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For Session 5 of module

Managing and Planning for Development: International and National Dimensions (Academic year 2011-2012)

5 - Planning for development: a process. Three stages: commodity exports, import-substitution industrialisation, and export-led growth. The developmental state. The dependency theory critique.

The historical scope of sessions 5 and 6:

Looking at styles of economic planning in developing countries

- A) From 1850s to 1930s (Latin America). Export-oriented economic modernization in a laissez-faire market implemented by liberal states.**
- B) From late 1930s to late 1970s (Latin America, Africa and Asia). Mainly characterised by import-substitution industrialisation implemented by developmental states and strong public administration institutions, including institutions for rural land reform especially in Latin America and Asia.**
- C) From the early 1980s to 2008 (Latin America, Africa and Asia). Export-oriented industrialization in a laissez-faire market, implemented by neo-liberal states in a globalized financial and productive economy. (in Session 6)**

Brief working definition of economic planning:

“ Economic planning may...be described as conscious efforts on the part of the government to influence, direct and, in some cases, even control changes in the principal economic variables (consumption, savings, investments, exports, imports, etc.) in order to achieve a predetermined set of objectives concerning growth and the sectoral and regional distribution of growth”.

(J. Martinussen, 1997, “**Society, State & Markets. A guide to competing theories of development**”, Zed Books Ltd., pp. 228-229)

Of course, the “predetermined set of objectives” will be defined by the social groups controlling the government, and not the majority of civil society

The scope of economic planning:

Developmental and neo-liberal states will try to solve the following contradictions:

1. between high technology and low technology production which tends to create economic bottlenecks and social and political antagonisms.
2. between the processes of growth in rural and urban areas.
3. between domestic economies and foreign economies.
4. between economic efficiency and social efficiency.
5. between the demand of goods and services by the wealthy sectors and the basic needs of the poor sectors.
6. between market failures and sustainable economic, human, social and environmental development.

All the above contradictions will create different decisions for allocating resources (capital, land, labour) which will tend to benefit more some social sectors than others, etc.

The liberal state (1850s to 1930s):

Exporting raw materials, cash crops, meat and cereals to Britain and the United States, and importing manufactured goods kept a Latin American ruling elite extremely rich, and peasants and wage earners in the cities extremely poor.

Thus the economic role of the state was minimal, but its political role was very strong (to keep the poor sectors at bay).

In the 1930s the unregulated capitalist market in the industrialized countries crashed due to huge speculative activities by the banking system which sent their economies to a deep economic crisis (25% unemployment in the U.S., higher in Britain, etc.).

Latin American exports collapsed.

The world depression of the 1930s reduced international demand, then Latin American economies were forced to reduce imports by 75%, which in turn reduced production, incomes diminished, while public expenditures grew.

The liberal state collapsed in Latin America and United States.

The developmental state (late 1930s to late 1970s) – (1)

From 1929 to 1939, Central Banks, National Commissions for Foreign Exchange and gigantic Production Development Corporations were created by the state in Argentina, Brasil, Mexico, Chile, Colombia and Peru (representing almost 80% of the region GDP).

The main tenets of this new political economy were:

- 1. All major industrialised countries (especially U.S.A. and Japan) had industrialised behind protective policies, i.e., tariffs and subsidies;**
- 2. Any country needed to develop a strong industrial structure before it could become involved in free trading of manufactured goods;**
- 3. Protective policies should promote a wide rather than a specialized range of rural and urban industries;**
- 4. Protective policies will create more opportunities for employment at a time of supply of labour growing very fast.**

The developmental state (late 1930s to late 1970s) – (2)

Arthur Lewis summarized the evolution as follows:

“In the twenties economists write of current events as meteorologists write of sun and rain. Whether conditions will improve or deteriorate is taken as a matter beyond human control...In the thirties, on the other hand, this attitude disappears altogether; it comes to be regarded as the duty of governments to alter and control the course of economic events, and to eliminate adverse movements” (A. Lewis, 1949, “Economic Survey: 1919-1939”, p. 199)

And then,

“The price mechanism has wonderful virtues...but there are limits to what should be asked of it. All along the line it requires to be supplemented by positive and intelligent government action...The great problem for our generation is to learn to make government action positive and intelligent”...(ibid. p.200)

See also Raúl Prebisch, 1947, “*Introduccion a Keynes*”, and “*Theoretical and Practical Problems of Economic Growth*”, 1950.

The developmental state (late 1930s to late 1970s) – (3)

In 1948 United Nations created the **Economic Commission for Latin America and the Caribbean**, ECLAC, (then known as the UN Economic Commission for Latin America, UNECLA) to encourage economic cooperation among its member states.

ECLAC's main office have been in Santiago, Chile, since 1948.

1. ECLAC developed a new economic theory, “**structuralism**”, which advocated a particular type of state needed for economic development in developing countries.
2. The state was conceptualized as “**estado desarrollista**” (**developmental state**).
3. ECLAC also developed a tool for analysis: “**economía del desarrollo**” (**development economics**).

(UNECLA, 1950, “**Economic report on Latin America**”, United Nations, New York).

The developmental state (late 1930s to late 1970s) – (4)

The arguments for developmental state have been based on three major claims:

- **individual preferences and decisions regarding investments** do not necessarily lead to an optimum allocation and development-promoting utilisation of the scarce resources of society;
- **market mechanisms** do not function properly sometimes in developed and developing countries;
- even where market mechanisms function well, they may not lead to changes and development, but may reproduce an equilibrium at the prevailing **low level of development** (Keynesian national equilibrium when leakages are equal to injections);

(J. Martinussen (1997), “**Society, State & Markets. A guide to competing theories of development**”, Zed Books, New York, p. 229).

The developmental state (late 1930s to late 1970s) – (5)

From the above claims we can distinguish two types of planning:

1. **The controlling type**: planning for all sectors regulating consumption, savings, investments, financial institutions, imports, exports, etc. at the macro level, and the relative growth of agriculture, heavy and light industry, consumer goods, etc.; distribution of income and universal access to health care, education and housing. Planning both state and private investments;
2. **The mixed type**: will do as above, but it will not force the private sector to be part of the general plan. Instead it will use economic policies (for example, managing interest rates, exchange rates, tariffs, subsidies, diversified taxation, etc.) to “entice” some private capitalists to invest where the state needs more investments.

The developmental state (late 1930s to late 1970s) – (6)

Both types of developmental state will generate very powerful **bureaucracies.**

In the case of type 1) bureaucracies will have absolute economic power.

In the case of 2) relative economic power.

In both cases, the **high, middle and low ranks of the civil servants** could try to transform its bureaucratic power into private profits if there are no institutions to make bureaucratic rule transparent to scrutiny.

The notion of "**rent-seeking**" civil servants will apply to them.

The developmental state (late 1930s to late 1970s) – (7)

On structuralism:

1. Led by Raúl Prebisch and Anibal Pinto, ECLAC argued that colonization distorted former colonies' economies in “**structures specialized in producing raw materials, cash crops and foodstuff at low prices to meet the needs of the colonizer's economies originating structural deficit on balance of trade**”.
2. The above created economically “**fractured societies**”, in which a modern sector was being **constrained by international trade** dominated by United States and Western Europe, and a traditional-backward sector was **blocking modernization**.
3. ECLA noted that there was an **international division of labour** dominated by the **centre** (U.S.A. and Western Europe) extracting value added from the **periphery** (Latin America, Asia and Africa)

The developmental state (late 1930s to late 1970s) – (8)

ECLAC proposed a twofold approach **to promote independent capitalist industrialisation in Latin America** (developing countries):

On international trade: create (in United Nations) an united front of developing countries to force industrialized countries to buy commodities at fair prices.

On independent development: organize national production of manufactured goods currently imported from industrialized countries. This was going to be known as “**import-substitution industrialization (ISI)**”, led by national governments through comprehensive **economic planning** – allocating resources to **private capital** in accordance with a general plan, and creating **state owned productive enterprises**.

The developmental state (late 1930s to late 1970s) – (9)

Import-Substitution Industrialisation considered four stages:

1. First Stage: production of basic non-durable consumer goods such as textiles, foodstuff and pharmaceuticals, based on agricultural development (here, land reform was necessary).
2. Second Stage: production of more complex products (consumer durables), such as gas/electrical cookers, radio and television sets, and motor vehicles (technologies and parts to be imported at the outset, until domestic generation of both was created).
3. Third Stage: intermediate industries, such as steel and derivatives, petrochemicals, aluminium, etc. Production of parts for supplying the consumer goods industries.
4. Fourth Stage: production of domestic high technology, and development of a capital goods industry. Focus on Research & Development.

The developmental state (late 1930s to late 1970s) – (10)

Implementing **ISI** needed foreign capital, national private capital and state capital.

Since the late 1940s **Import-Substitution Industrialisation** in Latin America was engineered via a “triple alliance” between:

**state owned firms,
national private enterprises, and
transnational corporations.**

The balance between these 3 economic categories varied from country to country

From [Globalization, Social Conflict and Economic Growth](#), by Dany Rodrik, Harvard University, 1997:

“I believe the development community has internalized the wrong lessons from the experience of countries that adopted the ISI strategy in Latin America and elsewhere. The correct interpretation, I think, goes something like this.”

“First, ISI worked rather well for a period of about two decades. It brought unprecedented economic growth to scores of countries in Latin America, the Middle East, and North Africa, and even to some in sub-Saharan Africa.”

“Second, when the economies of these same countries began to fail apart in the second half of the 1970s, the reasons had very little to do with ISI policies per se or the extent of government interventions.”

“Countries that weathered the storm were those in which governments undertook the appropriate macroeconomic adjustments (in the areas of fiscal, monetary and exchange-rate policy) rapidly and decisively.”

“Third, and more fundamentally, success in adopting these macroeconomic adjustments was linked to deeper social determinants.”

“It was the ability to manage the domestic social conflicts triggered by the turbulence of the world economy during the 1970s that made the difference between continued growth and economic collapse.”

“Countries with deeper social divisions and weaker institutions of conflict management experienced greater economic deterioration in response to the external shocks of the 1970s.”

The developmental state (late 1930s to late 1970s) – (11)

TABLE 1. (Early 1960s) - Heavy industry as a percentage of total manufactures, by groups of countries

Industries	Group I	Group II	Group III	USA
Chemicals	12.4	9.2	5.7	7.6
Petroleum & coal derivatives	6.0	4.5	2.3	4.0
Mineral prod. other than metals	6.2	4.2	3.6	2.6
Basic metals	8.8	6.5	0.8	8.5
Metal products	-	4.3	4.3	6.0
Machinery, except electric	6.5	1.7	0.6	8.8
Machinery, electric	4.4	2.5	0.7	7.8
Transportation equipment	8.5	3.4	1.0	12.7
TOTAL	46.8	36.3	19.0	58.0

Group I (Argentina, Brasil, Mexico) – **Group II** (Chile, Colombia, Peru)

Group III (Bolivia, Costa Rica, Dominican Rep., Ecuador, Guatemala, Honduras, Panama, Paraguay.

The developmental state (late 1930s to late 1970s) – (12)

Table 2.- Average annual growth (%) of Gross Domestic Product (constant prices)	1950-1970	1970-1981	1980-2003	
Industrialized economies	4.6	3.0	2.95	
East Asia & Pacific	6.1	8.0	5.13	
Middle East & North Africa	4.5	*7.1	1.95	
Latin America and the Caribbean	5.2	5.2	1.82	
South Asia	4.3	3.8	5.44	
Sub-Saharan Africa	4.3	3.3	1.95	
China	7.5	5.2	9.9	
		**	***	**

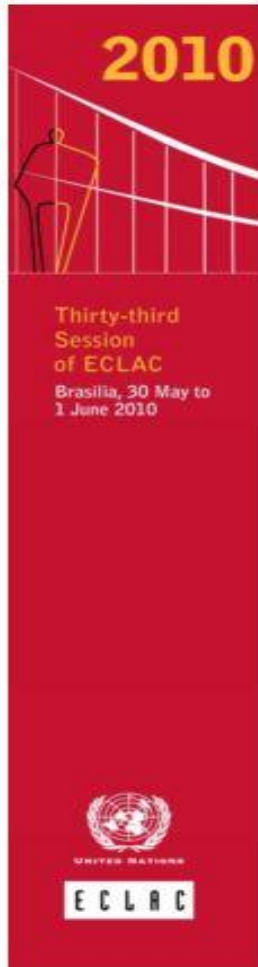
*Oil price (index): 1973=100/ 1974=344/ 1980=780.

**London Inter Bank Offered Rate: 80% - U.S. interest rates: from 1.8 % to 24.0 %

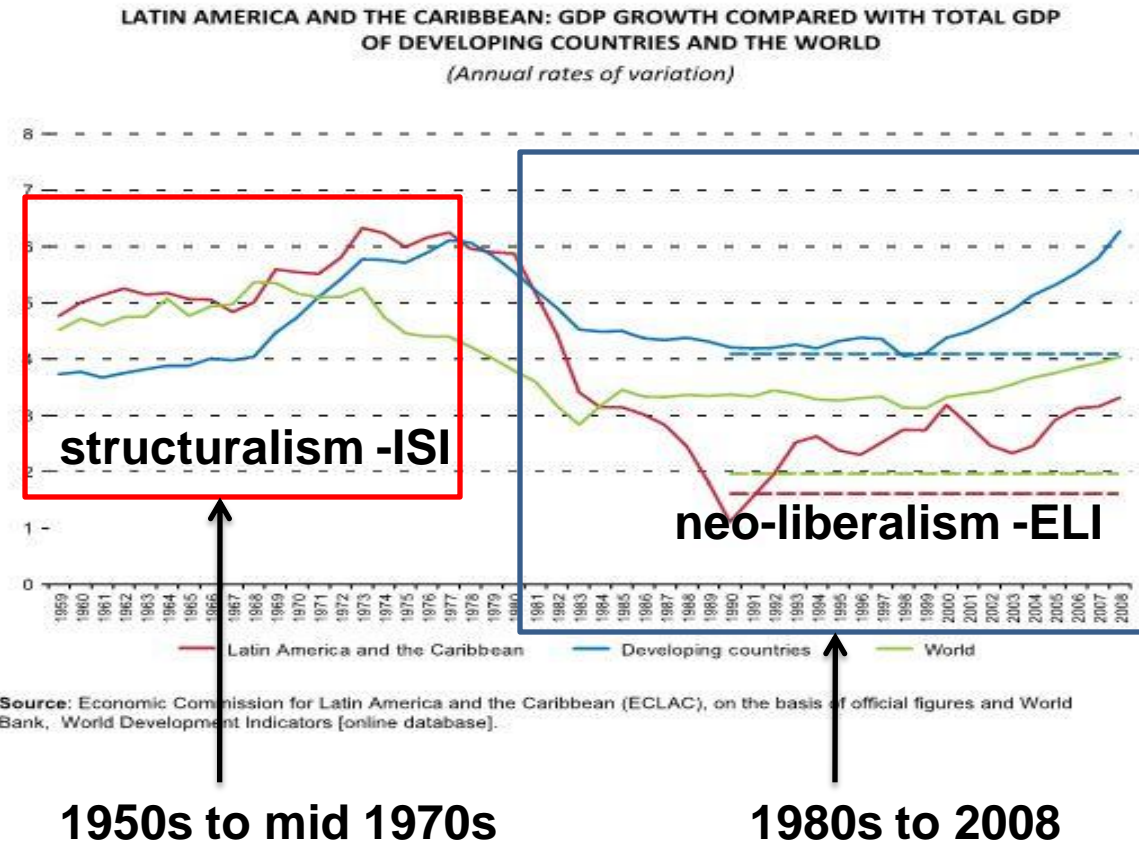
*** 1975 to 1985: foreign debt grew 5 times

Sources: World Bank: **World Development Reports and World Development Indicators** –various years

GRAPH 1



The policies pursued since the 1980s did not produce the rapid, sustained economic growth that was expected



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and World Bank, World Development Indicators [online database].

The developmental state (late 1930s to late 1970s) – (13)

From Table 2 and Graph 1 it follows that the regions implementing **import-substitution industrialisation (ISI) with developmental states** were more resilient to the **oil crisis** and the recession affecting industrialized countries.

But two major issues played an important role in the demise of the developmental state in developing countries in the 1980s-1990s:

1.- Heavy foreign debt with some countries defaulting or near defaulting (for Asia and Latin America), and

2.- Strong growth of capitalist and working classes which created acute political problems in Latin America, because the pro-United States Latin American ruling élites were under siege by pro-socialist political movements in the 1960s and 1970s. **The geopolitical dynamics of the Cold War became the main reason for the U.S. opposition to development states in Latin America.**

(more of this [in Session 6](#), when dealing with the neo-liberal state)

Dependency theory – (1)

In the early 1960s, in Santiago, Chile, a group of Latin American academics (especially economists and sociologists), developed an overall critique of [modernization theory](#) (Rostow, et al) and structuralist theory (Prebisch, et al) .

The critique was based on the principle that capitalist development in industrialized countries was leading to a world economy dominated by monopoly capital (in the form of transnational corporations mainly based in the United States in the 1960s);

Thus, if developing countries embarked in capitalist modernisation/industrialisation, they will end up as dependent capitalist economies modernizing to meet the needs of industrialised countries' big corporations in a monopolist world market.

Dependency theory – (2)

Dependency theorists (O. Sunkel, E. Faletto, T. Dos Santos, A. Quijano, F.H. Cardoso, A. G. Frank, J. Ramos, R. Rojas, et al, which are associated with different shades of dependency theory) **argued that**

-import-substitution strategies, implemented in conditions of capitalist relations of production dominated by the economic empire led by US' big corporations was a recipe for further “colonization”, “domination” and “dependency”;

-export-led strategies will have the same result, though faster;

-development state in conditions of capitalist relations of production will ensure international monopoly capital dominance upon developing countries, **and the same will be true for laissez-faire states.**

Dependency theory – (3)

Dependency theory suggested a **methodology** for advancing in the building of **an alternative system to capitalism and bureaucratic socialism**, based on

1. An analysis of social processes, mechanisms of exploitation and the dynamics of social stratification;
2. An analysis of imperialist relations among countries and regions within countries;
3. An analysis of the asymmetric relations between social classes;
4. An analysis of the relationship (as business partners) of the ruling elites and high rank civil servants in developing countries with the ruling elites and high rank civil servants in industrialised countries

Dependency theory – (4)

Dependency manifested itself mainly as follows:

1. Industrialized countries' **financial and technological** penetration in the peripheral countries, creating
2. an **unbalanced socio-economic structure** both within the peripheral countries and between them and the centres,
3. limitations to **self-sustained growth** in the periphery,
4. specific patterns of **class relations**,
5. violent **economic cycles** originated in the cycles of the world economy controlled by big corporations.

(F. H. Cardoso & E. Faletto, 1969, “**Dependencia y desarrollo en América Latina**”, Siglo XXI Editores, Mexico)

For more data on Latin American industrialization via import-substitution strategy led by developmental states see:

1. R. Rojas (1985), "[Latin America: a failed industrial revolution](#)";
2. ----- (1985), "[Latin America: the making of a fractured society](#)";
3. ----- (1990), "[Notes on import-substitution strategies for development](#)"
4. ----- (1992), "[Notes on ECLA's structuralism and dependency theory](#)".
5. ----- (1975), "[The murder of Allende, and the end of the Chilean way to socialism](#)"
6. ----- (1996), "[The Chilean way to socialism. Popular Unity](#)"
7. ----- (1996), "[Modernization theory and the pacific \(or violent\) transition to industrial capitalism](#)"

And for the case of South Korea and Taiwan (province of China):

R. Rojas (1996), "[Notes on South Korea, Taiwan and the myth of the "East Asian miracle"](#)"

Read also, UNCTAD, [Trade and Development Report 2010](#), Employment, Globalisation and Development, particularly [Chapter V](#): "Revising the Policy Framework for Sustained Growth, Employment Creation and Poverty Reduction"

From [United Nations Development Programme](#) – 2009

Read also: [Handbook on planning, monitoring and evaluating for development results](#)

"This 2009 version of the 'Handbook on Planning, Monitoring and Evaluating for Development Results' aims to support UNDP in becoming more results-oriented and to improve its focus on development changes and real improvements in people's lives.

The Handbook recognizes that planning, monitoring and evaluation require a focus on nationally owned development priorities and results, and should reflect the guiding principles of national ownership, capacity development and human development.

Globally, there has been a significant shift away from the project approach in favour of programme and national approaches.

UNDP also faces intensified calls for accountability to citizens for how resources are used, what results are achieved, and how effective these results are in bringing about progress in human development." ***

