# Development Theory and Practice: Review

- Three Schools, Three Worlds, and Three Theories, Three economic systems
  - **Freedom**, First World : U.S., Europe: Economic Liberal Theory, **Capitalism**
  - **Equality** Second World: USSR, China: Marxist Theory and Socialist Development, **Communism**
  - **Community/Equality** Third World: Dependency Theory (Analysis of inequality) **Nationalism** and Economic Nationalism ( ISI, expropriation) socialist equality,

# A Deadly Political Economy Conflict

- The First World vs. The Second World
- The struggle for Third World allegiance
  - First World punishments for Third World socialists
- The Crucial role of Foreign Aid
  - As a carrot to gain allegiance
  - As a source of capital for development
- The Absence of Democracy

# Korea as a case study in Rapid East Asian Development during the Cold War

- Undermines the arguments of Liberalism
- Undermines the arguments of Dependency
  - Can a case be made for self-sufficient development? Can a country cut itself off form the international capitalist economy?
- Partially supports the arguments of modified Liberalism
- Is East Asian development unique because it took place during the Cold War?
- Can it be replicated?
- Sustainable Development: What is the Theory behind it? Is it possible?
- What about post-Cold War development:
  - India? Chile? Brazil?

# From First World Embedded Liberalism to Global Neo-Liberalism

The Rise of "Free Market Vanilla" and decline of other Political Economy Flavors

## Rapid Economic Growth in the First World…..A Triumph for embedded liberalism and the welfare state

- The Cold War between Capitalism and Communism was raging… Fear that markets would fail again if left to themselves
  - Feeding fear that Communists in pursuit of equality would take over
  - And creating a need for the welfare state…
  - And international governing institutions: IMF, World Bank, GATT
- The reality of American Hegemony: The golden age of embedded liberalism
- The First World recovered from war and developed quickly…
- American Hegemony propped up the embedded liberal system: **HOW?**

# The Dollar greased the wheels of the international liberal economy

- ↑ imports +↓exports → trade deficit → need to pay up →use $ as reserve and exchange currency → multilateral trade grows.

- The IMF was supposed to

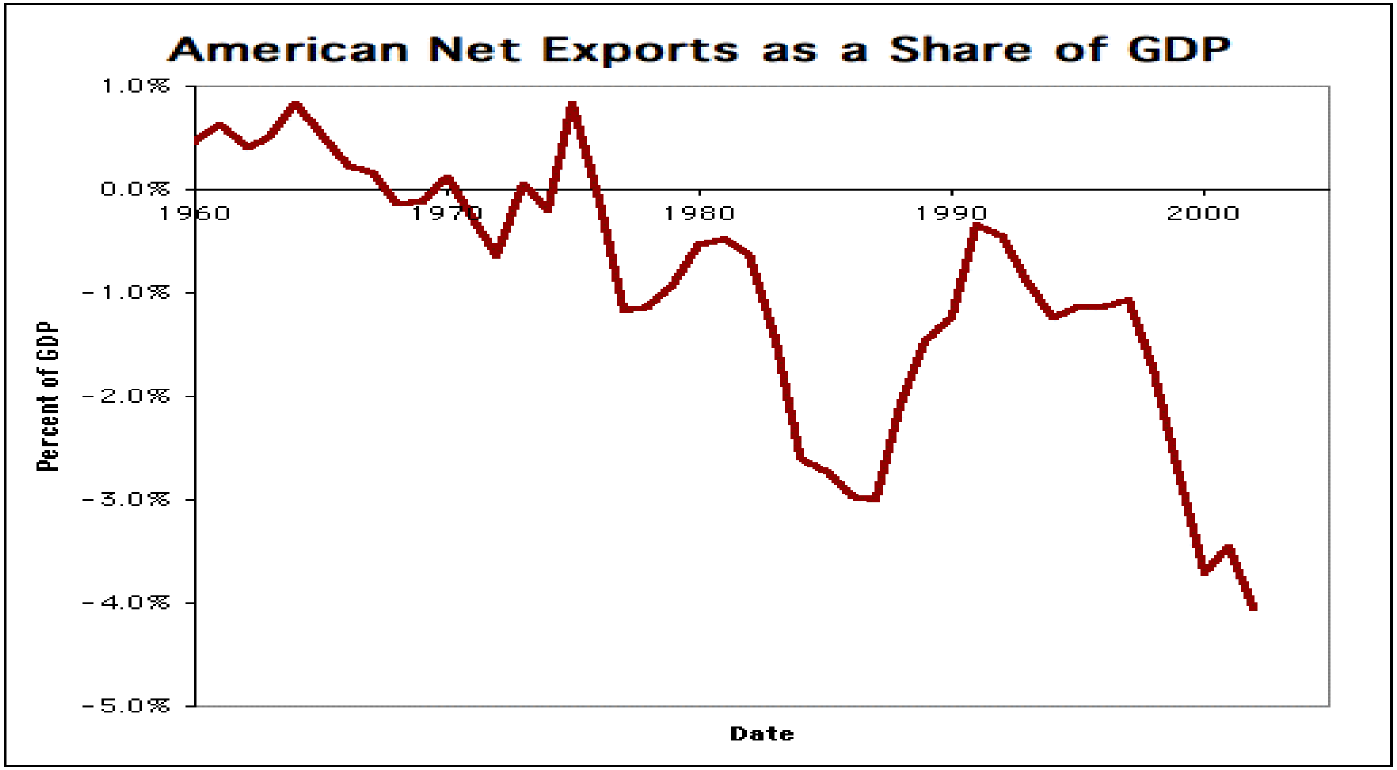
Do this but it was too weak.

# Taking in the world’s distressed goods

# What were the results of U.S. hegemony for the First World economy?

- The Welfare State was protected
- European Cooperation for the first time in history
- Decline in Trade Barriers → Economic Growth
- Comparative Advantage and Liberal model vindicated
- US Aid and capital flows to Europe

# But the U.S. sacrificed to hold up the "free world": The US Trade deficit




**But no problem….no one asked for payment!**

# Growth of Western Europe and Japan

- If embedded liberalism and hegemonic stability were great, why did they end?

| | Per Capita Income | |
|---|---|---|
| | 1950 | 1973 |
| **Western Europe** | $3,700 | **$11,534** |
| **U.S. and Canada** | $5,257 | **$9.288** |
| **Japan** | $1.926 | **$11,439** |

# Deadly conflict between Capitalism and Communism, Deficit spending: Vietnam war

Vietnam War

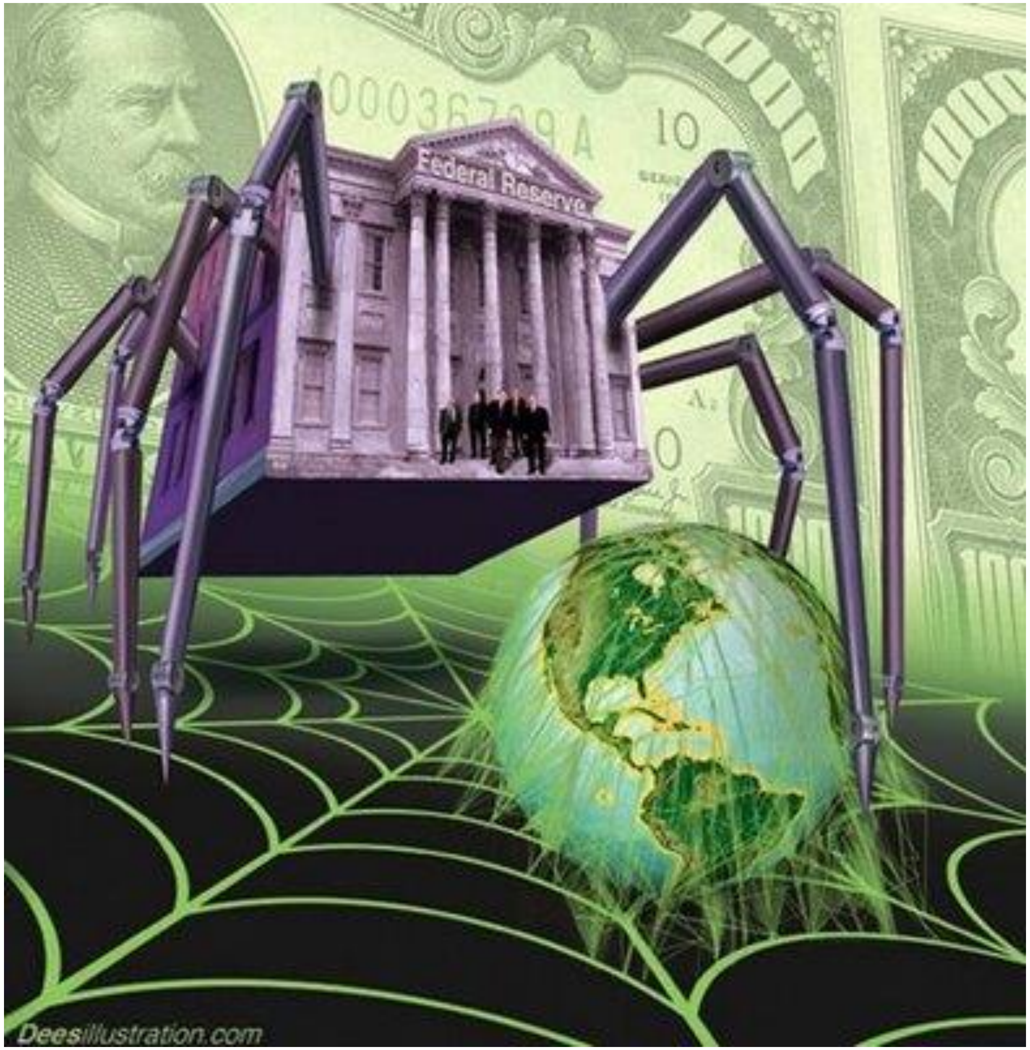
The United States entered the war to prevent a communist takeover of South Vietnam as part of their wider strategy of containment as . Military advisors arrived beginning in 1950. Then came the massive escalation of the Vietnam war in the 1960s.

How was the war in Vietnam to be financed when there was a war on poverty at home?

# Too many dollars

# Exporting Inflation

# Declining Confidence in the Dollar



# Abandoning the Dollar for Gold

# Closing the Gold Window

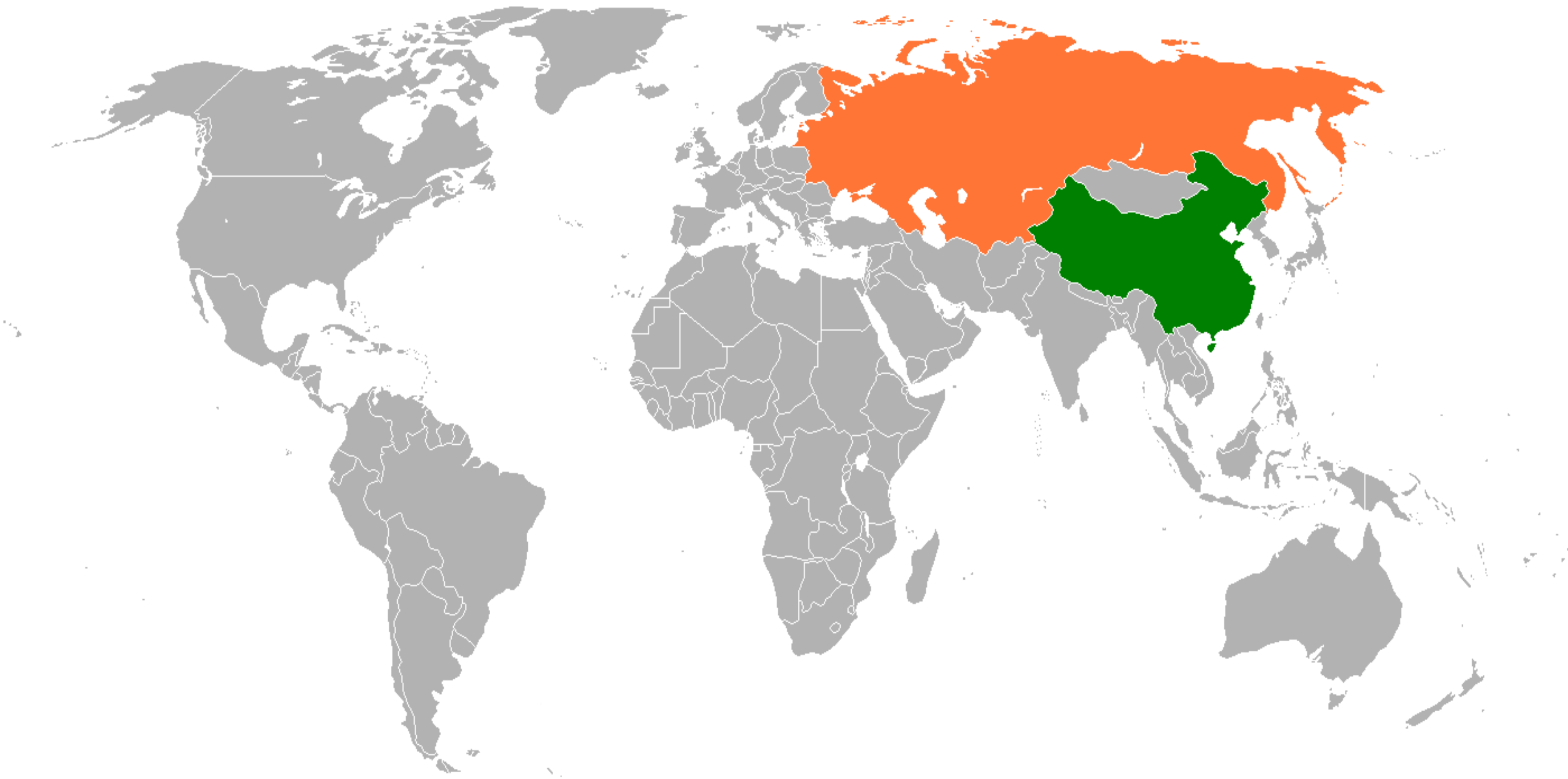
# Dollar devaluation: The U.S. begins to borrow and plunges into debt

- Expenditures exceeded revenues
- U.S. borrowed from other countries (sold bonds to other countries)
- Why did others want to buy US debt?
  - Long term interest rates
  - US providing military security
- Capital inflow for the US but.....
- Long-term debt + overvalued $

# The End of Hegemonic stability and embedded liberalism in First World's international economy and the rise of a global "casino economy"


# The First World: End of welfare state: The Triumph of economic liberalism (a la Hayek and Friedman) in the U.S. and Britain

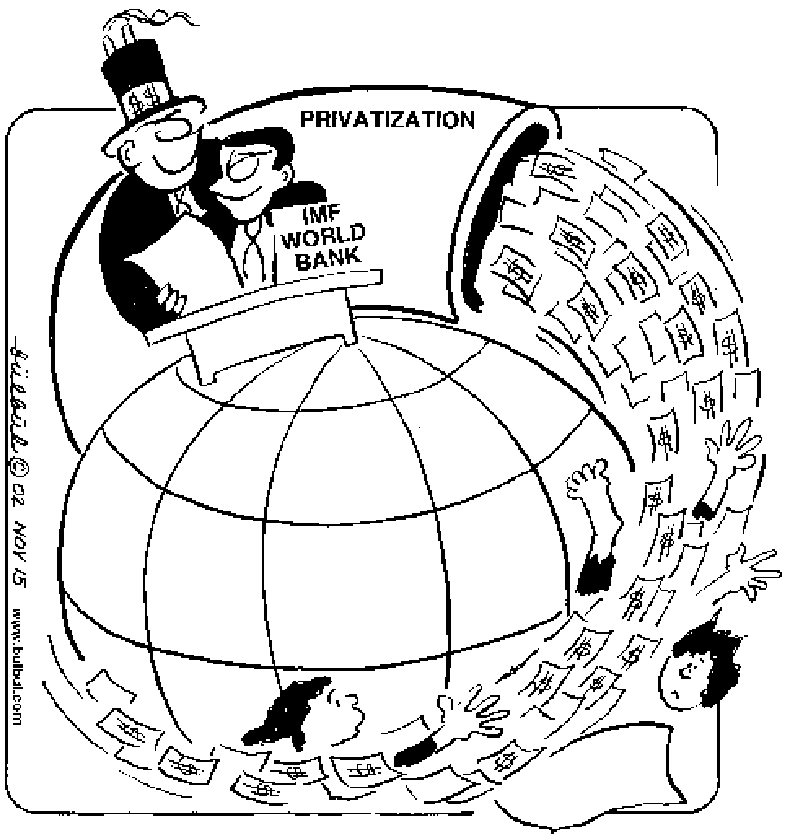
# The Second World.....



# And in The Third World…..

- National independence movements led by socialists had been extinguished.
- ISI failed in Latin America
- Global recession: inability to expand exports
- Rise of Third World Debt
- Net resource transfer from South to North
- Third World Economic crisis
- Income gap between First and Third World doubled in the 1980s.

# New Role for the IMF and World Bank: spread neo-liberalism to developing countries




- New role: guarantee private loans
- In return for structural adjustment (SAP)
- The Washington Consensus:
  - Stabilize, privatize, liberalize

All contributing to…….

# New Role for the IMF and World Bank: spread economic liberalism to developing countries

- Moved from the mission of stabilizing the First World monetary system to guaranteeing private loans to the Third World
  - Third world debt threatened to destabilize the international financial system.
  - IMF called in to  guarantee private loans
- Washington Consensus: stabilize, privatize, liberalize: put on the “golden straightjacket”
- Contributes to freedom of finance capital and multinational corporations to roam the earth

# GATT becomes the WTO

- Goodbye embedded liberalism: increasing liberalization of trade
  - No child labor protections
  - No environmental protections
  - No health and safety protections
  - Private actors: banks, multinational corporations
- Hello Privatization: banks, multinational corporations (not NGOs) sit on advisory panels, permitted freer global access leading to growing sales

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# …and the growth of unregulated global finance

- ***International movements of money – both volume and speed***
- cross-border bank lending has grown about 10% annually.
- daily foreign exchange trades now exceed by a wide margin the combined reserves of all central banks.

# The result: Increasing privatization

- Some say international institutions governing the global economy have been weakened
- Only those who prefer embedded liberalism say that
- The institutions have simply changed (and strengthened) to govern an international neo-liberal economy
- Privatization is the goal of neo-liberalism

## So….. If the U.S. pursued economic nationalism after hegemony, how did we get a neo-liberal global economy?

- U.S. hegemony supported embedded liberalism
- Without a hegemon and with IFIs and WTO transformed to protect neo-liberalism*, Private* forces are unleashed and unregulated
- Why didn't the world devolve into the fragmentation of the 1930s?