

Critical Review: Intermediate Models in Economy and Development

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Introduction to International Relations

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Dependency and development in Latin America by Cardoso, *Understanding prosperity and poverty* by Acemoglu and Robinson, and *Toward a social economy of social Policy* by Kaufman and Haggard examine the reasonings behind the varying degrees of development in different modern countries through social, historical, and theoretical lenses. While Acemoglu and Robinson, and Cardoso all agree that political and economic extravitism in the long-run is problematic, what Acemoglu and Robinson consider a liberal “inclusive” country can behave as an extravitist power in the international realm through imperialism. Ultimately, this contradiction demonstrates the weaknesses of a binary world view and shows the importance of intermediate models of development as categorized by Kaufman and Haggard.

Acemoglu and Robinson’s theory discusses the emergence of extractive and inclusive economic and political institutions. They define an inclusive institution as one that distributes economic and political powers widely and equally, while an extractive institution centers around the exploitation of the many by the few.(Acemoglu and Robinson 2012: 430) The few in power in an extractive country tend to develop and maintain this extractive system for personal gain. Acemoglu and Robinson(2012) hypothesize that although economic growth can occur under an extractive regime, this upwards trend can not be sustained in the long run due to the lack of creative destruction, a process of replacing the old economic stratas with new ones that is conducive to innovation, and competition for power among groups, which causes overall political instability.(430) As a result, their theory states that “authoritarian growth is neither desirable nor viable in the long run.”(Acemoglu and Robinson 2012: 446)

While Acemoglu and Robinson look at exploitation from the second level analysis, the individual state, Cardoso analyzes inequality from the third level of analysis, the international

arena. Throughout history, the imperialist-colonial relationship has caused an imbalance of economic and political power between nations, especially disadvantaging developing countries such as ones in Latin America. Classical imperialism restricts the economic growth of less developed countries to mineral and agricultural sectors while keeping the labour force at low wage and salary levels.(Cardoso 1972 :85) Modernized economic imperialism involves a certain level of investment made by the imperialist power to the industrialization of the colonies, creating an economic dependency. This dependency in turn causes an internal structural fragmentation in the less developed countries, as the advanced part of their economies and the people associated with the section connect to the international capitalist system and dissociate from the other industries.(Cardoso 1972 :85) As a result, Cardoso(1972) deems development by dependency problematic in its unsustainability as a social, economic, and political strategy for Latin American countries.

Acemoglu and Robinson, and Cardoso's theories view the relations between different politics through a binary perspective. While Cardoso saw the relations between countries as ones between the imperialist power and the dependent power, Acemoglu and Robinson categorized all states into extractive and inclusive institutions. For both theories, the binaries have a clear wrong and right, a modernized state and a backwards state. Acemoglu and Robinson adhere to the Washington consensus, a theoretical developmental strategy that urges market and trade liberalization as reforms to generate economic growth in less developed parts of the world(Acemoglu and Robinson 2012: 441) Their theory states that "Nations can take steps toward prosperity by transforming their institutions from extractive to inclusive."(Acemoglu and Robinson 2012: 436) This binary groupings of political and economic institutions makes it

difficult to categorize countries like China, which currently stands in an intermediate position. China has an extractive political and economic regime that has experienced exponential growth over the past few decades. This growth, however, did not bring with it democracy, pluralism and liberalization, contrary to common projections. The Chinese economic system still emphasizes cheap labor, highly regulated labor mobility, and insecure property rights, characteristics of an extractive economic structure (Acemoglu and Robinson 2012: 439). Acemoglu and Robinson, in their liberal binary belief, hypothesize that this growth under an extractive system can not, and will not be sustained, stating that a developmental plateau can only be avoided “if China transitions to inclusive political institutions.” (Acemoglu and Robinson 2012: 442) According to them, the simultaneous conditions of development and extractivism can not coexist in a lasting state. They do not acknowledge a mixing of political and economic forms, the intermediate models: states would either adopt inclusive policies and prosper, or continue extractive practices and fail in the long-run. They rationalise that the growth China pertained in the past has only occurred because of “a radical change in economic institutions away from rigidly communist ones and toward institutions that provide incentives to increase productivity and to trade.” (Acemoglu and Robinson 2012: 442) In other words, China is only developing because their economic and political policies are liberalizing, but unless they completely liberalize, they will stop developing.

This categorization of all world institutions into binary groupings is extremely limiting in that it stresses that the only successful developmental model is the liberal, capitalist one. This binary theory makes it difficult to explain the duality of imperialist states, states like the U.S. that were inclusive in regime yet behave as an extractive power in the international realm. If we

examine the theories of Acemoglu and Robinson, and Cardoso on the same theoretical plane, in that an extractive regime represses growth of a country, and an imperialist power represses growth of a dependent country, a binary world view on development also fails to recognize that states act differently within its own borders and in the international realm. When we expand Acemoglu and Robinson's theory from power relations within a country to power relations between countries in the international realm, in many ways, the imperialist power resembles an extractive power. Acemoglu and Robinson define an extractive economic institution as one that extracts resources from the many by the few and fails to provide incentives for economic activity. (Acemoglu and Robinson 2012: 430) Similarly, imperialist profit was based on unequal trade and financial exploitation, as imperialist powers restrict the economic growth of less developed countries to only exporting cheap, raw materials and resources, in turn curbing the internal market and industry. (Cardoso 1972 :85) Just as extractive regimes utilize political propaganda and social suppression to extract from the mass, imperialist powers often times reinforced colonial links through wars, oppression, and subjugation of the indigenous peoples. Furthermore, both the national model and the international model of this theory demonstrates the cyclical patterns of extractive powers. Despite lobbying by pro-policy supporters and pro-democratic movements in some countries, extractive institutions on a state level may easily recreate themselves.(Acemoglu and Robinson 2012: 436) On the international level, while some dependent countries have tried to limit exportable profits, their indebtedness to international agencies and banks, as well as fees from royalties, patents and so on continue this pattern of dependency. (Cardoso 1972 :91) With these comparisons in mind, it is only reasonable in a binary theory that an inclusive country behaves inclusive on all platforms, yet that is not often

the case. For example, while the U.S. champions the unalienated rights of its citizens and emphasizes an equal-for-all liberal economic system within its borders, it also exhibited imperialistic tendencies during the early 20th century in many Latin American countries such as the Dominican Republic and Honduras. These colonies were often ruled by extractive, authoritarian regimes supported politically by the United States in exchange for economic exploitation by U.S. corporations. As a result, these dependent countries become “banana republics,” whose economies depend on exports facilitated by the United Fruit Company. They experienced internal fragmentation, as segments and the groups connected to this internationalized economy prospered while others were exploited for labour.(Moberg 1996: 363)

The United State’s inclusive policies within its own borders and its extractive imperialistic ventures in Latin America can not co-exist in the binary theory of Acemoglu and Robinson. According to Cardoso(1972), once a country reaches the ultimate stage of development, “external outlets had to be found to ensure the continuity of capitalist advance and accumulation.” It brings into question whether all modes of development are fundamentally extractive but are simply expressed through different mediums and on different scales.

In lieu of this contradiction, institutions should be able to alter and intermix political and economic strategies to suit their own industrial, geographical, and social needs during different developmental contextual periods. This pluralistic view is exemplified in Kaufman and Haggard’s theory of systems of welfare. They categorize welfare systems in the world into the Eastern European welfare system, the East Asian welfare system, and the Latin American system, which they then analyze in terms of social insurance, basic health services, education, labor markets, political legacies and interests, and fiscal legacies.(Kaufman and Haggard 2008:

5) Each model is a combination of these different conditions. The Eastern European welfare system offers comprehensive services to almost all of their populations; East Asian welfare systems have minimal social insurance but places high priority on investment in education; Latin American systems ensure that the urban middle class has access to comprehensive public protection, yet lower class groups are often excluded or underserved. (Kaufman and Haggard 2008: 1) Even with all these conditions, Kaufman and Haggard stress a pluralistic view on development, categorizing regimes into models like the semi-authoritarian government that oscillates between the binary authoritarian and democratic governments. (Kaufman and Haggard 2008: 15)

In conclusion, although Acemoglu and Robinson, and Cardoso all agree that political and economic extractivism in the long-run is problematic, it is necessary to look at institutions and development through intermediate models as categorized by Kaufman. Only then can extractive developing countries like China and “inclusive” countries behaving in extractive ways toward the economically imperialized be justified.

References

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