending impedes decentralization. Many governments, partially because of the demonstration effect, but fundamentally because of their security vulnerability, devote a high proportion of their budgets to centrally controlled military expenditure. Social spending, which has a greater potential for decentralization, tends therefore to take up a smaller proportion of public allocations.

(4) Urban bias plays into the hands of centralizing forces. Most countries have a bias in social spending towards urban areas and more "prestigious" forms of service delivery; e.g., the city hospital rather than the rural health clinic, and the elite university rather than the provision of basic education for the mass of the people. These large and expensive items are usually the prerogative of central rather than local government.

(5) Foreign "aid" also tends to have a centralizing influence. Most forms of international "assistance" are negotiated by central governments which, when required, must also take responsibility for repayment of loans. So "aid" expenditure is quite centralized, and the composition of "aid" per se has a centralizing effect since most "aid" is directed to military purposes, food supplies, or infrastructure projects, all conducive to centralization.

On other destructive roles of "aid" programs to the UDCs, see Graham Hancock's *Lords of Poverty: The Power, Prestige and Corruption of the International Aid Business* (1989). Even among neoclassical circles there has been disillusionment with the results of foreign development assistance, questioning of course whether aid has not done more harm than good to the recipient countries, in terms of supporting high cost "inward looking" industrialization programs and neglecting traditional agriculture, and whether aid is inhibiting the process of social and political modernization and stabilization (Johnson, 1975).

There is also a growing recognition of the fact that foreign aid development, as executed in practice, has not achieved a hoped for take off into self-sustaining economic growth; that this process, if anything, has been accompanied by increasing rather than decreasing inequalities of economic welfare, social position and political power; and, moreover, that it has done relatively little for the rural sector of the population and, instead, has been accompanied by the socially and politically disruptive growth of urban unemployment, slums and congestion.

The reasons, as pointed out by none other than Harry Johnson, are that first the problem of economic development was conceived far too narrowly as an economic one, disregarding the fact that society is an interwoven fabric of the economic, the political and the social. Second, that within the economic sphere the process of promoting development was also conceived far too narrowly, as involving the manipulation by government of a few strategic economic variables, assumed to possess leverage over the rest of the system (Johnson, 1975).

In sum, then, post-WW II endeavors aimed at economic growth and development in the UDCs have generally led to neither functional economies nor viable democracies. Development has not materialized and the UDCs went from bad to worse especially under the forces unleashed by "Reaganomics" and "Thatcherism" (the brainchild of the Heritage Foundation in Washington, DC, and the Center for Social Policy Studies in London, UK, respectively).

That design, launched essentially to globalize unfettered capitalism, promoted and legitimized the "structural adjustment" strategy implemented by the Bretton Woods organizations in the last two decades. Under that strategy, many countries, especially in Africa and Latin America, became poorer in real terms, even on a per capita basis, in 1990 than they were in 1960.[1] This conclusion is neither leftist nor Marxist. It is based on data and studies of which the above figures are merely a sample. Those data were compiled, and the studies conducted and conceded, by UN special agencies --by peers of the underwriters

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[1]See UNCTAD (1988), UNDP (1990), Mosley et al. (1991), Mosley (1992), WDR (1993), UNDP (1993), UNCTAD (1997).

of "structural adjustment," namely the Fund and the Bank. The verdict against this strategy thus neither needs further esoteric research nor is a mystery.

The withdrawal of the state role in the UDCs, imposed by the IMF and World Bank, led to the increasing impoverishment of low income groups. Liberalization of the economy and the excessive emphasis on export led growth resulted in a dual economy, with one sector producing for the international market and another sector producing for a shrinking national market, whereby more and more people are going without jobs, housing, health care, schooling and food. These are direct consequences of the use of per capita GNP as *the* measuring rod for development, the growing burden of debt, negative trends in the level of real wages, a growth in urban unemployment and underemployment, increases in income inequalities, and ad hoc urbanization as well as the feminization of poverty. In addition, by dismantling borders that had provided a degree of insulation for a nation's markets, the TNCs and other forces of financial and economic globalization have deprived the nation state of much of the efficacy of expansionary macroeconomic policy targeted toward higher rates of employment and economic growth, driving the very fate of the nation by agents far removed from domestic accountability.

Meanwhile, national assets of the UDCs continue to be slowly but surely sold out to international private capital under the cloak of IMF privatization, and foreign governments and nongovernmental organizations (NGOs) are penetrating the UDCs, in a second rush of neoimperialism, under the rubric of human rights and women's rights. The ideals of European enlightenment --liberty, equality, fraternity, citizenship, participation-- have not been achieved, nor have its discourses and legitimizing narratives --liberalism, socialism, development-- proved attainable in the UDCs: The universalistic certitude of the enlightenment have been shattered.[1]

[1]See Ominode (1989); Mosley, Harrigan and Toye (1991); Chossudovsky (1991); Mosley in Fontaine (1992); Schuurman (1993); Kanth (1993); and Taylor (1993).

Not only has "structural adjustment" miserably failed to alleviate the UDCs' calamity, not only have the effects of this strategy triggered sharp breaks in the human development of many UDCs, and sometimes even reversals whereby countries in Africa and Latin America suffered the most adversity, but also it could not have done otherwise. Its effect was a mere recurrence of what another "structural adjustment" had inevitably resulted in, over a century earlier, when the Dickensian tragedy came about by the series of Enclosures, Poor Law "Reforms" and *export led* development. The "structural adjustment" package --of financial discipline, of the streamlining of the state-- has become a cause of rather than a solution to the economic problems of the UDCs. Devaluation, increased producer prices, reduced wage bills and privatization are the implementation of the strategic concepts of the package: To cut, to differentiate, to dismiss and to discipline. Adjusting the structure is thus far more than an exercise in economics.

All these measures are built upon the neoclassical inference that the cause of economic problems is the State, and their solution is the Market. This inference is couched in explicit or implicit notions of the self-regulation of the market, the sanctity of property, the celebration of the individual as possessor, the centrality of acquisitiveness, the efficiency of private enterprising over governmental "interference," the law making power operation in the common interest, the knowledge of individual of her best interest, and the association of the pursuit of material interests with rationality and virtue. Francis Fukuyama's *End of History* (1989), based on the notion of the universalism of DCs' liberal democracy as the final form of human argument, represents an encapsulation of this multifaceted projection.

Aware of the criticism it engenders in the UDCs, therefore, the IMF has issued a leaflet seeking to allay some of their common imputations, which can be summarized as follows:

(1) The Fund applies identical remedies irrespective of a country's circumstances.

(2) Fund supported adjustment programs are antigrowth.

(3) The Fund bails out the commercial banks.

(4) The Fund has a market oriented, free enterprise philosophy which it applies in a doctrinaire manner.

(5) Fund supported programs do not work.

(6) Fund supported programs harm the poor.

(7) Fund supported programs impose Draconian austerity on member countries.

(8) UDCs have no influence on Fund policies.

(9) The Fund has influence only over deficit countries; it does nothing about surplus countries.

(10) The Fund and the Bank collude in dealing with UDCs (IMF, 1988).

There could have been no better reckoning; the IMF knows exactly the indictment leveled against it by the UDCs. For another indictment, leveled against this same organization, see E. Wayne Nafziger's "Liberalism, "structural adjustment" and the Washington Consensus," in *Borderlands of Economics* (1997: 286-308). Empirical evidence thus points towards a *prima facie* case not of development but of a second phase of neoimperialism, whereby the Bretton Woods' organizations, intellectually supported by neoclassical economics, have their eyes not on the deprived peoples of the UDCs --"they do not give a damn"-- but on globalizing unfettered capitalism. The aim is to drag the UDCs further into their designated role, under the neoclassical "export led growth" model, as proletarian nations in global capitalist production. From the UDCs then cash crops and raw material, and ultimately surplus value, can be intensively extracted. Hence post-WW II political "independence" masks both economic and security dependence (especially after the crumbling of the solidarity the Eastern Bloc accorded the periphery in the 1950s and 1960s). And despite the existence of many useful insights in neoclassical economics, it has little relevance to either the diagnosis or the cure of UDCs' problems.

5.2 The Needed Transformation

The above exposition of the UDCs' problem, the manifestation of underdevelopment, indicates that finding suitable mechanisms for transformation that are compatible with the heterogeneity of conditions, needs and concerns of the UDCs is a pressing task. This task concerns the nature of preindustrial and semiindustrial societies and the emergence of transformable societal relations from the preceding traditional setting, under conditions earmarked by capital globalization and erosion of national state sovereignty and security.

People, not commodities, should be placed firmly in the center of social inquiry for transformation. The latter is a process of expanding the capabilities of people. Any transformation mechanism must thus strive to achieve a number of objectives: Accelerating economic growth and development, reducing absolute poverty, expanding human participation and horizon, preventing further deterioration in the physical environment, and always keeping in mind that people and their well-being are the ultimate end.

Rather than the reductionism of neoclassical economics, focusing merely on the homothetic function, static advantage and immiserizing growth, the transformation task, therefore, requires analyses of world economic order, neoimperialism, transnational corporations, international finance and trade institutions and regimes, the empirical and conceptual state of underdevelopment, protectionism in market society, historical outcomes of economic liberalism, and the state and its role and limits. Analyses must also encompass the distribution of income, the source and use of political economic power, the qualifications to private property, the existence of discrimination, the formation (rather than mere existence) of consumer preferences, and the interplay of economic, political psychological, sociological, cultural, and historical factors.

Neoclassical economics is thus unable to pose the right questions, and hence cannot get the right answers. Ostensibly objective, it is riddled with normative elements. This unfettered capitalist ideology which, upon the collapse of the socialist experiment in the former USSR and Eastern Europe, assumed a triumphant and hegemonic role presents the market as a synonym for democracy, whereas in fact the market is also a political category and a power structure.

Under the conditions prevailing in the UDCs, moreover, the free play of market forces can hardly mitigate the outward signs of the extreme concentration of wealth. In purely economic terms, with keener competition, the concentration effects due to growth are stronger than the dispersion effects, since a highly stratified economy with pronounced income concentration tends to reproduce further concentration in distributing the benefits of growth.

Therefore, whereas the transition from medieval feudalism to industrial capitalism in Europe can have some relevance to the transformation sought by the UDCs, there are no "revelations" in the former. The undevelopment of fifteenth and sixteenth century Europe is not today's underdevelopment of the UDCs, and the application to conditions of underdevelopment of models that may be relevant to those of the DCs leads to a *category* mistake: Ascribing to one category attributes relevant to another. In such a case, to do without a model may be better, more workable in practice, than using the misconstrued one.

For today's major industrial powers, even the two nations security protected by insulating oceans and seas --the UK and the US, the early stages of the process of industrialization, which eventually built the economic base for a market economy, took place under neither economic nor political liberalism --the theoretical premises of "structural adjustment"-- but rather under protectionism and coercive political structures and processes. The inhuman proletarianization (forced removal of laborer from their traditional, agricultural environment to the fringes of cities, by such measures as the Enclosures) that accompanied the industrialization ought not be an acceptable norm on the threshold of the twenty-first century. That proletarianization was a main part of the industrialization does not make it a universal law: People need not be killed in order for them to be saved.

The ultimate sanction the current global power order uses to impose upon the UDCs' economies its unfettered capitalism is security challenges, internal as well as external. Although the big sticks of unilateral economic regimes, multilateral ones, and international organizations' sanction of nonparticipation are used whenever deemed appropriate and convenient, to impose upon the UDCs Western exceptionalism (the belief in the universal applicability of Western ideals), it is the security extortion that eventually penetrates the sovereignty shield of a capitalistically nonconformist country.

Meanwhile, Sievers' work on the Indonesian case (1974: 216) showed him that "military commitments were distorting the economy in various ways." Any prospect for development of a country of the UDCs will thus be a function of how it is developing its economy while restraining its military spending; preserving its sovereignty, unity and territorial integrity; adapting to adverse international economic and security environments. Whenever possible, therefore, external security predicaments have to be cooled off, if not abstracted from. A deterrent *defensive* posture is thus indispensable as a strategic choice, but no external power should be allowed to solely determine the cost involved.

Economic orientations do not thus emanate only from national, much less "individual-person," origins or considerations, contrary to the postulates of neoclassical economics and its preference revelation. Nor are the economies of the UDCs determined merely on technical production function basis either. They are determined on the wider resource, power and security structures. A production function is essentially a relationship between maximum output and all possible combinations of inputs, whereby those input combinations that yield less than the maximum output are eliminated. In UDCs' conditions, a firm cannot in the short-run adopt all possible combinations because it has strictly limited amounts of resources at its disposal. Further, it is usually impossible to combine even those limited inputs in all possible combinations, smoothly substituting a little more of one for a little less of another, because the existing techniques are only available in definite mixes, or not at all. Hence, the substitution between inputs is subject to jumps and discontinuities, and the firm in such conditions thus faces stringent bottlenecks in its capacity to produce. Such difficulties are rarely encountered in DCs' environment, and this is only the easier, resource part of the story.

National security,[1] foreign relations and élite politics play determinant roles concerning the type of economic orientation adopted by an UDC. Post-WW II events of Eastern European economies' *double switch* attests to that empirical fact, especially that they are less dependent than those of the UDCs. *While seeking social transformation, including higher economic growth and rapid economic development, an UDC would thus consciously adopt a less workable economic formula rather than risk national security or defy geopolitical factors.* Capital accumulation necessary for economic growth is not a goal to be obtained at any cost, even under unfettered capitalism. Governments' higher priority of preserving their people calls for subordinating wealth to security and sovereignty: Greater strategic security is a prior aim to a higher standard of living.

Economic problems cannot therefore be solved by mere economic means: Solutions to economic problems must be sought in other ways. Socioeconomic transformation must include, e.g., more democracy, and the latter must include more respect for *substantive* (livelihood related) as well as notional/ statutory human rights, i.e., not only political freedoms of conscience, speech, organization and choice but also *access to the economically and socially basic human needs* necessary both for survival and for the exercise of such political choice. It is good to entertain freedoms of speech and of the press; it is better to be also fed by freedom from want, to be also secured by freedom from fear. Ethnic, national, linguistic, racial, social, sectoral, age, gender, vocational and other minorities who are denied distributional justice in one form or another the world over must thus be rehabilitated. Taking each of these groups alone it represents a minority; adding them all up, they constitute a numerical overwhelming majority in most countries but

[1]National security in the sense of the survival of the nation, the stability of the state, and the continuation in power of the specific ruling élite --i.e., Richelieu's raison d'état, which imply that the interests of the state justify the means used to pursue them (see his *Testament Politique*, 1947: 157-83).

certainly globally. Their rights must constitute part of any successful transformation endeavor.

The problems of the UDCs are thus at least as much ones of security as of economics. Indeed, addressing the former is a prerequisite for solving the latter. However, much of the means of addressing the security problems can be attained only through the solution of the economic problems. Here lies the vicious circle of UDCs' problématique. It is a problem of how to prevent the global coercive instruments from governing UDCs' ends. It is a problem of maldevelopment force fed by capitalist expansion on a world scale. It is a problem of international distributional inequality and exploitation (Mitchell Seligson, *Development and Underdevelopment: The Political Economy of Global Inequality*, 1998). It is a problem of the absence of strong links between UDCs' crisp understanding and tabooed action. It is a problem not of neoclassical "fine tuning" but of effectuating challenging albeit feasible responses to the supranational hegemony, in both its intellectual and hardware aspects, and to its repercussions on the security, economics, consciousness, culture and politics of UDCs' populations.[1] Therefore, "the structure of social power is what counts and not individual choice in a power vacuum.... Prices and costs, through demand and supply, reflect social power" (Samuels, 1981: 74) at the international as well as the national level. "After all, capitalists get a profit because of their peculiar *social power*, ownership or some other form of control of means of production, and not because of the *technical power* of means of production themselves" (Medio, 1976:134).

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[1]The emergence, or resurgence, of theistic activities in many parts of the underdeveloped world is in part a response to the breaking down of social structures under complex globalistic forces --hegemonic proclivities of political, economic, cultural, security and religious alliances and power formations-- and the mounting uncertainty about the future. Sought as a refuge, religiosity takes the form of a reduction of individual identity, a renunciation of freedom as well as external influences. Religiosity along traditional lines whose doctrines and practices are anachronistic and impractical for twenty-first century's desirable as well as inevitable purposes, however, is apt to circumscribe creativity and lead to mental paralysis, as it did grossly during the penumbras of the European Dark Ages and the Middle-East Ottoman coma. However, religiosity has existed for some five millennia and will not go away without a destructive fight. On this threshold of the twenty-first century, therefore, the mythical (as opposed to the spiritual) aspects of religiosity have to undergo commonsensical replacements, for no civilizational transformation can take place without being superstructured by a mythical glue: Myth is of the very fabric of purposeful collective action. The detailed aspects of such transformation, however, are beyond the reach of this inquiry.

In conditions of underdevelopment, moreover, neither Marx's secular base and super structure; nor Weber's Calvinistic spirit; nor Hicks' and Redding's Post-Confucian, materialist, Sinetic heritage, are at work, other than on the margin. Life for an UDC is much too complicated for any of these neat conceptions or for any monolithic, especially harmonious, model of reality. For both Marx and Weber saw non-Euro origin countries to be too peripheral to devote much analysis to, and Schumpeterial methodological *individualism* addresses a nonextant world as far as the UDCs' *communities* are concerned. Second wave feminists[1] could not have said it better: The personal *is* the political,[2] an ethos that goes back to the foundational theme in Mary Wollstonecraft's *Vindication of the Rights of Woman* (1792).

Obviously, the gender invidiousness of UDCs' societies needs to be eliminated if a real and comprehensive transformation is sought. The woman has to constitute another wing by which society, not merely the family, hovers, soars and cruises, rather than being a drag on the transformation process. The key, essentially, is education. That does not necessarily mean, however, that the MTV's (of the famous, cable Musical Television channel) is the ideal typical model, nor that nakedness is positively correlated with women's liberation and gender equality, nor that the latter is the new remote control for achieving the time old dictum of divide and conquer.

In its endeavors to dismantle the foundations of traditionalism, in a large measure through the incessant transformation of l'être and role of women, Western mercantilism and capitalism preceded all other socioeconomic systems of the world, including that of Japan,

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[1]Second wave, that is, after Mary Wollstonecraft's concern with women's rights in the public sphere, shared in France by Condorcet and his wife Sophie de Grouchy. The second wave sought greater access to institutional politics, and to reconstitute the political world. Wollstonecraft was the spouse of William Godwin, whose radical *Inquiry concerning Political Justice* was published one year after her *Vindication*, in 1793.

[2]This often quoted dictum means that the essential characteristics of political (social) life can be found in any relationship, such as that between a man and a woman. To say that an area of social activity, like economics, is not part of politics (or social relations), or has "nothing to do with politics," is to make a particular kind of political point about it, principally that it is not to be discussed on whatever is currently regarded as the political agenda. Keeping matters off the political agenda can, of course, be a very effective way of dealing with them in one's own interests.

by centuries; in some cases by one-half millennium. For example, other than their guns, what the Egyptian general public found most notable about Napoleon's forces, invading Egypt in 1798, was their women, disclosing their faces, wearing dresses and mingling casually with men and dancing with them. For even the Sicilian, Crimean and other Slavic, Turkic and Central Asian concubines and *harem*, the only other non-Arabs with whom the Egyptians were familiar, differed from the natives only in behavior, rather than being or function (Qurani, 1995: 203-17).

On the other hand, learning the limits of power first hand under oppressive Roman rule, thus becoming mindful of the practical necessity of realism and pragmatism, Jesus of Nazareth conceded the injunction to *"render therefore unto Caesar the things which are Caesar's, and unto God the things that are God's."* Hence he has de jure separated temporal and "divine" powers, laying the foundation for moderate secularism while attempting, perhaps inadvertently, to accommodate spirituality with the secular/rationalist enlightenment which had been initiated by the Sophists in Athens over four centuries earlier.

In other socioeconomic systems, however, the extant god is not only omnipotent, recognizing no domain for Caesar, but also remains precapitalist, his commandments having not yet been mitigated. Nor did these commandments face any equivalent to the Western long history of rivalry between Church and State (Augustine, Aquinas, Bodin, Calvin), which helped foster secular and anticlerical movements. Nor did they encounter anything analogous to Luther-Calvin's Reformation and corruption cleansing, which further downsized the political role of religion. People sensed no great urge for that, for, after all, their brands of theological misconduct never reached the summit of the "Holy Business" of selling indulgences. Nor did their systems encounter anything close to the long series of religious wars (1562-1648, ending, pro forma, by the Treaty of Westphalia in the aftermath of the Thirty Years War); the 1996 Papal encyclical proclaiming the authenticity of the Theory of Evolution, and conceding that the human body has indeed *evolved,* clinging only to the watered down account that human spirit was godly created; or the 1999 Papal pronouncement declaring that hell is a state of being, rather than a specific place.

Pushing the feminist envelope too far or too fast in transforming these social systems can thus backfire, resulting only in fervent, counterproductive reaction. Evolution, rather than revolution or emulation, is the (potentially peaceful) key. It may be appropriate to make the point here, moreover, that Queen Hatshepsut, complete with commandership in chief and expedition execution authority (circa 1500 BC), was a product of neither European human rights nor American proposed equal rights amendment. And in the seventh century, when the European intelligentsia were preoccupied with determining whether woman had a soul, and whether she was a human being, woman in another part of the world was leading armies into war, maintaining her independent economic and social identities, running her own business and hiring men to work for her. This status, concededly, did degenerate thereafter. However, with all good intentions granted, centuries of cumulative social degeneration can be corrected neither by some enthusiastic confreres, nor by some zealot feminists, nor by Ataturkian wholesale importation of another social system.

As to the distribution of the socioeconomic product, attempts at applying the neoclassical prescriptions, the inferences derived from axioms of methodological individualism, result in a distributional polarization that undermines any endeavor at transformation in the UDCs. And "the degree of inequality and how it originates," as Abram Bergson points out, "are factors which could affect the viability of democratic political institutions" (Bergson, in Szenberg, 1992:67). Hence decentralization of political along with economic power is necessary for emancipatory, social transformation --or else a merger of political authority with economic control would secure a growth of despotic plutocracy, under the guise of liberal economic institutions. Such a plutocratic state is bound to become an instrument which dispossesses the majority for the benefit of a small minority (Proudhon's legalized form of robbery), and parasitic existence then prevails and dominates.

Thus only through a *fundamental* role of democratic government in the economy -- not that of the marketplace alone, nor that of a political laissez faire-- can such a paradoxical condition be resolved. If the US, where neoclassicism is unfettered and the economic role of government is rhetorically denied, were as densely populated as Bangladesh, its population would readily be over 6 billion. The US government would be responsible for twenty five times as many people, and their social problems, as it is responsible for now. This is partially what a high rate of population growth, a correlative attribute of underdevelopment, means. There are thus aspects of the transformation that need to be given a systemic analysis for which there is no room in the asocial neoclassical economics. And the fact therefore is that those living under conditions of underdevelopment are approaching four out of every five inhabitants of the Earth, yet their socio-economic is beyond the realm of the "economic" orthodoxy and is marginal to most renditions of the "economic, as opposed to political economic" heterodoxy.

Further, examples of global economic segregation, international labor immobility, and the bias in world economic order against the UDCs are abundant. The 1944 Bretton Woods system did not account for the needs of the UDCs, mostly under colonial rule at the time, nor did the measures enacted in the aftermath of the collapse of the fixed exchange rate --the Keynesian-gold (dollar) standard-- in the early 1970s redress their grievances, for their currencies were remotely controlled prior to 1971 and entered the weightlessness zone of exchange rates thereafter. For example, the compensatory finance scheme, STABEX, extracted from the EEC as a result of the Lome´ Conventions of 1975, 1979 and 1984 to "stabilize the export" earnings of former European colonies in Africa, the Pacific, and the Caribbean (the APC states) could not function in the hostile environment monopolized by giant monetary instruments and hence had little input to effect these countries' transformation.[1] The problem has been exacerbated by the fact that tremendous amounts of money held by crossnational private organizations can now change national hands so fast, that the whole thrust of even a country's national economic policy can be overthrown by nongovernmental financial transactions.[2]

Furthermore, different trade barriers, including tariff escalation against processing raw material, choke UDCs' access to the markets of the industrial world --except for the few so-called Newly Industrialized Countries (NICs) selected for their geostrategic expedience-- and have chilled their ability to industrialize (EEC Commission, *Lomé IV*, 1990: 25-33). Exclusionary policies adopted by the industrial countries have not only hampered UDCs' exports to the DCs, but also prevented inter-UDCs' trade through the monopoly of insurance on global transportation and commerce, and the use of accumulated petrodollars to drown the UDCs in overly expensive debt. It should come as no surprise, therefore, that Immanuel Wallerstein, Andre´ Gunder Frank, Samir Amin, and many other scholars hold as a central theme the thesis that the transnational corporations in league with the industrial states contribute to the underdevelopment of the poor countries.

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[1]In 1963 the European Community signed a convention in Yaounde, Cameroon, to provide commercial, technical and financial assistance to eighteen countries of Sub-Saharan Africa, mostly former French and Belgian colonies. In 1975 it signed a convention in Lomé, Togo, with forty-six APC countries, granting virtually all of their products free access to the Community's market, as well as promising industrial and financial assistance. In 1977 the Lomé convention was renewed and extended to a total of fifty-eight APC countries, and in 1984 to sixty-five (see EEC Commission, *Lomé III: Report on the Implementation of Financial and Technical Cooperation under the Lomé Conventions*, 1989: 17-38; and Rondo Cameron, *Economic History of the World*, 1997: 392).

[2]In the nineteenth century, paradoxically, the freedom of money was a result of restrictions on trade, for the more numerous became the obstacles to the movement of goods and laborers across frontiers, the more effectively had the freedom of payments to be safeguarded. In contrast to men and goods, money was free from all hampering measures and continued to develop its capacity to transact business at any distance at any time. The more difficult it became to shift actual objects the easier it became to transmit claims to them. Short-term money moved at an instant's notice from any point of the globe to another. This is not a twentieth century phenomenon, albeit it has been exacerbated lately by cyber-transactions; the modalities of international payments between governments and between private corporations or individuals were uniformly regulated; the repudiation of foreign debts, or attempts to tamper with budgetary guarantees, even on the part of governments, was deemed an outrage, and was punished by relegation of those unworthy of credit to the outer darkness. *"Gun boat diplomacy," prior to its replacement by the Bretton Woods institutions, was the final arbiter of financial disputes* (see Polanyi, 1944).

On the other hand, even some neoclassical authors recognize that "economic behavior depends on the nature of social institutions --and on culturally determined attitudes and beliefs, or, better still, on these attitudes and beliefs as filtered through social institutions" (Solow, in Szenberg, 1992: 272), yet the neoclassical conception ignores such recognition. For example, in given institutional structures, highly prized social cohesiveness hampers such a prerequisite for the efficient allocation of such factors of production as labor mobility. Cultural ambivalence toward hedonistic materialism, moreover, results in savings, investments and economic growth being less systematic, and much less "elegant" than they look in neoclassical formulae. Effective market demand, innovations in productive technology and population growth, likewise, are partially conditioned by institutions.

Not in every social formation, furthermore, is charity accepted as a policy tool for conscience relief, much less for income redistribution. Paternalistic and soup kitchen practices are offensive to dignity in some cultures, and philanthropic schemes, à la policy adopted by the firm of Robert Owen and his sleeping partner Jeremy Bentham in New Lanark, are not the sign of this age, especially since the complacency of benevolence continues today but without benevolence, loud talk about voluntarism notwithstanding. Besides, not in every political formation is being a "taxpayer" a legal attribute that confers rights upon its holder (e.g. public grants and subsidies, reduced prices for utilities, litigation rights), for taxpaying is more than offset by income gathering and/or profit making so that no special privilege, much less right, is thought necessary to be granted for conforming to the social obligation of paying taxes.

The sacredness, and hence the power, of such a crucial axiom of economic life as "property rights," in addition, vary widely from one institutional structure to another. Societal indifference to whether a "natural right to property" is organismic to social life gives a certain buoyancy and hence predestines some peoples to despise wide ranging wealth differentiation essential to capital formation and intensity. With fewer opportunities for economic growth there is little chance for the desire for material betterment to grow. Therefore a reciprocal play of forces predominates, in which the absence of ideology for materialism retards economic development, and the lack of economic development hampers the growth of desire for material improvement. Dutch Calvinism is by no means universal, nor is New England's historic Puritanism always replicable.

Cultures are not merely matters of taste and particularity but also systems of adaptation to specific objective circumstances; they are in part responses to challenges, coping strategies. One culture may thus prove irrelevant, ridiculous or even counterproductive in other settings. Yet this very "culture is an intersubjective system (code) of meaning which informs action" in its setting (Bertrand Badie, *Comparative Analysis in Political Science,* 1989: 344). As one crosses societal boundaries people differ, because they do have different moral bearings, different philosophical anthropologies, different security and geostrategic predicaments. Different peoples also differ because they are trapped in diverse traditions and heritages which they find difficult to betray or abstract from, no matter how ridiculous they seem to outsiders, while remaining who they are, faithful to what has become their very identity. "We suffer not only from the living, but from the dead. *Le mort saisit le vif!"* [1] For "the tradition of all the dead generations weighs like a nightmare on the brain of the living" *(The Eighteenth Brumaire of Louis Bonaparte,* in *Karl Marx and Frederick Engels: Selected Works,* I, 1950: 225)

On the other hand, Benjamin Higgins, who is far from being a Marxist, reminds everyone that "what is labeled 'culture' often turns out to be the society's physical environment, and when this environment is changed abruptly, cultural barriers to development can melt away with breathtaking speed" (Higgins' *All the Difference: A Development Economist's Quest,* 1992: 71). A more UDCs tailored and case specific analysis should thus be accorded economic formulae and transformation mechanisms to be adopted by the UDCs in the face of their chronic security threats, politico-economic malaise,

[1] "The dead man clutches onto the living!" (Marx, *Capital,* I, 1867: 91).

and institutional and traditional nightmares, than the standard DCs product "structural adjustment" and blame and recrimination. If capitalist European Union (EU) members, for monetary reasons, have been compelled to suspend the Exchange Rate Mechanism in breach of EU regulations and free market postulates,[1] then the right of the UDCs to not follow the dictates of the IMF should not result in ostracization through the sanction of nonparticipation.

Similarly, revealed preference, attempting to smuggle into pleasure based utilitarianism a value other than happiness, namely free choice (Putnam, 1987: 136), has no more claim on universalism than does its hedonistic predecessor.[2] Establishing a democracy, as neoclassical economics is doing, with means for conditioning the population to chose among its values is not an ordained aim. A deliberate infantilization of a stratum of the human race, by inducing people to seek adolescent pleasures or preferences for their whole lives, whereby production is meant to further augment the wants it claims to seek to satisfy, never mind billions of people who cannot meet their basic needs under the terms of this process, is another ex cathedra goal which is destined, as all its universalistic predecessors, to disrepute.

This is the case because ethical dispute is a byproduct of factual disagreement, on psychological and social grounds, on conceptions and perceptions of human attributes and

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[1]Britain and Italy withdrew from the European Monetary System in September 1992, with Spain and Portugal devaluing, and by July 1993 the Exchange Rate Mechanism parities were allowed to fluctuate up to 15 percent rather than the 2.25 percent stipulated by the EMS agreement of March 1979, essentially a float (see Michelle Fratianni, *European Monetary System,* 1996: 105-27).

[2]"The proposition that all economic agents have well-defined preference orderings --that they are rational maximizers-- is clearly false," conceded none other than Mark Blaug (1992: 142). And Terence Hutchison (in *The Significance and Basic Postulates of Economic Theory,* 1965: 114-36) pointed out the logical contradictions between adopting intrapersonal comparisons of utility as a warranted basis of consumer theory, while denying interpersonal comparisons of utility as a basis of welfare economics, and between the assumption that other people have much the same psychology as oneself, while denying the same sort of reasoning in framing assumptions about other people's welfare.

Hutchison and Blaug are as "mainstream" as one can get. While they are to the left of Carl Menger, Eugen von Böhm-Bawerk, Ludwig von Mises and Friedrich Hayek, as well as such modern Austrian scholars as Murray Rothbard, Israel Kirzner and Ludwig Lachmann, they are neither Marxists, institutionalists nor structuralists. It is only that straightforward logic makes imperative that if there are no objective methods for inferring anything about the *welfare* of different economic agents, there are also no objective methods for inferring anything about the *preferences* of different economic agents.

society. The validity of moral absolutes, justice and law in particular, is a function of the needs of the *collectivity,* the specific collectivity for that matter. Unrestrained liberal democracy in conditions of underdevelopment is further inefficient; indeed it is unworkable: It polarizes distribution and hence the very population. It institutionalizes sophistry and disputes. It endangers national security.

In hedonistic-utilitarian consequentialism, of any genus, what matters is consequences, not where consequences fall or who has what pleasures and preferences or who suffers what pains and agonies. Such a person neutral account of rightness fails to take seriously the separateness of persons, i.e., it fails to give due regard to people as autonomous persons in their own right, with their own individuality, projects and concerns, and inherent worth. Taken to its logical conclusion Benthamite utilitarianism thus enjoins its adherents to pay no attention to the individual per se, hence falling in the opposite problématique of Weberian-Schumpeterian methodological individualism, whereby eventually sociality per se is, at least de facto, denied. Both perspectives verge upon the totalitarian, for each promotes a single, indisputable truth which is but an ideational intellectual dogma that must be imposed on the world and inflicted on everyone, including nonbelievers.

An accommodation by a balancing act is therefore necessary between utilitarian and individualist extremes, and to the same extent between socialist and capitalist courses of actions, respectively, whereby the individual's autonomy is preserved while society's coherence and interest are protected. By balancing act is meant moderation, for example à la Camus.[1] That is not to say actions should be hesitant, dispassionate or weak. However, a Camusian rebel is not to become the revolutionary who so often destroys life under the pretense of saving it. National security vulnerability and human security quest need be reconciled. So do individual worth and dignity on the one hand and societal equality on the

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[1]See Albert Camus, *The Stranger* (1942), *The Myth of Sisyphus* (1942), *The Plague* (1947), and *The Rebel* (1951).

other: Worth and dignity for all, not for the few. Obviously the élite has and uses power to define and promote its own worth. While élite's rights also are important, it is mainly the commons who need their rights protected. Social expenditures, e.g., must thus be enacted and/or restructured to benefit the many, rather than a few.

Reformist rather than radical courses of action, grounded in realism, are the way to balance such contradictions. Combinative-integrative solutions rather than either/or (discontinuous, discrete) alternatives have to emerge, such as balancing economic growth with social justice; efficiency with equity; market with planning; freedom with order; industrialization with agricultural development; the application in some key sectors of capital intensive and knowledge intensive technologies with the use of labor intensive methods of production; export promotion with import substitution; an open door policy with the protection of national sovereignty; self-reliance with international cooperation.

Moreover, perpetual misery is the antithesis of stability, as Sievers (1974: 313) has discerned. And stability is a constituent part of development/progress, for, as the French have dearly learned well in the last two centuries, *plus ça change, plus c'est la même chose.* Stability can be achieved mainly by the powerful influences of both habit, which coordinates social endeavors in a customary format, and periodic revitalization. However, societal security, indeed a nation's very existence, makes innovation a fundamental ingredient of progress. Hence a balance between these contradictory phenomena, stability on the one hand and revitalization and innovation on the other, is a necessity for transformation.

Furthermore, human beings, even in the most socially liberal countries in the world today, those of Scandinavia, are born neither equal nor free, millennia of religious endeavors and centuries of naked raison d'état, realpolitik and constitutional rhetoric notwithstanding. They are born in a socioeconomic state and subject to authority. Indeed all histories, from Herodotus onwards, are crammed with inequality. However, this is a far cry from being the fatalistic destiny of humankind. Hence the role of bridled capitalism, social democracy and social justice, rather than the survival of the fittest doctrine camouflaged under the notion of "free," i.e., unfettered, trade and market, even if still within the realm of the latter, for it is not without some advantages and, at least for now, inescapable.

On the other hand to try to strictly equalize people is premature, if ever justified; the means to achieve such an aim are not on the horizon yet. Equality in legal rights may not nonetheless need to be a distant thing. The same may be true of ensuring that everyone has at least a certain level of physical means for survival, and at least a certain level of education, etc. However, to make everybody "equal" in, say, degree of wealth, income and influence, would both necessitate use of totalitarian methods, and result in a totalitarian society, in which almost everyone would be worse off. The impact on incentives for individual effort in thrift, works, habits, etc., would be devastating. Freedoms benefit society partly because they facilitate society's drawing upon the enormously rich variety of human skills, interests, ideas, ambitions, commitments, etc.

Therefore, the case for a socialist orientation is to be shelved for now. That eventually the capitalist system will socialize itself may or may not be true; but even if this is true, the underdeveloped countries lack the luxury of time to wait for that realization. They have to take their destiny into their hands this very moment, after having calculated the risks and accounted for it, for all too often a problem evaded is a crisis invited. The future must be shaped or it will impose itself as catastrophe, for it will be shaped by others. *Any reasonable and comprehensive evaluation of the risk should keep the UDCs within the hegemonic circle of capitalism, but not necessarily of the unfettered type.*

5.3 Bridled Capitalism

Underdevelopment constitutes the economic environment for the vast majority of humankind. The most observable attributes of underdevelopment are lack of industrialization and very low levels of productivity in agriculture, where person/land ratio often impose highly inefficient scales of production. No less important, and more difficult to correct, are deep seated attitudes of inertia on the part of the population. Another factor constituting a potential obstacle to a development effort is the unduly high rate of population growth that exceeds security and critical mass requirements. The development endeavor therefore requires a shift from consumption to investment activity. Targeted social spending may not help in maintaining overall progress if growth does not recover. This necessitates a prior increase in agricultural productivity, accompanied by acceptable measures that will transfer the food surplus from the peasant cultivator to workers on capital projects. In addition to shifting resources from agriculture to capital building tasks, a core of industrial equipment must be deployed. This traditionally has been financed through international trade, by foreign investment, or, to those less worried about sovereignty and independence, or who outrightly identify with the donor, by international aid.

The channel of international trade is a difficult one for the worse off underdeveloped countries, in part because of the colonial legacy. Many of these nations have lopsided economies that sell one raw commodity in markets where demand is typically inelastic. Foreign investment has not produced much capital for such underdeveloped countries, partly because of their own suspicion of TNCs' practices, partly because the TNCs have not reinvested their earnings there. Foreign aid thus becomes a last resort for the transfer of funds and skills. But the latter is often essential to acquire before the former can be absorbed, let alone the attached strings. The only viable course of action then is reliance on resource mobilization, augmented by inter-UDCs' trade, to the extent the latter is achievable without undue agitation of the Powers. The state may be able to influence the situation in various ways, through monetary policy, taxation and a few controls. But these are essentially indirect instruments, and in the circumstances of most underdeveloped countries weak and brittle instruments at that. To provide the lever and impetus to development a substantial volume of state investment is necessary, and with it a substantial public sector of nationalized industry and public services. The profits of this public sector can provide a source of finance for extended investment. Such investment can be directed towards key points in the economy where its influence in overcoming obstacles and bottlenecks and in stimulating expansion elsewhere is greatest. This way the impetus to development once materialized can be sustained. *Meanwhile, the private sector would be relatively free to function and contribute with a large share in the transformation process.*

But soon more sources from which investment funds can be drawn for expanding industry and reconstructing it on a higher technical level, thereby *increasing the productivity of labor,* must be found. Such an increase in the productivity of social labor is obviously an essential precondition for raising the standard of living --having more consumable products per capita of the population. But to increase productivity requires the building of new industrial plants, or reconstructing old ones, and equipping them with new and up to date machinery. To do this requires metallurgy, and unless the machinery in question is procured from abroad, whereby the possibilities are very limited for both economic and political reasons, this requires a rapid increase in the number of iron and steel plants and the creation of a complex engineering industry.

To import machinery even for a few years, to furnish the first stage of expansion, means finding ways of expanding the export of the conventional leading export products, in order to procure the foreign currency with which to pay for additional imports (since foreign loans on any adequate scale are sometimes out of the question without unacceptable strings attached). How to do this without either diverting foodstuffs from the home population and lowering their already meager standard of living, or somehow putting Stalinist pressures on peasant farmers to produce more and to place this extra on the market, is a daunting task that requires as much creativity as compassion. Indeed, if industry and industrial employment are to expand, more foodstuffs (and also raw materials like cotton) would be needed to feed (and clothe) the larger working population in the towns. The ins and outs of the transition to development need thus to be evaluated. To better analyze the local stratum structure helps one learn how to change it. To introduce antidependence measures is a must. Social institutions with their enabling and constraining qualities must be identified, analyzed and reoriented, if not restructured.

Joint stock absentee capitalism (whereby not only is ownership divorced from control but also the role of the state is central, and limits are set as to a reasonable percentage owned per family), may mitigate and blur the strong, entrenched feelings against the exploitative capitalist, as well as democratizing the ownership and control of productive units, giving small savers a stake in the production process, putting them on a more equal footing with wealthier owners, and improving their chances for upward mobility. Those who desire to invest more than their share may freely do so in other productive units, for the system is ***capitalist***, albeit ***bridled***. A regime of measured progressive taxes would ensue (as will be elaborated upon below), and no excessive gaps of richness would evolve in society, but the material incentive would be preserved. One has to acknowledge, however, that "excessive" here is a very subjective term, and that some degree of conflict probably exists between those two goals. However, this is the nature of social phenomena: They have no perfect fit, and tradeoffs have to be made.

It is in collective choices that the injection of expertise is most badly needed and is most often lacking. Whatever the device for such choice --town meetings, village councils, referenda, parliamentary elections, or cabinet decisions-- the expertise is needed. The need for *an appropriate blend of collective choice and individual expertise* is fairly obvious. The simple neoclassical maxim of "just leave it to the market" will not do. Nor will "merely getting the prices right" go very far. Nor is there any simple set of rules to instruct a society on how best the market can be bolstered or supplemented in such cases. The rules will depend on the specific society, spatially as well as temporally. The rules will vary from case to case, and there is no escape from studying each case on its own merits if the best results are to be achieved. And the studies of various aspects of each case must be made by people with the required expertise *and the right allegiance*.

The all encompassing neoclassical strategy of "structural adjustment" is more an expression of capitalist mentalité than a logical plan of economic growth or socioeconomic transformation. The latter two concepts should not be mixed up; they should be kept distinct. Capitalist expansion is by nature polarizing. Transformation should be different in nature so as to overcome this polarization. The transformation concept is in essence a concept critical of unfettered capitalism. The aim is a nonpolarizing interdependent change, whereby the only meaningful strategy should come within the perspective of a polycentric (hence nonharmonious) world bringing together the different regions that make it up, in a flexible way which would make possible the implementation of the specific policies required by the diversity of the objective situations.

General interdependence and the legitimate concern for self-reliance must thus be reconciled; the logic of mutual and reciprocal adjustment must replace the logic of unilateral adjustment on the part of the weakest in the pursuit of expansion for the exclusive benefit of the strongest. This is precisely Samir Amin's more sensible, watered down definition of delinking: "The submission of external relationships to the needs of internal development" (South Center, 1993: 133). This concept is exactly the opposite of the unilateralism of "structural adjustment."

The New Deal in FDR's America, and the Nationalization Policy of the postwar labor government in Britain, were but specific kinds and degrees of restrained, if ad hoc, capitalism that replaced a predominantly free market policy. If this was acceptable because of the economic emergency of 1929-31, and World War II, respectively, the underdeveloped countries have been in a far more acute emergencies and destructive wars for quite a long time, literally perpetual great depressions and civil and uncivil wars. Bridled capitalism should, therefore, be relieved of any conditioned connotations attached to state capitalism:[1]

[1]By state capitalism is meant state control combined with private ownership of the means of production (e.g., Japan, Taiwan, South Korea). This is in contradistinction to market socialism, whereby the ownership is for the state but without control (e.g., the former Yugoslavia from the 1950s till its collapse, Czechoslovakia from the mid-1960s till 1968, Hungary from the late 1960s until the demise of the Soviet Union, PRC from the late 1970s until today). On the other hand, command economy is where the state has both ownership and control (e.g., the USSR from the 1930s to the 1980s, PRC during its First Five Year

If the law, whose sanction and arm are regulating social life, is the sine qua non and pride of a civilized society, there is no reason why this command tool should not be used in regulating the economic domain and protecting the working stratum as well. If the law may intervene to demarcate religion-state boundary, it should also intervene to define capital-labor confines.

If the state may protect the propertied stratum from the masses, it should as well protect the propertyless masses from the encroachment of the former. If the state can intervene to determine whether a woman can have an abortion, whether a sexual life style is acceptable, whether a child can divorce her parent, the state can as well intervene to maintain an equitable balance of economic power between strata, and the balance of social forces within the economy. It is not merely tolerance that social groups need, but pluralism, per se, which is based upon equality. Being tolerant may be *a favor,* pluralism provides *rights.*

Without measures of economic planning, therefore, the development of industry and a faster rate of growth in the underdeveloped countries will not be achieved. Indeed, this is merely the experience of the current developed countries, contrary to the inferences of neoclassical economics. However, *the state should not do too many things;* in addition to preserving a healthy, functional public sector, it should merely facilitate, guide and finance private enterprise as those of Japan and the East Asian NICs have done so well.

Basic institutions required to facilitate capitalist economic development include a system that organizes production and distribution, a system of money and credit that facilitates investments and accounts, and a system for regulating imports and exports (Janet Abu Lughod's *Before European Hegemony,* 1989: 330-31). Provided that the state furnishes an enabling policy environment for efficient production and, especially, equitable distribution, it should not unduly intervene in the workings of the marketplace. The

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Plan from 1953 to 1957). And laissez faire is where the state has neither. The closest to the latter ideal type are nineteenth century Britain, twentieth century (pre-New Deal) USA, and late twentieth century (prereunification) Hong Kong (see Yu-Shan Wu, *Comparative Economic Transformations,* 1994: 6-9).

embourgeoisement of the proletariat, characteristic of latter-day capitalism of industrial countries, may thus not be too utopian in the long-run for the underdeveloped countries.

By withdrawing from activities to which it is ill suited, the state should become capable of doing a better job where it is most needed: Insuring social welfare, and fostering an enabling environment for transformation; i.e., a functioning infrastructure, efficient service industries, and a healthy, educated and properly trained work-force, which is supplied by reliable commercial, scientific and technological information, knowledge of standards and patents, and competence in handling trade bargaining and technology transfer negotiations. Most important is *creating a productive, not just a commercial, work-force,* for ultimately, "in the last instance," it is production, more than circulation, that spurs transformation.

The respective roles of the private and public sectors should reflect a pragmatic realization that both have essential functions to perform. The private sector is crucial for stimulating growth and creating employment. The public sector needs to foster an enabling environment for private enterprise, and to reduce poverty through the efficient provision of social services for human resource development, the installation of basic infrastructure in rural as well as urban areas, and protection of the physical environment. By the latter is meant observing the limits set to extraction (depletion of nonrenewable resources) as well as those necessitated by pollution (irreversibly damaging the environment), with the aim of achieving sustainable ecological stability. However, the UDCs, on whose land the chief form of pollution is poverty, may not bear the brunt of the DCs' efforts to sustain their consumerism, or of the neo-Malthusian attempts to calm DCs' fears of UDCs' population growth. *The complementarities of the private and public sectors in the pursuit of sustainable growth and poverty reduction are thus imperative.*

Concerning sustained human development, it is important to note that countries with durable progress in human development (e.g., Britain, France, Germany, Sweden) often started from very different initial conditions and have at times followed quite different routes to sustain their success. Sustainable development strategies should meet the needs of the present generation without unduly compromising the ability of future generations to meet their needs. Some tradeoffs are probably unavoidable here, for the goals do not necessarily fit well together. Further, the concept of sustainable development is much broader than, and indeed overrides, the protection of natural resources and the physical environment. After all, it is peoples of the UDCs, not trees or owls or elephants and their touristic value for the DCs' population, whose future choices have to be protected *in the last instance*. Sustainable development therefore must include the protection of future human development, including economic growth. Also any form of debt is but borrowing from the next generations, the relative loss of independence notwithstanding. Sustainable development should thus aim at limiting these debts, thereby maintaining a proper distributional balance between generations.

Other aspects of human resource development are essential to poverty reduction and general transformation. The provision of education, health and family planning services in underdeveloped conditions is fundamentally the responsibility of governments. However, development in many countries is impeded by the low level of institutional capacity, lack of accountability and transparency in government activities, absence of the rule of law, lack of popular participation in decision-making, and outright corruption. Progress in improving these aspects of governmental performance will be essential to meeting the goals of sustained growth and poverty reduction. The imperative need is for accountability to the public, transparency of government activities, an autonomous and honest judiciary, enforcement of the rule of law, and independent systems for public evaluation of government conduct. A predictable juridical framework is essential for private sector activity, not least in order to reduce the Keynesian uncertainties affecting investment decisions, which are at the center of growth. This purpose requires legal frameworks defining with reasonable clarity what is and is not allowable, together with transparent processes for rule setting and efficient institutions for sound public administration. These instruments must not be subject to ad hoc or arbitrary intervention by the politically powerful or offer scope for improper practices by lobbyists or commercial agents and their interlocutors in public office. Nonetheless, the right of people, including corporate and other private organizations, to "petition government for redress of grievances" is not to be infringed upon. That is an important right, and proper lobbying is part of that process.

Beyond considerations of good governments, development can be revitalized only within supportive frameworks of broad economic policy, international no less than national. Development efforts will not gather momentum if the global economy lacks dynamism and stability, and is beset with uncertainties. Likewise they will be severely handicapped if existing constraints such as external indebtedness, inadequate development finance, high trade barriers and depressed commodity prices continue to prevail. Transformation can nowhere be identified merely with economic growth or development. It must everywhere meet the criteria of sustainability (in the sense of continuity, not the neoliberal sense of UDCs' exclusions to enable the DCs to sustain their conspicuous consumption pattern), serve the satisfaction of basic human needs, and the improvement of the social and economic well-being of peoples, enabling human beings to actualize their potential, build self-confidence, and lead lives of dignity and fulfillment, freeing peoples from the fear of want and exploitation, ensuring the realization of *socioeconomic* human rights and the protection of nature.

Human rights include the right of emigration as well as the right to immigrate. They also include the right to security and safety, to a peaceful and decent life, to a clean environment, to remunerative employment, and to satisfying basic needs, to developing one's potential, to have access to education and information, and to participation in public affairs and decision-making. If transformation is to fulfill its long-term objective of improving the human condition, then it should entail a fuller participation of all sections of the population in the process, and a fairer distribution of the benefits of economic growth. Peoples and nations cannot realize their potential and cannot be free of exploitation unless they all have relatively equal opportunities to develop, and relatively (according to their talent and diligence) equal access to economic or physical as well as to political and intellectual capital; that is, access to means of production as well as to political participation and to education, skill and information. For this purpose it is necessary everywhere to eliminate all those monopolies which act as a barrier to exclude certain social strata and nations from access to capital, and it is necessary to ensure that everybody enjoys economic, political and cultural rights on equal terms. Therefore, *a reform of the role of the United Nations and of institutional arrangements and regimes, including the multilateral financial organizations and their voting structure, is a necessity.*

In order to accelerate the bridging of the DCs-UDCs gap it is necessary to boost to the maximum the economic growth of the UDCs. Meanwhile it would be naive to believe that pressing social problems can be resolved, with boosting the volume of the gross product merely by organizing its structure on a more efficient basis. It goes without saying that material production constitutes the backbone of any economy, let alone an underdeveloped economy. The growth of material production is a major factor in supplying the population with food, housing, clothing and other essentials. However, economic activity in the UDCs cannot be concentrated solely on those sectors whose produce meets directly the basic material and social needs. *Most of the UDCs will have to expand the production infrastructure and the various branches of the primary sector, to create a national scientific and technological potential, to improve the apparatus of state economic planning and management.* Only then dependence on the DCs can be mitigated while interdependence is promoted. On the other hand, underdeveloped countries do not have the luxury of choice either to pay for human transformation or to take care of economic growth. They must do them both, and simultaneously. The neoclassical view that human development can be promoted only and strictly at the expense of economic growth poses a fallacious tradeoff. It misses the purpose of transformation and underestimates the returns on investment in health and education, which can be high indeed.

Developed and underdeveloped, of course, are relative terms; and there is scope for further development of productive powers even in the industrial countries. Yet there is a crucial difference between the economic problem in fully industrialized countries and in the bulk of the underindustrialized. The latter are apt to be characterized by surplus labor existing in a hinterland of highly populated agriculture, whereas in industrial capitalist countries surplus labor is of much smaller extent and constitutes no such enduring reservoir. *For UDCs the existence of surplus labor, while it presents a problem, affords also an opportunity for development if only the means can be found for harnessing this idle labor to productive employment.* This is one reason why in conditions of underdevelopment "economics" is "thoroughly subordinated to politics," as Sievers (1974: 211-12) has found out, for the solution depends more on political action than economic measures. Moreover, many sociopolitical measures for equity, e.g., educating children of the poor, promote economic efficiency as well. *Hence to economic, social and technological development, political, cultural and perhaps other dimensions of development should be considered and added for the transformation to take place.*

Meanwhile, a policy of putting 100 percent of what is invested, or anything approaching that figure, into expanding the capital goods sector is unattainable. If employment is to expand at all, there must be an expansion of consumer goods production in order to cater for the needs of the larger number of workers. Another part of the surplus product will always need to move towards social rather than strictly economic needs, in the form of housing for additional workers, health facilities, improved education, etc. This will always set a ceiling on the growth achievable. Moreover, provision will need to be made for a rising wage level over time, not a stationary one, so that the working strata can sense that their plight is being mitigated. What may prove necessary however, in the early years while investment priority is being given to capital goods industries in order to achieve a higher growth rate, is that for a period the output of consumers' goods should increase more slowly than total employment. This will involve some measure of redistribution of consumption within the working stratum, as between those previously employed and the newly employed --a process not without its political difficulties and tensions. This is not inconsistent, however, with total consumption rising at the same time, nor with the rise of average consumption per capita of the population.

Also any suggestion that the most capitalist techniques which scientists and engineers can devise should always be adopted, irrespective of the cost, should be out of the question. To do so would reduce surplus product rather than maximize it, since so few machines of this highly expensive type could be made with the investible resources available, that their higher productivity would be more than offset by their fewness. It would be the opposite extreme of adopting spade husbandry because so many could be thereby employed. More costly, capital intensive techniques should be adopted up to the point where the higher labor productivity balances (so far as their effect on surplus product is concerned) the higher cost in labor of making the necessary machines, but no further than that. *What is involved is the distribution of labor between making machines, and operating them in such proportions as to yield the maximum effect from the standpoint of growth.*

Again, investment and its distribution and proper choice of technique are not the only factors affecting growth. There are important political and social factors as well which will affect the result. One of these is the question of ownership and the type of social organization, especially in agriculture. There is also the question of the human factor and its motivation, and of raising the level of human skills by the spread of education generally, and the specialized training of skilled industrial labor and technicians in particular. These are not things that can be easily expressed in a strictly quantitative form. Here important qualitative changes are involved that may make a major difference to the outcome. Moreover, technical knowledge is continually changing, and with it the technical possibilities available. The capacity to absorb and adapt new technical knowledge to the requirements of production, overcoming technical conservatism, may be equally important, especially in fairly capitalist countries, as choosing the right technique from among a range of existing and known possibilities.

Self-reliance is of course of utmost priority, but requiring a country to build up its productive capacity from its own resources is not to imply an advocacy of strict self-sufficiency, rigid autarky or a denial of any advantages of international circulation and division of labor. Evidently the possibilities for most UDCs to provide the means of development by expanding their exports are much narrower than is commonly imagined, certainly narrower than the Fund-Bank would have them believe. Therefore, the notion of comparative advantage should not be statically interpreted so as to freeze the old nineteenth century pattern of international division of labor upon the world's UDCs in the twenty-first century. Yet, even if they cannot place main reliance upon it, such countries will have to meet some of their growth needs through foreign trade --and inevitably so in the early years if they have no heavy industry of their own. To this end part of the surplus production of agriculture and of light industry will have to be earmarked for export, before capital goods can be acquired for the expansion of industry. But maximizing surplus product as the way of raising the rate of growth should remain unaffected.

However, the smaller a country is and the more limited its natural resources, the more reliant will it be on meeting its needs by export, and the more conditioned will its development be by the possibilities of meeting the needs of growth in this way. Hence the importance for growth of developing a capital goods industry must not be taken as applying to every country however small or little holder of natural resources. Economies of scale and the productive advantages of specialization impose a lower limit on the size of a market for which it is worthwhile for an industry to cater, and correspondingly an upper limit on the number of branches of industry that it is practicable for a small country or region to have (unless it has very large export possibilities). Therefore the notion of investment priority for heavy industry is best thought of as applying to fairly large countries, or to a group of smaller countries cooperating together in their trade and in their transformation plans.

If investment were 10 percent of GNP, and if a currency unit of new investment gave rise to a third of a unit of additional output --which is roughly marginal capital-output ratio of new investment in the underdeveloped world-- then a 10 percent rate of capital formation would yield a 3.3 percent rate of growth. This is about equal to population growth rates in the nations with the highest rates of per capita income (Heilbroner, 1972: 159). The problem is that most underdeveloped countries have investment rates closer to 5 than 10 percent of GNP. Hence, even with a marginal capital-output ratio of one half, growth rates would not be enough to begin a sustained climb against the population growth of 2.5 percent. This is exacerbated with the fact that the labor force in most UDCs is rising faster than the population as a whole, as vast numbers of children become workers.

Nonetheless, for many nations, an *increase* in capital formation rates of 5 percent or more, which is a difficult but by no means impossible task, should bring them to the point of cumulative growth. What is thus needed is a program of inducement to small industry, to absorb the flood of unemployed while the essential industrial core is being built, and an all out effort to bring about manageable rates of population growth without grave detriment to the security and critical mass predicaments. Meanwhile a breakthrough has to be achieved on the agricultural front through the use of new crops that can significantly augment the yield. Better fertilizers, irrigation projects and administration are to complement the endeavor towards a long, even if slow, developmental climb. However, economic transformation is nothing less than the development of the entire society as Sievers (1974: 132, 316) and other scholars have made clear. Building capital or redirecting agriculture does therefore entail the addition of machines and farm equipment to a peasant society. Transformation also entails the conversion of a peasant society into an industrial one, a change in the whole tenor of life, and in the expectations and motivations, the very environment of daily existence itself.

Illiterate peasants must be guided to become literate farmers. Dispirited urban slum dwellers must be encouraged to be disciplined factory workers. Old and powerful social strata, who have their wealth for generations from quasi-feudal land tenure, must be brought to accept changes in their vested rights and be ready (as did the postaristocratic neo-Spaniards) to reorient themselves toward often despised practical and business pursuits. The balance between economic and security needs of population growth, and that between the former and the critical mass for innovation, must also be achieved. To some extent, these changes will in time be facilitated by the realization of growth per se. A growing industrial environment breeds industrial ways and mores. The gradual realization of economic improvements brings about attitudes that will themselves accelerate economic growth. A slowly rising standard of living is likely to quicken the spread of methods of birth control. Yet although these changes may take place in time, it is time itself that is so critically lacking. The transformation of a tradition bound way of life to a modern and dynamic one cannot be allowed to take place on its own slow pace, despite the risk involved. Only an enormous effort in all fields of social life can inaugurate and shorten the transition from the past into the future.

In the transformation of the underdeveloped countries, then, the marketplace is apt to play a smaller role than in the transformation of the West during the industrialization of late eighteenth and early nineteenth century. At that time, industrialization evolved in the historical situation in which market institutions, actions and customs had already become the dominant form of economic organization. Little of this is in place in the UDCs today, whereby underdeveloped countries lack the network of institutions upon which a market society is built. The guiding force of economic development therefore is apt to be central planning in a mixed economy. That is not to say development is only a matter of growth of economic command. Strong political leadership --*authoritative* (but not authoritarian) *if necessary*, since problems of economic development provide a rationale for the tightening of political control in the arduous early stages of transformation-- is also needed not only to initiate and guide the course of development through providing the impetus, the inspiration and, whenever necessary, the discipline, to keep the ascent in motion, but also to make it stick. Some form of strong and dynamic political leadership therefore seems as integral to economic development as the accumulation of capital itself. This is generally the experience of DCs' industrialization, and they were not described as --nor were they in reality-- dictatorial, except for such extreme cases as those of Napoleon and Bismarck. The process is apt to be marked by a loss of traditional expectations, by more awareness of deprivation, and more experience of frustration. For many years, an underdeveloped country must plow back most of its surplus into capital goods. Nonetheless, some change for betterment may not be ruled out, particularly in basic diet, health, and education.

Tax reform, land reform and the curtailment of luxury consumption are essentials for mobilizing the population through their sense of justice; these will be opposed, however, by the ancien régime. To reduce social tension and prevent upheavals during the process, ways must thus be envisaged and continuously improved to achieve a more equitable distribution of the growing national wealth and a greater equality of sacrifice during the difficult period of early industrialization. The waste of resources symptomatic of DCs' rendition of a high standard of living should not be emulated. A new pattern of *public* consumption should replace individualistic materialism, even if the latter is an acceptable ultimate aim. This is the lesson of the Chinese experience; it is a long-run necessity if society (absent land of plenty) is to develop, and on a less differentiated basis. The relatively laissez faire attitudes of DCs' capitalism would be hopelessly inadequate to the task of achieving development in the underdeveloped world. One lesson from the second Great Depression experience and FDR's reaction to it, is that countries with a generally high growth but a skewed income distribution may require well-structured meso-interventions, particularly targeted ones, during periods of slower or negative growth. Another lesson is that macroeconomic adjustments are needed to restore growth that has fallen off.

An underdeveloped country must thus transfer its workers from traditional pursuits to modern ones, rationalize its agriculture, build an industrial center and relentlessly plow back its increments of output, at least in the initial stages of the ascent, into more capital. Such measures are likely to be accomplished at some social cost and with some waste; but things cannot be worse than they are now, and the effort to escape from poverty and underdevelopment cannot be without cost, except in utopia. The private sector's role is therefore of utmost importance and will need the creation of a proper enabling environment for private sector workings, including legislation supportive of private sector growth; privatization[1] of productive functions more efficiently performed by the private sector; the development of micro, small, and medium-size enterprises through small scale credit plans (à la the Bangladeshi experiment of Muhammad Yunis, publicized lately in the US media). However, handicraft alone is not the shortest way to development, not only because "the hand-mill gives us a society with a feudal lord; the steam-mill gives us a society with an industrial capitalist," but also because spade husbandry, employing so many hands, has nowhere resulted in a developed society.

The role of the public sector should thus be confined primarily to building economic infrastructure and to providing strategic production and social services. *Successful transformation will depend on the right mix that combines private and public sector strategies in the interest of people oriented development.* In the early stage, a hesitant and apologetic political leadership can go nowhere. Bold but judicious leadership can avoid timidity and kowtowing on the one hand and rashness on the other. However, it is not the negative side that one should concentrate on, especially when the transformation enterprise is designed and run by national, not foreign, machinery. Every endeavor should be made to mitigate the expected harsh effects though, *especially through fairness in burden distribution.* The major capitalist powers are expected to overlook the unique circumstances

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[1]UNDP's (1990: 87-8) prohibitions with respect to privatization can be summarized as follows: Do not only maximize revenue, create a competitive environment; do not replace public monopolies with private monopolies; do not sell through nontransparent procedures, which invite corruption and nepotism; do not use sales proceeds to finance budget deficits, retire national debt instead; do not crowd financial markets with public borrowing at a time of public disinvestment; do not make false promises to labor, retrain them for new industries; and do not rely merely on executive orders, create a political consensus.

of the underdeveloped countries, to brand all bridled economies and authoritative governments as constituting a single undesirable species. Their stereotyped conception of other societies is not expected to disappear soon.

The underdeveloped countries have to devise strategies of flexible response to deal with such attitudes, drawing upon confidence from their millennial civilizations. Goebbelsian distortion campaigns expected from bourgeois media,[1] the weapons of mass *distraction,* are to be taken in stride and calmly countered, but not ignored, for they could be cumulatively destructive. Meanwhile, governments can do much to improve the efficiency of social spending by creating a policy and budgetary framework that would achieve a more desirable mix between various social expenditures, particularly by reallocating resources from curative medical facilities to primary health care programs, from exotically trained doctors to paramedical personnel, from urban to rural services, from general to vocational education, from tertiary to primary and secondary education, from luxurious housing for the privileged groups to sites and service projects for the poor, from subsidies for vocal and powerful groups to programs for inarticulate and weaker ones, and from the formal to the informal sector, and contingency plans for the unemployed and the underemployed.

Such a reorientation of budget priorities will require tremendous political courage. But the alternatives are limited, and the payoffs can be enormous. It is important to note that it is Fordism, a constituent if ad hoc strategy of the capitalist enterprise system, not any leftist formula, which entails mass production, consumption of standardized goods, a significant growth of labor productivity by Taylorist division between managers and laborers, and an important role of the Keynesian welfare state. It is also to be remembered that when Amos, the Old Testament prophet, and Solon, the founder of Athenian democracy,

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[1]See Noam Chomsky, *Media Control: The Spectacular Achievement of Propaganda* (1997). In addition, the US Information Agency's Voice of America, which is run by the US Government but limits access of the US citizens living in continental US to its overseas broadcasting, keeps the average American in the dark concerning the extent of disinformation and misinformation that it propagates. Not to mention the Radio Free type broadcasting.

called for regimented social justice nobody accused them of either leftism or dictatorship. Again, rumbles of the bourgeois "experts" in the media, putting the spin on such transformative measures as Marxist or dictatorial, are to be addressed in stride; they may not be ignored, for they could confuse the public and dissipate its mobilization.

A common fallacy in the neoclassical ideology is that the state and the market are necessarily separate and antagonistic --and that the former is the problem, and the latter the solution. In practice, both state and market are often dominated by the same power structures. This suggests a more pragmatic third option: Both state and market should be guided by the people to work for their benefits and for improving the lot of the poorest of the poor. The two, state and market, should work in tandem, and people should be sufficiently self-empowered to exert effective control over both. They may do so through participation in governance, as producers or consumers, or through people's organizations (authentic NGOs, as opposed to missionary or espionage ones). Further, people's needs and interests should guide the direction of transformation, and people should be fully involved in propelling economic growth and social progress. Participatory development starts with self-reliance, which means people being able to take care of themselves. People must actively participate in economic and political life --helping set developmental priorities, formulating policies, implementing projects and choosing the form of government to influence their cultural environment.

Democracy is more than drawing up constitutions, designing election procedures, launching advertisement campaigns and holding elections; democracy is an attitude, a way of life, in all life's aspects. It is a long-term process of reorganizing the institutions of civil society in the best interest of the people, and making these institutions accountable to none other than the people in their collectivity. However, fundamental transformation, the consequence of changes in institutions, technology, resources and population, usually spreads out over a long period of time. Whereas some types of political change can occur quite abruptly, in a period of days or weeks, e.g., an election or a new law, socioeconomic change normally needs a much longer period to materialize. On the other hand, people friendly markets, contrary to unfettered capitalism, allow people to participate fully in their operations and to share equitably in their benefits. Having markets serve people, rather than people serve markets, thus requires concrete steps.

First, preconditions: Adequate investment in the education, health and skills of people to empower them for running their own affairs; an equitable distribution of assets, particularly in poor agrarian societies; extension of credit to the poor; access to information, particularly about the range of market opportunities and public programs; adequate physical infrastructure, especially roads, electricity and telecommunications, and adequate support for research and development; a legal framework not only to guard property rights but also to protect the weak from the strong, the propertyless from the propertied; no barriers to opportunities irrespective of race, religion, gender, or ethnic origin; a trade regime with no *undue* domestic or international trade barriers; and a vigilant role of government, enough to secure equity besides efficiency and to protect not only infant industries but the entire transforming economy.

Second, accompanying conditions: A stable microeconomic environment, especially ensuring stability in domestic prices and external currency values; a comprehensive incentive system, with correct price signals, a fair tax regime, and adequate rewards for work and enterprise; and freedom from *arbitrary and unwarranted* government controls and regulations.

Third, corrective actions: Protection of restrained competition, through antimonopoly laws and safeguards against financial malpractice; protection of consumers, especially through drug regulations, safety and hygiene standards and regulated advertising; protection of workers, through safe working conditions and minimum wage standards; protection of special groups, particularly women, children and ethnic minorities; and protection of the environment, particularly through incentive systems and by banning pollution or making polluters pay, but without unduly harming the national competitive interest.

Fourth, social safety nets: Adequate arrangements to look after the victims of market forces to bring them back into the social domain, primarily through human investment, worker retraining, and access to credit opportunities, as well as more permanent support for groups such as the physically challenged and the senior citizens. Welfare measures are an important aspect of policies for the poor inasmuch as it is kept in mind that the long-term solution to poverty requires more economic growth, and that the poor have to find access to the means of, and opportunities of bringing them into, the development enterprise. Enabling strategies of vocational training and other types of skill formation are important elements, as is the provision of credit to the meek and the poor.

To stress people's economic, political and social self-reliance is not to argue against state mediation in human development. On the contrary, greater participation of all people in the development process depends on carefully designed government policies and programs. But government mediation in support of human development should also encourage private initiative in the broadest sense --including that of private entrepreneurs, that of domestically supervised (if not home-allegiant) NGOs, and other community based and self-help organizations, and that of people as individuals or households. For some countries, the process will be painful, for transformation also means the struggle for access to political power as well as to the ordinary opportunities of life --land, water, work, living space and basic social services.

Encouraging more participatory development thus is fundamental for mobilizing the energies of the population. The urban challenge[1] for planners and policy makers in underdeveloped countries on the verge of the twenty-first century, is to identify and implement innovative programs to deal with such issues as decentralizing power and resources from the central government to municipalities; mobilizing municipal revenue from local sources with active participation of private and community organizations;

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[1]See John Merrington, "Town and Country in the Transition to Capitalism," in *The Transition from Feudalism to Capitalism* (1976: 170-95), and analogous works of Max Weber, Henry Pirenne and Fernand Braudel, concerning the intertwined effects of urbanization and capitalism.

emphasizing enabling strategies for shelter and infrastructure, including assistance targeted to weaker groups; and improving the urban environment for the vast majority of urban poor in slums, graveyards and squatter settlements.

No plan is perennial, and no mix is proper for long. *As countries move along the transformation path, their changing conditions will call for new policy combinations.* Governments will also face the problem of how best to sequence actions in the social sectors when each of them has major deficiencies. Therefore, setting "global" targets for socioeconomic transformation has serious disadvantages. Such targets would further have no price tags nor would they be differentiated according to country situations. It is therefore far more productive to utilize country specific target setting for development; this is more realistic and operational. Generally, however, whenever choices have to be made, primary education should be kept at a relatively high priority, with the provision of low cost health interventions coming a close second. And because of tight budgets, UDCs need to focus on low cost programs to keep down the cost of across the board interventions. To rely more on targeted plans is thus paramount.

Nonetheless, the overriding objectives of governments in some cases will not be the improvement of human development for all their people. Governments' objectives are often complex and multidimensional: To stay in power, to serve particular interest groups, and sometimes to enrich themselves. This is one problem to be overcome by more representation, accountability and the right mix between infusion of new leaders and continuity in government. Another problem is that the political resistance to reform can be great when reductions are proposed in social expenditures benefiting primarily powerful and favored groups. The political resistance can be even greater when it comes to undertaking land reforms. By contrast, the potential beneficiaries of change generally have little voice or political muscle. *Only genuine democratic institutions, not cosmetic ones, can deal legitimately and fairly with such problems.*

In sum, democracy, at best, signifies conservatism without stagnation and reform without revolution. However, a neoliberal economic growth accompanied by a decline in the redistributive capacity of the state at best implies the preservation of the socioeconomic status quo, that is, the maintenance of the extant levels of poverty and continued failure to meet the basic needs of broad sectors of the population. The politico-economic propositions implicit in the neoliberal strategy of "structural adjustment" thus assumes that economic growth alone, measured in per capita GNP, will suffice to eliminate, or reduce, extreme poverty. But commonsense as well as the experience of the last two decades in the UDCs indicate that there is no inevitable connection between economic expansion and redistribution.

Neoclassical economics, as the embodiment and epitome of neoliberalism, is therefore immaterial to UDCs' conditions. However, at a more profound level, its foundational premise, methodological individualism, makes no sense, simply (if only) because language and, a fortiori, social institutions are necessary preconditions of individual thought and action, as recognized, e.g., by Noam Chomsky (1986, 1992) and Roy Bhaskar (1975, 1994), and earlier by Louis G. de Bonald (1859: 162), who indicated that *"l'homme pense sa parole avant de parler sa pensée." The nonoperational aspects of economic phenomena are thus no less determinate than the pecuniary ones.*

The language a person speaks is neither an individual inheritance nor a peculiar possession. It embodies the collective group experience. Language is a social emulation of the community in which a child finds itself and grows up in. There is no abstract Robinson Crusoe, standing outside or independent of society, upon which a theory can be founded (as is neoclassical economics). No one is an island onto itself; every person is not only born in, and a product of, society, but also a piece of the very fabric of that society. The individual is a social phenomenon; no choice or will can change this fact. The red herring psychologism, in which all social phenomena are reducible to the analysis of individual human behavior through preference revelation, is therefore absurd.

Moreover, number, the epitome of neoclassical economics, is a discrete idea, while social phenomena are continua of material attributes and social concepts that coexist and overlap. The conceptual and methodological problems of quantifying and measuring human development become even more complex for political freedom, personal security, interpersonal relations and the physical environment. Therefore, the neoclassical excessive application of numbers to social phenomena --arithmomorphism-- cannot, in principle, provide full explanation: Arithmomorphic concepts are not fitting for social phenomena, even though they may constitute an enabling means for clarifying thought processes and their exposition. *With questions and doubts about neoclassical economics arising when one addresses economic concepts relevant even to developed capitalism, that doctrine, qua a development guide for tackling economic problems of underdevelopment, is therefore utterly inadequate.* That is not to deny that some of its insights are enlightening and should not be thrown away with the bath water.

Judicious use of markets can create an enabling environment for good use of individual talent and potential. There will be nonetheless those who may not earn even a subsistence income, nor have even a minimum of adequate nutrition and shelter, nor acquire even a minimum of relevant education. Unfettered free marketeering is therefore not for the UDCs. Guarantees of public support and suitable social safety nets are instead needed. The chronically deprived and dispossessed must be brought up to a threshold of human development to enter the strata whose lot is enhanced by economic growth. *Capitalism* has to be *bridled.*

A total reliance on spontaneous development, the notion that the best industrial policy is no industrial policy, can be entertained only in theoretical pondering. In practice, the government is always anxious (or forced) to act and undertake some kind of intervention in the economy in response to grass roots pressure from various social (corporate or other) groups. Invariably, the government at a minimum fulfills the roles of law giver, strategy maker, coordinator, arbitrator and consensus builder. An enabling and facilitative (or entrepreneurial) government further corrects market forces, provides social protection to given social groups, and accords certain monopolistic representations and functions to selected interest groups, e.g., the organization of vocational training, thus helping them to overcome the free rider problem associated with collective goods production. Only thus can the government activity catalyze social innovation and creativity.

In the history of mankind's economic progress, or growth, is relatively modern. Prior to the arrival of capitalism, societies were comparatively stagnant, as regards the way in which they gained their livelihood. The coming of capitalism, and with it mechanical power and factory production, continuous technical change and accumulation of capital changed all that. What characterizes the bourgeois epoch in contradistinction to all others is a continuous *transformation of production.* Hence dualism in the UDCs' economic disorder, as Sievers (1974: 316) concluded, must be broken if modernizing transformation is to be achieved. Constraints imposed by resource limitations obviously represent challenges to the economic development of the underdeveloped countries. At least in the long-run, they will have to develop more rationalized resource allocation patterns than those prevalent in the ambivalent consumerism of the industrial countries today. *Mixed economies and long-term planning,* therefore, are not a matter of choice, but necessity, for their futures.

Moreover, the modernization of the underdeveloped countries is very likely to require *authoritative measures,*[1] both political and economic. *Oriented industrialization*, therefore, ultimately represents the path to self-reliance and dignity in the UDCs. The strains of maintaining a successful development program, no less than the initial problems of mounting one, are apt to lead to strong governments and directive economic measures. *Government role in the economy,* therefore, *is a necessity* for attempting to bring about the fundamental changes required for rapid mobilization and modernization. By using bridled

[1]This, as elaborated on above, is a far cry from calling for or condoning dictatorship, benevolent or otherwise. It only means it is hard to see justice provided for except through the agency of authoritative order.

capitalism as the core of their socioeconomic systems, the UDCs will ensure that democracy ceases to be a utopia and acquires a social content. First, all *citizens*, no subjects, must be guaranteed the minimum conditions that constitute the basis of social life: nutrition, shelter, education; unfettered capitalism must thus be restrained by government activism and planning, protecting infant economies and ensuring transformative industrialization and economic diversification.

The guarantee of education is as vital as nutrition and shelter since without it no one will be free or equal, nor will there be social mobility nor the possibility of *genuine* free participation in democratic political life. Bridled capitalism must also include general and stable employment that is stimulating and remunerative, and that will generate sufficient income for the social groups that are now indigent to have access to the goods and services necessary for at least minimal decent life (basic needs). Anti-poverty programs would then cease to have welfare overtones and would become economic development catalysts of productive expansion.

Second, authentic processes of modernization should be promoted that would include, among other things, political secularization (legitimacy through reason), the strengthening of political parties to enable them to act effectively as mediators between civil society and the state, popular participation in the management of the state, and the affirmation of public interests and republican principles.[1] The cornerstone of the essential socioeconomic changes will be the assurance of the effective working of institutions that

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[1]Whereas monarchy is the best form of government for both Plato and Aristotle, and is the typical political form of feudal society, parliamentary democracy, variously called the "representative state" or "democratic *republic*," is the form of government compatible with a capitalist mode of production in its mature stage (see Marx-Engels *Selected Works*, vol. II: 225-7). In "The Chartist," (*New York Daily Tribune*, Aug. 25, 1852: 2), Marx further suggested that universal suffrage in England must inevitably result in the political supremacy of the working class. In *The Holy Family*, written in 1844 in collaboration with Engels, Marx describes the "democratic representative state" as "the perfect modern (bourgeois) state," basing his argument on the fact that "the public system is not faced with any privileged exclusivity," whereby economic and political life are free from feudal encumbrances and constraints (pp. 36-8). Therefore, even Marx wished to see the "democratic republic" prevail over "backward and feudal" political systems, albeit the former remained for him a system of class rule in which the bourgeoisie rules most directly.

guarantee the enforcement of *socioeconomic* human rights and equality of all citizens in the eyes of the law.

Third, as the quest for democracy is centered on access to state power to manage economic resources and influence the allocation of the economic surplus, democracy must guarantee that in the event of a possible political assent of the sectors that seek change and social justice (whether they are leftist or right wing, fundamentalist or queer), they would not be restrained by de facto measures (as has happened, e.g., in the 1992 Algerian election). Or else democracy is nothing but a euphemism for the worst of bourgeois ideals.

5.4 Distributional Corrections

Of course nothing in this critique is meant to be in contradiction with the central concept of economizing: There should be no free lunch whenever the beneficiary should and *could* pay for it. This is the number one virtue of capitalism, and it should not be impinged upon nor tampered with. Efficiency and economic growth are therefore very important, but social justice is the fundamental source of political legitimacy in conditions of underdevelopment (Khalil, 1995: 65-93). The object of public policy should therefore not be limited to efficiency, but should extend as much to equity through the governmental role of elaborating distributive ends and directing the policy so as to achieve them using all powers of pulpit, purse, and sword, i.e., persuasion and coercion. Pro forma or even de jure recognition of inequities hardly counteracts, much less undoes, the de facto plight the misfortunate strata suffer because of a polarized distribution.

The case is thus strong for making distributional corrections in one form or another. Such corrections are specially important for income, which can grow to enormous heights in a capitalist system. Public policy must thus be pragmatically guided by public interest, in contradistinction to interest group, theory. When it comes to equity and justice, however, a half loaf is worse than no loaf at all: It leads to inferiority socialization, poverty culture, disgruntled underclass, bourgeois complacency and illusionary aspiration. Seasonal soup kitchen fetishism may help relieve the conscience of some overprivileged individuals; it solves no problem whatever. People are entitled to a dignified life in a *society*, rather than a humiliating charity in a massive orphanage. Pragmatism in selecting a transformation course of action therefore does not mean unduly sacrificing either emancipatory, self-actualizing ends or human dignity.

People are not motivated only by pecuniary interests but by social ones as well. In many cases and cultures the latter are prioritized before the former. Therefore the preservation of the dignity, sovereignty and sense of pride of a nation and each of its citizens is as important as economic development. Acts that will preserve these values would bring about the wrath of external powers preoccupied only with their pecuniary interests and cultural hegemony. A way has to be found to enable a nation to respect its heritage while absorbing if not deflecting such external wrath. The issue is multifaceted, not only economic. The UDCs should be entitled to try, and they should dare to take the challenge. However, whereas they have every right to defend their domain by all means, they should avoid being dragged into distractive and destructive armed conflicts.

Whatever one's philosophy, therefore, one should not escape the question: Can she and her children live safely in a world in which a large proportion of the people is without enough food, while a small proportion indulge in superfluous consumption; in which massive waste coexists with pervasive deprivation; in which the majority of the people have little control over their fates and futures, but are essentially at the mercy of the trends, processes, decisions and conditionalities emanating from the centers of power of the industrialized world? And does she have the right to benefit from a world order which excludes billions of humans from any benefits? *It is incumbent upon the global institutional structure to facilitate the elimination of exploitation both within and among nations, nurture just remuneration for their value creating labor to all workers and nations, and subordinate production to the needs of consumers rather than merely to profit interests.*

For development, not to mention transformation, the distribution of GNP is as important as the growth of GNP. One measure of the distribution of income is the Gini coefficient, which captures disparities in the percentages of income that each 1 percent (percentile) of the population receives. If each percentile receives 1 percent of the income there is no disparity and the Gini coefficient is zero. If one percentile receives all the income there is maximum disparity and the Gini coefficient is 1. Granted, achieving equity as well as efficiency in social-development praxis is more difficult than in theory. To capture and redirect the potential surplus and to improve equity by income redistribution measures are easier said than done. Moreover, the resulting change in the structure of consumer demand may not translate into a new structure of production. Thus efficiency may not increase except at the cost of more unemployment. However, people must eat, even those who are illiterate, are not inoculated nor vaccinated, and drink unsafe water. It is access to political power of the poor themselves that alone can guarantee them adequate food supplies. Then equity and social development take leaps and bounds as the people gain *dignity*, education and political participation.

The link between economic growth and human progress is not automatic either. What matters is how economic growth is managed and distributed for the benefit of the people, especially the worst off among them. GNP growth accompanied by a reasonably equitable distribution of income is thus fundamental for an effective path to sustained human development. If the distribution of income is unequal and if social expenditures are low or distributed unevenly, human development may not improve much, despite rapid GNP growth. In addition, distributive policies can partially compensate for the effects of the low GNP growth or unequal income distribution, at least in the short and medium-term. In the long-run, however, economic growth is crucial for determining whether countries can sustain progress in human development or whether initial progress is disrupted or reversed.

Social subsidies are necessary for poorer income groups, especially when the extant distribution of income is very uneven. Simply stated, *economic growth seldom trickles down autonomously to the masses.* Free market dealings may be relevant to allocative efficiency, but they adversely affect distributive justice. *That is why added policy actions are often necessary to transfer income and other economic opportunities to the very poor.* Food and health subsidies serve that transference purpose, as long as they are properly targeted to low income beneficiaries and efficiently administered. They establish an essential safety net in poor societies that generally do not have the social security plans familiar in some industrial countries. When these subsidies are removed without an alternative safety net, as the IMF conditionality dictates, the ensuing social disturbance and turmoil, and political destabilization, cost far more than the subsidies themselves. In further defense of food subsidies, which are continuously under attack by the Bretton Woods organizations, one has to remember that subsidies do much to stabilize food prices, transfer income to the poor, and maintain sociopolitical stability; the latter two objectives nonetheless are considered by neoclassical economics to be beyond its realm.

High income groups could however preempt many of the benefits of social services. Because levels of health, education and nutrition among higher income groups far exceed those of the poor, there is considerable room for reform to ensure that the benefits of social expenditures are better targeted, flowing more intensely to the poorest of the poor. *The rationales for government mediation and its role and legitimacy are greatly enhanced if the redistribution of income more equitably allocates social benefits.* Social subsidies could therefore serve the interest of underdeveloped countries much better if more effort is devoted to designing them as efficient means of income redistribution, without unduly hurting the efficiency of resource allocation. Such effort is far more preferable than the usual acrimonious debate dogmatically supporting or rejecting all subsidies arbitrarily and across the board.

Policies to ensure that everyone has access to enough food may consist of income support plans such as public works employment endeavors. Alternatively, direct cash payments can support the incomes of households, but only in cases of extreme poverty, for such a policy, which is common in some industrialized countries, is less suitable in underdeveloped ones because the number of households involved is much greater and the administrative machinery much weaker. Some countries may nevertheless manage to target cash support to needy households. Food subsidies can represent an alternative or a complement to income support plans by holding down food prices. Special programs can cover particular segments of the population, such as providing free school meals in primary schools, which have the added advantage of encouraging school attendance and improving concentration at school.

Regulation and rationing are other tools to be flexibly used to mitigate the harshness of the transformation process. Public action is therefore often necessary to supply social services and make them available to the entire population. This applies particularly to education and health services, including water supply and sanitation. Better distribution of food and shelter also requires public activism because income distribution is skewed towards a few and the vast majority are denied their essential needs. *A major task of government, then, is to correct the distribution of incomes and assets through income transfers, and the balanced (proportionate) distribution of public goods for human development.*

To be avoided, however, are situations where the more powerful capture a disproportionate share of the public social services. The distribution of social services may not be neutral with respect to income groups. Only targeted income transfers can help in reaching the poorer beneficiaries. Social spending, directed towards the poor, must nonetheless compensate for uneven income distribution. Towards that end, government can directly affect human development levels through across the board meso-policies which provide public goods and services in a way that does not discriminate among different social groups or regions, such as blanket food subsidy systems, all inclusive primary education programs, and nationwide immunization programs.

Targeted meso-policies of public goods and services can be also provided to all members of particular target groups in the society, such as a food stamp program for lower income groups or a supplementary feeding program that attempts to cover all malnourished children in a country. Meso-policies center on health, education, potable water, and other social services --usually provided by government-- and can be measured by the shares of government budgetary expenditures in GNP or GDP. They become important when people's primary incomes, especially those of the poorest, are insufficient for them to obtain the goods and services needed to ensure a minimal decent level of human development (basic needs). Primary incomes, the disposable incomes of households which form the normal workings of the economy, are often insufficient in countries where incomes are generally low. Even if the distribution of income is equitable, few people have primary incomes sufficient to ensure adequate human development. There are two determinants of better distribution of primary income that does so much for improving human development.

First is good asset distribution, which for underdeveloped countries usually means good land distribution. The study of alternative development strategies over the past three decades (UNDP, 1990: 10-27) found that a good distribution of primary income was invariably associated with fairly equal land distribution. Countries that have had a land reform --China, the Republic of Korea and the Democratic Republic of Korea-- have reduced poverty and inequality quite considerably. Most countries that have not --Brazil, the Philippines-- continue to have large numbers of people living in poverty, even when these countries have achieved high rates of economic growth.

Second is rapid expansion of productive employment opportunities, which is essential for spreading incomes throughout the population. In mixed economies, such an expansion comes through rapid labor intensive growth, as in the Republic of Korea. In the former socialist countries, the state's ownership of most assets, accompanied by employment policies that typically secure jobs for all productive members of the labor force, tends to generate a good primary distribution. These countries have often de-emphasized efficiency for equity. *Growth with equity is thus the optimal combination for generating macro-conditions needed to achieve human development objectives.* And the essentials for equitable growth can still comprise sensible and flexible use of prices, to reflect opportunity costs in a market system that is not unduly hindered; supportive policies toward investment, technology, and human resources; and policies for distributing assets and expanding productive employment opportunities.

Tackling disparities is essential, for disparities within countries are one of the biggest obstacles to improving the human condition. To reduce rural-urban disparities, the proportion of resources allocated to rural areas must increase, and even more important the decisions about priorities and resource allocations should be made locally. Such decentralization of decision-making for the allocation of public goods may be one of the most important ways of reducing rural-urban gaps.

Female-male disparities have to be tackled at several levels. Laws need to be changed to provide equal access to assets and employment opportunities. The proxy for access to resources for a minimal decent living standard, in UNDP's development framework, is basic income (UNDP, 1990: 16). Financial and other institutions that provide credit and disseminate technology need to be restructured to reach many more women. Reforms are also needed to bring about full female participation in political, bureaucratic and economic decision-making at every level. And traditional biases in the household against the young, especially females, must be blunted. In all this, the equality of women's access to education is essential. In addition, specially targeted programs should, where appropriate, support the health and nutrition of young women. For example, whenever possible a country should provide health care for women during pregnancy and birth.

Besides, the reallocation of social infrastructure is important in reducing the disparities between rich and poor. Measures are needed to encourage greater use of health and educational facilities by low income groups --for example, through nutritional support programs, in health clinics, and school feeding programs. And where access to education is limited, it is important to ensure admission by merit, rather than by connection, as is common. Often effective in transferring income to the poor in societies where overall income distribution is quite uneven, food subsidies have established an essential social safety net in many poor societies at not too great a cost, generally one percent to two percent of GNP (UNDP, 1990: 19). They have often compensated for the lack of social security plans existing in some industrial nations.

The subsidies, moreover, can create a bond between the poorer masses and the government. With that bond broken without an alternative social safety net in place, political and social violence can ensue and cost far more than the subsidies. To reduce costs, the subsidies need to be targeted towards low income households --by subsidizing foods mainly consumed by low income households or sold in low income areas. Rather than disapprove of food subsidies across the board, then, policy makers should devote their energy to designing food subsidy packages that redistribute income effectively, with the least possible impact on the efficiency of resource allocation. The design of food subsidies always demands care. The budgetary burden should be kept manageable. Incentives for food production should not be discouraged. Targeting should ensure that benefits reach the poor to make the program cost effective, and *it is more cost effectiveness rather than (neoclassical) cost efficiency, one must always remember, that is ultimately sought. The former is geared toward the ultimate objective of a program, while the latter is limited to the technocratic input-output concern.*

5.5 Fiscal Efficacy and Equity

The role of fiscal efficacy and equity in the context of socioeconomic transformation is of major significance. In the fiscal process, the efficacy dimension plays a central role, and in that of development, fiscal equity is of key importance. Equity and efficacy are a trade-off: Whereas equity in fiscal affairs is more important the lower the level of economic development, so is the need to avoid the deterring effects of equity based policies on potent efficacy (economic growth). The cost of equity is thus highest when and where it is most needed. The task therefore is to design policies that will minimize conflict between the two targets and, since conflict will always remain, balance benefits and costs at the margin through a mutual cost benefit analysis of fiscal equity and economic growth. A distinction is usually drawn between two different criteria for judging the equity of the fiscal system (Richard Musgrave, in Savoie and Brecher, 1992: 105-47). The one, directed at the combined tax expenditure package, calls for a distribution of the tax burden in accordance with benefits received. The other, addressing taxation only, calls for a distribution of the burden in line with ability to pay.

The benefit approach thus fits the philosophy of the market. Taxes are prices and people are expected to pay for what they get. Benefit taxes also fit the premise that persons are entitled to keep and use what they earn in the marketplace. The ability to pay approach calls for a social evaluation of income distribution and with it a principle of entitlement other than that of claim to market earnings. Two applications of this alternative principle have been identified by Musgrave (ibid.). The first, horizontal equity, deals with the requirement that people with equal ability to pay, as measured by some index such as income, should be treated equally. Horizontal equity involves choice of the proper index (income, consumption, property) and the best way to define each. The second, vertical equity, deals with the more difficult problem of determining the proper distribution of the tax burden among people with different abilities to pay. Once an ability to pay approach, in its normative perspective, is taken, it becomes inconsistent to focus only on tax taking, so as to distribute the cost of public services fairly. The same reasoning extends to securing a fair distribution of disposable income remaining for private use. *The fiscal function thereby reaches beyond fair payment for public services to cover a tax transfer system by which a fair state of distribution can be established.* Fiscal equity thus squarely derives from a norm of distributive justice. At the one end of the scale, it is taken to call for an egalitarian solution in the traditions of Rousseau and Marx. At the other end, Bentham's adverse effects of redistribution upon the level of income is allowed for, so that the total utility is maximized, and this imposes a brake upon equalization. In the middle is Rawls' distribution that would maximize the welfare of the worse off.

Fair distribution calls for raising the lower end of the scale so as to ensure an acceptable minimum level, sufficient to meet what are considered basic requirements, while at the upper end of the scale avoiding undue concentration of wealth. *This aspect of normative considerations of fiscal equity is of special importance, in underdeveloped countries that do not enjoy the benefit of an established and well-functioning democratic process, by which matters of distribution and justice may be relatively and systematically resolved.* What is considered equitable or fair, moreover, does matter a greater deal in the UDCs, for it is a fundamental source of political legitimacy. Savings also, of course, matter for the transformation process because they are necessary to capital formation, and because capital formation, including human investment, is essential to raising productivity and hence per capita income. Whereas in developed countries technical progress has become the major source of productivity gains, key factors in UDCs are capital formation and raising the capital to labor ratio.

The fiscal system's immediate impact on welfare gains and losses out of an existing level of income is important, but *productivity growth is a key factor in the escape from poverty over the longer run.* A central task for development policy therefore is finding ways to raise the domestic rate of savings and, when it comes to taxation, to not reduce it. Considerations of equity suggest a progressive pattern of taxation, especially where income is low and distributed unequally. Another rationale for progressive taxation is the greater benefit that the wealthy derive from government. Governmental protective services such as national defense and police and fire departments are more valuable to the better off than to the worse off; a homeless person, e.g., hardly derives anything out of these services.

Moreover, even in the utilitarian tradition, equity calls for the tax burden to be distributed so as to minimize the aggregate welfare loss, as measured by a stipulated social welfare function. Given that the social marginal income utility is taken to fall as income rises, this calls for a progressive tax, especially so in the case of UDCs, where income distribution typically is highly unequal. Further, national income is affected by the tax structure; progressive taxation yields a higher percentage gain the poorer the country. And among countries of equal income, more progressive taxation yields the larger gain to countries with the less equal distribution. Equity gains from progressive income taxation may be offset, however, by detrimental effects on savings and investment, and thus on national income. That pattern unfortunately tends to depress private sector savings. Such is the case because the propensity to save rises with income, so that higher incomes are the primary source of household savings. This potential conflict, important to tax policies of industrial countries, applies even more strongly to UDCs. And the conflict between equity and growth could be partially reduced by a personalized and progressive tax on expenditure rather than on income. However, such an approach, though feasible in industrialized countries, encounters severe institutional and administrative difficulties in most UDCs. In addition, it makes a lot of difference, e.g., whether sales tax applies to food. A more feasible, if second best solution, which functions reasonably well in underdeveloped conditions, is selective excise taxes on items of high-income consumption. Property taxation as well offers an effective approach, but problems of assessment typically interfere with efficient use thereof. Here, as elsewhere, the options for tax policy in UDCs are limited by a lack of tax handles and administrative capacity. All the same, much evidence from human experience thus suggests that policies can affect incentives to work, to take entrepreneurial risks, to save, etc. So policy impacts on human behavior always need taking into account.

To the extent that domestic savings fall short of domestic investment, the economy must import more than it exports. So, if the savings-investment balance is negative, then the country's current account balance will also be negative. Moreover, the savings-investment balance determines, over time, whether a country earns more in interest and dividends from its foreign holdings than it pays to other countries on their holdings in it. This, in turn, determines whether the GNP is larger or smaller than the GDP (the difference between GNP and GDP being the net income received from, or paid to, the rest of the world). GNP thus is less than GDP when a country pays more to the rest of the world than the income it correspondingly receives, and vice versa. Furthermore, the savings-investment balance significantly affects the growth of employment and wages, as well as the economy's overall rate of growth. Boosting savings and investment --and, in particular, boosting savings by more than investment-- is also central for reversing UDCs' perennial pattern of importing capital from abroad to finance the excess of imports over exports and for easing the burden of servicing foreign held debt (Charles Wolf's *The Economic Pivot in a Political Context,* 1997: 27-8).

With regard to the expenditure side of the budget, transfers may serve to reduce excessive inequality at the lower end of the scale, as elaborated on above, and public capital may make an important contribution to economic growth. Human investment in health and education in particular may serve to combine equity and growth objectives, thereby overcoming the conflict inherent in a tax based approach. The conflicting goals of equity and growth can be further narrowed by directing taxes at high income consumption. This would call for a personalized and progressive tax on a person's total consumption (Robert Eisner, "The Proposed Sales and Wages Tax: Fair, Flat, or Foolish?" in Robert Hall, ed., *Fairness and Efficiency in the Flat Tax*, 1996: 42-95). Imposed at the personal level, the consumption or expenditure tax would permit the use of exemptions and progressive rates as under the income tax, and thus be equitable in relation to the distribution of consumption. But savings would not be discouraged, especially over the higher income ranges where marginal rates are steeper.

A progressive tax on expenditures would also be the more desirable if high income households are also big spenders, as is frequently the case in low income countries with quasi-aristocratic strata. Moreover, whereas progressive income taxation invites capital flight, this danger is reduced under the expenditure tax. When feasible, such an arrangement could be suitable for the UDCs. An expenditure tax would be no more difficult and might indeed be easier to administer than the income tax. Major difficulties would be avoided, such as the treatment of depreciation, interest and capital gains, as well as inflation adjustments. However, there are also new problems that would be especially severe for UDCs. Administration of a personalized expenditure tax calls for the recording of financial transactions, with the tax base determined as the excess of income over net investment and cash withdrawals. Given the rudimentary state of financial institutions in UDCs, tracking the tax base would be more difficult.

Resort to a cash flow tax at the business level would bypass some of these difficulties, but at the unacceptable cost of largely omitting capital gains other than rent from the tax. It need also be noted that some form of profit taxation at the enterprise level would have to be retained even if personal taxation was shifted to an expenditure base. This would be necessary in order to permit the source country some share in the tax base provided by the earnings of foreign owned capital. The vision of a comprehensive and progressive expenditure tax, suitable though it might be for the DCs setting, is thus not an easily obtainable goal in conditions of underdevelopment. Instead, use could be made of a system of excise taxes, providing for selective taxation of high income items of consumption, a second best, but more feasible approach. Generally, the design of direct tax systems in underdeveloped countries is subject to severe institutional constraints. The choice of tax handles is very limited, which, more than concern over savings, makes indirect taxes more congruent with overcoming conditions of underdevelopment.

As to the property tax, the taxation of land and real estate could play a major role in the transformative tax system of UDCs. Due to population pressure in UDCs, land weighs more heavily relative to capital as a source of income than it does in industrialized countries. Land is thus an especially appropriate source of potential revenue in UDCs, even though, depending upon the distribution of land ownership and thus political power, it is frequently undertaxed. Taxation of large land holdings can thus add a progressive element to the tax structure and may induce the fuller utilization of underutilized land. Taxation of urban residential property similarly offers a way to reach luxury consumption. Notwithstanding these potential advantages, property taxation in UDCs is typically inadequate, reflecting poor assessment systems and political constraints.

Under whatever tax system, given the ever present danger of *capital flight* from the UDCs, the proper balance between equity and growth is indeed of great importance. Issues of fiscal equity that arise in the context of open economies are thus of special import for underdeveloped countries. Further, with the increased importance of trade and capital flows across boundaries, problems of international tax adjustments are increasingly a crucial issue of tax policy in the UDCs. *Consideration should thus be given to the international aspects of tax policy during the transformation process, especially the threat of capital flight as a limiting factor in equity oriented tax measures,* and the need for international coordination. The revenue from product taxes, for example, could accrue to the country of destination. *The question of how income taxes and the yield of the corporation tax should be dealt with is thus of vital concern to underdeveloped countries,* and can be dealt with only in a reformed international economic order.

Capital exporting countries could, for example, tax profits from foreign investment when repatriated. *Guest countries in turn could apply their corporation tax to profits of foreign capital in their borders,* and this tax may then be credited by the home country upon repatriation. Such arrangements would bear on the profitability of investment in underdeveloped countries and on the effectiveness of selected tax options in attracting *bridled* foreign capital. Hence tax equity cannot be limited to domestic considerations, but should be broadened to include the international dimension. While seeking equity, therefore, the UDCs should keep an eye on *resource mobility* and the danger of *tax base flight.* Income inequality in UDCs is exacerbated by capital gains and rents that accrue largely at the top. And capital is mobile, as are high paid professionals. Low income, ordinary labor is not.

All this places serious restrictions on progressive taxation in UDCs, except for the taxation of land, which cannot be moved. With near perfect mobility of capital and easy residential mobility for high income earners, international low tax competition can attract resources by down bidding tax rates. *Tax competition could thus deprive countries of the freedom to choose their own fiscal arrangements, including measures to deal with excessive inequality.* Until the entire system is reformed, only international tax agreements, especially bilateral ones, can be of some help. However, short of a truly reformed international fiscal system, the implementation of fiscal equity in underdeveloped countries will remain severely limited by the escape hatch of capital flight. Since the latter is in the interest of the Powers, the global fiscal order is likely to be reformed only in tandem with the slowly changing configuration of power.

5.6 Bretton Woods Reform

Originally stated at Bretton Woods, as referred to above, the IMF's and World Bank's objectives were to promote world employment, incomes and growth and to work to eliminate world poverty. But because the resulting organizations have also been seen as having the function of preserving world financial stability and an open trading environment, they gradually replaced their primary role by becoming an agent for transnational corporations wanting to invest freely with confidence in the UDCs. In this dubious role these organizations ensure that debtors do not renege but rather repay the commercial banks, and that the underdeveloped countries maintain open markets for finished products, imposing no restrictions on transnational investment and penetration. These international financial organizations are now thus primarily dedicated to supporting the interests of DCs' banks and companies, when needed at the expense of the UDCs and their potential, contrary to the "original intent" of their portfolio. The history of the IMF and World Bank, especially the policies they have followed since the 1980s, evidences the fact that this spurious role has been given absolute supremacy and that the original function has been sacrificed to it.

An argument could be made that there is no intrinsic conflict between the two, and that achieving the second (making the world economy safe for DCs' banks and companies) is a prerequisite for achieving the first. It is true that there are some positive interrelationships which work both ways, and that a certain amount of stability in finance and trade is necessary for international economic prosperity, including that of the underdeveloped world. However, financial stability maintained at the expense of UDCs' development and potential for prosperity, actually threatens the long-term prospects for the global economy and indeed for the profitability of DCs' enterprises. UDCs' markets for DCs' products will not grow if the underdeveloped world incomes do not grow, or if all available resources are perpetually preempted for debt servicing. Indeed, countries that are forced beyond reason to pursue deflationary policies in order to service their debts may eventually collectively refuse to continue playing the bankers' game, much to the banking community's loss. By giving so much priority to international financial interests and so little to UDCs' well-being, the international financial organizations may thus secure a financial stability that is temporary and fragile. Rather than forcing deficit countries to bear the entire burden of adjustment, therefore, the IMF would be better advised to work toward UDCs' relief, which would provide a much more secure basis for world economic growth and vitality.

There is of course a need to expand world demand and trade, both to mitigate the dire strait of underdevelopment and to allow for economic expansion consonant with world population growth. If countries are to continue to grow at the same time that they work to improve their trade imbalances, they must be able to expand their export earnings rather than simply cut their imports, which results in decreased output and investment. Export expansion, however, does not automatically occur when countries increase their supplies; there must also be increased demand so that those exports can be absorbed. *So if the underdeveloped world is to pursue a path of growth oriented adjustment by increasing its exports there must be a sustained rise in world demand.* Such growth in demand for UDCs' products depends largely on the major industrial countries' domestic policies -- specifically, those regarding growth in their domestic demand and access to their markets by underdeveloped countries. Such growth in demand and market access do not come about simply through the operations of an unregulated world economy; there is no invisible hand in this leviathanic world. Keynesian international intervention therefore is acutely needed. Of the organizations currently in existence the IMF is the most appropriate to undertake such intervention. In addition to *monitoring* world economic developments, which it already does, the Fund should be empowered to *take actions* that would ensure a world environment conducive to robust growth, inclusive of the UDCs. Three sets of actions might constitute an appropriate starting step.

First, pressure should be put on countries that chronically run surpluses. The pressure should be backed by such sanctions as trade and exchange rate discrimination to force surplus countries to expand their domestic demand, thereby increasing their imports and reducing their surpluses. In the past the Fund has not taken this kind of symmetrical approach to adjustment, requiring policy changes in surplus countries as well as deficit countries. However, today there may be more support for adjustment steps aimed at surplus countries given that the United States has become the world's largest debtor. Indeed Washington has already moved in that direction initiating sanctions against surplus companies (and countries such as Japan), both multilaterally through the Group of Seven (G-7) and bilaterally by restricting imports (and by reenacting the Super-301 legislation in March 1994). These efforts are bearing some fruit because of America's strong position in the world. What is needed is to systematize and institutionalize sanctions so that all deficit countries benefit as was stated at Bretton Woods. The aim would not be to prevent any and all sustained surpluses, but rather to ensure that at a minimum they are balanced by long-term capital outflows on reasonable terms, so as to prevent deflationary repercussions on deficit countries.

Second, if adequate adjustment does not occur among surplus countries, the IMF should be empowered to issue additional Special Drawing Rights (SDR) to deficit countries, in order to grant them the liquidity needed to finance their deficits. Under Keynes' original plan an international central bank would have been in a position --indeed would have had the duty-- to sustain world output by issuing new money (bankers, to use Keynes' term), if the policies of national governments seemed likely to lead to world depression. The IMF has never had that authority. But the creation in 1969 of the SDR which was designed to cope with a shortage of liquidity, has given the Fund potentially the same power --if, that is, member governments authorize the SDR issue. Currently, however, the IMF must seek explicit approval from donor governments before issuing SDRs, a requirement that has prevented it from playing a more substantial role in maintaining world growth and output. The IMF charter should therefore be altered to give the Fund itself discretionary power to make special SDR issues.

Third, while it is important to strengthen the international organizations lest they be completely overwhelmed by the enormity of the issues, it must be noted that they have been weakened by the drift away from multilateralism. Frustrated by the unwieldiness of the global approach, countries have increasingly turned to regional or bilateral arrangements. It is, however, essential to differentiate between deliberative organizations and executive organizations at all levels (national, subregional, regional, interregional and global). The major objective of deliberative organizations such as UNCTAD is to build consensus and to enhance legitimacy in the international community. Understandings reached in such multilateral fora are the basis and authority for pursuing shared goals, and this legitimacy is essential if anarchy is to be avoided and progress made. *By contrast, the major objective of executive organizations such as the World Bank is to depoliticize issues and actions by taking them out of the unilateral realm.* For instance, aid policy can be highly political in the bilateral context but should be less so in, e.g., the UNDP and the World Bank. While the distinction between deliberative and executive organizations is important, in both types of organization the tendency away from multilateralism means eroded legitimacy and heightened politicization. In effect, the shortcuts of bilateralism and regionalism complicate the quest for long-term solutions to global issues. On the other hand, the revival of protectionism and regionalism notwithstanding, the increasingly global nature of the world economy and the accelerating advances in transportation and telecommunications technologies are powerful forces pushing to multilateralism.

Beyond these three sets of actions, consideration must also be given to stabilizing the prices of commodities upon which many underdeveloped countries remain dependent, and to ensuring adequate long-term development financing. Expanded world output and trade would help sustain commodity prices and could make commodity price agreements unnecessary. However, given the presently sluggish and uncertain prospects for world commodity demand, compounded by IMF policies that mandate increased commodity production, commodity prices are likely to continue their slide unless commodity price agreements are reached. Such agreements should stipulate floor prices, limitations on supply and the creation of buffer stocks. Additional SDRs could be issued to support commodity prices when they fall below a certain level. This would help stabilize both prices and world demand. By boosting prices of UDCs' products and improving markets for them the changes described above would reduce the extent of adjustment that deficit countries need to make. But it would be necessary not just to reduce deficits in the short-term but also to improve the prospects for long-term growth and development, and thus the potential for transformation. This means that underdeveloped countries must have access to adequate development financing.

Expansionary and growth oriented adjustment typically require a significant amount of foreign exchange to finance the investment and imports that are needed for constructing a productive base. Currently, growth prospects in many countries are being undermined by a lack of finance, which forces cuts in investment, maintenance and spending on education and health --the crucial elements of human capital. Substantially more finance, particularly more medium-term finance-- is essential for growth oriented endeavors. Because foreign exchange gaps are great in most UDCs, substantial additional finance is essential if countries are to be able to meet the objectives of growth and fulfill their debt servicing obligations. What is needed is substantial additional net transfer of funds --inflows of new money beyond what flows out for amortization and interest. In this sense much existing finance is not additional, as it simply finances repayment of old debts. Moreover, banks today are making virtually no additional voluntary loans; since other funding is also relatively scarce, the most effective way to gain additional net transfer would be to slow down or limit outflows for debt servicing. In general, the smaller the new inflows from aid or commercial sources the more likely it is that additional net transfer will have to come about, as a result either of renegotiation of payment on existing debt or unilateral moratoria on debt servicing. This means major, across the board reductions in debt servicing instead of the current case by case approach.

If these proposed changes in the international economic environment --*increased finance for development, support for commodity prices, expansion of world demand and trade*-- are to have necessary beneficial impact they must be considered in relation to each other. In other words, they must be considered as a whole, not one by one. On the one hand the extent of a change needed in one area depends on what happens elsewhere; for example less finance would be necessary if countries could earn more commodity sales. On the other hand changes in one area can actually be quite ineffective unless changes are made elsewhere --more aid can simply mean more debt servicing. Such a holistic approach would be quite alien to the international financial organizations; eager to grab power, they treat each issue separately, discussing different ones in different arenas and dealing with countries' problems on an individual basis. These procedures need to be substantially revised.

For long-term development to occur present trends must be reversed: *Imbalances in external and domestic accounts need to be reduced, yet at the same time there should be efforts to maintain the incomes of the poorest strata, protect social welfare* and *promote the conditions for medium-term growth.* The IMF and underdeveloped countries need thus to at least reach voluntary agreement about the legitimate boundaries of conditionality. Some conditional terms are necessary and legitimate. Lenders, including the IMF which is not an aid organization but has to revolve the funds at its disposal, do require some assurance that they will be repaid. When there is no suitable collateral policy, a form of conditionality must provide some assurance of repayment for international loans intended to support balance of payments adjustment. However, conditionality has in practice far exceeded admissible and legitimate limits. Conditionality has been applied to nearly any country seeking IMF finance regardless of the country's repayment record or prospects. More importantly, *the policies prescribed go too far beyond those strictly related to repayment.* In attempting to reformulate the generic conditionality along more appropriate, unintrusive lines, furthermore, room should be allowed to achieve congruence with the country specific economic, social and political situation and prospects. Thus it is possible to sum up *the kind* of reform that is needed:

(1) The IMF and World Bank need to take a more open and less dogmatic view, both of the underlying works of the world economy and of the desirability of particular policy instruments. The prevalent construct in the international financial organizations --essentially neoclassical and monetarist, laissez faire and antistate-- has not, in the first place, been historically used in cases where development took place; quite its regimented contrary was

used in each historical case. Nor does this construct have either coherent theoretical foundations or empirically proven achievements; certainly its recent conduct has been neither spectacular nor thrilling, to put it charitably.

(2) Conditionality programs need to take fuller account of social and political realities. Technocratic "first best" solutions such as large currency devaluation and subsidy elimination need to be discarded or at least mitigated, in order to avoid economic ruin and political despair, riots and destabilization.

(3) Macroeconomic policies need to be more expansionary (or less deflationary). How far this is possible depends partly on the availability of external finance. However, even within financial constraints more expansion can be achieved if greater stress is placed on both import substitution and low import sectors.

(4) Short-term policy changes should be designed to be consistent with the requirement of medium-size development. Focusing conditionality mostly on agriculture engenders deindustrializing effects. Yet for the medium-term to long-term, a country's industrial sector must play an important role in providing simple consumption and investment goods for the domestic economy, for export to the region and eventually for world markets.

(5) Within any given macroeconomic policy framework, meso-policies must be used to channel resources toward economic growth and to meet the needs of the vulnerable strata. Meso-policies take into account the impact of all policy instruments --including taxation, government expenditures, tariffs, foreign exchange allocations, and credit policies-- on the distribution of resources and income. Therefore, priorities need to be established for the way goods and services will be distributed to different economic groups, and all meso-policies should be used consistently to ensure that economic growth and alleviation of poverty are given precedence. Current conditionality programs often do not allow for this setting of priorities for resources and spendings.

(6) Sectoral policies should be introduced that would restructure the productive sector in order to strengthen employment and income generation and to raise productivity in low

income activities. Particular attention should be paid to small farmers and informal sector producers in industries and services.

(7) Policies should also aim to restructure the social sector in order to increase its equity and efficiency and to redirect public spending toward low cost basic services and growth promotion.

(8) There should be compensatory policies to protect basic health and nutrition during the inauguratory transitional period, until growth permits low income households to meet their basic needs independently. Such programs would include employment creation programs and nutrition support for the most deprived.

(9) IMF monitoring should cover not just monetary targets but also indicators of growth performance --such as output growth and investment levels-- and of social development --such as nutrition levels and the incomes of the poorest strata.

(10) Changes are needed in the system by which IMF agreements are negotiated. At both the national and international levels discussions and negotiations should be broadened, to include those parties concerned with the social sectors on equal footing with those responsible for economic growth and monetary affairs. Underdeveloped countries should be granted access to technical support which would help them fashion and negotiate workable alternatives.

5. 7 Muddling through the Bretton Woods Regime

The UN Security Council, ostensibly, is the last resort in issues of world collective peace and security. The latter, however, are so narrowly construed as to exclude the death of millions of poor people every year by malnutrition and starvation in the UDCs. The dynamics of the UNO, since its inception, set assumptions of world politics which omitted the massive material inequalities in the world, and especially the UDCs' desperate poverty from the main agenda. This nondecision-making, through the agenda setting process, leaves the status quo untouched by the main stream of world politics.

Organizational bias made the Cold War the center of attention; all other conflicts and urgent questions were organized out of politics so that they do not become the subject of any overt power relations: Questions cannot be answered if they are never raised in the first place, and decisions on nonagenda matters, dealt with through covert power relations, do not have to be made in an open forum. As the Cold War drew to a close, the Bretton Woods organizations had perfected their intricate, special interest, commanding role, whereby UDCs' affairs fared no better than under that Cold War. Overarching UN nondecision-making thus preserves and strengthens the status quo.

The UN has little more coherent theoretical foundations than the doomed League of Nations, if only because it too is founded on a concept contradictory with the reality of a world essentially composed of sovereign states, namely the concept of collective security; incoherence thus doomed it from its conception. It is the Bretton Woods organizations that establish, hold, and run the practical economic foundation upon which this political and institutional structure is superimposed. The Security Council essentially confirms, legitimizes and enforces the rental distribution established by the Fund and the Bank: The United "Nations" is replaced by a "united corporations." If the Bretton Woods system collapses, the whole edifice erected by the San Francisco Conference totters, blowing away the UN house of cards which has already outlasted the Versailles Treaty's League of Nations and matched in duration the Congress of Vienna's Balance of Power order. This is not expected to take place soon enough for the poor peoples of the UDCs. Bretton Woods organizations will not timely vanish. Nor will their reform expeditiously come, for the regime, including its neoclassical justification, is based upon the global power structure which does change but only slowly, through shifts in power configurations and relations. *The UDCs thus are in dire need to muddle through the existence of the Bretton Woods organizations and their neoclassical conditionality.* This section endeavors to explore such modus vivendi.

In terms-of-trade policy and liberalization strategy, and of generally adapting its dealings to the Bretton Woods regime, the typical UDC is characterized by a number of general features and constraints. As concerns the former, the country's policy makers are characteristically risk averse, in the sense that there exists a trade-off between the benefits of trade openness, and the expected losses associated with the degree of vulnerability to external shocks implied by openness itself. This explains why the capital account is usually strictly regulated, thereby engendering the likelihood that domestic macro-consequences of the exchange rate policy are greatly reduced. As for the constraints, the rise of inflationary pressures is strongly resisted in order not to destabilize the economy and to favor its long-run, balanced growth prospects: A steep rise in the price level usually entails a fall in the real exchange rate, leads to balance of payments difficulties, and encourages various forms of control which in turn tend to be accompanied by micro-inefficiencies. Budget imbalances are unwelcome too, for they would be financed through increases in the money supply, and thus inflation. A third constraint is provided by current account deficits, which are undesirable, for they increase foreign debt, expose the economy to financial shocks, reduce the capacity for debt amortization and burden future welfare.

Because World Bank tutelage rules out alternatives, an increasing number of countries have taken significant steps to liberalize their trade regimes nonetheless, but good trade policy cannot make a poor country rich. At its best, trade policy provides an enabling environment for development. It does not guarantee that entrepreneurs will take advantage of this environment, nor that private investment will be stimulated; it certainly does not guarantee adequate levels of economic growth in the longer run. Although an economic liberal trade regime is good for economic development in the long-run, this general idea is not tremendously helpful for UDCs' policy. Empirical evidence shows that for most of the countries that have undertaken radical trade liberalization in the 1980s, the direct efficiency consequences of that liberalization are still uncertain and likely to be small, and that a wobbly trade reform can be even worse than none at all (Rodrik, 1992). Governments of the

UDCs can thus complicate their macroeconomic stabilization efforts by placing too much faith on the Bretton Woods liberalization, especially because the underdevelopment context requires a more nuanced view of the role of trade policy; one which would have room for such unorthodox roles for trade strategy as buttressing credibility for a government's antiinflation program, helping out with fiscal retrenchment, and jolting entrepreneurial expectations.

Moreover, trade liberalization in the UDCs has frequently met with skepticism on the part of the private sector. The archetypal setting in which trade reform is undertaken illustrates why lack of credibility is the normal response. The country concerned is hit by a terms-of-trade deterioration, a reduction in foreign capital inflows, and capital flight. Inflation accelerates to new heights, while the economy comes to a standstill. The central bank runs out of reserves. Enter the IMF and the World Bank with the promise of "structural adjustment" loans, which would unlock additional funds from other creditors, provided that the government undertakes a number of austere measures including the modification of the commercial regime. The government has few alternatives but to accept.

For the IMF to force a sudden, sharp devaluation of currency on a country is to levy a tax on domestic residents, because it makes imports more expensive in local currency, and pushes domestic prices upwards. This resultant inflation erodes the purchasing power of the laborers' wages. The inflationary outburst represents in effect a confiscation of real money balances from citizens by monetary authority, whereby inflation generates government revenues. That confiscation results in the infamous, repeated pattern of IMF riots, which take place in most UDCs upon the start of implementing IMF policies. Such implementation thus increases the vulnerability of the ruling regime and erodes its legitimacy. Within a year or two down the line, one or more of several things can happen: Workers and students riot in the streets, the terms-of-trade improve and the cash crisis is temporarily alleviated, or the government realizes that it can hold the World Bank at bay while slowing down on the implementation of the measures agreed to. Any one of these will be enough to give the government reason to hold or reverse the liberalization scheme. However, a government that has already given access into its economic decision-making to international agents of trade liberalization, and accommodated itself to their conditionality, will stick it out because this allows it to have access to additional resources. Nonetheless, the commitment of the leadership to a real reform will often remain suspect in the eyes of the public. *The government thus has to put up with mounting political opposition as liberalization's ramifications unfold.*

Adjustment incentives are thus blunted as a result of lack of credibility, and hence political opposition ensues. Therefore any productive efficiency gains from trade liberalization are delayed, which further sets forces into motion that make it more difficult for the reform to be sustained. Moreover, skepticism regarding the sustainability of reform can render the reform itself harmful. When consumers expect that a trade liberalization will be reversed sometime in the future, they then perceive imported goods to be rendered temporarily cheaper. This leads to intertemporal substitution in consumption towards the present, and an enlargement of the current account deficit, for the country suffers from overborrowing, until the expected reversal materializes. The mere expectation of a reversal is thus enough to distort the intertemporal structure of relative prices even though it may turn out that the government will stick with the reform after all. *Hence a radical liberalization may adjust current prices but only at the cost of distorting tomorrow's.*

Another factor is that the desired intertemporal substitution will reflect itself in underinvestment: As consumers go on a binge in response to the perceived temporary availability of cheap imported consumer goods, the savings rate will fall, raising the interest rate and crowding out capital formation. A third factor is that lack of credibility in reform can interact with capital irreversibility to produce a hefty tax on investment. The tax imposed on capital relocation by incomplete credibility, could easily exceed the direct inducement to investment in exportables generated by the shift in the trade regime, in which case *trade liberalization would paradoxically reduce rather than enhance investment* incentives in exportables. This effect is possible because the reform, by hypothesis, brings uncertainty. Moreover, if the risk aversion elaborated on above is added, the lack of credibility would reduce incentives to shift investment by even more. On account of both overborrowing and underinvestment, furthermore, trade reforms that lack credibility may prove difficult to sustain. First, macroeconomic balances will come under further stress, forcing governments to abort the liberalization process. Second, the delay in economic restructuring will block the emergence of new political alliances in favor of the liberalization, with the consequence that the political field will be open to the import competing interests under strain.

Governments can nonetheless enhance the credibility of their trade policies. Membership in the World Trade Organization, if the country has some international political clout, and placing a ceiling on maximum tariff rates by undertaking international obligations, can help. So can uniformity in the tariff schedule, as this may make it easier for policy makers to withstand pressure from individual industries: It is easier to say no to supplicants when their requests would imply deviating from the norm of uniformity. Moreover, when the government's liberalization intentions are discounted because its sincerity is uncertain, a signaling strategy may be appropriate, whereby a large enough reform is taken to create a distinction from previous governments. However, the role of tariff protection and exchange rate policies in UDCs after a terms-of-trade shock has occurred and a new equilibrium been attained, whereby constraints concerning the domestic, foreign and public sectors are specified, shows that the optimal response to the shock depends on the domestic features of the economy, as well as on its trade openness; *in particular, protectionist attitudes may well be justified, and antitrade policies may be helpful to ease adjustment* (Rodrik, 1992).

The outward-oriented East Asian countries managed to avoid prolonged external crises for too short a period prior to the eventual eruption of current financial difficulties. On the other hand, even the most protectionist commercial regimes are perfectly compatible with external balance and prompt debt service. It is Romania, not South Korea, that has managed to extinguish its foreign debt during the 1980s. Indonesia and India did not even succumb to debt crises, although their commercial policies during much of the early 1980s combined severe types of import restrictions. Despite its current difficulties, Indonesia is fiercely resisting any succumbing to IMF conditionality; so is Malaysia. Conversely, Chile went through a bust in 1982-83 even though all of its quantitative restrictions had been eliminated and its tariffs lowered to a uniform 10 percent. These examples highlight the crucial determinants of macroeconomic stability: The countries that went through a debt crisis were those that unreasonably overvalued their currencies, and let large fiscal deficits accumulate for prolonged periods (Rodrik, 1992).

On the other hand, the distributional impacts of IMF stabilization programs inherently promote sharp income shifts, whereby regressive movements of real wages ensue in response to cutbacks in government sponsored consumer subsidy programs, and to reductions in nominal wage indexing. There further emerge adverse effects of stabilization programs on unemployment. There are several ways in which particular adjustment policies can promote regressive income movements. First, deregulation of prices can deleteriously affect money holders in the likely event that prices would increase. Price deregulation would thus act as an effective tax on the poorer segments of society, since the poor are more likely to hold assets in the form of money than are wealthier people. Second, deregulation of interest rates can make it increasingly difficult for small and medium-sized firms to gain access to credit. Large, more established firms, particularly transnational corporations, are more likely to gain access to foreign capital markets, where interest rates are often one half to one third less than those prevailing in domestic markets after deregulation. This can lead to an increased concentration of assets. Third, in the event that nominal wages are held relatively constant by restrictions imposed by the government, currency depreciation can lead to a decline in real wages as the price of traded goods approaches the price of nontraded goods, raising the overall price of goods. Finally, fiscal policies that involve the reduction of education, housing, health and consumption subsidies can disproportionately hurt middle and lower income groups. Also reductions in government investment projects can result in the loss of potential jobs for poorer, less skilled laborers (Sidell, 1988).

Devaluation too can be an important factor in influencing the distributional component of adjustment policies. However, the effect of devaluation can be influenced by two important intervening variables. First, the asset structure of the domestic economy can partly determine how a devaluation's influence on the relative prices between traded and nontraded goods, can affect distributional movements. Concentrated ownership in the export and import substitution sectors for instance, can be expected to lead to a concentration of income after devaluation as profits in these sectors increase in response to new price incentives. Conversely, decentralized patterns of ownership in these sectors should be expected to lead to progressive movements of income; e.g., where the export sector is largely agrarian and basically dominated by small scale producers, the distributional effects of devaluation would tend to be fairly egalitarian. By contrast where only a handful of mineral producers account for the bulk of exports by value, devaluation would tend to be quite regressive. The second factor that influences the distributional impact of devaluation is the consumption pattern, as reflected by the relative composition of imported commodities. Economies which are characterized by a relatively high proportion of basic, noncompressible consumer goods are more likely to be adversely affected by a relative increase in import prices than the reverse.

With respect to the choice of fiscal policy instruments, distributional effects of such policies are inevitable as elaborated on above, but the direction of such effects depends to a large extent on the choice of policy instruments. The authorities are not totally free to determine how the burden of increased taxes and decreased fiscal benefits is to be borne. Rather, the choice of policy instruments will be influenced by the political power of various income groups, as well as the authority's perceptions of the causes of the balance of payments problem and the effects of different policy instruments. Fiscal policies that are likely to affect the least powerful groups in society are the ones that are most likely to be eliminated, and those groups that are least able to express their discontent in a fashion threatening to the security of the state, are those that are most likely to bear the brunt of fiscal contractionary policies. These groups, in almost all cases, are the working strata. *Non-economic factors, such as the relative political power of various interest groups, therefore, may motivate authorities to favor policies that promote a regressive movement of income* (Sidell, 1988).

Besides, the justification for prescribing devaluation as a standard ingredient in IMF/World Bank support programs in underdeveloped countries, is that devaluation as a means of correcting a balance of payments deficit will work, if foreign demand for domestic exports and domestic demand for foreign imports are both sufficiently price elastic. But for primary exporting underdeveloped countries both elasticities are notoriously low. For exports this is a result of the fact that overall demand for food and raw materials is not particularly sensitive to price but depends much more on such factors as population size, the level of income and the level of economic activity. For imports, low price elasticity follows from the fact that there is little scope for price substitution between domestically produced and imported goods, the latter consisting of products which may well be essential to the economy but which simply cannot be produced locally. Hence if the prices of imported goods rise following a devaluation, only from the operation of the income effect (the lowering of real incomes resulting from the higher prices of imports, assuming constant money income), will there be any reduction in import demand. *As a result of these two peculiar features of the trade structure of low income, primary producing nations devaluation can be very hazardous as an instrument of trade policy in these countries.* On the export side, if devaluation works as expected and production costs and export prices are lowered, the effects are detrimental. To begin with, there is a deterioration in the terms-of-trade. But this is not all. Since the export products are price inelastic when prices are reduced, foreign demand is not increased by much. *As a result, export earnings fall and* *the country is now exporting more of its products and earning less in foreign exchange, a perverse outcome*. Of course this only occurs directly if the country in question accounts for such a large share of the world market for its export product, that its actions will have a noticeable influence on price.

On the other hand, an individual small producer could hope to slightly undercut its competitor and get some of her market without noticeably affecting market price, thereby increasing export earnings rather in proportion to increases in export quantities. But where there are many small producers all facing similar balance of payments deficits, and all under pressure to devalue with the same purpose in mind, the result is the same as if the action were taken by the large producer, and they all will find their export earnings shrinking as a result of the devaluation. For example, between 1980 and 1987 coffee exports of underdeveloped countries increased in quantity from 3,527 million to 4,130 million tons, or by 17 percent, while their total earnings from coffee exports fell from US$11,654 million to US$9,131 million, or by 22 percent. In all other cases export prices have fallen substantially over these years, while export quantities have increased. And of course when account is taken of the increase in the price these countries have to pay for their imports, and hence of the deterioration in their terms-of-trade, a clearer idea is obtained of the squeeze they face (Adams, 1993: 156).

Prior to the current abysmal financial conduct of the world, especially the Asian markets, UNCTAD (1997) warned that the burden of international economic disintegration, if it were to take place, would, as during the Great Depression of the 1920s and 1930s, be borne by those who can least afford it. Contrary to neoclassical theory and the stipulations of the World Bank and IMF, the UNCTAD *Report* states that increased competition does not automatically bring faster growth and development. Nor do growth and development bring about a reduction in inequality. No economic imperative exists that will make underdeveloped economies converge automatically, towards the income levels of developed countries if they only open up, deregulate, liberalize and privatize. Instead, UNCTAD urges a carefully phased easing into the world economy for underdeveloped countries, based on tailoring the process to the strength of the economy concerned, as well as to the stability, maturity and flexibility of the country's institutions.

Government policies devised to manage integration into the world economy can also be put to good effect in reconciling rapid growth and distributional objectives. The prevailing notion that, faced with globalization forces, policy makers in underdeveloped countries may lose their capacity to pursue development objectives actively is thus not accepted by UNCTAD. It stresses that the role of policy makers in the UDCs is as important as ever because growth and income distribution both depend on how profits are managed. According to the *Report*, experience shows that policies designed to manage profits so as to accelerate growth can also serve to manage distribution. It is important, though, that efforts to manage emerging inequalities be included at the outset when development strategies are designed, as was successfully done in some, although not all, East Asian Countries. The basic policy challenge in the UDCs, according to UNCTAD, is how to translate rising profits into investment at a pace sufficient to underpin a social contract, whereby initial inequalities can be eventually reduced by the resulting rise in incomes and living standards of the mass of the population.

In sum, *by forcing the underdeveloped countries to increase the export quantities of primary products, in the face of a price inelastic and not an upward shifting demand schedule, the IMF, through its strategy of export led growth, in effect transfers surplus value from preindustrial countries to industrial ones, through a change in the terms-of-trade, in favor of the latter.* If one of several countries exporting the same primary commodity were to cut its export costs and prices, its export proceeds could indeed increase but only at the expense of a fall in the other countries' export proceeds. The balance of payments adjustment process alone, whether through exchange rate variations or domestic price changes, would lead the latter to cut their export prices too, and *all will be worse off at the end than they were at the start.* It is also pertinent to note here that the stimulus to expand supply comes not only from the policy of devaluation, pressed on underdeveloped countries by the IMF, but also from the World Bank loans including its "structural adjustment" programs, which over the years have targeted the primary commodity export sector of these countries for expansion and for promotion, *notwithstanding the contradictions such policies raise in view of the elasticity problem.*

Concerning imports, the point to be stressed while one is muddling through the Bretton Woods regime, is that the compression of real income required to bring about a reduction in imports following a devaluation, requires the set of fiscal and monetary policies as elaborated upon in the above section on Fiscal Efficacy and Equity (which, concededly, is not always easy to administer in primary producing underdeveloped countries). The major problem arises from the income distribution effects of such policies, often characterized by large windfall gains to some sections of the community and heavy income reductions to others, and the fierce battles that are often fought on the political front to maintain income (essentially Keynes' relative income) positions. Such battles often make it difficult to maintain the required policy stance, with the result that money incomes tend to rise in line with the rise in import prices, and a cycle of inflation and further devaluation follows. It may also be noted that in view of the key role of imports in these economies, a rise in import prices quickly reverberates throughout the economy raising prices generally (though of course not necessarily uniformly), and thereby heightening the inflationary potential (Adams, 1993). In view of this it is not surprising that adjustment programs in which devaluation has played such a prominent role, have been associated with inflationary spirals.

5.8 Prospects for Transformation

An attainment of delinking is a utopian and risky objective. The existence of a country outside the world security structure, or the survival of any closed economy, is hardly possible today. Outside a regional, if not the world, economy, no nation can develop its productive forces in a reasonable time span, even if it had a security umbrella for the duration. Moreover, country and regional open economies are more prone than a globewide system is to carving out a usually temporary privileged niche of monopoly power at the expense of others within the process of social as well as technological development. Development for one group thus comes more at the expense of antidevelopment for others, who are attempting to develop through closed economies, and are thus condemned to dualistic marginalization and/or to underdevelopment of development. Therefore, the response to Samir Amin, A. G. Frank and others, whose fundamental prescription is that development of the UDCs would be impossible without *delinking* from the capitalist system, is that a policy of delinking from the global economy and security structures is impolitic, for it endangers the very existence of the delinkers, not just their welfare.

Neither the USSR nor PRC could fully delink in the last half century, even though both were protected by nuclear deterrent capability. The case of the Democratic Republic of Korea is very atypical geopolitically. Not every UDC is geographically contiguous with a protective harmonious major power, and the experiment seems to be unraveling now any way, with the strategic shift of interest and alliance between the USA and PRC, the previous primary protector of the socialist Korean experiment. Nor has Vietnam developed in any significant way during two and half decades of protected delinking. It too has recently opened up with not only France and the TNCs, but also with the very capitalist enemy of the 1960s and 1970s, the USA. Today, the nuclear protected, but demoralized soldier, Russia, as well as the industrial East European countries, are rushing to relink into, rather than delink from, the capitalist institutional and security structure. *Security predicaments override short-term economics, no offense to Marx, in the long-run.* Even ostensibly socialist China is striving now to access the WTO and other multilateral capitalist fora.

The hour's issue for the UDCs therefore is not delinking from the DCs, the issue is how to transform their links. Awareness of the rules of the game, however, is imperative.

The Asian NICs, now that the containment of the former USSR and China has taken the back seat, are now in a position vis-à-vis international capital analogous to that of the Afghan "Mujahideen": Having both fulfilled their one and only mission envisioned by the capitalist allies, they have now to demobilize; and the care, aid and tolerance provided willingly to these perceived "functionaries" while implementing their assigned mission are withdrawn. If need be, monstrous antagonism and cluster Tomahawk missiles are then accorded them instead of the previous harmony and "aid." Much of the Asian financial troubles now, such practitioners of exchange chrematistics as George Soros and other speculative profiteers and operatives of international capital must know,[1] is because of this end of mission factor. Richelieu's episode with the Ottoman sultan thus comes to mind, an earlier enactment of this same factor of the Machiavellian end justification of the means. Therefore, while endeavoring to transform their links with the DCs, the UDCs should never lose sight of recent past experiences.

Delinking is not only counterproductive, harmful and risky, moreover, but also *unrealizable.*[2] It is as utopian as the Marxist worldwide proletariat revolution. Rather than delinking the aim should thus be *linking with core capitalism,* to the extent that this is feasible. True, the recent history of the West exhibits intolerant and uncompromising attitudes towards non-DCs' (and indeed non-Christian) ways, in the broadest sense of the word. However, this is only a usual annex of success rather than anything intrinsic about the West. The reason for such attitudes is that whereas the Western nations have achieved superiority in world affairs in the last few centuries, because of the emergence of the capitalist mode of production, they mistakenly "attributed their superiority to other things:

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[1]On the instability that is caused by speculation, that once culminated in the Great Depression of 1873-78, and on the role of such earlier speculators as Jay Gould, Jim Fisk and Commodore Vanderbilt (the prototypes of tycoon George Soros), see Lars Tvede, *Business Cycles: From John Law to Chaos Theory* (1997: 48-57). On the speculative practices of Soros see Tvede, *Business Cycles,* op. cit. (pp. 203-9, 220-21, 237-40). And on Soros' intuitive (quasi chaotic) speculation processes see Soros, *Alchemy of Finance: Reading the Mind of the Market* (1987) and *Soros on Soros: Staying ahead of the Curve* (1995).

To their 'Europeanness,' their Christian faith, or their rediscovered Greek ancestry" (Samir Amin's *Eurocentrism,* 1989: 75). Success usually breeds a sense of exceptionalism at the expense of objective causality. And delinking can only exacerbate this configuration. However, *policies of counter containment* vis-à-vis *the industrial world through more links established by the UDCs, both bilateral and multilateral, could potentially bring about gradual if slow attitudinal change.*

A favorable external environment is vital for supporting development strategies in the UDCs. Technical cooperation must be established or restructured if it is to help build human capabilities and national capacities. A participatory approach --including the involvement of *authentic* Non-Governmental Organizations (NGOs)-- is crucial to any strategy for successful human development. NGOs are generally small, hence more manageable, flexible, and cost effective in building self-reliant development. Granted that the DCs are now firmly in control, it remains true that the doors are not all shut. Markets are accessible to a certain extent, expensive foreign exchange and overly priced technology are available to some degree and under certain conditions, and the edificial change accompanying world economic dynamics both closes options and opens opportunities. For example, TNCs, less entrenched in ever lasting civilizational wars than their DCs' educational and informational surroundings, are in need of cheap but well-trained labor available in some technology thirsty UDCs; mutual beneficial bargains, *quid pro quo,* could be struck despite many odds, for, after all, the business of business is business. *However, the UDCs have to understand that the ultimate end of the TNCs is profit, at any cost, not transforming them.* Hence, striking deals with the TNCs are just one piece in a complex jigsaw puzzle, whose completion's responsibility rests only with the UDCs. Indeed, if they are not careful, their sought relations with the TNCs could further disarticulate their economic edifices, as the last century and quarter have amply demonstrated.

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[2]Recently, Frank eventually conceded: "I now also believe that such delinking is impossible. That is contrary to my own previous view" (see his "The Underdevelopment of Development," in Sing Chew and Robert Denemark, *The Underdevelopment of Development,* 1996: 45).

While inter-UDCs cooperation and coordination are of utmost importance, they are constrained by DCs' high latitudinal ability at dividing and conquering them, using all sorts of carrots and sticks. Not the least of the latter is the IMF and IBRD, which are an equivalent alternative of nineteenth century's gunboat diplomacy. Although the Bretton Woods edifice operates to displace firepower with direct investment capital, military uniform with business suit, and garrison on foreign land with market penetration, in its essence that edifice is a clone of gunboat diplomacy. Either institution is but the identity of a geostrategic model, in which the combined use of financial dominance and coercive power imposes a hegemonic system in which a set of norms, values and interests emanating from a particular state (or an alliance of states) regulate the behavior (and ultimately the very destiny) of other states. *It will therefore ultimately be up to each country to do what it can to improve its lot,* given the international environment in which it must operate.

Nationally, in contradistinction to internationally, since economic growth essentially hinges on three socioeconomic variables: The rate of investment, the capital-output ratio (the size of additional output yielded by net investment), and the rate of population growth, a ten percent net investment rate and a one third capital-output ratio should begin growth in an unexploited economy, even against a three percent population increase. And relations of production can be vigorously notched and awaken from their somnolence once the forces of production have been metamorphosed, thereby setting in motion the sought transformation. Meanwhile, the UDCs should be able to make timely advances to improve the lot of their peoples by, among other things, enriching and modifying their strategic approaches to development management --by continuing the search for agents of socioeconomic change, sharpening policy focal points, ensuring greater consistency between policies and instruments, enhancing capacity for timely change, advancing significantly in addressing the foundations of long-term development, and adopting greater pragmatism in creating new structures and institutions.

The economic effort is not detachable from the whole array of social and political problems. To mount a transformation program requires in part that many institutions and ways be challenged by new and untried ones. This process of change occurred over several centuries in the West, but the exigencies of the underdevelopment crisis make it necessary to effect it at *a deliberate speed.* Bretton Woods organizations of course should be reformed so that they fulfill their originally pronounced Keynesian aim of promoting output and employment growth and development, rather than merely buttressing unfettered capitalism. However, one has to remember that *"money is power. This simple truth is valid for national and international relations. Those who wield power control money. An international monetary system is both a function and an instrument of prevailing power structures"* (The Arusha Initiative, 1980, quoted in Brett, in Latin America Bureau, 1983: 29-30, emphasis added). "IMF efforts at economic management," as The Arusha Initiative has affirmed,

> are merely the attempts of those who benefit from an inherently unjust world order to patch it up and avoid the obvious conclusion that *economic slumps are an inherent part of the profit maximizing behavior of those who control the system.* The unfettered private ownership of productive resources concentrates wealth in a few hands and therefore creates poverty for the majority (ibid., emphasis added).

Except for the thinly populated oil exporters, a major objective will be to overcome the foreign exchange constraint. And in view of the bleak future facing Ricardian primary commodity exports there is no alternative to reliance on diverse exports of manufactures, *rather than surrendering to the monocropping of the export led growth strategy of neoclassical economics.* Middle income countries that are already semiindustrialized will have a head start in this respect, since they are better able, on acceptable conditions, to attract the foreign investment and technology needed to press forward with industrialization and to achieve greater interdependence with the world economy, without which exports of manufactures will not expand. They are therefore in a better position to transform, relatively, in the present environment. Indeed, provided interdependence (not dependence), Gershenkron's thesis of the advantages of relative backwardness provides a support for those countries' positive prospects. Following Veblen (see Thorstein Veblen's *Imperial Germany and the Industrial Revolution* [1915], 1964), Gershenkron argued that countries which for whatever reason lag behind others in terms of productivity, are able to catch up quickly by imitating the superior technology of the leaders. Such catch up is facilitated by investment (through capital embodied technological change) and demand growth, and premised on the existence of an adequate institutional base. Thus, provided given resources and removal of impediments to industrialization, "the opportunities inherent in industrialization may be said to vary directly with the backwardness of the country" (Alexander Gershenkron, "Economic Backwardness in Historical Perspective," in Berthold Hoselitz, *The Progress of Underdeveloped Areas*, 1952: 6).[1]

As to the countries of East and South East Asia, and their strides in industrialization, there is little doubt that one factor is the close geographical, and perhaps cultural, proximity of these countries to that most dynamic center of postwar economic growth, Japan.[2] They have thus benefited from growth stimulating impulses emanating from that capitalist source:

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[1]In contrast to Gershenkron's thesis, however, Nicholas Kaldor, in *Economics without Equilibrium* (1985), stresses the cumulative causation of an initial productivity lead, based on the existence of dynamic scale economies. And Paul Krugman further argues, in "Trade, Accumulation and Uneven Development," *Journal of Development Economics* (1981, 8: 149-61), that given the existence of external economies, the country with a small head start in an industry will continually increase its productivity advantage over lagging countries. The opening of trade causes the head start, advanced countries to specialize in external economies-to-scale industries, while the lagging countries are forced out of these industries --a view analogous to Samir Amin's "peripheral capitalism" and "blocked development in the periphery" pointed out above. While the rationales of Kaldor and Krugman are as correct as that of Amin, a shift from dependent to interdependent relations with the DCs, for UDCs who have already established an industrial base, could ameliorate the productivity divergence by endeavoring to make Gershonkron's thesis operative. This is merely the catching-up experience of Japan in the 1950s and 1960s.

[2]This phenomenon is analogous to Flanders' proximity to Britain during the era of industrialization (as well as to the markets of Holland, Germany, and especially France and its capital), which contributed to Flanders' adoption of the British model of industrialization first on the European continent --albeit Bruges and Antwerp had assimilated Italian commercial and financial techniques in the late Middle Ages. Such connections enabled Flanders' industrialization to take place under and despite a sequence of short suzerainties and several political forms: In the eighteenth century it had been (with the exception of the Prince-Bishopric of Liege) a possession of the Austrian Habsburgs, from 1795 until 1814 it was incorporated in the French Republic-Empire, from 1814 to 1830 it formed a part of the kingdom of the United Netherlands, and in 1830 it became the Kingdom of Belgium (see Rondo Cameron, *Economic History of the World*, 1997: 231-6).

Investments, technology, methods of business organization, travel, tourism, and so on, all of which have had favorable effects on the climate for transformation. The fundamental factor however, *contrary to all pretentious "economics and miracle based" rationalizations of neoclassical economics,* was the fact that these countries represented the outposts and entrepôts of an international capitalist system determined at a very high cost, in the post-WW II multipolar world, to show the Soviet Union and China --the two pillars of socialism-- that capitalism works better and, above all, to contain them. The capitalist powers, therefore, willingly and readily furnished technology, grants, loans and direct investments[1] and arms, and opened their markets unhindered, to achieve these geostrategic objectives. This situation, as pointed out above, is now on a roller coaster path in correlation with the unstable liberalistic endeavors in the CIS and PRC in the aftermath of the Cold War, but the base from which the transformation can continue is already in place. *It is evident, nonetheless, that the NICs are no model for the UDCs. They are more a product of unreplicable geopolitics than of economics.*

For those underdeveloped countries still in the earliest stages of development, with abysmally low income levels, where industrialization has as yet made little headway, still dependent almost wholly on primary commodities for their export earnings, *à la* neoclassical comparative advantage, the prognosis is grim. In their present state, the prospects for attracting foreign investment are as bleak as those of mobilizing domestic investment. The slow process of trying to build the necessary social and physical infrastructure, on which to base economic development (in a hostile international environment whereby it is easy for external powers to divide their populations, torch low intensity wars and sell arms to both sides), will be a daunting task. *Hence the security nature of their economic dilemma*. Even with the most acute domestic effort on their part, it

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[1]Direct investment, as opposed to loans, in the case of the densely populated UDCs, in contradistinction to the small states and city states of East Asian NICs, however, means unending profit outflows from those UDCs, as a result of consuming most of the products accruing from this investment domestically, in ever increasing consumption patterns that hardly benefit the domestic economies.

is difficult to readily see how, in the present international climate (whereby even the UN Economic and Social Council is all but dead and the veto power of the Security Council rules supreme),[1] these countries will avoid falling further and further behind. The outlook is certainly not encouraging given the nature of the underlying forces which continue to operate. Indeed the very pro forma independence of these countries is as vulnerable as at any time since they dearly gained it in the 1960s and thereafter. *Bona fide* UDC scholars should not tire of looking for outlets, nonetheless, at all bearable costs.

Only security can provide the stability needed for the territorial states' resources to be mobilized more completely (effectively as well as efficiently). Security, though implicitly militaristic, continuously requires keeping up with potential competitors as well as rivals in economic terms. This was the raison d'être and ultimate lesson of European mercantilism (the developmental economic policy which resulted eventually in the emergence of industrial capitalism), during the seventeenth and eighteenth centuries. The power of states depended ultimately on the success of their mercantilism. The UDCs have to individually stand up to major power security machination. Collectively, their divisive weakness that results from interests diversity hamper effectiveness in this regard. Historically, nations have generally adhered to alliance obligations, only when the consequences of abandoning an ally were deemed to be more risky than fulfilling a country's obligations. With wide gaps in power projection and use capabilities between the disproportionately weak UDCs, with their near subsistence economies, and technologically advanced capitalist powers, security alliances among the UDCs are of little potency towards this type of threat. This is what makes minuscule the security roles of such regional organizations as the Arab League, the Organization of African Unity and the Gulf Cooperation Council. Such entities may muster

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[1]India and Indonesia, the second and fourth largest populations in the world (some 1200 million people), for example, have no say whatever in face of the veto power of Britain (some 60 million people) within the "democratic" institution of the United Nations.

the capacity to thwart the thinly veiled objectives of neoliberal designs here and there, but they are not strong enough to totally eliminate them or to impose a UDCs' alternative.

On the other hand, fundamental reform in the world system of economic ties that has been inherited from the colonial period are evidently needed, remodeling the system on just and democratic principles. A new international economic order must restructure international relations (including the UNO, especially its special agencies and their voting system), on genuine democratic principles. It is in part this institutional structure that is holding the UDCs in the predicament they are in, by continuously rendering them both amenable to the interests of global capitalism and in the service of industrial, including arms deals, marketing. The current voting system, directly proportional to each country's payment quota, which is based on the relative size of its economy, is reminiscent of according Lee Iacocca, Steve Forbes, Donald Trump and Ross Perot a number of votes in the US presidential election commensurate with each one's tax payments, while disenfranchising John Smith, who, unemployed because of the workings of capitalism, pays no taxes. Most tadpoles (John Smiths) perish, it is to be remembered, not because of their individual failings but because they are part of an ecology which limits the total number of frogs, allowing only a few tadpoles to survive. Capitalism is no different from ecology in that specific respect. Hence, the oligarchic vested interests of capitalism (in the Veblenian sense) have obscurely changed the democratic maxim of one person-one vote, into the capitalist ethos one dollar-one vote at the international level. However, the poor UNO, in the first place, could not have done better to the UDCs' predicament if one accepts the Hobbesian verdict that "without the terror of some Power...[causing the rules] to be observed...[is] contrary to our natural passions.... Covenants without the Sword, are but *Words,* and of no strength to secure man at all" (Hobbes' *Leviathan [*1651], 1988: 223).

Since systematic reform of this institutional structure by the UDCs is unattainable, *much less UDCs' revolution,* symptomatic reforms are to be sought and incrementally but consistently pressed upon the current international institutional order. For this, the UDCs may, on the one hand, bargain by whatever leverages they possess, and on the other, use the little influence they can muster on world public opinion, for decency is in short supply but not eradicated. "Our overriding purpose," pronounced Bill Clinton bluntly in an address to the UN General Assembly on Sep. 27, 1993, "must be to expand and strengthen the world's community of *market based* democracies" (emphasis added). The UDCs, in dealing with contemporary, interest pluralistic, capitalist powers --who are dividing and conquering them and by democracy they essentially mean unfettered capitalism-- should reciprocate in kind by adopting an approach consonant with the great dual track strategy by which defeated and divided Germany interposed itself (by default, then by design) up to auction between the capitalist and socialist cold warriors. Playing both camps off against each other, Germany, prudently and judiciously but above all peacefully, not only reconstructed its strategic industrial complex and prosperity but also regained by peaceful means its 1871 territorial integrity which, shattered twice, eluded its brute military might for the most part of this century.

The reform sought by the UDCs applies, first and foremost, to the principles of self-determination of the peoples and the sovereign equality of states, inadmissibility of seizure of foreign assets as well as territories, noninterference in the domestic affairs of other states, *full sovereignty of states over their natural resources* and all forms of economic activity, democratic participation of all countries in the solution of global economic problems, and the right of all peoples to choose socioeconomic systems. These enumerated principles constitute the core endeavor to reform the system which allows a handful of powerful states to continue the exploitation of, hegemony upon, and discrimination against, a big number of UDCs, *under the intellectual auspices of* neoclassical methodological individualism, welfare economics, comparative advantage, factor price equalization and structural adjustment.

The necessary reform must engender short-term losses among particular interests, such as bankers and industrialists in developed countries, who will therefore oppose such changes. But in the long-run these parties would gain by a high growth throughout the world. It is the intellectual duty of *UDCs' unfailing scholars* to elaborate on this case. The IMF and IBRD too must be brought to understand that dialogue is more likely than dictate to produce lasting reforms in the UDCs' economies. Actions taken primarily because of externally imposed conditionalities rather than domestic convictions are unlikely to be sustained. Unrealistic as it may seem, policy dialogue, if it is to have a chance at fruitful results at all, should be more akin to participatory team work than to adversarial negotiation.

Would the Bretton Woods organizations implement such hereby suggested reform? Not until a change in the global power structure obliges them to, or, alternatively, a disastrous disruption of the world economic order --at least as disconcerting as the second Great Depression--[1] occurs. So, the cure is not in sight yet; it will not come too soon. This is why deprived countries of the world --disadvantaged by power asymmetry with the industrial countries-- have, individually, if not collectively, to fend for themselves. There can be no guarantee for success, since external forces as well as internal collusions can always thwart the very internal basis for transformation; an attempt, however, can at least preserve people's dignity.

But the peoples of the UDCs should not lose hope, for the future is probably theirs, albeit not in the short-run. Nor should they be scared, for we will all ultimately die, if only of having lived. Eventually the DCs will probably have to make their peace with them, if only for demographic reasons. In the year 1900, the ratio of the population of European origin constituted more than thirty percent of the world total population (Rondo Cameron's *Economic History of the World*, 1997: 191). This ratio has been approximately halved in the course of the twentieth century, and declining projections for the next century are even

[1]In 1873, financial panics occurred in both Vienna and New York and quickly spread to most other industrial and industrializing countries. The ensuing fall in prices lasted until the mid-1890s, and was known (until the greater catastrophe of the 1930s) as the "Great Depression." Besides the short two to three year "inventory cycles" and the longer twenty to forty year "secular trends," medium-term nine to ten year business cycles terminating in financial crises followed by depressions occurred in 1825-6, 1837-8, 1846-7, 1857, 1866, 1873, 1882, 1893, 1900-1, 1907, 1920-1, 1929-33 (see Rondo Cameron, *Economic History of the World,* 1997: 301-2, 335).

more drastic (Colin McEvedy and Richard Jones, *Atlas of World Population History*, 1978: 26, 32 --Fig. 1.9a, 1.13b). Remember slavery? Colonialism and formal imperialism?[1] Apartheid? Or scientific racism, eugenics policy, and race hygiene for that matter? Another lesson not to be forgotten is that neither North Korea in the 1950s nor North Vietnam in the 1960s and 1970s, was deterred by the US nuclear arsenal from pursuing its objectives. Nor were the Afghan guerrillas deterred by the nuclear capacity of the Soviet Union in the 1970s and 1980s from endeavoring to gain their independence.

Despite the current condition in DCs-UDCs relations, on the other hand, the seemingly inexorable process by which these two poles of humanity are drifting economically apart, and unyielding as current trends may seem, they later may themselves contain the seeds of change, now hidden or difficult to discern, pointing in quite unexpected directions, in which forms of peaceful coexistence, as opposed to the neoclassical fictitious harmony, may reign between their contradicting interests. This is the case not only because human capacity to initiate new things is virtually unlimited, and because *the unintended consequences*[2] of such initiatives are mostly unpredictable, but also because of the provisional, contingent and dialectical character of events. Indeed, the most profound causes of change are precisely those that are not subject to conscious control. Megapolitical transitions in history, minor as well as major ones, seldom are driven primarily by human wishes. They do not happen because people get fed up with one way of life and suddenly prefer another. Nor do large numbers of people in the first place suddenly and all at once decide to abandon their way of life simply because they find it amusing to do so.

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[1]Both past (formal) and present (informal) imperialisms are characterized by the dominance relation between core and periphery, the distinction --as elaborated on above-- being that the former involves political control of periphery territory in addition to economic exploitation.

[2]See Karl Popper, *The Open Society and Its Enemies* (1945: Ch. 14); Kenneth Waltz, *Theory of International Politics* (1979: 79-129). See also Anthony Giddens' thesis of how unintended consequences of micro-level practices create macro-level structures, in his *The Constitution of Society* (1984: 17).

The Roman imperial senators never legislated the sinking into the Dark Ages. Nor did the ecclesiastical order of the latter will the configuration of feudalism. Nor is there any reason for one to believe that feudalism would have survived had everyone rededicated himself or herself to chivalry. Nor did the British Empire and the Soviet Union endure despite all the frenzied efforts to that effect of the Lords and the Bolsheviks, respectively. Nor are geopolitical transitions, bringing about intense and fundamental political reorganization across the world, the result of mere intention; nor are they even foreseen. In the 1860s the transition occurred in the USA (civil war), Italy and Germany (unification), and Russia, Japan and the Ottoman sultanate (modernization). Another transition took place more recently, in the period 1989 to 1991: The fall of communist regimes in Poland, Czechoslovakia, East Germany, Hungary, Bulgaria and Romania at the end of 1989; the reunification of Germany in 1990; the failed military coup in the Soviet Union in 1991; and the abolition of the Soviet State by the end of that year.

Human will thus is only a fraction of the myriad of objective variables, and the complex interplay of confluences, at work in formatting human history. For history is "the result of human action, but not the execution of any human design" (Adam Ferguson, *An Essay on the History of Civil Society* [1767], 1793: 205). Respect for history entails recognizing that there is no means of knowing the future. What develops out of the present may be not a version of what already is, but something else. The "less developed" will not necessarily evolve into the "more developed." Unicausal, monodirectional perception of history as well as reductionist, ahistorical, and grand social theories and standardized categories are, for long, but discredited intellectual mixes of myopia and arrogance. The future ultimately is a tabula rasa; this, if any such exists, is the lesson of history.

CONCLUSION

Evidently, the UDCs at the threshold of the twenty-first century are besieged by a plethora of problems, each one formidable in its own right. Economies are disarticulated, cities are bursting at the seams, infrastructures are primitive, social services are primordial, unemployment is endemic, poverty is rampant, corruption is rife, bureaucracies are neither responsive nor efficient, and efforts at following the Bretton Woods prescriptions are futile, if not counterproductive. Most important, national security is threatened, and external penetration[1] --military, political, financial, social, informational-- is unsparing.

Underdevelopment is ascribable in part to geography (soil, climate, topology, natural resources) inconducive to development, as Plato realized. It springs in part from the inability of traditional societies to mount sustained programs of investment and change in the face of global imperialistic economic, information and security orders, as Heilbroner, among others, contends. And another long list of reasons could be behind underdevelopment. However, critical and comparative analysis of orthodox and heterodox mechanisms of transformation, of the heterogeneous mechanisms and of equity and efficiency, as well as the empirical evidence of the capitalist age, leave no doubt that the underdevelopment evil, the vicious cycle of poverty and dependence, lies, in the most part, in the unfettered global division of labor imposed upon the UDCs by capitalism and its financial organizations and military alliances. In the main, underdevelopment is the other side of the very capitalistic coin, the result of the development of capitalist productive forces. There is no surprise there, given a thorough understanding of the inner workings of the capitalist system. The global division of labor is not, and cannot realistically be, concerned

[1]That is not to imply that all forms of penetration are destructive for the UDCs, nor that the latter have nothing to learn from developed nations.

with development or transformation. It is essentially a means of further centralizing and perfecting, through more control and efficiency, the process of capital expansion and accumulation, whereby the latter is the underlying motivation of the capitalist division of labor in the first place.

More specifically, underdevelopment is engendered by capitalism's tendencies of *unequal and uneven development* --the former is the simultaneous production/creation of wage laborers and capitalists, surplus labor and employment, peripheries and centers, dependent and dominating social relationships, poverty and wealth, underdevelopment as well as development; the latter is the short, medium and long-term cycles inherent in capitalist expansion and accumulation, and their role in capital realization, crises of accumulation, and major innovations. Therefore, the underdeveloped regions of the world, for the most part, are underdeveloped because of their being a source of surplus value for the other section of the capitalist system, and not because of their "backwardness," alleged by neoclassical economics, or their "cultural inferiority," supposed by Weberian ideation. Regions that are "developed," all the same, are in such state mainly because of their being on the receiving end of surplus extraction from the underdeveloped section of that very world system.

The problématique ultimately is one of location in the world capitalist system rather than a matter of mere economic growth. Hence dependence and underdevelopment cannot be eliminated simply by changing a country's mere economic policy by another, because there is only one all encompassing economic system: capitalism. Hence, the neoclassical inference, intellectually propagated by welfare economics and international trade theory and practically espoused and applied by the Bretton Woods organizations through their strategy of "structural adjustment," that what an underdeveloped country needs in order to overcome its dismal economic, political, social and even human rights records is to copy and apply unfettered capitalism, et voilà, is utterly fallacious: is internally inconsistent, disobeys logic, conflicts with historical facts, and is disproved by empirical tests. Governments in underdevelopment conditions may be less informed as to how best to make full use of their resources than those in developed conditions, but capitalist security structures and economic order --not lack of understanding and/or will on the part of the UDCs-- are the fundamental impediments to the adoption of functional economic and democratic institutions in the Underdeveloped Countries.

All the same, asking a country to become independent of (to delink from, to exit) the world economic system reflects a gross misconception of the very ontology of capitalism. *As long as that system prevails, the only way to change a country's fortune is to change its location in the world economic system with respect to the systemwide surplus extraction.* The change of that location, not per capita GDP, is the acid test. Just as a proletarian cannot become a capitalist by obtaining a higher wage, only by changing one's location with respect to surplus extraction can one do so, a country, in the existence of the world capitalist system, cannot become developed by increasing its GDP on its own. It has to change its surplus extraction's location. For that to take place, an underdeveloped country must undergo a transformation, not a face lift; it must maneuver itself out of the capitalist periphery into its core; it must wholeheartedly and as a matter of principle accept both efficiency and equity, in this order when they contradict, to uphold the principle of economizing, but without unduly sacrificing equity. It must accept genuine toleration and authentic pluralism, subject only to imperatives of national security; mere "open door" policy under the guise of democratic window-dressing of a pseudo-parliament, rigged elections and semiofficial media will not do.

So long as industrialized countries are able to react to adverse conditions with mercantilist policies, as the US and Europe did in the 1930s and are still doing vis-à-vis the UDCs, it is folly for the latter to plump for fictitious economic growth, supposedly obtainable for producers of primary commodities by "capitalizing on comparative advantages and the gains from free trade." There can be no doubt now that advice on how to develop proffered by neoclassical economics maintained, if not increased, the economic dependence, relative underdevelopment, and political subordination of the UDCs.[1] Nor can there be transformation without overriding such theories and relinquishing such strategies. Underdeveloped countries' economists should thus rid their theories of the neoclassical monolithic construct concerning underdevelopment, its sterile, exceedingly formalistic bent which is more concerned with the elegant form of theory than with its substantive content, and hence the empty over-mathematization of economics at the expense of relevance of practical problems.

Another problematic aspect of transformation in the UDCs, an aspect collateral with the global division of labor, is that indigenous capitalism is incapable independently of creating potentialities for growth. These countries thus remain a perennial prey to the vicious circle of underdevelopment and poverty. Their substantial unemployment shows every sign of becoming chronic, and of increasing rather than diminishing. One rather subtle reason for the economic stagnation is that so much of the resources of these countries which might otherwise be used to promote growth is swallowed up in military expenditures needed for stabilizing security threats. The latter, internally as well as externally, are in no small part imposed upon them, both as cause and effect, from abroad, by core capitalism and its arms trade. The making of the world political map has been ultimately the result of power politics and its changing pattern of winners and losers. Territory, where the economy is essentially embedded, provides a platform, sovereignty a justification, but neither is an adequate defense for a delinking state against a concerted action of power politics by rivals bent on extracting its surplus, not to mention eliminating it from the world stage (Peter Taylor, *Political Geography: World Economy, Nation State and Locality*, 1993: 162).

A fundamental shift in defense philosophy, strategy and tactics, from the Duesenberry aggrandized and ceremonial functions currently extant in many UDCs, to

[1]See Mahbubul Haq, "Employment in the 1970s," *International Development Review* (1971: 9-13); Van de Laar, " The World Bank and the World's Poor," *World Development* (1976: 837-51).

people, resource and land defense (B. H. Liddle Hart, *Theory and Practice of War,* 1975) *by inexpensive means,* could thus not only release human resources and large amount of funds for human and economic growth and development but also emancipate the governing stratum from servitude to external guarantors, thereby furthering its legitimacy and expanding its democratic horizon. Rash and antagonist foreign policy can be counterproductive, though. Only semidisclosed but resolute deterrent means and will are required. If push comes to shove, however, an underdeveloped country has every right of self-defense. No matter how much stronger militarily an aggressor is, it would eventually lose if more natives than foreigners are prepared to die for the country, fighting as long as it might take to outlast the foreign aggressors. Clarity of the political objective and realism of the military strategy are the necessary complements to such strength of willpower on the long road to victory (not to development aid). Defeat, ultimately, is rarely militarily, mostly through the failing of the will. This is a lesson of most warfare, from Qadish to the Crusades, from Suez to Vietnam, from Afghanistan to the Cold War and beyond.

On the other hand, adopting socialism in the global environment of the late twentieth century is utterly unrealistic. Within the constraints of contemporary world power structure, which, without a globewide political earthquake, seems to be here to stay for at least a couple of decades, the UDCs have to accommodate themselves to a dominant capitalistic order. *No society can escape the challenge of capitalist globalization today.* Development can only take place within that system, no autonomous development can be effected outside it. *Pragmatic economic reform may be insufficiently revolutionary, but it alone has a chance of attainment.* The real dilemma of the UDCs thus shifts from an external one of direct confrontation with global capitalism to an internal one of balancing a degree of authoritative activism with *genuine* democratic values; by no means an easy balance, but whoever said that societal survival, let alone transformation, in this global neo-*Leviathan* is an easy task. *Hence the roles of growth, education and internalization* (the latter means increasing the awareness of reality by intensive development of social consciousness). All programs are to be developed in the context of a bridled capitalism, rather than laissez faire. For the role of government in formulating the economic policy of an underdeveloped country is *fundamental* if a degree of equity and justice is to meet internal requirements of national security, if a level of muddling through is to be achieved to deter external threats and aggressions, and if an authentic transformation rather than gimmickal consumerism for the few is sought.

The important real factors in development, however, are political, and political change is difficult to achieve through either reactionary or half hearted measures. Although what is feasible for the UDCs in the current global power structure is not a socialist system, merit notwithstanding (because, in the abstract, capitalism can be said to be better than socialism only on the basis of a value judgment, as to what constitutes "better"), they cannot self-transform if they surrender to unfettered capitalism. Only bridled capitalism, in which a safety net establishes a minimum level of welfare beneath which no human being is ostracized, can achieve that goal. Thus, political democracy enshrined in the right to vote could be extended to a social democracy in which the values and injustices of unfettered capitalism could be mitigated. Social, in contradistinction to political, democracy focuses more on, and reaches, the social, not just the mere political.[1] For an end of democracy is justice, equity and gap reduction between strata. Polls and voting are mainly means, albeit important ones, for they are necessary for democratic accountability. If democracy does not mitigate the effects of capitalism, then it is mere rationalization of exploitation, it is but another faux dieu.

But such social democracy is to be distinguished from both Marxism and democratic socialism. The former involves accepting strict limits on political change within capitalist society entailed in historical materialism. The latter shares the Marxist belief in the

[1]Considering and treating the political sphere as separate from the economic sphere is the basis of the whole notion of a "political science" (see Peter Taylor, *Political Geography: World Economy, Nation State and Locality*, 1993: 180). This autonomy of politics and economics is also behind today's discipline of "economics" --as opposed to political economy in both cases.

prime importance of bringing the means of production into social ownership but adds the view that this change can be secured by democratic means. Social democracy shares the democratic socialist's commitment to democracy, but rejects the primacy of ownership which both the Marxist and the democratic socialist hold as central, and pragmatically aspires only to fair redistribution and greater equality within the context of a mixed economy. Hence a vigorous, indeed active, conglomerate of *growth, education, internalization* and *social reconstruction* is imperative to bringing into high relief the material milieu necessary for, the concept of, and the practice of, social justice, all simultaneously. Social justice, within *bridled capitalism* (a restrained market economy), *not socialism*, and deliberate global *interdependence, not delinking*, are therefore the only meaningful and applicable options for contemporary UDCs. Those options would help the social reconstruction through pragmatic, problem solving principles that spur reform and rights, not charitable social relief, Poor Laws, neo-Thomist encyclicals, Gingrichian orphanages, or neovoluntarism.

Economic planning, at the macro and meso, but not micro, levels, is thus a necessary means in combating the underdevelopment problem, in the creation of, and building, the potentialities of growth, whereby absolute needs would be fully satisfied for all, as a minimum. *By economic planning is not meant excessive centralization.* It only means target setting for economic output and investment growth for the economy as a whole and for sectors and industries. It is to be undertaken jointly by government and industry. *Its guiding principles are to be economic growth and distributional equity, in that order when balance is difficult to attain, with social programs to fill the gap.* It is to be reminiscent of the "indicative planning" practiced in Japan and France (both are capitalist, not Marxist) since the end of WW II. Consequently, a degree of mixed economy is inescapable if government is to function at all in such an underdeveloped state of affairs, within a comprehensive program of socioeconomic progress and industrialization. The latter would have multiple effects: Reduction of pressure on the balance of payments via domestic production of once imported finished goods; production of goods at prices lower than those of foreign manufactures thereby supplying a vast local market of the underprivileged; creation of an ever-growing demand for industrial labor and thereby absorbing in gainful employment the pressures of rapid population growth; and ultimately, by a process of industrial development leading to widespread economic diversification, the establishment of capital goods and intermediate goods industrial plants, thereby reducing dependence.

National transformation policy is not amenable to the universal application of a single model, for any economy is a uniquely complex social system, too complex to be grasped in all its peculiar details by a deductive inference, a behavioral observation, or an overarching abstraction (Ash Amin and Jerzy Hausner, *Beyond Market and Hierarchy: Interactive Governance and Social Complexity*, 1997). Yet there is no substitute for sustained national policies directed at liberating and mobilizing all the latent energies and impulses for development within the UDCs, at promoting efficiency in allocation and use of resources, and at venturing vigorously for opportunities in trade, investment and technological progress within the changing global economic environment. The UDCs thus need to persist with or step up their efforts, in accordance with their national plans and priorities, to industrialize and modernize their economies, keep control over inflationary tendencies, promote domestic savings, foster entrepreneurship, achieve favorable conditions for domestic and foreign investment (the latter under *proportionate* checks and balances), and increase their international competitiveness. This is to be done by adopting transformation themes most suitable to the specific situation of an UDC.

High rates of economic growth are indispensable in order to generate the resources needed to satisfy basic needs and to support a progressive improvement in living standards. Hence the importance, whenever possible, of generating and mobilizing large increases in domestic savings to finance productive investment and, therefore, growth and development. Meeting the needs of all requires a well-structured set of meso-policies, especially needed where the distribution of primary income is poor, and involves two features to ensure that the benefits reach the deprived. First is across-the-board provision of basic services, generally desirable for education and basic health. Second are targeted plans directed towards deprived groups, such as income support and food subsidies. Well structured meso-policies usually require a mix of the two. The across-the-board provision of services alone may be enough in countries with good macro-policies and especially a good distribution of primary income. The targeted plans can be important where macro-policies result in a skewed primary distribution and meso-policies are needed to compensate, though here too some services need to be provided across the board.

The straightforward rationale for equality is that society is something more than the summation of its individuals, contrary to methodological individualism --the foundation of neoclassical economics. Human activity is more a social relationship than individual actions, without denying the significance of the latter, and production is the result of the labor of society as a whole. Hence the rewards of production are due to society as a whole, to all its members, rather than to particular interlocutors. The organization of society is essentially a collective moral project, a common enterprise which is the concern of all, rather than a collection of fictitious (nonfalsifiable, indeed untestable) neoclassical Robinson Crusoes. And the building block of that collective society is an aggregate, unified, whole person, with all its social, psychological, cultural and moral aspects, rather than the neoclassical schizophrenic homo economicus.

Social equality is to be achieved by two major means. The first and most general is economic growth. Greater equality could be achieved with the least social tension by leveling up rather than down, *à la* Keynes, Sievers and Galbraith (none of whom is Marxist), and the fiscal dividends of growth could allow the better-off to retain their absolute standard of living while improving the relative position of the worst off members of society, à la Rawls. Too great an emphasis on growth, however, could potentially endanger price stability and excessively extend government control over the economy. The latter should thus grow at the maximum rate consistent with *bridled* but not *chilled* capitalism, and with the avoidance of rampant inflationary pressures. By the latter, however, is not meant substituting a static goal of avoidance of inflation (or depression) for the dynamic goal of expansion. The other major element in the pursuit of equality is comprehensive education, both to widen educational opportunity and to bring children of different social strata into the same educational, and hence socioeconomic, environment.

Social democracy is thus not simply about the democratic control of the state, but mainly about the extended use of that control beyond the political institutions of society and into social and economic ones. *The mainly-procedural freedoms of politics, which nonetheless ensure accountability rather than elitism, are to be linked to the mostly-substantive freedoms of economic and social capacity, which ensure the dignity of humanity, or else democracy is nothing but a hollow distraction.* What is suggested then is a mixed economy in a welfare state, greater social justice and unhindered upward mobility, within a *pragmatic* social democracy. In the latter, political obligation as such rests mainly on what is seen as fitting and fair, hence just à la Rawls, and the content of which is circumstantial and contingent upon the mental development, the common sense, of the population (not merely of the elites), because the social ethical judgment is an evolving datum. Such a social democratic system combines political democracy, based on separation and division of power, with equality before the law, in a juridical (law based) political configuration. That configuration sets limits to and checks on the doctrine of survival of the fittest entailed in neoclassical (Friedmanite) laissez faire. For the latter is detached from any principle of societal function and purpose, while being camouflaged by such euphemisms as free market and free trade.

On the other hand, while endeavoring societal transformation at deliberate speed, the UDCs should entertain no wishful thinking or illusions: No question of leaps over stages, for *natura non facit saltum,* no more in the social than in the physical domain. Nature does not make leaps. Evolution and natural selection operate by slight variations rather than by revolutionary discontinuities. Nor ministrational spurs from abroad, whether foreign aid or

Brandtian beneficent capital transfer, should be counted on, for either is but a cover for direct foreign investment that enables the DCs to penetrate the UDCs and control their productive forces and relations. Either one is more part of the problem of underdevelopment than of its solution. Therefore, the UDCs' aim ought to be self-transformation à la Dostoyevsky and Nietzsche. Power, economic or otherwise, is rarely spontaneously ceded; *hence, without unduly impinging upon capitalism, international as well as domestic economic rights have to be judiciously wrested, not granted, and new resources of power would have to be created, and old ones mobilized,* if the extant power discrepancy is to be mitigated. Monocropping comparative advantages are not to be surrendered to; diversification ones are to be continuously created. The process therefore cannot be a short-term one.

The fundamental predicament then is the extent to which, and the means by which, Underdeveloped Countries can develop economically basically out of their own resources. The issue of foreign aid may affect the situation, provided the moral hazard is addressed, but it corresponds essentially to the degree of independence a specific nation aspires to. It must be recognized that there is little chance of attracting foreign capital or aid without strings attached --and on any extensive scale without becoming closely harnessed to self-distracting, identity eroding strategies, both in the cultural and civilizational sense. Keeping reliance on foreign aid to a diminishing minimum is accordingly an axiom of genuine social dignity and political independence. Hence, the UDCs have to shoulder the major part of their development themselves, by mobilizing their own resources and potentialities. What they need is not only an increase in production but also a better distribution by reducing enrichment by property holding and acquisition of monopoly power, the removal of distortions introduced into the economic system by disarticulated and monopoly capitalism, and the harnessing of existent productive powers to socially beneficial links.

In addition to more production and better distribution comes a different scale of values. Conspicuous affluence and the proliferation of ceremonial products and gadgets by private industry and the stimulation of a spurious demand for them as status symbols by sales pressures and advertising, while public services are starved and the creation of new social standards and superior patterns of living is ignored, *must be discredited.* The cult of profligacy money making, with its reduction of social values to a dollar standard, is a degradation of human beings and their spirit. It is all the more so when the dollar is snatched by a parasitic oligarchy from the working masses. A prime task thus is to eradicate this worship of mere material prodigality. That is not to say the values of a controlling, political elite are to dominate, much less monopolize state actions. It only means that the values of a full-fledged capitalist system are not conducive to the UDCs' aims of economic growth and social transformation, and that limits on such values may be set by the democratically-elected, accountable leadership. This, it is to be remembered, is the way many economic and social values and issues are determined in industrial democracies, with little charge of elitism. *Hence the significance of education and internalization.*

The UDCs, *more individually than collectively,* can do much to overcome underdevelopment, for the global context remains threatening. The world is changing via contradictory trends of globalization and fragmentation. The former is evidenced by the fact that territorially-defined state economies have less salience in the operation of the world economy, the latter by states being under threat from ethnic divisions below (Peter Taylor, *Political Geography of the Twentieth Century: A Global Analysis,* 1993: 7). Major powers' resources, both carrots and sticks, give them the means to weaken UDCs' collective action by fragmenting them through selective co-optation and sanction. As the UDCs try to unite and widen the scope of conflict as the best strategy for the weak to enhance the balance of forces in their favor, the Powers divide them and rule them.

But the UDCs must press on not only individually to improve their economies through edifice change and competitive production and trading but also *collectively,* to the extent they can bear the resulting security risks, to work *for change in world arrangements* --in trade, finance, technology, information and other related areas of the international order. In its entity the new international economic order must be directed at restructuring (diversifying rather than polarizing) the international division of labor and world commodity flows, at reorganizing the regimes which govern international economic relations to consider the interests of the UDCs, and at consolidating their technological potential. *Such changes need the collective endeavors of the UDCs*. They cannot individually effect these changes, nor can the latter be given to them. They have to be judiciously wrested from the current global power system and its neoclassical rationalizing ideology. Hence the importance of UDCs' coordination and organization despite all odds.

The **main findings** of this critique, therefore, are several. The political economy of growth, development and transformation cannot be understood absent full consideration and comprehension of the contemporary dynamics of that part of the world which has endured formal imperialism, and continues to struggle against its informal veil. On that score, the two overarching/paradigmatic schools of thought in today's economics are of little help. Marxian economics, with its focus on class, revolution and delinking, and with its exclusive dependence on the labor theory of value, is analytically inadequate and prescriptively barren. Neoclassical economics, with its extreme reductionism, hopelessly unrealistic premises, preoccupation with mere efficiency and hyper rigor, inability to address moral concerns, and rationalization of capitalist ethos under the cloak of the fact-value distinction claimed by Comtean positivism, is a virtually irrelevant body of thought for the UDCs.

The overcoming of underdevelopment of the UDCs *can* be abridged.[1] Such abridgment is necessary for societal transformation and individual emancipation. It

[1]"As recently as the 1940s...learned men made calculations that purported to prove that no vehicle could ever attain the velocity required to leave the earth's gravitational field" and "few people expected it would be possible for humans to survive in outer space even if they could reach it" (Rondo Cameron, *Economic History of the World*, 1997: 338). A mere decade later (1957) a Soviet capsule was put into orbit around the earth and in the next decade (1969) two American astronauts literally walked on the moon. *When willed, vision is a dream no longer.*

necessitates the deconstruction and reform, respectively, of such extant reified theoretical and institutional structures as methodological individualism and Bretton Woods organizations. The neoclassical double-pronged strategy of market efficiency and opening up the UDCs' economies to global division of labor via free trade cannot produce the sought outcome. While "free trade" for the UDCs can lead only to monocropping and unequal exchange, efficiency of economic performance may not be sought apart from effectiveness concerning human welfare. People are the end, GNP is mainly a means, and end and means should not be confused, even though it is surely true that means used greatly affect ends (outcomes). The double-pronged strategy is designed merely for proliferating unfettered capitalism, virtually no matter what, and for nothing else. And in its intrinsically polarizing worldwide expansion, capitalism can promise a homogenization of the world but it simply cannot deliver its utopia because of this very polarizing dynamics of its operation. A country can thus overcome its underdevelopment only through a shift in its surplus extraction's location in the world capitalist system.

The Malthusian concept, taken for granted and promoted by neoclassical economics, correlating "overpopulation" and underdevelopment, has no basis in either the economic history of the world or its preneoclassical economic thought. Quite the contrary, high rates of population growth, empirically and for millennia, invariably accompanied economic growth.[1] Economically, let alone other security and critical mass factors, and irrespective of whether labor is considered a source of value or a factor of production, considering a nation poor because it has too many people is as nonsensical as arguing that a country is poor because it has too many natural resources. On the other hand, population control without industrialization can have little, if any, dent on underdevelopment. Indeed, controlling the population growth rate could, in some cases, deepen dependence and underdevelopment, through its negative security and critical-mass effects.

[1]Theoretical work is needed on this relationship.

The UDCs' economies are too heterogeneous economically, and laden with many nonpecuniary variables, to be tackled by getting the prices right; differing conditions in the UDCs militate variable abridgment themes to provide versatile courses of action that fit such variety of needs. Diversification of the UDCs' economies, especially through selective but multifaceted industrialization programs and minimum food security, is imperative if they are to override (or, for the worse off, merely muddle through) the Fund-Bank conditionality and overcome underdevelopment. Industrialization is to be pursued through a mixed (industrial and strategic) trade policy. The former develops key domestic industries while relegating international trade objectives to a functional (secondary) role (to this development). The latter promotes specific exports while limiting specific imports, subject to the functional role of international trade, i.e., its role in developing the domestic industries sought by the industrial trade policy. Industrialization is the aim, trade is a catalyst, not vice versa. Pecuniary motivation is secondary to building up a sustainable industrial configuration. The latter is necessary not merely for transformation but also for keeping foreign military predators at bay.

Implementing transformative reform --not revolution-- using mixed economy and public works programs, while remaining within capitalism --not delinking, not autarky, not socialism-- are inevitable for the UDCs, as much for security as for economic reasons. These other strategies are incompatible with UDCs' lack of power vis-à-vis the industrial world. Weakness stifles UDCs' initiative; meanwhile, inter-UDC economic cooperation is constrained by the very factors that contain interproletariat revolutionary coordination, factors that render utopian both the spatial as well as the class-based change-agents: delinking, with UDC-cooperation, and revolution, respectively. In addition, these factors oblige each UDC, on its own, to fend for its population. Hence *bridled,* if externality ridden, *capitalism* is the most promising socioeconomic, transformative mechanism for the UDCs' situation. Bridled capitalism, in a republican, secular and urbanized milieu, is to be composed of cardinal generic themes of transformative reform, mixed economy (public as well as private sector enterprises), diverse industrialization, productivity growth, public works, food security and government activism. The neoclassical "export led" growth is not to be surrendered to. The growth of the economy must nonetheless be interlocked with the growth of exports, or else the increased consumptive imports would cause the balance of payments deficit to frustrate growth and force a reversal of direction.

In conjunction with the generic themes (always conscious of government potential and tendency for abuse of power), may be used (selectively) such supplemental themes as economic planning undertakings, price stabilization arrangements, joint stock enterprises, interdependence and self-reliance measures, income distributional corrections, agricultural resource shifts to capital building tasks, capital outflow preventing taxation policies, industrialization and budget priority strategies, human resource development endeavors, social safety nets, targeted access and subsidy programs, money supply modifications, wage price controls, manpower allocation, trade barrier variations, sectoral and regional gap changes, rationing and the like. The state, always striving for greater autonomy, so that it is not dominated by certain interest groups internally or specific foreign powers externally, may adopt a measured industrial strategy for guiding the market and influencing firms' behavior. This is to be operationalized into a set of policies to deliberately change the vector of prices and incentives facing the enterprises at the expense of the hands off (or invisible hand) approach enunciated by the IMF and the World Bank. Incentives and pressures may thus be brought to bear on globalizing market forces through such measured devices as import controls and tariffs, entry requirements, industrial licensing, domestic content requirements, fiscal investment incentives, and concessional credit.

The state, only whenever necessary and appropriate, may permit or encourage a variety of cartel arrangements in selected industries including export and import cartels, cartels to combat depression or excessive competition, and rationalization cartels. This is to be done essentially through exemptions from antimonopoly, antitrust, and pro-competition laws. The state may further induce rigidities in the labor market, own banks,[1] create conglomerates, promote mergers, and direct entry, exit and scale of firms according to the requirements of technological scale economies as well as domestic and foreign demand conditions. These themes intrinsically touch upon the formidable (intellectual and physical) power structure underlying the international economic order. Hence the divided and vulnerable UDCs have to vigorously but judiciously negotiate their way towards them.

The distribution of income and wealth is more an input into allocative market processes than a result of these processes. And distribution is not a matter of technical calculus. It is an ethical-political-economic question (of equity and efficiency) which pervades all domains of economic activity. Distribution cannot therefore be decided through a scientization of politics, i.e., through a technocratic theory of market exchange that is covertly underpinned by an ethos of unfettered private property. Instead, it must ultimately be regarded as the responsibility of the polity, whereby the state (partly through its use of the market) is the locus of distribution, whereby property rights are to be regulated within

[1]The state may constitute a voice led, bank based (as opposed to exit led, capital market based) financial system. The bank based systems (of, e.g., Japan, Germany, France) are characterized by a small number of universal banks that are actively involved in the long-term financing of investment activity of the nonfinancial firms. The banks, in these systems, are the primary source of long-term funds and they retain ownership for the long-term of their debt instruments. In these systems, moreover, there is relatively little secondary trading of financial assets.

The capital market based systems (of, e.g., the USA, the UK), by contrast, are characterized by highly developed capital markets, with widely dispersed ownership of equity and debt instruments, and relatively low involvement of large banks in either the allocation of funds or the ownership of financial assets. In capital market based systems, the exercise of exit is pervasive within market relationships, while the political and bureaucratic spheres are dominated by the exercise of voice (à la Hirschman). The bank based systems are voice led, and therefore provide more effective channels for political intervention in financial markets than do the exit led capital market systems. This fits well within the environment of the UDCs, whereby the capital markets are underdeveloped.

Moreover, because of the close interlocking relationship between financial and nonfinancial firms (and government) in bank based systems, which engenders a commonality of purpose that is relatively absent in capital market based systems, speculative financial behavior does exert significantly less influence on real economic activity, which is more vulnerable in UDCs' conditions, and the economic environment becomes more favorable for two primary policy tools that are crucial in those UDCs' conditions – expansionary policy and industrial strategy.

The bank based systems, furthermore, resolve problems of asymmetric information, uncertainty, and coordination failure as well as stratum conflict and other incentive incompatibilities more successfully than the capital market based systems. As a result, the bank based systems achieve better performance in three areas that are especially important for UDCs' conditions: Promoting longer time horizons, encouraging financial stability, and providing a framework for the successful implementation of government policy (see Robert Pollin, "Financial Structures and Egalitarian Economic Policy," in Philip Arestis and Malcolm Sawyer, *The Political Economy of Economic Policies* (1998: 162-201).

the law. There must become within the polity's jurisdiction the functions of dealing with forms of power, with the forces which influence and reflect power appropriation and use, and with the effect of all this on contingent resource allocation. To leave this to the market alone is to rationalize excessive inequality for ideological purposes: Laissez faire too is a form of totalitarianism, whereby the status quo works for, and continues to be imposed by, the privileged minority, at the expense of the weak majority, the poorest segments of society.

The sought transformation can be measured by reductions in poverty, inequality and unemployment, and increases in satisfaction of basic needs; by improvement in social indicators, for instance housing provision, and indicators of the physical quality of life, such as life expectancy; by elevating individual dignity and group esteem and increasing national self-reliance and self-determination within the bounds of interdependence; by changes in the social structure, attitude and motivation and in the purposes to which economic growth is put; by adaptability in the face of exogenous[1] shocks, increased distributional equity and economic efficiency,[2] expansion of productive capacity of the economy, and technological advance, for increases in gross national product and average real incomes per capita are mainly means. The ultimate measure of transformation is the degree of strategic (in contradistinction to close or total) interdependence[3] achieved with the DCs, thereby

[1]From a world-systemic viewpoint, exogenous is a relative term. The processes governing the system as a whole determine the framework in which local adjustments operate, thus making the distinction between exogenous factors and endogenous ones relative, since all the factors are endogenous at the level of the world-system (see Samir Amin, "The Ancient World-System versus the Modern Capitalist World System," in Frank and Gills, *The World System: Five Hundred Years or Five Thousand?*, 1993: 249).

[2]Output per worker, or per worker hour, would be the most meaningful measure of such increase in economic efficiency.

[3]Interdependence in the sense of "complex interdependence," coined by Robert Keohane and Joseph Nye, in *Power and Interdependence: World politics in Transition* (1977). It describes a patterned web of international relations between democracies in which functionally defined international regimes, comprising state agencies, specialized international organizations and firms manage matters as diverse as security and trade, environmental issues, public health and development. This brand of the neorealist-neoliberal (or neo-neo) school depicts the movement of the conception of international relations from a world of mere geopolitics, which is state centered and in which military power rules supreme, to one of geoeconomics, where low politics (the latter classification is *à la* Stanley Hoffman) is growing in importance. This is done by the incorporation of nonpolitical and nonmilitary affairs into the narrow focus of the Realist conception of international relations on high politics. The neo-neo perspective thus includes nonstate actors and addresses the role that economic relations play in the determination of political ties and the strength of states. This is done in ways which would no longer be relied upon to yield outcomes dictated by the global hegemons, or

diminishing dependence, while, on the one hand, improving the lot of the poorest of the poor, equipping them for social mobility, especially through education, and raising the quality of life as well as the living standard for the entire society, and, on the other, enabling people as far as possible to be whomever they want to be identitywise. Globalization should not be permitted to hegemonically preclude cultural differentiation.

A single aspect of this wholesome and awesome task cannot do. Atomistic reductionism is but an obscurantist ploy, a *façade,* deployed for internal[1] as well as external mystification purposes: To rationalize the exploitation of the working strata at home and the super-exploitation of the UDCs abroad (by use of welfare economics and international trade theory, respectively). Reductionist neoclassical economics, both by design and default, camouflages the social forest by the technocratic trees. No amount of mathematics, statistics, graphics and jargon can masquerade this fact when economics is analyzed in socio-historical terms, i.e., when it reverts to its roots of instrumental political economy, and its task changes from superfluous hypothetico deduction and Friedmanite stock market type prediction to enabling agency and goal attainment.

The neoclassical elaborate justification of the status quo, especially the unbridled property rights --which is a latter-day version of the sixteenth and seventeenth century trick

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by UDCs' ex-colonial powers, and would thus partially take the sting out of the anarchy of the international system.

Since the global system is still based upon state sovereignty, a process that developed as part of the transformation of the medieval diffused and multilayered political system in Europe (the feudal aristocracy, the papacy and the Holy Roman emperor) into the modern state system, and culminated in the Treaty of Westphalia in 1648, the structure of international relations is by definition anarchic. A Hobbesian Leviathan is a prerequisite for order inside the state; consequently, order cannot exist in the world political sphere except by a tyranny of hegemonic power or powers. Nations dwell in perpetual anarchy, for no central authority puts limits on the pursuit of sovereign interests without destroying the very basis of the national state system. This is in part why the League of Nations failed, the United Nations (in the UDCs' eyes) is a failure, and international law is whatever the hegemonic powers say it is. This is why it is important to take the sting out of that system. However, to be avoided is the interdependence's updated rendition, the "internationalization" sense edited recently by Robert Keohane and Helen Milner in *Internationalization and Domestic Politics* (1996), which is too closely associated with static comparative advantages as well as its offshoots of the H-O-S theory, Stolper-Samuelson theorem, and the NICs' "miracle."

[1]See Michael Hechter, *Internal Colonialism* (1975); and Michael Lipton, *Why Poor People Stay Poor: Urban Bias in World Development* (1977: 13).

of the absolutist monarchy,[1] namely the divine right of kings-- and its reductio ad absurdum method, therefore, are worthy only of being "consigned to the flames," together with their collateral rationalizing stratagem of logical positivism[2] and the positivist metatheory generally, not by the empiricist fork of Hume,[3] but by realist holism --the realist deduction of discernments from the *entire* social existence, paying special attention to other relevant factors of economic action, not only to its economic/pecuniary logic. Realist holistic thought alone can unmask the kernel and the very motivation of neoclassical economics. This is why it is rejected and reductionism promoted; this is why technocracy and efficiency are *in*, while sense and equity are *out;* this is why political economy --in the first place--is replaced by Senior's "positive" economics,[4] and the latter is derailed away from the social sciences.

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[1]In the stage of late commercial capitalism, the need for protection of commercial interests from competition has contributed towards the rise of "absolutist" state. That state form was suitable for the original (primitive) accumulation of capital and led to the gradual constitution of the bourgeois nation state. It was only with the rise of industrial capitalism that the bourgeoisie fully "nationalized." This age of the formation of bourgeois nation state took place in Europe's "long" nineteenth century, stretching from the French Revolution to the Treaty of Versailles --the US Civil War too took place in this context (see Henk Overbeek, *Global Capitalism,* 1990: 37-8).

[2]The positivist thesis of the seperability of facts and values, and facts and theories, is untenable, because all facts are theory laden and all theories are value laden. On the dark alliance between neoclassical economics and logical positivism see Homayoun Katouzian, *Ideology and Method in Economics* (1980) and Martin Hollis and Edward Nell, *Rational Economic Man: A Philosophical Critique of Neoclassical Economics* (1975), whose basic thesis is that positivism is a false philosophy and neoclassical economics must fall with it. Katouzian, however, points out some significant but unrelated misgivings of Hollis' and Nell's work in his *Ideology and Method in Economics* (1980: 44).

[3]Reality, even in the natural scientific sense, is not, as in the "positivist" view, always so transparent: nor is the observer always detached. Indeed, contrary to Hume, constant conjunctions are only rarely visible in nature; causal laws (the real) are ontologically distinct from patterns of events, and events (the actual) are similarly distinct from experience (the empirical). Positivist empiricism is therefore burdened by two *category* mistakes: Reducing causal laws to constant conjunctions of events (confusing powers with their exercise), and the latter to experience, thereby making the real a property of the empirical rather than *vice versa* (thus failing to recognize human experience as a social product and knowledge as a social production).

Gravity, as a property of the real, operated even when its actualization (the falling apple) remained unperceived or uncomprehended by human subjects; it would, accordingly, remain operational even in a nonhuman world stripped of all human experience. Transcendental (Bhaskarian) realism, therefore, upholds the nonidentity of being and thought, of the objects of the intransitive and transitive dimensions of reality. It thus rejects both Humian empiricism for limiting the concept of the natural order to what is given in human experience and Weberian idealism for perceiving it as a human construct. Thus Bhaskar's critical realism, in refining Marx's historical materialism, postulates epistemic relativity, ontological specificity, and policy-theory linkage --science as part of social praxis (see Kanth, 1997: 15).

[4]The term "positive economics" was to come later, its meaning only is what Senior is responsible for.

As long as neoclassical economics is allowed to uphold its Weberian vice of *wertfreinheit* --the value neutrality fallacy of socio-scientific analysis (following the Comtean positivist sociology), that is, as long as it can continue to get away with the claim that its scientificity of methodological individualism, preference revelation, marginal distribution, comparative advantage and welfare economics is value free, it will continue to have relevance to UDCs' *problématiques*, not to their transformation. For under this entire construct economic processes are presumed to take place in a kind of historical and institutional vacuum. This is how and why all these concepts appear to be compatible with the "irrelevance of assumption realism." Until that Weberian orientation change, and the ramifications of that change restore realism to the political-economic theorizing, bridled capitalism, for lack of a better alternative, is alone pregnant with the best hope for doing the awesome task of overcoming underdevelopment and transforming the UDCs.

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