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THE EVOLUTION OF DEVELOPMENT THINKING: FUTURE OF THEORY AND PRACTICE

By 1950, it was possible to divide the world into two groups of countries — developed and developing. The first group consisted of the richest countries of Western Europe, Canada and the United States. The inhabitants of these regions lived (and still do) in wealth and consume most of the world's resources. Another group of countries from Latin America, Asia and Africa, which accounted for almost 75 percent of the world's population, were poor and undeveloped. Economists and politicians from both groups were looking for reasons to explain such disparity and for ways of its elimination. The approaches to the economic problems of developing countries were influenced by the success of Marshall Plan, when the huge financial and technical assistance from the United States made possible an amazing and rapid revival of industrial Europe after World War II [1, 93, 98]. This way the development theorizing has began.

Since that time a number of development theories have been elaborated in economic, social, political and legal sciences. Each of them is the product of its times. What began as economic growth to eradicate poverty evolved to include sustainable development, micro-development, people-centered development, rights-based development, women-centered development, endogenous development, appropriate development, "Basic Needs", and both state and market-led development [2, 9].

As Nataliya Ponarina noted, the development theories carry out two tasks — on the one hand, they must assess the socio-economic problems of "underdevelopment" (or backwardness) and "development"; on the other hand, they should

be based on problem analysis and enable development strategies [3].

Given the fact that most of developed countries (especially the United States) — the founders of major development theories — are the main violators of their own concepts today — in era of unprecedented global economic imbalances which cause financial and economic systems' instability and slow down economic growth of each and every state — to address the true needs of development current international socio-economic and legal order should be redefined and restructured and adequate comprehensive theoretical base for further development promotion should be elaborated. Such situation creates new challenges for economists, policymakers and lawyers within the international development community (not to mention domestic activists) as it remains unclear (if not doubtful) whether new development theory ever "see the light of day" or the process of development thinking, or rather rethinking, will remain at the level it had in the 1990's.

It is not a secret that there is considerable amount of literature that studies development theories. For example, development theories were analyzed in works of Walt Rostow, Arthur Lewis, Samuel Huntington, Brian Tamanaha (modernization theories), Raul Prebisch, Andre Gunder Frank, Fernando Henrique Cardoso, Immanuel Wallerstein (the variations of dependency theories), Deepak Lal, John Toye, John Williamson (assessment of neo-liberal theories), Rumu Sarkar, Katie Willis (criticism and re-evaluation of development theorizing), etc. However, there are no papers describing the development theory that meets modern day realities.

The present article will highlight the evolution of theoretical perspectives on development. It focuses on theories of economic development as while there are an increased importance of “grassroots initiatives” and a focus on people-centered processes and definitions of development, too often these trends are shaped by a continued faith in the economy as the key factor in development.

The significance of this paper for a contemporary understanding of development lies in the way it argues that there is a great need to change the development thinking and practice. As financial stability becomes today the fundamental to the development, first, the new theory should presuppose the redesign of the modern global financial architecture and establishment of mechanisms able to address economic coordination, macroeconomic and monetary management, financial crisis prevention and resolution, as well as trade promotion. Second, and perhaps even more important for newly-designed development theory, it should touch the international legal aspects and substantiate the creation of supranational institution (or system of international treaties), which would prevent the policies of some countries (United States, Japan, United Kingdom) to shift their domestic economic problems on to developing countries’ shoulders, holding back the development of latter.

The early development theories were nothing but extension of the traditional economic theory, which equalized development to economic growth and industrialization. As a result, a new branch in economic science — development economics — has formed to study economic development and its characteristics in the different regions of the world, in particular the issues of developing countries economic growth. In fact, development economics argued for new Marshall Plan — this time for developing countries.

Two areas of analysis were dominated in the post-war literature on economic development — the modernization theory and dependency theory. Another approach, linked to neo-liberalism came later. Each

of these major schools is divided into separate areas, concepts, models and differs in perception of development process main purpose, perspective and nature.

Modernization theory in its classical form has gained scientific and public recognition in the 1950s — mid 1960s. Many theorists of those times saw the development as a natural and inevitable process that must be passed by each state. Development was understood as a synonym of high economic growth, which was achieved by Western Europe and North America. “Backward” countries of Asia, Africa and Latin America were to adopt the historical experience of the modern developed states transformation from poor agricultural countries to the industrial giants [4, 79]. A vague term “modernization” has combined not only economic but also political, social and cultural changes associated with industrialization, urbanization, bureaucratization and democratization in the Third World countries.

American economist, sociologist and historian Walt Rostow was the most influential and prominent representative of the modernization theory. According to Rostow, all countries should pass through five stages of economic development: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption [5].

Another “products” of modernization theory were “Political development” and “Law and development” movements. The processes of political development was described in details by American political scientist Samuel Huntington. As Huntington wrote, “modernization affects all segments of society; and its political aspects constitute political development” [6, 386–387]. He notes that there are many definitions of “political development” (or “political modernization”), but they all, with a few exceptions, share four characteristics. First, rationalization, based on the pattern variables of the Talcott Parson’s theory of social action. Second, nationalism and national integration, which are of especial importance in the context of the crisis of national identity

and the likelihood of ethnic conflicts that threaten developing countries. The third element — democratization, which means pluralism, competitiveness, equalization of power, etc. The fourth characteristic is the mobilization and participation: “Modernization means mass mobilization; mass mobilization means increased political participation; and increased political participation is the key element of political development” [6, 388].

“Law and development” movement appeared in 1960s due to the efforts of American scholars, as well as governmental agencies such as USAID and the Peace Corps, and funds such as the Ford Foundation and the Rockefeller Foundation. The ideologists of “Law and development” espoused the idea that emulation of the Western legal principles and institutions lays the foundation for legal development, and therefore, supports the development process in general [7, 369].

In the 1970’s, in light of the developing countries failure to develop economically and because of the proliferation of authoritarian and military regimes [7, 371], modernization theories and their “recipes” of economic development were challenged by scholars who emphasized the inapplicability of assumptions made by Western economic theory to the situation in the Third World, which simply lacks structural, institutional and cultural conditions prevailing in post-war Europe that determined the success of the Marshall Plan [4, 81–82].

As a result, in late 1960s — early 1970s, the dependency theory has spread, replacing modernization theory. In contrast to modernization theory, dependency theory was elaborated in the developing world, primarily by Latin American scholars. Dependency theorists, or dependistas, relying on elements of Marxist political economy, have critically studied the basic structures and relationships that lead to inequality in income, infrastructure and quality of life between First and Third World. The main argument of dependency theorists — the backwardness of the Third World was the result of Euro-American expansion and the inclusion of

the colonized countries into the world economy.

Dependistas have put forward various theories based on this argument. But they mostly agreed in opinion that the unequal nature of the interactions between the states has led to relationships described as a dominant/dependent, center or core/periphery, metropolitan/satellite. In general, the image projected by dependency theory was that the wealth of the Western core is based upon keeping the developing periphery in a state of permanent dependency and underdevelopment [8, 477].

The existence of the hierarchy in global economic system was also a key factor in the world-system theory developed by Immanuel Wallerstein. The world-system theory is often associated with the dependency theory since they share many ideas, such as the exploitation of the periphery by the core, and focus on the importance of national economic development in a global context. However, unlike the dependency theorists, Wallerstein tried to go beyond the “dualist” models. Instead of looking at the world from the “center” and “periphery” perspective, Wallerstein proposed three different categories: “core”, “semi-periphery” and “periphery”. The categories describe each world region’s relative position within the world economy as well as certain internal political and economic characteristics. What was important is that, according to Wallerstein, over time states could move from one category into another depending on the economic situation [9].

While representatives of dependency theory have criticized the modernization theorist for being “ahistorical”, the majority of their arguments were also challenged, mainly by examples when periphery countries achieved economic growth and development being linked to industrialized countries, and even challenge economic superiority of the latter. The emergence of newly industrialized countries in East Asia has called into question the ideas suggested by the dependency theory. By the 1980s dependency theory mostly went to the “dead end”.

Two dominant development theories (modernization and dependency) were replaced by the ideology of neo-liberalism that emerged in the 1980s as an economic strategy employed by many industrialized countries to get out of the financial crisis that followed the oil-induced world recession. Formulated originally as an economic strategy to open markets for the circulation of capital, neo-liberalism quickly became associated with the ideology of development, aimed at reducing the role played by governments and “discovery” of poor countries to the global capital flow.

The “Washington Consensus” is perhaps the most famous example of the neo-liberal development theory implementation. It is the title of political program designed by Bretton Woods institutions, which played a key role during the 1980s and 1990s when most developing countries were charring out far-reaching market reforms. There was the continued belief that market liberalization and opening up to international trade and finance would be key to solving the problems of developing countries by strengthening their productive capacity, raising productivity and accelerating technological upgrading [10, 41–42]. IMF and World Bank have acted both as lenders, imposing their policy conditionality on borrowing countries, and as “think tanks” with a major impact on the international policy debate [10, IV]. Due to its lending activities and political support from the major industrialized countries, the IMF and the World Bank largely determined the nature and methods of the macroeconomic policies of developing countries and their development policy. These policies included maintaining small budget deficits, broadening the tax base, ending state subsidies, allowing the market to set interest rates, liberalizing trade and foreign investment, privatizing state-owned enterprises, abolishing impediments to foreign direct investment, and guaranteeing secure property rights [11, 8–17].

In the twenty-first century, given the increasing imbalances in the world economy, financial stability becomes the funda-

mental to the development. This situation brought states to choose whether to make restrictive monetary and fiscal policies to limit the growth in living standards, in particular — to restrain consumer demand for imported goods, stimulating the development of the national production of goods and services, which will take its place on the world market, or vice versa — to expansionary monetary and budget policy, stimulating domestic demand and, consequently, economic growth, a constant increase in the budget and budget assistance of external financial resources. Most developing countries, including China, some European countries, with Germany, Sweden, Finland, chose the first way. United States, Japan (from the second half of 2012), most European countries (including France, UK, PIGS) chose the second way.

None of the development theories described above explains how to redesign the modern global financial architecture and create an institution which would prevent states with expansionary monetary and fiscal policies to shift their domestic economic problems on to developing countries, holding back their development. The elaboration of modern development theorizing that would enable new development strategies remains an open question.

Keywords: development, development theory, modernization theory, dependency theory, neo-liberal theory.

The article emphasizes a fundamental need in modification of development thinking and practice. The basic development theories — modernization theory, dependency theory and neo-liberal theory — are examined. The necessity of modern development theorizing contributing to the redesigning of the current global financial architecture and to the creation of an international legal framework capable to prevent states with expansionary monetary and fiscal policies policy to shift their domestic economic problems on to developing countries holding back their development is justified.

У статті наголошується на принциповій необхідності модифікації теорії та практики розвитку. Описано основні теорії розвитку — теорію модернізації, теорію залежності і неоліберальну теорію. Обрунтовано необхідність розробки сучасної теорії розвитку, яка сприятиме перебудові сучасної глобальної фінансової архітектури і створенню міжнародно-правової бази, здатної перешкодити державам з експансіоністською грошово-кредитною і бюджетною політикою перекладати свої внутрішні економічні проблеми на країни, що розвиваються, стримуючи їх розвиток.

В статті підкривається принциповий необхідність в модифікації теорії та практики розвитку. Описані основні теорії розвитку — теорія модернізації, теорія залежності і неоліберальна теорія. Обоснована необхідність розробки сучасної теорії розвитку, сприяючій перестройке сучасної глобальної фінансової архітектури і створенню міжнародно-правової основи, здатної воспрепятствовать державам з експансіоністською грошово-кредитною і бюджетною політикою перекладувати свої внутрішні економічні проблеми на розвиваючіся країни, стримуючи їх розвиток.

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