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Abstract

The surge in academic work on globalization has made several of the topics dear to authors of the dependency school relevant once again. Therefore, a reconsideration of dependency theory seems to be appropriate. There are at least two approaches to dependency. This article analyzes critically their similarities, differences, and limitations, in particular regarding the role of technology and international finance in the explanation of center and periphery interactions. The evolution of the ideas on dependency in Latin America is evaluated. The reduced relevance of strict definitions of the technological division of labor, the theoretical problems caused by the effective industrialization of several countries in the periphery, the debt crisis, and the failure of the neoliberal agenda are also discussed. In the era of globalization and great transformations in the international economy, the "new" dependency seems to be financial in nature.

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1. Introduction

Dependency theory has almost disappeared from the academic curricula, in the United States at least.[1] The reasons are varied and beyond the scope of this article—which deals

1. For example, although prominently discussed in Gilpin (1987), dependency authors disappeared from his recent survey of international political economy (see Gilpin 2001). Velasco (2002) wrote a short obituary of dependency theory for *Foreign Policy* magazine in a section called the "Dustbin of History." The obituary, like Mark Twain's, may be exaggerated. The interesting point, however, is Velasco's description of a talk by Fernando Henrique Cardoso—a key author in dependency theory and Brazilian president from 1995 to 2002—in the early 1980s. Cardoso shocked the audience, and Velasco himself, by telling them that perfecting capitalism, and not socialism, was the task ahead. That had been the aim of Cardoso's brand of dependency since its inception. The lack of knowledge by a "well-trained" economist like Velasco speaks volumes about the consumption of dependency in the United States, to use Cardoso's apt expression. In contrast, Topik (1998) argued that dependency is alive and well in other guises, for example in the world-systems theory. For an early world-systems perspective on dependency, see Chase-Dunn (1982).

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with development of dependency theory and not its impact on American academia—although it is clear that the demise of the Soviet Union and the subsequent enthusiasm for market-friendly development strategies are prominent causes of the disappearance of dependency from academic programs of study. The surge in academic work on globalization has, however, made several of the topics dear to authors of the dependency school relevant once again. Therefore, a reconsideration of dependency theory seems to be appropriate.

There are two dependency theory traditions. The first is the American-Marxist tradition developed by Paul Baran, Paul Sweezy, and André Gunder Frank, with important ramifications in the works of Theotônio Dos Santos, Marini, Anibal Quijano, and Bambirra. The second dependency tradition is the Latin American structuralist school that builds on the work of Raúl Prebisch, Celso Furtado, and Anibal Pinto at the Economic Commission for Latin America and the Caribbean (ECLAC, or CEPAL),[2] and also on Marxist historians such as Sergio Bagú and Caio Prado Júnior; this structuralist approach is best represented by Fernando Henrique Cardoso and Enzo Faletto, Maria da Conceição Tavares, José Serra, J. M. Cardoso de Mello, Osvaldo Sunkel, and Francisco Oliveira.[3] One should note that the American-Marxist and Latin-American-structuralist dichotomy does not mean that only American Marxists contributed to the former because, as it is clear, Latin Americans did as well, or that only Latin American structuralists contributed to the latter because Marxists also participated. The main influences are, however, relatively well described by these two labels.[4]

The objective differences between the two groups—and the sometimes bitter debates—conceal the similarities between them. In fact, both groups would agree that at the core of the dependency relation between center and periphery lies the inability of the periphery to develop an autonomous and dynamic process of technological innovation. Technology—the Promethean force unleashed by the Industrial Revolution—is at center

2. At the time of those developments, ECLAC was simply ECLA. I will use the Spanish and Portuguese acronym CEPAL in the text.

3. Lustig's (1980) claim that Furtado used neoclassical categories, whereas Tavares used for the most part Marxist categories, is incorrect. Furtado clearly used Keynesian categories because he admittedly was highly influenced by Cambridge Keynesians such as Kaldor. His magnum opus on the Brazilian economy (Furtado 1959) was, however, highly influenced by Caio Prado, the foremost Marxist historian in Brazil. Furthermore, the concept of surplus is an integral part of Furtado's discussion of development in all his work, a concept that is alien to neoclassical economics but not to Marxism.

4. Palma (1978: 23) distinguished three approaches to dependency. The first one corresponds to what was referred to here as the *American Marxists*, whereas the other two were conflated into one here. Within Latin American structuralism, Palma distinguished between those who wanted to extend (Furtado and Sunkel) and those who did not want to extend (Cardoso) CEPAL's analysis. Although for the most part correct, the distinction obscures the fact that both approaches take CEPAL as their starting point. The same arguments stand for Blomström and Hettne (1984), who distinguished four groups: structuralists, neo-Marxists, Cardoso, and Frank. Dos Santos (2002) also offered an alternative taxonomy. Finally, the contributions to the dependency school outside Latin America (e.g., Amin, Emmanuel, and the world-systems approach) will not be directly discussed.

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stage. The center countries controlled technology and the systems for generating technology. Foreign capital could not solve the problem because it only led to limited transmission of technology but not the process of innovation itself.[5] This article argues that in that respect, both versions of dependency resemble neoclassical economics, which sees technical progress, that is, supply-side forces, as the main limitation to economic growth (and development).[6]

The article will discuss the debates between the two brands of dependency above mentioned, and it will emphasize the direction taken by a group of economists associated with the Universidade of Campinas (Unicamp) and its offshore branch at the Universidade Federal do Rio de Janeiro (UFRJ) under the intellectual leadership of Maria da Conceição Tavares.[7] This group moved from an interpretation of capitalist development in the periphery that puts "international money—and not technical progress—as the expression of financial capital domination over the periphery in the last 150 years" (Tavares 2000: 131–32). In that sense, Tavares and her followers, although directly connected with the CEPAL tradition, break with the classical scheme of interpretation of dependency situations.

The article is divided into three sections. The following section describes the differences between the two dependency theory traditions, especially regarding the importance of external and internal forces in the dependency relation. Then, the similarities between the two traditions and their limitations are discussed in light of the process of globalization. In particular, the supply-side view of the development process, which has technology as its focal point, is criticized. The role of financial dependency and its importance in the process of development are emphasized. Financial liberalization and the poor performance in the 1990s have highlighted the role of the balance of payments as the main constraint to growth. An alternative interpretation of dependency relations, one in which the role of international financial markets dominates rather than technological change, is considered.

2. The Neo-Marxist Approach

The post–World War II era provided an environment in which development theories could be developed, and, in fact, development economics is usually seen as emerging as a separate discipline in this period. The Keynesian revolution of the 1930s, the crucial role

5. Not surprisingly, several dependency authors see Schumpeter and the Schumpeterian literature in a positive light. The process of development is related, then, to the role of the entrepreneur. Cardoso (1964), for example, argued that the weakness of a dynamic national entrepreneurial class—a national bourgeoisie—is part of the explanation for Brazilian backwardness.

6. I will not discuss distinctions between growth and development, but it should be clear that GDP per capita growth is only one component of development. The Brazilian economic miracle (1968-1973), with high rates of GDP growth (more than 10 percent per year) and increasing income inequality, comes to mind as an example of growth that does not translate into development.

7. The graduate programs at Unicamp and UFRJ were created in the 1970s as alternatives to the orthodox graduate economics programs in Brazil. In that respect, they were, and to a great extent still are, the main centers teaching structuralist ideas in Brazil. In part, their existence explains the greater degree of relevance of heterodox ideas in Brazil with respect to some other Latin American countries where structuralism received less institutional support.

of the state during the large-scale mobilization for war, and the widespread use of price controls, rationing, and quantitative restrictions led to a generalized belief that well-designed policies could go a long way in fostering economic and social development. Arguably, CEPAL, created in 1949 with Prebisch as the first secretary-general, was a direct outcome of this belief in rational economic management of development.

Traditional Marxist authors, and Marx himself, argued that the developed nation showed the underdeveloped one the path to be followed. In Rostowian fashion, underdeveloped countries would traverse the same stages of development and eventually become fully industrialized. Albert Hirschman referred to this view as *mono-economism*, that is, the idea that only one path of development exists. Paul Baran ([1957] 1968) was certainly a break with that tradition.[8] Baran divided the world into advanced capitalist economies and underdeveloped economies, emphasizing, as Latin American structuralists had before, the interrelation between development and underdevelopment processes in a world-centered approach.[9] The origins of the center-periphery relation are strictly technological and determined by the international division of labor. In other words, the center produces manufactured goods for itself and the periphery, whereas the periphery produces commodities mainly for the center as well as maintaining a relatively large subsistence sector.

Baran explained the lack of dynamism in the underdeveloped world as being a result of its particular insertion in the world economy. The process of development for Baran depends on capital accumulation, which in turn hinges on surplus extraction.[10] A larger surplus leads to more accumulation of capital and a higher growth rate. According to Baran ([1957] 1968: 164), it is in the uses of the surplus that the differences between developed and underdeveloped regions are most evident. In the most backward countries, where the process of industrialization did not take hold and agriculture is still dominant, Baran suggested that underdevelopment results from the patterns of land tenure.

The predominance of large estates in plantation systems implies that a great part of the surplus remains in the hands of landowners, who emulate the consumption patterns of developed countries. Excessive and superfluous consumption on luxuries would then reduce the potential for investment and capital accumulation.[11] Hence, conspicuous consumption

8. Palma (1978: 1) suggested, "Marxist interest in the problems of capitalism development in peripheral countries and areas of the world only began in 1957, with the publication of Baran's *The Political Economy of Growth*." Palma (1978), one should note, emphasized the role of the American Marxist tradition or, more simply, the Marxist tradition, rather than the Latin American structuralist one. Emphasis on the latter would make Mariátegui ([1928] 1979), Caio Prado Júnior ([1942] 1987), or Bagú ([1949] 1992) the starting point of original Marxist thinking on development. Ignácio Rangel ([1963] 1978) and Juan Noyola (1956) are other examples of original Latin American Marxists that are independent from Baran's book.

9. There is, one should note, no reference to Prebisch, CEPAL, or his followers in Baran's book. He does quote Hans Singer, and some other structuralist authors, in passing.

10. *Surplus* is defined as the difference of output and necessary consumption. The difference between actual and potential surplus is ignored. It should also be noted that Baran's heuristic model presupposes that investment depends on surplus (profits). This assumption is markedly different than the Keynesian and Kaleckian notion of autonomous spending determining income. It is also, one might add, quite different from the underconsumptionist approach to Marx of Baran and Sweezy (1966). Baran, following Marxist analysis, defined capital not just as the technical coefficients of production but also as a social relation. He did not emphasize, however, the role of demand in development until he collaborated with Sweezy.

11. Baran ([1957] 1968: 168) was, however, rather strikingly against agrarian reform, because in his view a nation constituted of small agricultural units would be unproductive. See also Brewer (1990: 155).

would be the cause of stagnation in the periphery.[12] The international division of labor that promoted the export-oriented plantation system in a good part of the developing world reinforced the need for luxury imports and thus is at the core of the dependency relation. Industrial development is, however, quite possible in the periphery, as Baran clearly knew, and in that case a new pattern of dependency would emerge.

Baran ([1957] 1968: 175) believed that industrial development in the periphery is usually founded by foreigners, often in conjunction with local interests, and under the protection of tariffs and other state concessions, in a description that fits better for the Latin American than the East Asian experience. Foreign capital brings the technical know-how that is lacking in the developing world. Baran admitted that industrialization brought some good to the periphery, but the advantages are rather limited.[13] Foreign capital tends to control domestic markets, and the periphery then jumps into the monopolistic phase of capitalistic development. The surplus extracted by monopolistic capital is not, however, reinvested in productive activities in the host country.[14] Part of it is simply sent abroad to the parent company as profit remittances to placate foreign stockholders, whereas the other part is spent on conspicuous consumption in the manner of the landed aristocracy.[15] Baran concluded, then, that the only way to break with the circle of dependency would be a political revolution.

André Gunder Frank ([1967] 1969) extended the ideas of Baran to explain the historical development of Latin America—Brazil and Chile in particular—since the sixteenth century. In essence, Frank's notion of "the development of underdevelopment" reproduces Baran's thesis that the extraction of surplus from the periphery by the center limits the former's ability to grow. Theotônio dos Santos (1970), in what is probably the most popular version of dependency analysis, put forward similar ideas. Their conclusion, as much as that of Baran, was that only a political solution—that is, a revolution—would allow a break in the circle of dependency and permit true development in the periphery.[16]

Three basic criticisms of the American-Marxist tradition should be noted. The first set of criticism came from classical Marxists. For them—Ernesto Laclau (1971) and Robert Brenner (1977) being the most prominent—the dependency school erroneously defined capitalism as a system of global exchange, hence for them the relations of production played a secondary role. In their view, a truly Marxist perspective would put the question of the ownership of the means of production and the resultant social relations in the productive sphere (i.e., the wage contract), which were essential in the Marxist definition of mode of production, at center stage. In that respect, the critique resembles the debate on

12. A similar argument was put forward by Furtado (1972). Furtado argued that although the dynamic element in the center was technical progress, in the periphery the dynamic role was taken by consumer demand patterns. The imitation of consumption patterns from the center that could not be sustained by the level of technological development in the periphery was the main cause of stagnation in the latter.

13. Baran's discussion of foreign capital precedes, and to some extent foreshadows, Hymer and Kindleberger's discussion of the multinational corporation.

14. For recent theoretical discussions and empirical estimates of surplus extraction in the periphery and the limits to development, see Yeldan (1995) and Somel (2003).

15. An additional cause of stagnation in the periphery is related to the nature of monopoly capital, in similar fashion to stagnation in the core. Baran believed—in contradistinction to Schumpeter—that oligopolistic market structures tend to slow down the innovative efforts of corporations and reduce the incentives to invest. For a discussion of Baran and surplus theories in general, see Lippit (1985).

16. Palma (1978: 24–25) correctly pointed out that Frank and dos Santos referred to a socialist revolution and not a democratic bourgeois revolution.

the transition to capitalism by Dobb and Sweezy in the 1950s. In both cases, the emphasis on external conditions, in particular external demand (dependency and Sweezy), is seen by orthodox Marxists as a violation of the received doctrine.[17]

The second criticism, and the more important one for our purposes, came from what was referred to as the *Latin American structuralist school of dependency* and was directed toward the notion of the impossibility of industrial development in the periphery. The stagnationist thesis—initially defended, but later recanted, by Furtado (1966)—presumed that the process of import substitution industrialization had reached its limits. Cardoso and Faletto ([1967] 1970), and more emphatically Tavares and Serra ([1970] 1972), would produce a definite refutation, and facts would prove them right, to a certain extent.[18] The effective industrial development of the periphery implied that the extreme pessimistic view of the American-Marxist approach was, at best, exaggerated.

On a different level of analysis, Cardoso (1977: 15) would criticize the ossification of his previous analysis of "situations of dependency" into a mechanical construct in the hands of neo-Marxist *dependencistas*, who ultimately tried to establish the "laws of motion of dependent capitalism." Cardoso emphasized the relevance of dependency studies in the understanding of historically specific emerging forms of dependency. In that sense, his concern was to understand under what conditions situations of dependency would open or close the possibilities for economic and social progress.[19] Ultimately, the consumption of a simplified version of dependency in American academia, for the most part, would make dependency "a straw man easy to destroy" (Cardoso 1977: 15).

3. The Structuralist Approach

Several of the ideas associated with CEPAL and the structuralist approach had been developed during the 1930s. More importantly, several of the economic policies usually associated with CEPAL, in particular import substitution industrialization (ISI), had been implemented well before a structuralist school effectively existed. ISI was the result of necessity during the Great Depression, as Prebisch knew firsthand from his experience as the first head of the Argentinean Central Bank in the 1930s. Furtado (1959) showed not only that import substitution was a normal practice before it became the slogan of national developmentalism, but also that Vargas in Brazil was a Keynesian *avant la lettre*. In that respect, Prebisch's (1949) development manifesto consolidated a series of views and policies that were already part of the dominant intellectual milieu in Latin America.[20] Perhaps

17. Dos Santos (2002: 30) noted that Frank correctly followed Bagú and Caio Prado against orthodox Marxists in arguing that there was no feudal past in Latin America. Dos Santos (2002: 53–58) also noted the connection between the neo-Marxist approach to dependency and the world-systems literature emphasis on external forces.

18. For the stagnationist debate, see Lustig (1980) and, more recently, Goldenstein (1994).

19. In this respect, his analysis constitutes a criticism of Marxist economic determinism, in particular the notion of mode of production. Donghi (1982: 126) suggested that other authors (e.g., Juan Carlos Garavaglia) prefer the notion of socioeconomic formation instead, because it refers to a historically concrete reality rather than an abstraction based on generalization about history.

20. It should also be noted that Prebisch ([1947] 1998) produced one of the first guides to interpret and spread Keynesian ideas in Latin America.

the radical element is related more to the fact that a respected member of the intelligentsia produced the paper than the actual contents.

Prebisch's paper suggests a typology for understanding economic development from the colonial phase to the commodity-export system of the independent phase. It emphasized the role of the international division of labor in determining specialization patterns in Latin America. Subsequent studies at CEPAL produced some innovative interpretations of the economic history of Latin America, the most influential probably associated with Furtado's (1959) analysis of Brazilian development and Anibal Pinto's ([1959] 1973) study of Chile. Also, Prebisch famously argued that the terms of trade for commodity producers have a tendency to fall, a hypothesis usually known as the *Prebisch-Singer effect*. The notion that consumers increase their expenditures for food products at a percentage rate that is lower than that of their increases in income (also known as *Engel's law* for Ernst Engel, a nineteenth-century German statistician) is behind the Prebisch-Singer effect. As income goes up in the world, the relative demand for foodstuffs increases less than proportionally, and its relative price falls. Hence, specialization on primary commodity production implies underdevelopment.[21] Industrialization becomes the necessary antidote for closing the gap with developed countries.

Cardoso and Faletto ([1967] 1970), although critical of Cepalino generalizations and for that reason defenders of the analysis of concrete experiences, were, in fact, revising and extending the Cepalino approach to development, not the least because their work was written at CEPAL. Not only is capitalist development in the periphery possible, according to Cardoso and Faletto, but also foreign capital has a tendency to reinvest in the host country so that foreign investment may in fact "crowd in" domestic investment.[22] Hence, the nature of dependency is such that partial or dependent associate development is viable.

As a result, dependency is not a relationship between commodity exporters and industrialized countries, but one among countries with different degrees of industrialization. Furthermore, the Cardoso and Faletto brand of dependency distinguishes two dichotomies that allow classifying the political and economic situation of a given country. Development and underdevelopment remain economic categories essentially related to the degree of development of the productive structure, and hence to its level of technological development. On the other hand, *dependency* and *autonomy* refer to the degree of development of the political structure, and the ability or not of local political elites to take economic decision making into its own hands. As a result, dependent development in association with foreign capital was possible and did occur, according to Cardoso, in countries like Argentina, Brazil, and

21. Ocampo and Parra (2003) showed that during the whole twentieth century, there has been a tendency for the terms of trade to fall. That tendency has not, however, been a constant force, and most of the decline in the terms of trade occurred in two bouts in the 1920s and the 1980s. The two periods correspond to subsequent changes in the development strategies, in the 1930s leading to greater state intervention and in the 1990s toward a market-friendly approach.

22. Cardoso and Faletto ([1967] 1970: 41) wrote of solidarity between foreign investment and domestic expansion. In modern terms, one would refer to *crowding in*, that is, the idea that linkages promoted by foreign investment lead to increasing domestic capital formation. For measures of "crowding in" in Brazil, see Vernengo (2003b); for a more broad empirical coverage, see Agosin and Mayer (2000), who found "crowding in" in Asia and "crowding out" in Latin America.

Mexico—and in a good part of East Asia, one might add.[23] Arguably, these would be the countries that correspond to what Wallerstein (1979) referred to as the semiperiphery.

Cardoso and Faletto emphasized the importance of domestic internal developments, in contrast to the external forces of the world economy, as the main determinant of the situation of dependency. It is the internal political process that leads to outcomes that favor foreign actors in the process of development. Furthermore, national capitalist development is not incompatible with the absorption of technological knowledge from multinational firms. Arguably, if the goal is to achieve development, dependent development is a reasonable road to it, even if autonomous development is politically more interesting.[24]

For that reason, Cardoso and Faletto were among the first to note that stagnation was not inevitable for Latin America and that growth could in fact resume after the cyclical crisis of accumulation that followed the wave of investments of the developmentalist policies of the 1950s.[25] Tavares and Serra ([1970] 1972) developed the idea and showed that income redistribution to the higher income groups—de facto creating an upper-middle-income class in Brazil—had allowed the so-called Brazilian miracle. Tavares and Serra also argued that chronic instability would come together with the recovery as a result of the lack of capacity to generate domestically endogenous technical progress. In that respect, they hinted that more than merely transferring technology from the center, Latin American countries should be able to generate their own dynamics of technological innovation, which later neo-Schumpeterian authors would refer to as a *national system of innovation*.

The importance of technology, the role of multinationals in the process of technology transfer, and the role of the state in promoting technological innovation through industrial policy then became the foci of the Latin American structuralists. The specific historical conditions of development of different styles of capitalism in the periphery became part of the research agenda.[26] The main difficulty, as seen by the Latin American approach to dependency, was taken from the old structuralists and was associated with the hard phase of import substitution, that is, the implementation of a domestic capital goods sector.

23. Halliday (2002: 83) argued that critics of the American-Marxist tradition like Cardoso got it right because "industrialization, and economic growth in general, have been possible in a range of peripheral countries and on a scale that dependency theory did not envisage." Sutcliffe (2002: 50–51) also criticized the rigidity of the American-Marxist tradition, in particular "its inability to account for those developments which have not simply been a continuation of North-South polarization, for instance the extraordinarily rapid capitalist industrialization of a number of Asian countries during the last forty years."

24. In that sense, one may interpret the Cardoso administration's (1995-2002) alignment with the liberalizing policies of the Washington Consensus as the recognition that autonomous development was not possible for Brazil and that dependent development was the only alternative. See Fiori (1997) and Rocha (2002) for arguments along those lines; and for similar early critiques of the Luiz Inácio Lula da Silva administration (2002), see Oliveira (2003) and Vernengo (2003a).

25. O'Donnell ([1982] 1996) argued that the political constraints to dependent development were lifted by the military coups in Latin America that came to promote development in authoritarian guise. Bureaucratic authoritarian rule would do what liberal democracy was unable to accomplish, an argument that seems less appealing and ultimately incorrect in hindsight.

26. For example, Cardoso de Mello ([1975] 1982) and Evans (1979) discussed the specificities of dependent capitalist development in Brazil. For a more general analysis of Latin America, see Fajnzylber (1983).

In particular, the need for capital goods imports would imply that the balance of payments could impose a serious constraint to economic growth.[27]

Policies that would enhance systemic competitiveness in international markets were seen as the main tool to promote development.[28] The preoccupation among CEPAL and the Latin American structuralists shifted from the technological gap with the center to the clear gap between Latin America and the more successful industrialization of East Asian economies, Fajnzylber (1983) being the most important mark of the intellectual change. The official report, *Transformación Productiva con Equidad* (CEPAL 1990), is concerned with the successful integration of Latin America into the world economy. The changing structure of international markets, in which the Fordist paradigm is transformed by flexible specialization techniques or Toyotism, is crucial in this view. Export orientation and a greater degree of openness were then seen as part of a strategy to reduce technological dependence.[29]

The implicit diagnosis is that although development had been possible, import substitution was unable to eliminate the structural heterogeneity of the productive structure or to diversify the exports in the region. The lack of a proper export insertion and bad macroeconomic management (i.e., excessive fiscal deficits) are then seen as the causes of the debt crisis. The solution, for neostructuralists, lies in a stable macroeconomy and in microeconomic (industrial) policies that stimulate niches of technological innovation that may include foreign capital participation (CEPAL 1990).

The Latin American structuralist version of dependency, however, in refuting the American-Marxist emphasis on the relevance of external factors, went to the other extreme and claimed that internal forces were the almost exclusive determinant of development. The inability to generate a domestic dynamic of technical progress incorporation, the domestic patterns of consumption, and the limitations of the domestic elites that opted for political dependency were to blame. If the successful industrialization of the periphery showed the weakness of the American-Marxist tradition, then the debt crisis and the failure to renovate the process of development in the 1990s proved that the optimism of the Latin American structuralist approach was not guaranteed. Although rates of growth before

27. This is an idea that was also dear to Cambridge Keynesians and that is alive in the post-Keynesian tradition (e.g., Davidson 1990). Intellectual cross-fertilization resulted from the fact that Michael Kalecki and Nicholas Kaldor taught at CEPAL in the 1950s. Furtado, Sunkel, and other Cepalinos also spent sabbatical periods, or were educated, in British academia.

28. Systemic or authentic competitiveness reflects the ability to compete based on higher productivity, in contrast to what Fajnzylber referred to as spurious competitiveness based on lower wages. Fajnzylber is arguably the most relevant author of this new phase of CEPAL's thinking on development, which might be named *neostructuralist* even though it moved considerably in the direction of the liberal views on development, in particular its emphasis on liberalization as a strategy to avoid technological isolation in an era of technological innovations in the information technology and biotechnological sectors. For a thorough discussion of the evolution of Cepalino ideas, see Bielschowsky (1998).

29. It should be noted that Raúl Prebisch—who shaped CEPAL's thinking in its ISI phase—had moved in the early 1960s, before he became secretary-general to the United Nations Conference on Trade and Development (UNCTAD), to defend a more important role for export promotion in the process of development (Bielschowsky 1998). Also, countries like Brazil had moved by the late 1960s toward an export-oriented strategy. Hence, the idea that ISI was still the dominant strategy on the verge of the debt crisis is inaccurate, to say the least.

the debt crisis had been spectacular and Latin America had caught up with the central countries, the region stagnated in the two decades that followed.[30]

More than the lack of technological dynamism of the import substitution industrialization, the perverse composition of demand, or the lack of dynamism of its elites, all of which are emphasized by neostructuralists, what the debt crisis revealed was a considerable degree of financial dependence.[31] It was the hike in interest rates in the United States that forced the reversion of capital flows, led to massive capital flight and the Mexican default of August 1982, and to contagion effects to the rest of the region. The crucial difference between Latin America and the more successful industrialization experiences in the periphery was the higher degree of financial openness of the former and the more financially repressed structure of the latter. Hence, the real solution for the stagnation of peripheral countries—as defended by the Latin American structuralist approach to dependency—based on dependent and associate (to foreign capital) industrialization proved to be short-lived.

Debt cycles have a long history in Latin America, going back to the period of independence. In fact, the first debt crisis in Latin America dates from the defaults of 1825 (Marichal 1989). Marichal argued that debt crises in peripheral countries are usually associated with financial cycles in central countries. Cycles of growth and expansion of international trade lead to surges in lending to developing countries as the funds in central countries grow faster than their needs, leading to a frenzy of speculation. Ultimately, investors become overextended and retrenchment occurs, leading to a reversal of capital flows and eventually to default.

The long history of debt cycles, and the fact that the period of successful catching up came to a close with a new debt crisis, indicated to some authors that international financial relations, rather than the international technological division of labor, was at the heart of the dependency situation. Technological dependency exists and has been a problem for Latin America for sure. Successful ISI, however, indicated that dependent associate development was possible. Financial dependency, however, proved to be a more restrictive limitation on development. This view was developed more clearly by Tavares (1985) and her followers.

4. Financial Dependency

Financial deregulation in Latin America resulted from American pressures, which were made more effective after the end of the Bretton Woods system. The collapse of Bretton Woods in the early 1970s foreshadowed an era of more open and deregulated global financial markets. In fact, the pursuit of such open financial markets by American authorities is one of the reasons for the collapse of Bretton Woods. The oil shocks and the cost pressures that followed implied that, initially, real interest rates were negative. That was, however, but a short-term accident.

30. Chile would be the exception that proves the rule. Some other Latin American countries experienced a growth bubble in the immediate postliberalization period. It is, however, painfully clear by now that the Washington Consensus policies were not effective and that low growth equilibrium still prevails in the region. As Ocampo (2002) has argued, the second half of the 1990s has proven to be a lost half-decade, on top of the lost decade of the 1980s.

31. In fact, Dani Rodrik (1999: 71) argued that "contrary to received wisdom, ISI-driven growth did not produce tremendous inefficiencies on an economywide scale. In fact, the productivity performance of many Latin American and Middle Eastern countries was, in comparative perspective, exemplary."

Overall interest rates have been on average higher in the post–Bretton Woods period than during the so-called Golden Age period, that is, the post–World War II period up to 1973.

In the late 1970s, Paul Volcker, then chairman of the Federal Reserve Board, hiked interest rates. The real interest rate became strongly positive and remained so for a long period. Pasinetti (1997) referred to the interest rate shock as the revenge of the rentier. That is, the rentier class that was under attack during the Bretton Woods period—which ultimately had imposed Keynes's euthanasia of the rentier—was able to impose higher rates of remuneration at the expense of the rest of society. Interest rates increased in the rest of the world, in tandem with the American rates. Higher interest rates were the inevitable outcome of the collapse of Bretton Woods and the more open international financial system that followed. The elimination of capital controls in several developed and developing markets meant that central banks around the world could compete for speculative capital flows. Also, more volatile exchange rates meant that international speculators would pursue arbitrage possibilities from perceived or real exchange rate misalignments.

The golden age of growth during the ISI period in Latin America resulted not only from the strategies of the developmental state but also from the favorable environment of restricted capital flows and stable but relatively devalued currencies.[32] Lower rates of interest were particularly important in allowing government expenses to increase without leading to explosive public debt accumulation. Capital controls and managed exchange rates allowed keeping foreign debt under control. In fact, Latin America's foreign debt exploded in the 1970s as a result of the recycling of petrodollars at a time when the ISI strategies were off the agenda in most countries and when some countries (e.g., Argentina, Chile, and Uruguay) had already switched to the neoliberal agenda.

If financial deregulation had negative consequences for Latin America, the holders of the international reserve currency—the United States—would benefit, or at least some groups within that country would. For that reason, the United States has been a promoter of financial deregulation directly and through its international agents, the International Monetary Fund (IMF) and World Bank. Some post-Keynesians have emphasized the role of financial liberalization in the collapse of the Bretton Woods regime. Paul Davidson (1982) argued that the U.S. dollar represents the asset of ultimate redemption and hence is used as the measure of international liquidity. As a result, the United States benefits from a more liberal financial system, because the centrality of the U.S. financial market allows it to attract funds to finance persistent current account deficits.[33]

Before discussing whether the American foreign debt is sustainable—a question that has been fiercely debated during the past twenty-five years—let me emphasize the main point: the existence of an international monetary hegemon that controls the international reserve currency implies that global dependency relations do not require international disparities in technology.[34]

32. In fact, capital controls allowed for preferential systems, which promoted devalued currencies for exporters and effectively appreciated currencies for importers. Multiple exchange rate systems were fairly common during the Bretton Woods era.

33. The liberal newspaper *The Economist* singled out Paul Davidson and Ronald McKinnon as the two most prominent defenders of the idea that a dollar crisis is unlikely.

34. A different criticism of dependency is raised by Grosfoguel (2000), emphasizing the underestimation of culture and the overemphasis on economics and politics within the dependency tradition. The exception would be Anibal Quijano, who used the concept of "coloniality of power" to emphasize the continuity of power relations from colonial to modern times.

An economy whose currency is used in international transactions as the unit of account means of payment and as international reserve, and that provides its currency to satisfy the international needs of trade, is in an exceptionally advantageous position. In particular, the currency that acts as international money is well positioned to dominate the debit and credit relations at the heart of the capitalist world system (Rochon and Vernengo 2003). These debit and credit transactions are organically connected to the process of capital accumulation.

Keynes presented in his *Treatise on Money* the definition of money that most post-Keynesians would still accept as accurate. For him, money-of-account, the money in which debts and general purchasing power are expressed, is the primary concept of a theory of money. That is, money comes into existence along with debts, which are nothing more than contracts for deferred payment. Contracts are essential to the phenomenon of money, and the existence of institutions that can enforce the discharge of contractual commitments for future action are essential in providing confidence in the future of the capitalist system.

Also, world systems authors have emphasized the importance of international financial hegemony. Giovanni Arrighi (1994) started his discussion of the long twentieth century by analyzing the four cycles of accumulation that constitute the succession of hegemonic cycles from the inception of capitalism to modern times. The Genoese, Dutch, British, and American cycles of accumulation are marked by financial hegemonic power rather than territorial domination, even if colonial domination was in some cases part of the cycle. The so-called territorial cycles associated with Venice and the Iberian countries are relegated to a secondary role. The point is exactly that financial dominance rather than territorial domination is the essential feature of the hegemonic cycles.[35]

Financial domination implied that persistent balance-of-payments imbalances could be maintained for long periods. The American trade deficit that persists since 1981 is only the last of a long series of persistent imbalances. Arrighi (1994: 249) referred to it as "the age-old problem of a structural imbalance in West-East trade." The current accumulation of dollars by the Chinese and Japanese reproduces the old Chinese accumulation of American silver during colonial times.

Tavares (1985) was the first to recognize that the old structuralists—as well as the more recent neostructuralists—got it wrong and that the end of Bretton Woods did not represent the end of the American hegemonic cycle, but quite the opposite, and that the diplomacy of the dollar was the real instrument of power, the technology of power so to speak.[36] As such, Tavares[37] argued that the new situation of dependency results from a new affirmation of hegemonic power reflected by the diplomacy of the dollar.

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35. Clearly, by relegating territorial dominance as the essential feature of hegemonic power to a minor role in the process of accumulation, it follows that the role of the technological division of labor and the surplus extraction from the periphery are greatly reduced in explaining dependency. Arrighi (1994: 33), in fact, seemed to consider that territorialist rulers are not capitalist. For him,

> [T]erritorialist rulers tend to increase power by expanding the size of the container [whereas] capitalist rulers, in contrast, tend to increase their power by piling up wealth within a small container and increase the size of the container only if it is justified by the requirements of the accumulation of capital.

36. Several authors have claimed that American hegemonic power is waning. Arrighi (1994) and Wallerstein (2003) are among the most forceful.

37. It is important to note that Tavares had worked at CEPAL and was close to Fernando Henrique Cardoso and his group. Arguably, the position taken in her (1985) paper and her reaction to the debt crisis of the 1980s mark a shift with Cardoso's views.

Tavares (2000: 133) noted that dollar diplomacy forced Latin America into a *longue dureé* crisis, whose end is still not in sight.[38] In particular, Tavares noted that the technological division of labor in which the periphery concentrates on the production of commodities for the center, whereas the latter produces manufacturing goods for the former, is of limited historical relevance. Industrialization and technical progress in the periphery were not sufficient to break the dependency ties with the center. The financial dependency reflected in the inability of peripheral countries to borrow in international markets in their own currency, present since the first debt crisis in the late 1820s until the most recent Argentinean default in 2001, is the real obstacle to development.[39]

In that respect, the external debt crises of peripheral countries are a recurrent phenomenon, a characteristic of the center-periphery interaction. Suter (1989) compared the debt cycles to the long waves of technological innovation often referred to as *Kondratieff* or *Kuznets cycles*. Technological dependency (the inability to generate autonomous technological innovations), although important, is subsidiary, and financial dependency (the inability to borrow in its own currency) is central. Theoretically, the centrality of finance reflects the fact that growth is seen as demand led and not supply constrained. Hence, it is the lack of finance, in particular foreign finance and the limits imposed by balance-of-payments constraint, which leads to low rates of growth. Debt cycles result from the inability to finance growing demand and result in recurrent defaults. These debt crises then resemble the Marxian crises of realization in an international environment.

Technological development is then seen as resulting to a great extent from the ability to expand demand, or, in Smithian fashion, the division of labor is limited by the extent of the market. Hence, because technology is for the most part a result and not a cause of the process of development, then dependency relations have to be found somewhere else. Tavares (1985) argued that it is the role of the dollar that determines the hegemonic position of the United States; and ultimately, the lack of an international currency in general, and the debt crisis in particular, explains the specific dependency situation of Latin America.

Furthermore, one should note that the reverse position, that of the international hegemon, is not without risks. In this respect, the work of Tavares and her followers has been influenced by world-system's authors, taking similar concepts and reaching somewhat different conclusions. Arrighi (1994: 27–28) noted that hegemony implies the power of a state to exercise functions of leadership over a system of sovereign states. Hegemony, following Gramsci, implies a mix of coercion and consent. The role of the dollar since the end of Bretton Woods has given, in fact, more rather than less coercive power to the United States in the sense that manipulations of the interest rate by the Federal Reserve Board have great power over capital flows at the same time that the gold requirements of the Bretton Woods system, which ultimately restricted American policy choices, are gone.[40] The role of the

38. This view that emphasizes financial, rather than technological, dependency is associated with Tavares and her followers at the Universidade Federal do Rio de Janeiro and Unicamp. The collection of essays edited by Fiori (1999) is representative of this tradition.

39. The inability to borrow in its own currency has been dubbed the "original sin" in more conservative circles (Hausmann 1999).

40. In fact, the United States has basically followed a monetary policy that privileges domestic issues. In a recession, interest rates are drastically reduced, then raised as recovery goes on. The dollar has then fluctuated during medium-term cycles, associated with interest rate variations at home. Countries in the periphery are, however, generally forced to hike interest rates in the midst of a recession. In other words, center countries can pursue countercyclical policies, whereas peripheral countries in general cannot.

dollar as international reserve currency depends, however, on the consent (that is, the willingness) to hold dollars, mainly of Japanese and Chinese authorities and investors. In a world without alternatives, the risks are relatively limited, and in that respect the appearance of the euro in 1999 increases the dangers of the American foreign exposure.

One must note, however, that transitions from one hegemonic international currency to another are slow processes, and there are several reasons to believe that the relatively short-lived run of the dollar is not near the end. Serrano (2003) noted that about a third of the American current account deficit with foreign residents is in fact due to imports from subsidiaries of American multinationals. Foreign debt to GDP—which is denominated in domestic currency for the United States—is still at low levels by international standards. Given the incredible relevance of the dollar as vehicle currency in international trade and the inertia implicit in those institutional arrangements, it will certainly not have any difficulty in finding sellers in international markets willing to accept dollars as payment for its imports. More importantly, for the purposes of understanding dependency theory, even if at some point in the near (or distant) future there is a switch toward the euro or any other contender, it is clear that financial dependency in the periphery will not disappear with the fall of the dollar.

5. Concluding Remarks

Financial hegemony eliminates the balance-of-payments constraint and allows the dominant country to grow without facing foreign exchange constraints. In fact, the hegemonic country not only provides the international reserve currency but also is the main provider of global effective demand. This would suggest that if the balance of payments is the main constraint on growth for the periphery, then restrictions on domestic demand growth are the main limitation to growth in the hegemonic country.[41] This view contrasts with mainstream authors—and several heterodox ones as well—who consider that supply-side constraints are the main limitation on growth, not only for the periphery but also for developed countries.

In the alternative view, then, demand-led growth is possible because it also affects the supply-side restriction. Demand expansion, by forcing the economy to work at near full capacity, promotes technical progress. That is, economies that are under pressure of increasing demand need to create new processes of production, new forms of organization, and new products to be ahead of demand. The technical developments in turn generate higher levels of output and income, which translate into a new expansion of demand, and a cumulative process of accumulation follows.[42]

According to this view, policies that promote full employment and demand growth are desirable, because they are self-reinforcing. In the case of the hegemonic country, the balance of payments does not impose a limit on demand expansion. In the case of the periphery, export-led growth is the only source of demand growth that does not lead to recurrent

41. This was exactly the point of Baran and Sweezy's (1966) stagnation thesis. In fact, Baran and Sweezy shifted the focus of the limits to capitalism from the supply side, the falling rate of profit, to the demand side, the realization crises. In that respect, they were in line with the demand-oriented approach first raised by Sweezy in his debate with Dobb on the transition to capitalism. Their work, hence, is an underconsumptionist approach of Marx based on Kaleckian dynamics. See Rowthorn (1981) for a formalization of Baran and Sweezy's arguments.

42. The theoretical origins of cumulative causation are to be found in the work of Gunnar Myrdal and Nicholas Kaldor, and have been formalized, in the context of open economies, by Anthony Thirlwall (see Davidson 1990). Verdoorn's law underscores the idea that growth promotes technical progress. For a discussion of the Cambridge origins of cumulative causation, see Vernengo and Rochon (2001).

balance-of-payments problems. Not surprisingly, several authors have described the East Asian experience as a case of the Smithian vent for surplus theory, in which foreign markets provide an outlet for domestic production, promoting demand expansion and higher levels of productivity growth.[43]

A caveat is important at this point. Export-led expansion as a development strategy for the periphery is not a panacea. If the neo-Marxist *dependencistas* exaggerated the tendency to stagnation, and the structuralists saw the possibilities of growth associated with integration with world markets, then the limitations of the latter perspective are worth noticing. Export-led growth is limited by the growth of world markets, which is ultimately highly dependent on the expansion of central countries. Also, in a world with relatively open capital accounts, peripheral countries would be forced to keep interest rates too high to attract capital flows and/or avoid capital flight. High interest rates then lead to contractionary forces that may very well overwhelm any expansionary force from external markets. For that reason, export-led strategies would be more successful in Bretton Woods–like environments in which capital controls are widespread.

In that respect, many Latin American structuralists have moved to emphasize the need to reform the international financial system to provide the conditions for demand-led growth to flourish in the region once again (e.g., Ocampo 2000). The financial turmoil of the 1990s generated a deep sense that reforms on the structure of the international financial system were needed.[44] This contrasts with the positions from the extreme right and extreme left that would prefer a complete revolution in the international financial system, eliminating the IMF and other multilateral institutions. Reform of international financial institutions, rather than a complete overhaul, is a necessary (but not sufficient) precondition for the renovation of the process of development in the periphery. In that respect, the reformist tendencies of the structuralist version of dependency, rather than the revolutionary element of the neo-Marxist approach, seems to be dominant in Latin American radical political economy. The structuralist optimism in the internal ability to break with dependency has given way, however, to the more pessimistic neo-Marxist emphasis on external factors, financial dependency in particular, in perpetuating the cycle of dependency.

For Tavares and her followers, the long cycles of foreign debt lending and the recurrent debt crises are seen as evidence for financial dependency. For that reason, although ISI was successful and led to dependent associate development, it did not free Latin America from recurrent debt crises, as the 1982 crisis shows, nor did neoliberalism for that matter, as can be seen in the recent Mexican tequila crisis, the 1999 Brazilian crisis, and the severe Argentinean crisis of 2001. External financial fragility is the outer façade of financial dependency.[45] In sum, the reduced relevance of strict definitions of the technological

43. Brenner (1977) noted the neo-Smithian elements of those who emphasized the role of demand and world markets in the process of development, albeit in a critical perspective.

44. Although Ocampo was the secretary-general of CEPAL, there is no official document that shows that the institution is committed to reforming international finance, which would represent an important break with the long-term emphasis on trade and technology issues privileged by CEPAL. Bresser-Pereira (2000: 20) pointed out that at this point, there is no clear consensus on development strategies, but everybody would agree that the growth-with-foreign-debt strategy is a dangerous one. Bresser-Pereira, however, did not take the next step in arguing for a more closed international financial environment.

45. Also, financial dependency takes different forms in different periods, hence, historically specific analyses are required to understand the situations of dependency. For example, cycles of debt in the 1970s, associated with bank loans and petrodollar recycling, are quite different than the 1990s debt cycles associated with neoliberal structural reform and bond lending.

division of labor, and the theoretical problems caused by the effective industrialization of several countries in the periphery, shows that trade and technological dependency are less important. In the era of globalization and great transformations in the international economy, the "new" dependency seems to be financial in nature.

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