11. Dependency Theory Is Alive in Different Guises

Matías Vernengo
Professor of Economics, Bucknell University

By Ingrid Harvold Kvangraven

Matías Vernengo is one of few modern economists to apply concepts of dependency in his academic work, particularly to his study of Latin American economies. Vernengo encountered variations of dependency theory while conducting his studies in Brazil. He completed both his Bachelor's and Master's degrees at the Federal University of Rio de Janeiro, where heterodox economics is still taught. In those days, dependency pioneers such as Theotonio dos Santos and Maria da Conceição Tavares were frequent guest speakers at the university. Vernengo's teachers belonged to the so-called structuralist tradition of dependency theory. In line with the environment in which dependency was discussed in Brazilian universities, Vernengo recalls that he did not think of it as a separate, or autonomous, approach from his overall analytical framework, unlike most American academics, and even some development scholars, who treat dependency as a separate intellectual tradition. Instead, dependency was a part of the discussions on structuralism and the issues of development. It was a natural part of the curriculum.

To start with the most basic question, what is dependency theory?
There is no straightforward answer to this question, Vernengo notes. Although there are many studies that try to split the dependency tradition into specific schools,[31] Vernengo tends not to regard these theoretical traditions as actual schools of thought. He prefers to broadly split them into Marxists and structuralists, and he believes that these traditions could be further split into four or five different approaches. However, Vernengo argues that also this categorisation is insufficient because even structuralists have roots in classical political economy, including Marx.

[31] For example Gabriel Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment," *World Development* 6 (1978).

For Vernengo, dependency means understanding historical elements of development in the developing world. In his case, the object of study is Latin American economies, but he argues that the theory could as easily be applied to Asia or Africa. Vernengo admits that he might think of dependency in a slightly different way than most - as he works within a Sraffian theoretical framework. Vernengo praises the Italian economist for reviving classical political economy in a way that is both consistent and logical. To Vernengo, Sraffian economics includes the surplus approach, as well as effective demand in the long run. Within this framework, one can introduce elements of dependency in an analysis without necessarily being classified as a dependency scholar.

Thinking of himself as a Sraffian, Vernengo believes he is a classical economist with a touch of radical Keynesianism. One could say that the discussion of dependency tends to be missing among many Sraffians, but it is still perfectly compatible with the ideas of a surplus approach. Classical economics is a good starting point for understanding dependency because distribution is at the centre of the approach. Moreover, it allows for the recognition that there are extra-economic elements that impact the economy.

Is dependency theory dead?

Thinking of dependency as a self-contained school of thought is tantamount to rendering it a dead tradition. Instead, Vernengo argues that dependency analysis still exists in many different forms if one thinks of it as a study of certain issues. He references Kenneth Pomeranz's *The Great Divergence*[32] and even Jared Diamond's works as examples of this point. Both of these authors use elements that are essential for dependency theory, although they might be unaware of it, and neglect to even cite dependency literature. Sven Beckert's *Empire of Cotton* is another example, as the author studies how industrial capitalism was dependent on colonialism and slavery, and on extraction of surplus from developing countries[33]. These issues were essential for dependency theorists. Some mainstream scholars such as Acemoglu and Robinson have also incorporated elements of dependency theory into their work. Vernengo points out that he would be critical of the way that they apply dependency concepts, but their approach unmistakably incorporates elements of the dependency school.

Another related strand is the literature on the middle-income trap. Although not explicitly linked to dependency theory, this literature is remarkably similar to it. It studies countries that have reached a limited level of development. They have achieved a

[32] Kenneth Pomeranz, *The Great Divergence: China, Europe, and the Making of the Modern World Economy* (Princeton: Princeton University Press, 2000).

[33] Sven Beckert, *Empire of Cotton: A Global History* (New York: Knopf, 2014).

moderate degree of industrialisation and structural transformation, experienced demographic transition, urbanisation, and have achieved improved education levels. However, despite these improvements, these nations remain far from becoming core countries. In fact, only one or two of these economies have actually made the full transition from periphery to core since the second industrial revolution. While this scenario illustrates the middle-income trap, economists working within this tradition do not acknowledge its relationship to dependency.

How is dependency theory relevant today?

Vernengo argues that dependency theory is crucial for explaining development processes, and for understanding relationships between centre and periphery. For example, Latin American countries are underdeveloped in part because they rely on dependent development. The work of Franklin Serrano and Carlos Medeiros on the Asian periphery also illustrate the theory's continued importance.[34] Upon studying the South Korean economy, these two authors articulated the concept of 'development by invitation': how the US opened up markets for South Korea while refusing market access to other developing countries. This type of work is fully informed by ideas of the dependency school, although Medeiros and Serrano do not themselves identify as dependency scholars.

Vernengo has also studied a strand known as "new dependency." [35]It is based on what Tavares and her co-authors developed in the 1980s: a critique of traditional dependency theory for focusing too much on the problem of technology and the diversification of exports in order to break with the balance of payments constraints. Both the structuralists and the Marxists considered technology to be a key issue. However, Tavares and other authors working on international political economy, such as Susan Strange, argued that it was not technology that constrained development. Instead, they proposed that the key constraint on development was finance. According to these scholars, England, the Netherlands, and the US were able to move ahead whenever they respectively issued the world reserve currency. Thus, the argument goes, having the dollar as the world currency has allowed the US to accumulate exorbitant amounts of public debt, freeing the state to promote growth through large investments in the development of technology. In the US, development has been, directly or indirectly,

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[34] For example Franklin and Carlos Medeiros Serrano, "O Desenvolvimento Econômico E a Retomada Da Abordagem Clássica Do Excedente," *Revista de Economia Política* 24, no. 2 (2004); and Carlos Medeiros, "The Political Economy of U.S. – Led Internationalization: Germany, Japan and China," *IE-UFR Discussion paper* (2004).

[35] Matías Vernengo, "Technology, Finance, and Dependency: Latin American Radical Political Economy in Retrospect," *Review of Radical Political Economics* 38, no. 4 (2006).

largely funded by the state. Similarly, the growth of the cotton industry in England would not have been possible without investments by the state. In this reading of history, technology itself is somewhat less relevant than finance.

Acknowledging situations of dependency makes the assumption of the possibility of autonomous development inherent in a lot of mainstream theory less realistic. Consider Argentina – Vernengo's home country, which has recurrent balance of payment problems, and remains at the mercy of the hegemonic power of the US. Vernengo warns that development is much more complicated than people tend to think. It is not purely a technical issue. It is also a political issue. While some parts of Asia have been blessed by this 'development by invitation,' the invitation comes at a high price. South Korean development was only possible because of North Korea.

Vernengo offers a tragicomic hypothetical to drive his point home. If you want to develop Argentina, he states, you should divide the country in two and give one of the parts a bomb. Then you tell the Americans that the part that holds the bomb is also communist! This scenario would solve some problems for the capitalist half of the country, but would create a lot of suffering for the other, 'communist,' part. If you put the two Koreas together, Korea looks less developed, as one third of the population is in sheer poverty. Although South Korea's success would not have been possible without the North Korean threat, many people fail to see the link between them.

Vernengo claims that development is not just about import substitution either, although import substitution can definitely play a constructive role in development, as it usually leads developing countries to diversify their exports. In Latin America, Vernengo explains, the countries are still largely tied to primary commodities. While Brazil does export manufacturing goods, it does so mostly to the countries in the region. To the rest of the world, it exports raw materials. The problems of development are therefore to a large degree the same old problems that the dependency scholars were observing half a century ago.

According to Vernengo, there is room to improve people's lives within a framework of dependent development. Countries just need to avoid the prescriptions of the International Monetary Fund (IMF) and build institutions that matter, such as development banks, export banks, public research agencies, and public universities. Vernengo accuses mainstream development scholars of largely ignoring the importance of these institutions, despite them being vital for development.

Is it possible for a periphery country to move into the core?
Vernengo notes that we have already seen a country move from periphery to core. The US, for example, was an exporter of cotton, but managed to industrialise and become a core economy. He points to the work by one of his students, Nathaniel Cline, who studied the 19^{th} century crises in the US. In his thesis, he finds that as cotton prices collapsed, several states had to default on their debt since they had been borrowing with the expectation that the prices of the commodity would remain high. The story illustrates how the nation faced systematic balance of payments problems in that period. In this context, how did the US make the transition from periphery to core? While having a significantly large domestic market contributed to this transition, a more important factor was the emergence of the dollar as the international reserve currency. This historical process extended from the Civil War to the creation of the Federal Reserve System in 1913, but particularly after World War I, when England began to accumulate debt in US dollars.

Based on this precedent, you could imagine that China could eventually become a core country, although it does not look like it is on that path at the moment. If China transitions into a development model in which the domestic market is central, such transition could have positive implications for development and create increasing returns. If it manages to develop in a way in which the Yuan is not subordinated to the US dollar, and eventually reaches a stage where it threatens the dollar's position as the reserve currency, China could indeed become a new core country. Vernengo does not believe that the dollar will be the world currency forever. However, he states that we have not yet seen a power shift from Western to non-Western countries in modern capitalism. How that would happen and if it would happen in a peaceful manner is uncertain. Vernengo adds that he does not think that we are near that moment, since China is by most measures a relatively poor country. Income per capita is not high and most innovations come from the US for the Chinese workers to assemble.

For Vernengo, the state is a very important agent of change. He points out that developmental states have been central for successful development experiences. However, like any other institution, the state can be co-opted by interest groups. Notably, interest groups, political parties, and activist groups matter for development alliances. In this light, one way of thinking about the transformation of the American economy is the rise of the robber barons. The robber barons took over a large, growing market in the US, first to provide oil (Rockefeller), steel (Carnegie), cars, etc. Subsequently, they took on the American state with the goal of reaching global dominance. These groups had immense influence on the building of American institutions, such as the Fed, the banks, and the internationalisation of the dollar, Vernengo explains. He adds that the US has had a very unconventional developmental state, as it is frequently led by people who oppose the state, but who still spend lots of money through the military industrial complex and other avenues. Traditionally, in modern capitalism, the state is the institution through which powerful interests tend to channel their actions.

Unfortunately, Vernengo notes, most developing countries are not building developmental states. Instead, they are intent on minimising problems with their external accounts. There is policy space to do more than what is currently being done, and to develop more internal economic activity. However, the World Bank and the IMF tend to advocate export promotion and the need to integrate into the world market, rather than the development of domestic capabilities.

When asked about weaknesses of dependency theory, Vernengo does acknowledge that the dependency school of thought has its limitations. For example, he points to the Marxist story of Baran and Frank, which tends to be overly optimistic about the possibility of breaking the chains of dependence, as if autonomous development and revolutions were just around the corner. On the other hand, he points out that the structuralists might have gone too far in the other direction, by assuming that development is possible within the global capitalist system, and that the Japanese development trajectory could be replicated in Latin America.

How is dependency theory covered in modern academic curricula? How can we bring it back?

Despite the various guises in which dependency appears in modern academic work, Vernengo cautions that it is not adequately addressed in the literature. He points out that history has also vanished from economics curricula. Students do not read the debate on the transition from feudalism to capitalism. The discussion on the great divergence is only marginally related to economics; in fact, it has become mostly a conversation between historians. Vernengo recently wrote an article arguing that although these important historical debates are illuminating, they miss important economic issues. Moreover, the historians involved in these debates lack the expertise of economists and mistakenly believe that only neoclassical economics is actual economics.[36] Thus, they use concepts and tools that are actually inimical to their own ideas. These historians do not have training in the surplus approach, radical Keynesianism, or the dependency framework. It is rare that students today get training

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[36] Matías Vernengo and David Fields, "Disorient: Money, Technological Development and the Rise of the West," ibid.48 (2016).

in the originals of Rosenstein-Rodan, Myrdal, or Prebisch. Instead, work by the likes of Paul Romer dominates the field. This lack of pluralism is not only a problem when it comes to the teaching of economics, but also for other social sciences that are presented with only one view of what economics is about.

Vernengo believes that through institutions it is possible to change this dire state of the economics discipline. Graduate programs that train Ph.D.'s in a broader perspective must be protected. For example, by producing heterodox economists by means of heterodox economists (as Sraffa might have said), The New School is essential to the existence of pluralism in economics. Journals also play an important role in this process – Vernengo, for example, recently helped create the Review of Keynesian Economics (ROKE). He also supports the idea of editing books, publishing broadly, and trying to engage a broader audience. Moreover, heterodox economics has extended its presence to the policy arena. For example, heterodox economists advise American presidential candidates (both Bernie Sanders and Hillary Clinton), and economists trained at the New School work in the Brazilian government. Vernengo himself was at the Central Bank in Argentina. While he does not think that there are enough incentives in the US academic structure to change economics teaching, Vernengo nevertheless argues that there is enough space for critical scholars to make a difference.