

Development in historical perspective

Introduction

The process of development often requires profound change in political systems, social rules dictating individual behavior, the relationships surrounding work and production, and perhaps most importantly, in society's ability to harness technological progress to support economic growth and human development. Many of the aspects that must change, transcend a narrow and mechanistic view of society; failure to consider some of the broader cultural aspects will diminish the ability of policies to achieve greater growth and development.

Economics, particularly the dominant western approach, has a strong tendency to focus the analysis on behavior of markets. All too often, this tendency leads economists to disregard historical conditions that may have severely distorted and perhaps even continues to retard progress.

Production occurs under very different social conditions in every nation. The diversity of social conditions that exist, led to the concept of economic dualism. Economic dualism references the stubborn nature of institutional change.

Modern capitalist production forces may co-exist to varying degrees with remnants of previous social and economics forces. The enduring distortions from economic dualism demonstrates that deeply embedded historical factors must be considered.

Before advancing, let me take a moment to clarify what I mean by the stubborn institutional change. I am referencing social resistance to changes in the generally accepted patterns of behavior as society pursues the material means of well-being.

Origins of economic development

It was only very recently, specifically the 18th century, that the world started to see a rise in living standards. For the centuries preceding and for many countries for decades and centuries to follow, the world was flat: there was no change in living standards.

While in the years preceding the take-off, there were technological improvements, the improvements were only sufficient to grow output at about the same rate as the population was increasing. During this time, there were also fluctuations in output and in living standards; however, they were primarily due to weather, wars, and other exogenous factors.

The transition from feudalism to capitalism marks the major turning point for economic progress. Feudalism is an agricultural-based hierarchical system of production. Production under feudalism was primarily familial and linked to the manor. From the demise of the feudal system of production emerged the factory system as a new means of social and economic organization.

Production was no longer motivated purely by survival; capitalist production is motivated by the singular pursuit of ever-increasing profits. The new mode of production pursues this goal by applying new knowledge and through the accumulation of capital which allows greater production at lower costs. The capitalist revolution freed society from the constraint of available resources, the quantity that society is

capable of producing now depends upon the efficiency of resource use and the application of technology to reduce throughput.

The capitalist mode of production is at most a few centuries old. As the new mode of production displaced pre-capitalist methods, whether in agriculture or industry, economic success seemed to follow. But why then has this method of production and the socio-cultural values associated with it developed more strongly in some regions and less so in others?

Colonialism

History matters! Many of the developing nations today were colonies of their more powerful capitalists' counterparts in the past. For most of the occupations, there was little discussion about human development of the native peoples beyond the civilizing push of displacing traditional belief systems with some variant of the Christian. Moreover, religion was often used as justification by European powers for the seizure of land and pillaging of both resources and people across Asia, Africa, and the Americas.

Capitalism was introduced to the "uncivilized" nations by colonial powers. The introduction of the capitalist mode of production required the colonizers to rid the occupied nation of its previous patterns of behavior—to engage in institutional change. While the colonial process might be difficult and destructive, the colonizers claimed that life on a Brazilian plantation was preferable to death in an African tribal war.

Unlike when attempting to colonize a country, development policy should not attempt to completely displace the previous patterns. The patterns which remain functional should be fused with the new socio-economic forces and processes. This is referred to as minimal dislocation. Discover the institutions which are inhibiting progress and target policy at displacing those institutions—institutional change requires a conscious effort to break with the previous patterns of behavior.

Lasting effects of colonialism and Path Dependency

Colonialism is not simply a relic of the past. Colonialism was not simply the plundering of a weaker nation by a mightier one.

Consider the Spanish plundering of Bolivia and Peru, forced labor sent millions to death in the mines extracting gold and silver. This system drastically reduced the indigenous population and altered traditional village life. As many young men were sent to their death in the mines, it literally left the women and children not only the responsibility of supporting themselves but also the men who toiled in the mine. Gold and silver, while shiny and pretty, is not very nutritious. The sheer loss of life which occurred in those countries and many other colonies is stupefying, but the implications extend even further.

How did this demographic crisis affect their culture? Does this demographic crisis continue to impact survivors? How have these past events shaped current social attitudes in the region?

A similar demographic crisis took place in Africa. During the period of slavery, roughly 1600-1900 an estimated 12 million Africans were sold into slavery and shipped west. However, the impact of slavery is much deeper than just the demographic crisis.

The slave trade created opportunities for some members of society to occupy a new economic position—regional beneficiary. The potential gains from conquering neighboring tribes who could then be sold into slavery disrupted inter-regional trade patterns and encouraged importation of European manufactured products. Slavery in Africa not only reduced population but encouraged vertical trade patterns between Africa and Europe, preventing the development of linkages between local economies.

Let me now turn to the concept of path dependence. This concept describes how historical events and historically formed institutions determine the future range of possibilities. If the previously formed institutions are socially constructive, the evolutionary path of the economy may be virtuous; the process of cumulative causation creates an upward spiral of social progress. However, if the previously formed institutional structure is exclusionary and rewarding on invidious distinction, then the future evolutionary path will be a vicious circle of cumulative causation leading to low incomes and poor human development.

History matters according to path dependency. This is not meant to mean that once a country has been hobbled by colonial institutions, that it is forever destined to poverty. Rather, path dependency seeks to emphasize that the past matters. Path dependency aids in understanding the current challenges and limits faced by developing nations, where these nations are in the evolutionary process of development, and how policy can be designed to alter the course history has placed a nation on.

Forms of European Colonialism

In somewhat ironic fashion, the earliest colonial empires extracted great amounts of wealth from Latin America through imposing devastating social and economic changes received very little long-run benefit from it. For about 2 centuries Spain pillaged wealth from Latin America, a steady flow of silver and gold made its way across the Atlantic.

The rapid influx in wealth led to virtually no increase in the productive capacity of Spain, but they did end up with some nice castles and villas. At most, technological advancement was restricted to the most pressing needs for greater exploitation: mining and shipping.

Neighboring countries of Spain only had access to the wealth of Latin America by producing the things Spain wanted. The real wealth that was created because of Spain's plundering came from development of the emerging factory system in the increasingly capitalist Europe of Spain's trading partners.

The Spanish form of colonialism was not the only materialization of this oppressive structure. During the transitory phase between feudalism and capitalism is a period known as merchant capitalism. Merchant capitalism brought with it a new colonial system. The Dutch, for instance, set up the first sugar plantation systems in Latin America. The plantation system sought to maximize yields (expand production) from a plot of land (which is a fixed investment) through the application of slave labor. The motive of this system: profit.

In the earliest years of slave trade, African slaves were cheap and easily acquired. The ease with which slaves were acquired allowed the early Dutch plantations to literally work the slaves to death. As the slave trade progressed, the African population declined; as it became more costly to obtain slaves, labor conditions improved. While the colonizers did allow the conditions under which labor was performed to improve, they did so only to maintain the productive capacity of their property. The colony's and the

populations who labored there, indigenous, or otherwise, would not receive investment for the future; no, they were to be plundered and exploited.

In the mid-18th century Britain began expanding its control over India; within a century, Britain dominated most of the sub-continent. While under British control, Indian per capita income remained stagnant and life expectancy declined. Taxes levied by the British did more than just fund the police force which maintained Britain's rule, but was also used as a policy tool to direct economic activity.

How do you get a small subsistence farmer to abandon traditional staples like rice and instead grow cotton for your booming textile industry or wheat to keep workers' wages down?

One way is to impose taxes in a currency that can only be obtained exporting the desired crops. Imagine if I told you that to pass this class you need to extinguish a tax liability that I am imposing on you of 5 Bulldog Bucks. You say beep, how do I get these BB's I need to pass the class. As it turns out, the BB's are only obtainable from me and I issue them at the rate of 1 BB per hour of community service you perform.

Would this tax effectively influence the amount of community service you perform this semester?

Back to Britain. The push to export, made even more profitable by opening the Suez canal in 1869, led to specialization without crop rotation and expansion into marginal lands. As British rule continued, the colonial state seized resources, squeezed the peasantry, and transformed the social structure. While harsh, British occupation of India seems relatively congenial compared to what the Spanish did in Latin America.

As the dominant ideology of mercantilism, which emphasized the relative terms of trade, was gradually replaced by that of industrial capitalism, policy in India began to change; although, the axioms of free trade espoused by industrial capitalists was never fully achieved. Economic models used to justify free trade, and specifically of a market economy, assume that participants are voluntarily engaging.

Did the slave, uprooted native, or entire colonial regions have the ability to withdraw from this oppressive system?

The functional role of colonialism

The colonial system was extremely important in facilitating the industrial revolution in Britain. Large sums of wealth flowed into the country which funded the industrialization process. The additional demand for manufactured goods and supply of raw materials boosted British investment, production, and employment.

While large sums of wealth were also accumulated by a few in the colony, these fortunes more often than not were spent on conspicuous consumption from abroad and not for investment purposes.

Many accounts of Britain's rise to political-economic power draw upon the story of export-led growth to explain the driving force of their transformation. However, much of what is referred to as colonial drain- net outward transfer of wealth- was disguised. According to Utsa Patnaik, the colonial transfers were responsible for funding much of the capital accumulation during Britain's rise. In the early 1800's, the total annual drain from India has been estimated at around 3-4% of Britain's GDP. The conclusion is a

strong and causal link exists between Britain's ascendancy and their exploitative extraction of resources from its colony's.

The colonial elite

Colonial rule rested upon a system of collaboration between indigenous elite and the colonial power. The indigenous elite served as the medium of colonial domination. The new class of elites experienced privilege, but the privilege was constructed to depend on continued British rule. A key part of the British success resided in their ability to divide the population, creating divisions and encouraging one group at the expense of the others.

While industrial capitalism was transforming Europe, mercantilist policies continued to dictate norms and policies within the colonies. These inhibitive institutions became entrenched through a system of collaboration, even though the colonial masters were abandoning the same policies at home.

Deindustrialization in the colonies

The new elite would eventually cement themselves and the oppressive system they represented within society with such tenacity that there existed few social forces that could challenge their hegemony.

When Britain first took control over India, India's textile industry was superior to that Britain. The increased competition from Indian industry did encourage increased capital intensity as British textile industrialists ramped up investment. However, extremely high tariffs in the range of 70-80% were placed on Indian produced textiles while at the same time, the Indian market was forced to open up to British textiles. Of course, the British were glad to accept the importation of cotton from India without tariffs.

The policies enacted by Britain to protect their textile industry also served to decimate Indian textiles. India, once a leading manufacturing country of the pre-capitalist world, was reduced to being an exporter of agricultural goods and raw materials to the industrializing economies of the west.

Colonial industrialization

Colonizers encouraged production of products which did not compete with products they produced domestically and without concern for what may be best for each individual colony. From these policies, patterns emerged which distorted the process of development. The distortion would be intensified if neighboring countries were occupied by different colonial powers. The occupation by different colonial powers prevented the development of regional trade.

Colonies did experience some infrastructure improvements during colonization; however, it was built primarily to serve the colonial master. For example, railways were built in Africa, but the railways were designed to move commodities to the coast not to promote the development of local linkages across industries and regions.

The policies and infrastructure prevented local linkages from developing and forced these nations into positions of servitude and dependence. The residues of colonization can still be found and continue to hamper the ability of former colony nations to achieve social and economic progress.

Measuring the impact of colonialism

Colonialism took many forms and its impact was even more diverse. This leaves us with a difficult question: how can we measure the economic impact of colonialism?

While there is not any single measure which suffices, some interesting studies have been performed which primarily utilize income data to make cross-country comparisons.

Alam 1994 & 2000

Bertochi and canova 2006

The terms of trade and comparative advantage

Colonialism imposed a pattern of production and trade which was reinforced by the increasingly global market forces. Less developed nations export raw materials and import manufactured goods while the more developed nations export manufactured goods and import raw materials.

With onset of the industrial revolution, the price of manufactured goods began to fall which improved the terms of trade for the less-developed nations— the quantity of imports that will exchange for a given quantity of exports moved in favor of the colonial regions.

The rising terms of trade reinforced a belief that being a primary export economy was a viable path. However, the flip side of being a primary exporter, particularly when little investment is made to modernize or diversify, is the development of external reliance which would eventually hamper these nations future development efforts.

Colonialism imposed a pattern that created adverse path dependence.

Credit and underdevelopment

While colonialism would eventually come to a formal end, it would be replaced by new institutions which sought to continue the pillaging. The neocolonial mechanism of credit reinforced the distorted patterns of production and trade from previous periods.

With the onset of the industrial revolution, there becomes an increasingly important and influential role for finance. As financial markets became larger and more sophisticated, financial institutions extended their reach from the national level to the global level.

Application of new knowledge to industrial processes spurred greater demand for the primary exports of less-developed nations. Surging demand led to infrastructure investments, but the infrastructure improvements were intended to ease extraction of resources and agricultural goods. The funding for these infrastructure projects was often obtained from financial markets. While some of these loans may have been squandered by corrupt officials, they helped to mask and/or extend a faltering boom period.

International banking extended the control of more powerful nations beyond the end of colonialism, albeit in a more subtle form of control and influence. Loans frequently came with conditions tied to them; these tied loans often required the funds be spent on capital from the lending nation. This requirement prevented the development of local linkages across industries. Moreover, any benefit of increased future productivity would be offset by claims against that expected stream of revenue.

Financing capital is essentially an agreement to swap money for money later: the money now facilitates purchase of the capital which is expected to increase output or lower costs and thus generate additional revenue. However, the money later, the repayment of principal and interest acts a claim against that profit.

The new imperialism 1870-1914

The 19th century has come to be known as the century of free trade. While many leaders of developed nations were paying lip service to free trade, there was a revival of wars of conquest and seizure and a massive increase in the number of nations being forced into the colonial system. At the start of the century European powers controlled 55% of the landmass, by 1900 the percentage increased to over 84.

While many nations were being subjugated, a few new powers emerged during this time like the USA and Russia.

During the peak of the land grab in Africa, right around the turn of the 20th century, there was an increase in the total subjugated population by nearly 25%. At the end of the land grab, which paralleled the start of World War 1, an estimated 530 million people were living under colonial rule. How can one justify the gross contradictions of promoting free trade while attempting to subjugate entire continents? The apologists would argue that free trade was only promoted between powerful nations while colonialism was simply preparing the colonial peoples and their economic systems for inclusion in an increasingly globalized economic system.

Mature and progressive colonialism

Colonialism has a long and varied past. There were different masters and different nations being subjugated and the experience of each was unique. I have been quite harsh on colonialism, but are there counter examples supporting a conclusion that colonialism was benign?

British and French colonialism in west Africa 1945-1965

After WWII, new social relations emerged and pressure to decolonize began. With this, we see the development of a new approach to colonial rule.

Money began to be spent on infrastructure projects not aimed solely extracting resources. In West Africa, marketing boards were constructed which sought to facilitate access to global markets for the production of native cultivators.

West Africa also witnessed a 10-fold increase in the amount of paved roads during this time as well.

The French and British both spent significantly more in this period of mature colonialism than they had in the previous 5 decades.

Colonial governments increased efforts to include a broader swath of the population in the capitalist mode of production. There was also some progress made in diversifying economic activity and attempts at protecting national industry.

While definitely an improvement over previous periods, the changes implemented during this period were far from sufficient to drastically alter the structural distortions and adverse path dependence created by colonialism.

Progressive colonialism

The second example of a more progressive form of colonialism is accorded to Japan. During the Japanese occupation of Korea and Taiwan, they transferred technology, supported industry, and encouraged the development of a skilled labor force. Contrary to the European approach of usurping wealth through colonial drain, Japan was actually a net provider to these two colonies.

According to one scholar,

“[T]he Japanese were late developers who on their own had perfected a state-led model of development.... This was the model they transmitted to Korea.... A state-led economy at home also enabled the Japanese in Korea to coordinate the interests of those Japanese firms mainly interested in exporting manufactured goods to Korea as well as of those mainly interested in exporting capital and establishing manufacturing in Korea. The Japanese pattern of colonialism was thus considerably more transformative, leaving in its wake a state that was simultaneously brutal and capable of introducing socioeconomic change, on the one hand, and a growing economy with an industrial base, on the other hand.”

-Kohli 2004, 410.

Decolonization

Following a devastation of WW2, the US emerged in a dominant position relative to the weaker European counterparts. The declared support by the US for self-determination at least partially derived from its history of having won independence from Britain.

Undoubtedly, the US' support for decolonization had some altruistic motivation. The US had an ulterior motives, particularly for seeing the end of British dominance in the middle east; US oil companies, not surprisingly, were strong supporters of decolonization in this region

WW2 brought the end of the great depression, which until covid, was the greatest contraction the capitalist system had ever experienced. Fear of falling into stagnation or depression made the possibility of selling US products in former colonies extremely appealing. The possibility of access to resources formerly controlled by colonizers further motivated US decolonization pressures.

However, the pressure to decolonize was not applied equally. Certain nations were deemed strategic and had to be kept close, lest the Soviets expand their sphere of influence.

The colonial system also faced internal pressure from the colonies themselves. With perhaps the most pressure coming from India. The Indian independence movement preceded the world wars. And, throughout the near century long struggle, British dominance was attacked from many sides. Non-violence and civil disobedience often associated with Ghandi contrasted with the armed movement. The resistance took many other forms as well, including women's rights movements and literature.

Indians finally gained independence after WW2 in exchange for assistance during the war.

Many colonies experienced great turmoil in obtaining independence. The French bitterly resisted independence in Algeria and Vietnam with disastrous consequences.

Point four aid

The end of WW2 saw a flurry of new international institutions burst onto the scene, many of these institutions were created with the hope of preventing future wars. During the Bretton Woods convention in 1944, the US pushed a new set of policies which relied on aid to fight under-development.

FDR had grand aspirations to free the world from want; however, much like the new deal, the end result remained far removed from the original ambition as vested interests and dominant ideas objected such radical policies like ending poverty. Regardless, the World Bank emerges and thrusts the world past a historical threshold, albeit with a severely constrained development agenda. This change in policy marks an important turning point, the focus was no longer exclusively on Europe's recovery. National and international policy now explicitly included the development of poorer nations.

Economic dualism

Colonialism fundamentally altered the path of all economies involved. Of most concern is the impact it has had on the underdeveloped areas. The path-dependence resulting from centuries of exploitation created great obstacles that would require significant time to overcome.

One of the most tragic results of colonialism was the creation of the dual economy. The dual economy represents the clashing of an indigenous social system and an imported social system. It is perhaps convenient to conceptualize economic dualism as two distinct sectors: pre-capitalist production juxtaposed with the modern capitalist mode.

Institutions tend to resist change and accept new patterns of behavior and technology only to the extent that they can be accommodated without dislocating the existing value structure: changes must fit within the existing patterns of ceremonial dominance.

The capitalist sector will continue to erode the pre-capitalist sector, but it is a long, drawn out struggle that has very real implications. Consider the case of the peasant forced to marginal lands, barely able to eek out a subsistence living. Or the landless agricultural worker forced into the city and compelled to send part of their meager wages to their family in the countryside.

Overcoming the obstacles associated with economic dualism requires a radical change of how one views their relationship to the world, knowledge must be made more accessible and applied more widely, occupational values must change, and class relationships must be altered across their social, economic, and political aspects.

Given the unique institutional structure of each country, one should expect that the capitalist sector will function differently in each and face distinct challenges. From a western-centric viewpoint, particularly if one has been trained in economics, it can be difficult to comprehend why capitalism often falls short. Social investment creates a virtuous circle: social investment incentivizes greater private investment both of which increases output and employment. As output and employment rise, so too does tax revenue which facilitates greater social investment.

However, it is not railways and power stations which berth industrial capitalism; rather, industrial capitalism leads to the building of such infrastructure. It is not true what Kevin Costner heard while standing in a field of corn- if you build it, they will come.

(Baran 1957 quote)