

Modernization theory

Sivapalan Selvadurai
Social, Environmental and Developmental
Research Centre (SEEDS)

Preston - chapter 9

9

Decolonization, Cold War and the Construction of Modernization Theory

Overview of Early Post-war Theories of Development

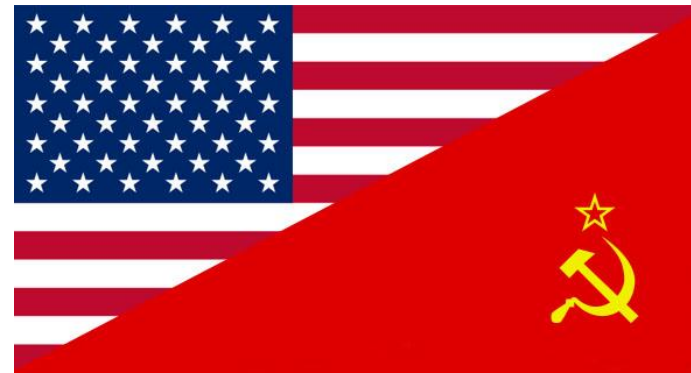
In the years following the Second World War a series of factors occasioned the production of a theory of economic growth which was applicable to the Third World. The crucial factors included political pressure flowing from the desire of the USA to order the post-war world, the interests of capitalist business in maintaining access to the territories of the Third World, nationalist developmentalism amongst replacement elites and the example of the Marshall Plan in Europe. However, in time, as the role of the USA within the post-war global system increased, the early material of growth theory was superseded by the more robust formulations of modernization theory.



INDEPENDENCE
MOVEMENTS IN
AFRICA, ASIA, AND
THE MIDDLE EAST

1920s – 1980s

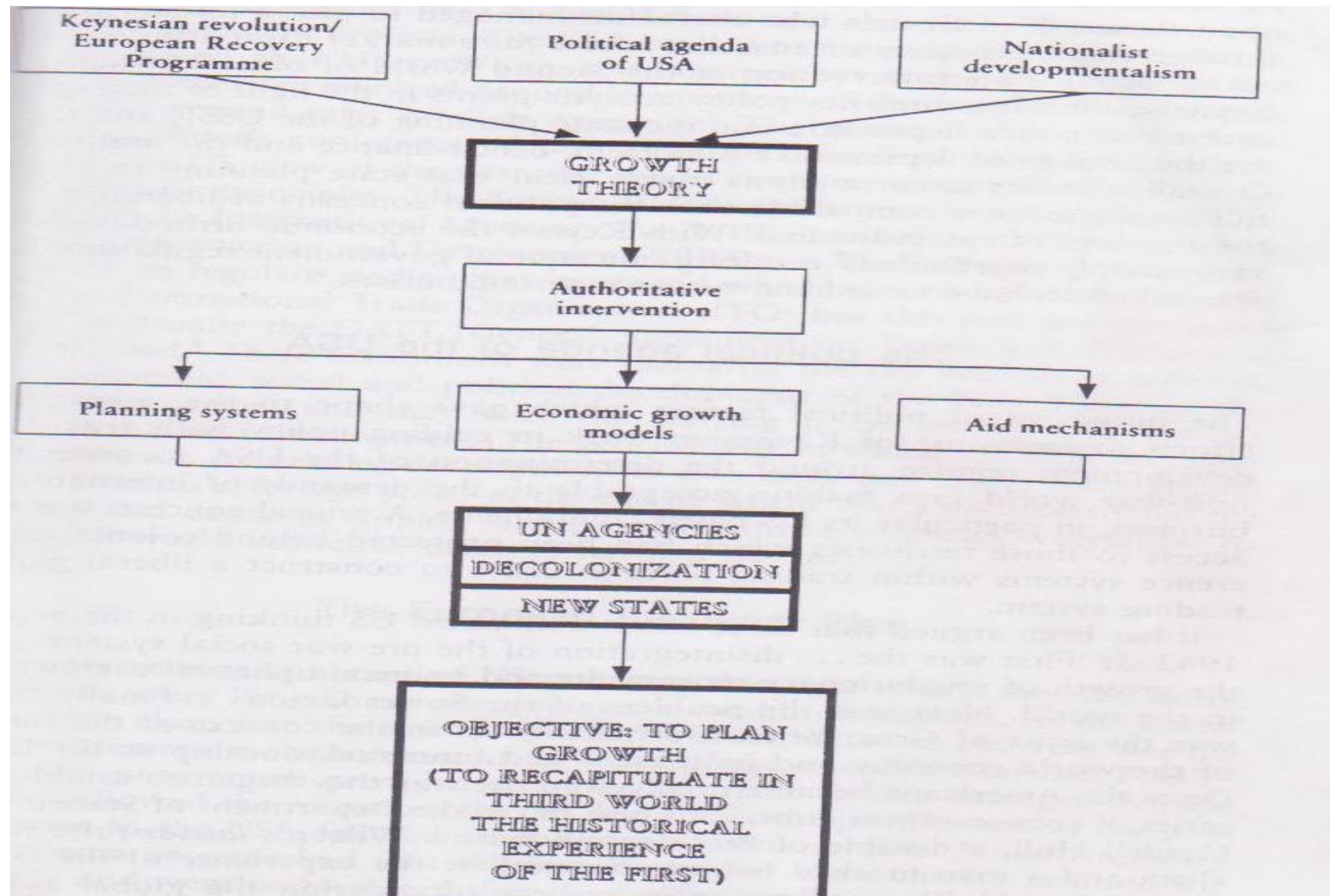




Outline on Modernization theory

- **Background to growth theory**
- **Authoritative intervention**
- **Work of Arthur Lewis**
- **Construction of Modernization theory**
- **Logic of modernization theory**
- **Criticisms of modernization theory**
- **Rostow's Stages of economic growth**

Background to growth theory



Background to growth theory

- Influence of Keynes
- Political agenda of USA
- European Recovery plan
- Nationalist developmentalism

Background to growth theory

-Influence of Keynes

- 3 elements in Keynesian revolution in economic theorizing underpinning prosperity of Post-2nd World War
 - Great Depression : did not follow **orthodox neo-classical** economics
 - Success of Planned economy of USSR
 - Overhaul of **technical economic argument** by Keynes; Compatibilism Of State Planning And Liberalism

Neo-classical

- Equilibrium
- Free market lefts on its own
(laissez faire market capitalism)
- Order society

Keynes

- Non-equilibrium: depression
equilibrium
- Intervention : role of government
in managing economy
- Full employment
- Deficit financing
- multiplier
- Critique of neoclassical
 - Persistence of unemployment
 - Misuse of available resources
 - Monopoly trend
 - Periodic crises

Background to growth theory - Political agenda of USA

- Political Factors that facilitated Keynesian ideas
 - US order post War world to demands of international business
 - access to ex-colonial territories
 - Construct liberal global trading system centred on US
 - 3 issues for US
 - Disintegration, revolutionary movements and political upheaval - EUROPE
 - Problem of Soviet union
 - Great Britain

ordering the global system

- Post war world economy run by business on business principles:
 - Bretton woods conference
 - International Monetary Fund (IMF)
 - International Bank for Reconstruction and Development (IBRD) – World Bank (WB)
 - International Trade Organization (ITO)- General Agreement on Tariffs and Trade (GATT)

Background to growth theory - European Recovery plan

- Marshall Plan 1947- aid programme for the reconstruction of war torn Europe.
 - But in US the program focused on fear of communism
 - Recovery of Europe in American economic interest
 - Political economic concerns
 - Truman Doctrine
 - political change not agreed by US was to be blocked
 - International aid based on the need of receiving countries
 - Effect of American intervention in Europe to remove Communism and reduce the influence of Socialist
 - Success of Europe recovery gave credibility to intervention in economic system

Background to growth theory-

Nationalist developmentalism

- Collapse of colonial system necessitates the indigenous political form
- Nation state – nationalist ideology independence
- Independent nation statehood
 - Political freedom for elite
 - Growth and welfare for masses
- Ruling elites build new nation states- single nation and single community
 - Political and social stability
 - Legitimacy in pursuing economic development

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Authoritative intervention

- Success of Europe and demands of nationalist developmentalism – create an intellectually coherent and politically relevant scheme
- Approach to analyse complex change – both prospective in orientation and practical in intention (p159)
- Ideology of authoritative intervention oriented to national development
- Demands a descriptive general theory of social world (policy science)
 - Social engineering: enable humankind to control their social environment
 - Third World development intervention requires
 - a) legitimating intellectual core
 - b) organization
 - c) implementation

Third World development intervention

– a) legitimating intellectual core

- Economic growth theory
 - Keynes
 - Saving investment theory (Harrod)
 - Necessary condition for equilibrium between **aggregate saving and investment** in a dynamic economy
 - Actual rate of growth of national income : $G_a = s/v$
 - Warranted growth : G_w
 - To assure investors $G_a = G_w$: steady growth at full employment
 - Harrod (Post-Keynesian)
 - Natural rate of growth : G_n
 - To assure investors : $G_a = G_w = G_n$: steady growth at full employment
- Harrod 's was incorporated in modernization theory

Third World development intervention

- b) **organization**
 - Ideas of planning
 - Contestation of planned intervention
- Free market
- Liberalism
- Rational allocation of resources
- Neoclassical economy
- Role of state & industry
- Planned economy
- socialism
- Irrational allocation (monopolistic)
- Keynesian managed economy
- Rework role of state & industry

Third World development intervention

- c) Implementation

- Aid programmes
- To attain preferred state- need interventions
- Forms of aids (micro-level)
 - Projects
 - Programmes
 - Piecemeal one-off
- Idea of Aid widened (macro level)- development aid
 - From aligned countries in Europe
 - Non-aligned countries in Asia/Africa- ex-colonial
 - Rich responsibility to poor
- Contestation on the idea of development aid
 - Military aid
 - Aid vs condition of global market place
 - Aid vs outcome

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Work of Arthur Lewis

- Growth theory in practice
 - practical advice to planning agencies in pursuit of economic growth
- Arthur Lewis
 - A) Measures for the Economic Development of underdeveloped countries – 1951 (report)
 - B) Economic development with unlimited supplies of labour- 1954 (essay)
 - C) The theory of economic growth-1955 (book)

A) Measures for the Economic Development (underdeveloped countries-UDC) -report

- National and international measures to reduce unemployment and underemployment
- Issue of economic development (not unemployment)
 - Treatment involves 6 major elements
 - Preconditions for progress- cultural orientation
 - Role of state
 - Domestic savings (higher in DC vs lower in UDC)- raise the rate of capital formation
 - Economic Planning expert
 - Terms of trade
 - External sources of capital

B) Economic development with unlimited supplies of labour- **essay**

- Concerns for long term growth and its impact on sector/class (political economy concerns)
- Nature of UDC- dualistic relationship
 - Capitalistic/industrial –dynamic
 - Traditional /agriculture-subsistence
- Expansion of capitalist sector (ex. Urban) by drawing on surplus labour from traditional sector (EX. RURAL) to allow long-run growth

The theory of economic growth-book

- Framework for studying economic development
- 3 proximate causes of growth and development
 1. Effort to economise
 - character of DC in industrial capitalism
 - Experimentation, risk taking, mobility and specialization
 2. Increase of knowledge and its application
 - Science is mode of cognition of industrial society
 3. Increase amount of capital
 - Idea saving/investment – ala Keynes
- Why proximate causes operate in some societies/country and not others?
 - Search for configurations of institutional and cultural factors which are compatible with the logic of economic development
 - Environment conducive to economic growth (evolutionary process)

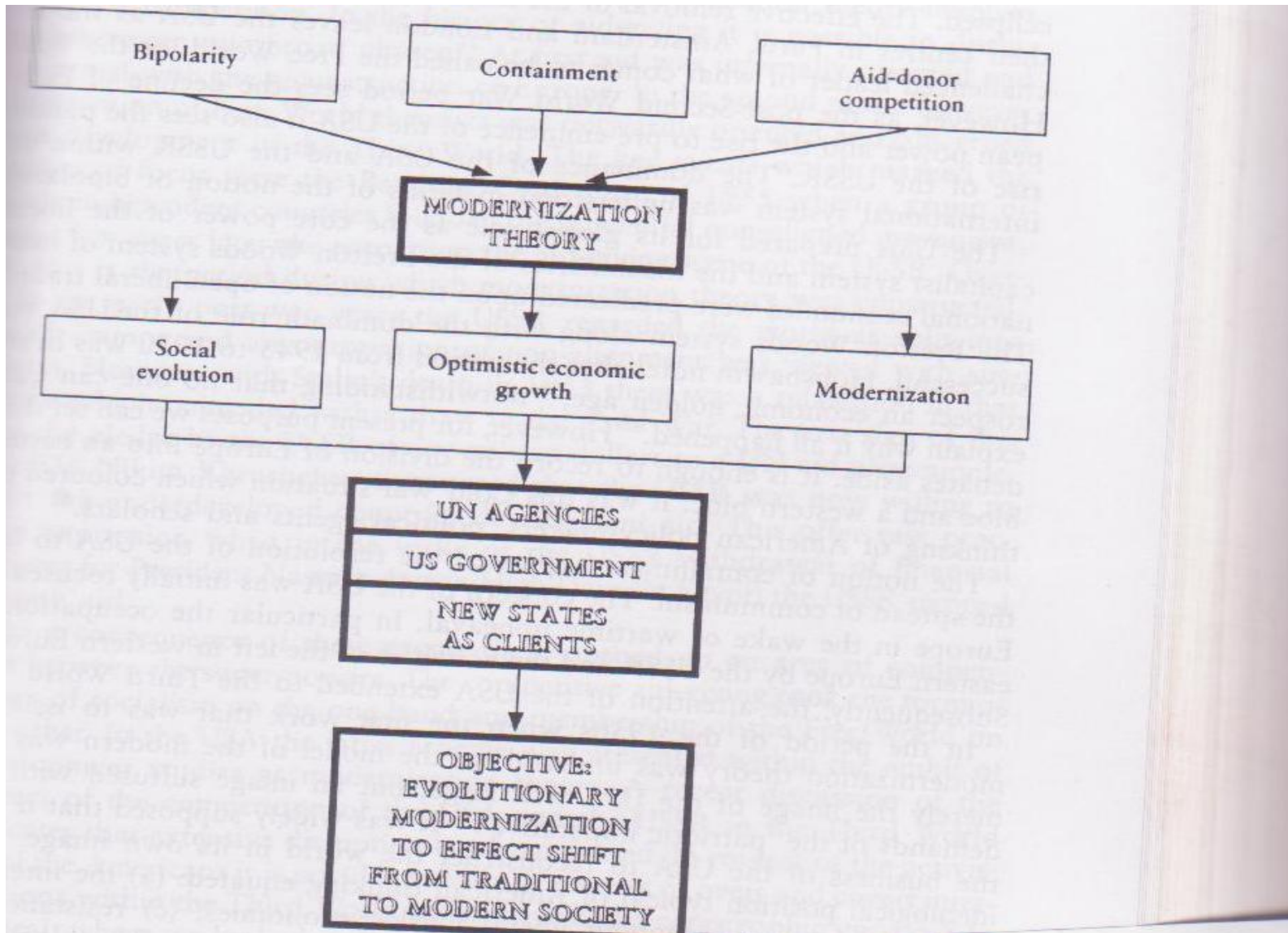
Lewis integrative ideas

- Classical political economy
 - Sectoral and class impact
- Keynesian influenced economic growth theory
 - State intervention and savings/investment (capital formation)
- Descriptive historical and social scientific sources
 - Evolutionary process

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Construction of Modernization theory



Construction of Modernization theory

- Bipolarity
 - European(old World) decline
 - Europe divided : western bloc vs eastern bloc
 - Cold War: Rise of US vs USSR (international system)
- Containment
 - Resolution of US to halt communism
 - 1st in Europe and then 2nd in Third World(UDC)
 - US reconstruct world in its own image (Free World)
- Aid-donor competition
 - two phases
 - Internal – DCs – reconstruction of Europe
 - External –UDCs- Third World
 - Non aligned movement (NAM)- Bandung conference 1955
 - US vs USSR donor competition – beginning of construction of modernization theory

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Logic of modernization theory

- 1) Economics approach (growth theories)
- 2) Social science approach (Social change theories)

Logic of modernization theory:

1) Economics approach (growth theories)

- New Cambridge school

- Stable growth – Keynesian: reinvent political economy

- Neoclassical school (Cambridge and Massachusetts)

- Views Keynes ideas as compatible
- 1980s saw anti-Keynes – Thatcherite And Reaganomics

- Revisionist

- Issue of self-sustaining growth
- Process of social and institutional change
- Shift to institutional theories

Logic of modernization theory:

2) Social science approach (Social change theories)

– Analysing Industrial Society

- social theories of structure functionalism, social psychology and empirical analysis
- claim convergence towards a common destination dictated by technical and organization imperatives of advanced industrialization

– General ethos : structural functionalist analysis

- Talcott Parsons: General theory of social action
 - Logic of social action
 - Scheme of pattern variables govern the orientation of action
 - Identification of functional requisites of system s of action which allow system to be maintained
 - Equilibrium when system disturbed

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Criticisms of modernization theory

- Dichotomy of tradition-modern

tradition

- primitive
- agriculture
- rural
- religious
- pre-literate
- status
- traditional
- gemeinschaft
- mechanic

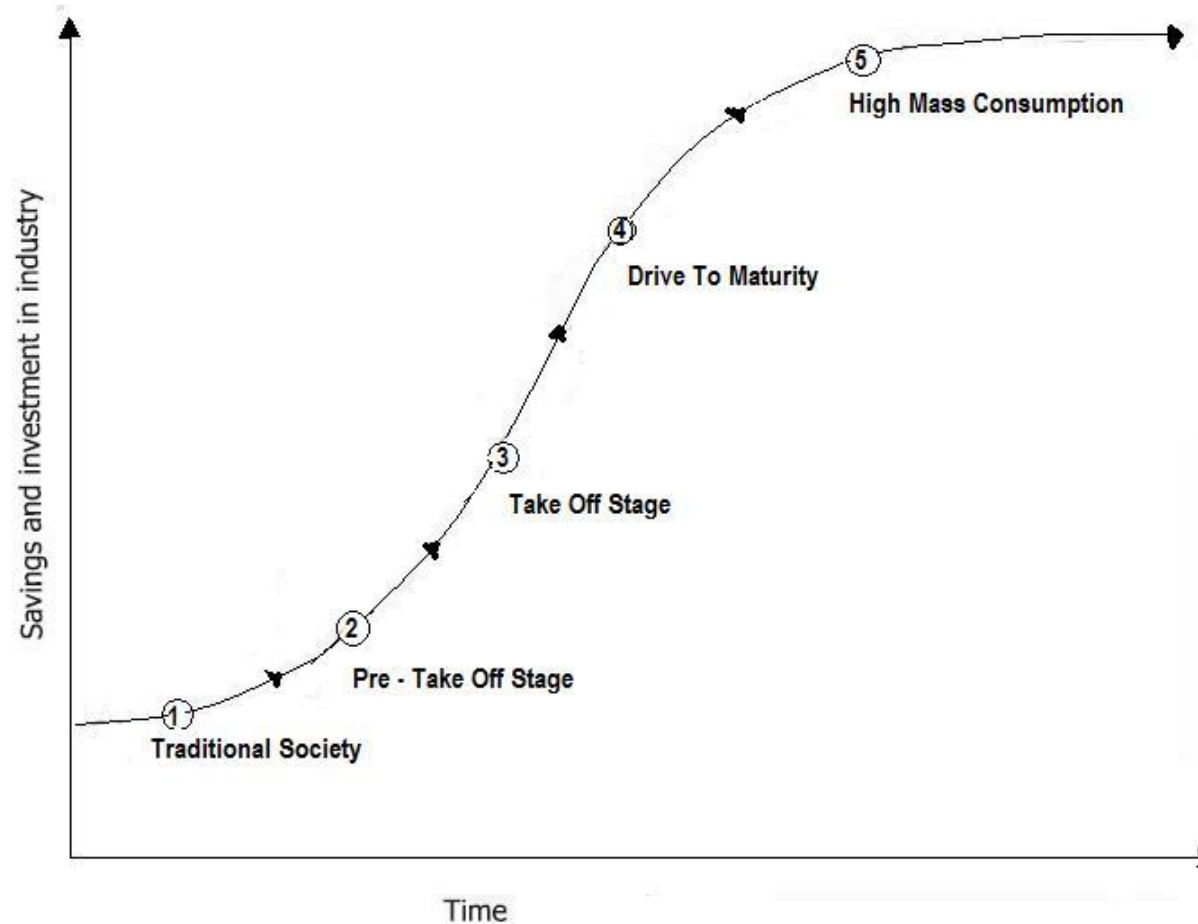
modern

- advance
- industrial
- urban
- secular
- literate
- contract
- rational
- Gesellschaft
- organic

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Rostow's Stages of economic growth



appendix

Classical Economics

The market is perfect and self-sustaining

Government intervention can only be a detriment to the economy



The market automatically adjusts to “booms” and busts

Supply = Demand

David Ricardo

Historical Perspective: Classical economics came of age during and after industrialization.

Say's Law: Supply Creates its own demand. The economy is stimulated when more goods are produced.

	is defined in class terms)			highlighting for social
The world is...	certain (‘iron laws’)	certain with calculable risk	certain (‘laws of motion’)	
The most important domain of the economy is...	production	exchange and consumption	production	
Economies change through...	capital accumulation (investment)	individual choices	class struggle, capital accumulation and technological progress	

Keynesian Economics

The market is imperfect and not self-sustaining

Equilibrium may include unemployment, negative growth



John Maynard Keynes

Consumer income stimulates demand, which causes economic growth.

When economic growth is lacking, the government should stimulate demand.

Historical Background: The Great Depression

Keynes	Hayek
Must pull economy out of bust (short term focus)	Must avoid boom-bust cycles (long term focus)
People have chaotic 'animal spirit'	People are rational
The economy can be steered	The economy must consist of free market forces
A 'circular flow of income' exists	Markets are not easily predictable
Economic regulation is good	Economic regulation is bad
Bail-outs good	Bail-outs bad
The short run is most important	The long run is most important
Pro-Government Govenrment acts in best interest of public	Anti-Government (causes malinvestment) People act in their own best interest
Savings should be spent now	Savings should be hoarded for future (classical view)
Kept bad businesses afloat to protect jobs	Liquidation of bad businesses necessary
Economy can settle at sub-optimal level without help	Economy will settle at optimal level unhindered
Respect for human suffering and job protection	Respect for entrepreneurship and economic stability

